

Report to the Congress
on

Nonhighway Recreational Fuel Taxes

Fiscal Years 1994 and 1995



Department of the Treasury
April 1997

4/15/97

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington D. C. 20515

Dear Mr. Chairman:

Section 8003 of Public Law 101-240, the Intermodal Surface Transportation Efficiency Act of 1991, provides that the Secretary of the Treasury shall, within a reasonable period after the close of each of fiscal years 1992 through 1996, submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate specifying his estimate of the amount of nonhighway recreational fuel taxes received in the Treasury during such fiscal year.

Pursuant to that section, I hereby submit "Nonhighway Recreational Fuel Taxes" for fiscal years 1994 and 1995.

I am sending a similar letter to Representative Rangel.

Sincerely,

/signed/

Donald C. Lubick
Acting Assistant Secretary
(Tax Policy)

Enclosure

4/15/97

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
Washington D. C. 20510

Dear Mr. Chairman:

Section 8003 of Public Law 101-240, the Intermodal Surface Transportation Efficiency Act of 1991, provides that the Secretary of the Treasury shall, within a reasonable period after the close of each of fiscal years 1992 through 1996, submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate specifying his estimate of the amount of nonhighway recreational fuel taxes received in the Treasury during such fiscal year.

Pursuant to that section, I hereby submit "Nonhighway Recreational Fuel Taxes" for fiscal years 1994 and 1995.

I am sending a similar letter to Senator Moynihan.

Sincerely,

/signed/

Donald C. Lubick
Acting Assistant Secretary
(Tax Policy)

Enclosure

TABLE OF CONTENTS

	<u>page</u>
Section I.	Introduction 1
Section II.	Summary of Findings 1
Section III.	Background 1
	A. Motor Fuel Excise Taxes 1
	B. Allocation of the Motor Fuel Excise Taxes 2
	C. National Recreational Trails Trust Fund 3
Section IV.	Non-highway Recreational Fuel Taxes 3
	A. Methodology 4
	B. Estimate 4
Section V.	Status of the National Recreational Trails Trust Fund 6
Section VI.	Summary and Conclusion 6
APPENDIX:	Sources of Data and Other Organizations Contacted
	Regarding Non-highway Recreational Fuels 8

REPORT TO CONGRESS ON NON-HIGHWAY RECREATIONAL FUEL TAXES

I. INTRODUCTION

This report on non-highway recreational fuel taxes has been prepared by the Office of Tax Analysis (OTA) pursuant to a Congressional mandate in the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 (P.L. 101-240).

Section 8003 of the ISTEA, which became effective December 18, 1991, established the National Recreational Trails Trust Fund, which was to be funded in part by revenues received by the Highway Trust Fund from non-highway recreational fuel taxes. Section 8003(d) of the ISTEA requires the Secretary of the Treasury to submit, following each fiscal year from 1992 through 1996, a report to the Congressional tax-writing committees specifying Treasury's estimate of the amount of non-highway recreational fuel taxes received in the Treasury each fiscal year. Treasury's report for fiscal years 1992 and 1993 was submitted to the Congress in June 1994.

II. SUMMARY OF FINDINGS

Non-highway recreational fuel taxes are defined in the ISTEA as taxes imposed under Internal Revenue Code (IRC) sections 4041, 4081, and 4091 (to the extent attributable to the Highway Trust Fund financing rate) with respect to fuel used in vehicles on recreational trails or back country terrain, and fuel used in camp stoves and other non-engine uses in outdoor recreational equipment. Treasury estimates that these taxes amounted to approximately \$65 million and \$66 million in fiscal years 1994 and 1995, respectively, or 0.36 percent and 0.31 percent, respectively, of total net Highway Trust Fund receipts.

III. BACKGROUND

A. Motor Fuels Excise Taxes

Federal excise taxes are imposed under IRC sections 4041, 4081, and 4091 on special motor fuels, gasoline and diesel fuel, respectively, used for highway transportation and certain other activities. In fiscal year 1992, the federal excise tax on gasoline and special motor fuels was 14.1 cents per gallon and the federal excise tax on highway diesel fuel was 20.1 cents per gallon. These rates became effective December 1, 1990, following passage of the Omnibus Budget Reconciliation Act of 1990.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) increased the federal excise tax on motor fuels by 4.3 cents per taxable gallon, effective October 1, 1993. Thus, in fiscal years 1994

and 1995, the federal excise tax on gasoline and special motor fuels was 18.4 cents per gallon. In fiscal years 1994 and 1995, the federal excise tax on highway diesel fuel was 24.4 cents per taxable gallon.

