CHAPTER 3. GAS, USE, JET, AND AVIATION FUEL TAXES

Fuels used in motor vehicles and airplanes are taxed in Oregon. These fuels include gasoline, use fuels and jet fuel. Use fuels are fuels other than gasoline used in motor vehicles, such as diesel, propane and natural gas. Gas, Use, Jet and Aviation Fuel Taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax. In general, vehicles are subject to one tax or the other, not both taxes. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax. Airlines are exempt from paying jet fuel taxes to the extent that their total fuel consumed can be attributed to international flights. Revenue from the motor vehicle, use and jet fuel taxes accounted for by the Department of Transportation totaled $814 million in the 1999–01 biennium, and is projected to be $834 million for the 2001–03 biennium.

Approximately 97.7 percent of gas and use fuel revenues are used for the construction and maintenance of roads in Oregon. Jet and Aviation fuel tax revenues are used to fund aviation programs.

Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively, for a total tax rate of 42.4 cents per gallon. The state tax is paid to the Oregon Department of Transportation by the approximately 200 licensed wholesale fuel dealers in the state. The tax is then passed on to the consumer in the price paid at the pump.

These taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. State law allows an exception from state tax paid on gasoline in cases where the user does not benefit from the facilities or services funded by the imposed tax, or where an alternate method of payment has been established in lieu of this tax.

Two Oregon counties and three cities also assess local gas taxes. The federal tax rates for gasohol also vary by alcohol content. More information about required gas tax disclosures can be obtained at http://www.odot.state.or.us/fsbpublic/fuels_tax.htm

Use Fuel Tax

In 1943 Oregon imposed a tax on fuels other than gasoline used in motor vehicles. Diesel is the primary fuel, but other fuels used in motor vehicles such as propane and natural gas are also taxed. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 24.4 cents per gallon of diesel respectively, for a total tax rate of 48.4 cents per gallon. There are approximately 550 licensed retailers in the state who submit payments to the Oregon Department of Transportation for taxes collected from more than 1,500 users. In addition, there are another 1,550 users who have obtained ODOT Use Fuel User licenses and who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes.

These taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. Oregon statutes allow an exception from use fuel taxes for cases where the user does not benefit from the facilities or services funded by the imposed tax, for vehicles operated in public services, or where an alternate method of payment has been established in lieu of this tax.

Jet Fuel Tax

This tax is assessed in the same manner as the gasoline tax, at a rate of one-half of one cent per gallon.

3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(d)
Sunset Date: None
Year Enacted: Pre-1953

	Total
1999–01 Revenue Impact:	$0
2001–03 Revenue Impact:	$0

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on motor vehicle fuels (gasoline) when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

PURPOSE: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

WHO BENEFITS: Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.320(b). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(g)
Sunset Date: None
Year Enacted: 1965

	Total
1999–01 Revenue Impact:	$0
2001–03 Revenue Impact:	$0

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on fuels other than gasoline when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

PURPOSE: In most cases, the fuel and weight-mile tax pays for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

WHO BENEFITS: Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.831(c). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

3.003 FARM USE—GASOLINE

Oregon Statute: 319.320(3)
Sunset Date: None
Year Enacted: 1961

	Total
1999–01 Revenue Impact:	$1,100,000
2001–03 Revenue Impact:	$1,300,000

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on motor vehicle fuels (gasoline) when used for farm vehicles and stationary engines used off-road and in agriculture.

PURPOSE: Gasoline is taxed high in the distribution chain (at the distributor/first sale in Oregon level), so it is nearly impossible for anybody to get tax exempt gasoline. Accordingly, refunds are the only way farmers get relief from the gasoline tax. It should be noted that most farm vehicles are subject to fuel tax unless they are operated off the public road system, in which case a refund is allowed under ORS 319.320(1)(a). Also, incidental use of farm vehicles on the highway does not preclude them from receiving a refund. Farm vehicles subject to the weight mile tax (those over 26,000 pounds that haul for hire) do not pay the fuel tax.

WHO BENEFITS**:** There are approximately 39,500 farming operations in the state, and about 43,400 registered farm vehicles. The average benefit is about $16 annually per farm and perhaps some marginal benefit for interstate and overseas companies and consumers who process or consume Oregon farm products.

EVALUATION**:** This expenditure appears to achieve its purpose. However, the benefit per farm is very small, and probably does not provide a competitive edge for farming in Oregon. Of course, different farming operations benefit according to the amount of gasoline consumed in farming operations.

The change in the revenue impact for the 2001–03 period is estimated because although the amount of refunds applied for have been declining in recent biennia, it assumed that the higher cost of gasoline and the current depressed level of commodity prices will probably encourage a return towards the recent historical average. [*Evaluated by the Department of Transportation*.]

3.004 NATIVE AMERICAN TRIBAL LAND USE—GASOLINE

Oregon Statutes: 319.320 and 319.382
Sunset Date: None
Year Enacted: 1959 and 1993 respectively

	Total
1999–01 Revenue Impact:	Less than $50,000
2001–03 Revenue Impact:	Less than $50,000

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on motor vehicle fuels (gasoline) when used on tribal lands by officially recognized tribal purposes or Native Americans.