Partial exemption from the general motor fuels excise taxes are available for various alcohol-blended fuels, the most common being gasohol. Motor fuels used in farming, in other non-highway business, by state and local governments, and by tax-exempt educational organizations are exempt from taxation.

B. Allocation of Motor Fuel Excise Taxes

In fiscal years 1994 and 1995, the Highway Trust Fund received 11.5 cents for each taxable gallon of gasoline or special motor fuel, and 17.5 cents for each taxable gallon of highway diesel fuel. These rates are known as the Highway Trust Fund (HTF) financing rates. In fiscal years 1994 and 1995, an additional 6.8 cents per taxable gallon of gasoline, special motor fuel, and diesel fuel was retained in the General Fund for deficit reduction (the deficit reduction rate). An additional 0.1 cents per gallon was transferred into the Leaking Underground Storage Tank (LUST) trust fund.¹

With the exception of gasoline and special motor fuels used in motorboats and small engine outdoor power equipment, effective October 1, 1995, the deficit reduction rate will become 4.3 cents per gallon and the Highway Trust Fund financing rate will become 14 cents per taxable gallon of gasoline and special motor fuel, and 20 cents per taxable gallon of highway diesel fuel. For gasoline and special motor fuels used in motorboats and small-engine outdoor power equipment the deficit reduction and HTF financing rates will remain 6.8 cents and 11.5 cents per gallon, respectively.²

The ISTEA extended the HTF taxes, as well as the motorboat and small engine trust fund taxes, through September 30, 1999, while the LUST trust fund tax expired December 31, 1995.³ The deficit reduction rate is permanent.

¹ The LUST trust fund tax does not apply to liquefied petroleum gas.

² Taxes on gasoline and special motor fuels used in motorboats and small-engine outdoor power equipment, to the extent attributable to the HTF financing rate, are deposited in the Aquatic Resources Trust Fund, rather than the Highway Trust Fund.

³ However, authority for transfers from the Highway Trust Fund to the Aquatic Resources Trust Fund extends only through September 30, 1997.

C. National Recreational Trails Trust Fund

Section 8003(a) of the ISTEA added section 9511 to the IRC, establishing the National Recreational Trails Trust Fund (NRTTF). Amounts credited to the NRTTF are available, as provided in appropriations acts, to carry out the purposes of ISTEA sections 1302 and 1303, which together are often cited as the "Symms National Recreational Trails Act of 1991." In general, section 1302 authorizes a program allocating funds to the States for providing and maintaining recreational trails,⁴ and section 1303 establishes a national recreational trails advisory committee.

Among the revenue sources to be credited to the NRTTF pursuant to section 9511 are amounts described in IRC section 9503(c)(6). That section requires the Secretary of the Treasury to pay "from time to time from the Highway Trust Fund into the National Recreational Trails Trust Fund" amounts equal to the lesser of: (1) 0.3 percent of total HTF receipts for the period for which payment is made or (2) the amount obligated under ISTEA section 1302 for expenditure from the NRTTF, during the fiscal year. The percentage that non-highway recreational fuel taxes bear to HTF receipts was to be adjusted by Treasury within one year of ISTEA's enactment, and may be adjusted by Treasury in future years, subject to certain restrictions.⁵

IV. NON-HIGHWAY RECREATIONAL FUEL TAXES

Non-highway recreational fuel taxes are taxes imposed under IRC sections 4041, 4081, and 4091 (to the extent attributable to the Highway Trust Fund financing rate) with respect to fuel used in vehicles on recreational trails or back country terrain, and fuel used in camp stoves and other non-engine uses in outdoor recreational equipment. Prior to enactment of ISTEA, no provision existed to transfer these taxes from the Highway Trust Fund, so they were available to finance authorized highway and mass transit projects. Under ISTEA, these taxes are available to finance authorized recreational trails programs.

⁴ ISTEA Section 1302(g)(5) defines a recreational trail as ..a thoroughfare or track across land or snow, used for recreational purposes such as bicycling, cross-country skiing, day hiking, equestrian activities, jogging or similar fitness activities, trail biking, overnight and long-distance backpacking, snowmobiling, aquatic or water activity and vehicular travel by motorcycle, four-wheel drive or all-terrain off-road vehicles...."

⁵ The adjustment required within one year of ISTEA's enactment was not relevant for determining the amount to be transferred to the NRTTF, since Congress made no appropriations from the trust fund for either fiscal year 1994 or fiscal year 1995.