PURPOSE: Gasoline is taxed high in the distribution chain (at the distributor/first sale in Oregon level), so it is nearly impossible for anybody to get tax exempt gasoline. Accordingly, refunds are the preferred way Native Americans get relief from the gasoline tax. Fuel attributable to travel or use off state highways, including travel on tribal roads in Indian country is not subject to the tax. It is noted that Tribes may also expend funds for public highways and traffic enforcement within Reservations, as well as for other essential governmental purposes.

WHO BENEFITS**:** There are 10 federally recognized tribes in the state, and nearly 20,000 enrolled members, excluding the Ft McDermitt Tribe which mostly resides in Nevada. In total, there are approximately 40,000 Native Americans in all Oregon counties. The total area of reservation and land-in-trust is approximately 851,000 acres. Currently the Warm Springs Tribe which has 641,000 acres and 3,851 enrolled members in 5 counties is the primary beneficiary.

EVALUATION**:** The change in the revenue impact for the 2001–03 period is estimated because although the amount of refunds applied for has been declining in recent years, it assumed that the higher cost of gasoline and the formation of new compacts will increase the level of refunds back toward the 1993-1999 average. [*Evaluated by the Department of Transportation*.]

3.005 FUEL FOR AIRCRAFT

Oregon Statutes: 319.330(2)
Sunset Date: None
Year Enacted: 1959

	Total
1999–01 Revenue Impact:	Less than $50,000
2001–03 Revenue Impact:	Less than $50,000

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on fuel if satisfactory evidence is presented to the Department of Aviation that the aircraft fuel upon which the tax is paid has been used solely for aircraft operations from a point within the state of Oregon directly to a point not within any state of the United States.

PURPOSE: The aim of this program promote international airline travel to and from Oregon airports, to make it attractive for airlines with international flights to operate from Oregon airports, and to capture the economic and trade benefits this would bring to the state.

WHO BENEFITS: The immediate beneficiaries are airlines-both domestic and international-whose aircraft use fuel to travel to and from foreign destinations. Indirect beneficiaries could include individuals and businesses that use such international flights.

EVALUATION: It is estimated that a very small portion of international air travel originates to or from Oregon. There are currently only two scheduled international destinations out of Oregon: Nagoya and Tokyo. This expenditure, therefore, makes a very small difference to airline locational and flight routing decisions. [*Evaluated by the Department of Aviation*.].

3.006 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e-f), (h), (i).
Sunset Date: None
Year Enacted: 1961; 1999 (retroactive to 1998) for School, Educational Service, and Rural Fire Districts.

	Total
1999–01 Revenue Impact:	$6,500,000
2001–03 Revenue Impact:	$6,600,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline (primarily diesel) when the fuels are used in the performance of a public service. (Public entities do not receive refunds for taxes paid on gasoline.) Under Oregon statute, incorporated cities and towns are allowed an exemption for any use, while counties may claim an exemption for use in conjunction with road construction and maintenance. Agencies of the United States are exempt under federal law.

PURPOSE: To avoid reciprocal taxation among public entities when the tax revenue would be used for the same purpose as the activity being taxed (road construction and maintenance).

WHO BENEFITS: Beneficiaries include 240 incorporated cities and towns, 36 counties, 220 School districts, 21 Educational Service Districts, about 260 Rural Fire Protection districts, and various federal agencies. Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Government Owned or Operated Vehicles (4.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa. The revenue impact estimate for cities/towns and counties is $3,000,000 for both the 1999–01 and 2001–03 biennia; it is $3,400,000 for 1999–01 and $3,500,000 for 2001–03 for School or Educational Service Districts; and about $75,000 for both the 1999–01 and 2001–03 biennia for Rural Fire Protection Districts. The Total revenue impact shown includes all these separate impacts.

EVALUATION: This expenditure achieves its purpose. Cities, Counties and School or Educational Service Districts, who are the major beneficiaries of this provision, use diesel fuel largely in conjunction with the construction and maintenance of roads. Revenue generated through the tax on such fuels are dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. Due to the tax-exempt status of cities and counties, the filing of periodical tax reports from all cities and counties in this regard have been waived since 1967. As a result, the costs associated with the application for and payment of refunds are eliminated. Therefore, this provision is an effective continuation of established policies that avoid the reciprocal taxation of governing agencies.

A change in the revenue impact for the 1999–01 period from that noted in the previous report is the result of revised estimates for the number of vehicle miles traveled. [*Evaluated by the Department of Transportation*.]

3.007 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)
Sunset Date: None
Year Enacted: 1969

	Total
1999–01 Revenue Impact:	$2,400,000
2001–03 Revenue Impact:	$2,500,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline when used in the operation of mass transit and transportation districts. Transit and transportation districts are treated the same as municipalities for purposes of claiming this exemption.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: There are three mass transit districts and six transportation districts in the state. Ultimately, the beneficiaries would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Mass Transit Vehicles (4.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. A change in the revenue impact for the 1999–01 period from that noted in the previous report is the result of revised estimates for the number of vehicle miles traveled. [*Evaluated by the Department of Transportation*.]