A. Methodology

Comprehensive data on nationwide use of motor fuels on recreational trails or back country terrain are not readily available from any single source. The Department of Transportation's Federal Highway Administration (FHWA) annually publishes estimates of non-highway gasoline use by type of use. For 1994, FHWA estimated that 2.9 billion gallons were used off-highway, of which 2.8 billion gallons were consumed by private (non-government) entities. This represents 2.4 percent of total FHWA-reported gasoline consumption for that year.⁶ However, recreation is not one of the specified non-highway uses.

In developing its estimate of non-highway recreational fuel taxes, OTA contacted a variety of organizations knowledgeable about recreational fuel use, including the FHWA, state agencies, trade associations representing vehicle and equipment manufacturers, trail user groups, trade publications, and others. The consensus that emerged from these discussions was that nearly all of the federally-taxed fuel consumed in recreational uses was gasoline (rather than special motor fuels and diesel fuel), and that the major uses of such fuels are in motorcycles, all-terrain vehicles, snowmobiles, and four-wheel drive vehicles. A very small amount of gasoline is also used in camp stoves and other outdoor camping equipment.⁷

OTA's estimate of non-highway recreational fuel taxes was obtained by taking the product of 1) an estimated number of gallons of gasoline used off-highway nationwide for defined recreational purposes and 2) the fiscal year 1994 and 1995 HTF financing rate of 11.5 cents per gallon. The estimate of total annual gallons consumed was obtained by summing estimated annual gallons consumed by each type of vehicle used off-highway for recreational purposes, and then adding a small estimated amount for camping uses. For each vehicle type, the estimated annual gallons consumed were derived as the product of three variables: (1) the vehicle population, (2) the estimated percent of vehicle population used off-highway for recreational purposes, and (3) the estimated average annual gallons consumed per vehicle in recreational uses.

B. Estimate

For fiscal year 1994, OTA estimates that \$65 million in non-highway recreational fuel taxes were received in the Treasury, based on estimated taxable gasoline consumption for such use of 565 million gallons. For fiscal year 1995, non-highway recreational fuel taxes are estimated to be \$66 million, based on taxable consumption for such use of 574 million gallons. This consumption represents about 0.80 percent of total taxable gasoline consumption. Motorcycles and all-terrain vehicles combined account for the largest share of estimated annual non-highway recreational fuel

⁶ Highway Statistics 1994, U.S. Dept. of Transportation, Federal Highway Administration, table MF-21.

⁷ See the Appendix for a listing of published data sources and organizations contacted for this report.

use, followed by light trucks, and then snowmobiles. Camping equipment accounts for a very small amount and share of the total. For fiscal years 1994 and 1995, total HTF revenues, net of refunds, were \$18,258 million and \$21,022 million respectively. Thus, estimated non-highway recreational fuel taxes represented 0.36 percent and 0.31 percent, respectively, of total HTF revenues.⁸ Table I summarizes these findings.

In estimating the relevant vehicle populations, OTA relied primarily on state vehicle registration information, supplemented by information on the number of vehicles not registered in any state but used off-highway for recreational purposes. While no definitive information could be found concerning either the frequency of non-highway recreational use or the average annual gasoline use per vehicle on a nationwide basis, values were assumed for these parameters based on discussions with industry representatives, trade publications, and state officials. OTA also consulted with the FHWA, which had conducted a state-by-state survey of recreational fuel use, for the purpose of allocating recreational trails funds to individual states.⁹

⁸ In order to compute non-highway recreational fuel taxes as a percentage of total HTF receipts, we relied upon total net receipts as reported by the Income Statement for the HTF. It should be noted that the Income Statement reflects "correcting adjustments" to the HTF. Initial transfers to the HTF are provided to Financial Management Service (FMS) by the Office of Tax Analysis with the monthly estimates of amounts to be transferred to the HTF. Subsequently, FMS uses IRS Quarterly Certification of "actual" liability to adjust the HTF balance for any difference between amounts initially transferred and "actual" quarterly liability. This adjustment is referred to as the "correcting adjustment." The HTF Income Statement reflects OTA's monthly estimated transfers and any correcting adjustments that occur during that fiscal year. Furthermore, correcting adjustments in a given fiscal year often reflect adjustments of monthly transfers from previous fiscal years. For example, in FY 1995, OTA authorized \$20,388 million in total monthly transfers to the HTF and IRS certified net HTF receipts of \$20,405 million, however, the HTF Income Statement reported total net HTF receipts of \$21,022 million. The \$634 million difference between OTA's sum of estimated monthly transfers for FY 1995 and the amount reported by the Income Statement for FY 1995 reflects correcting adjustments for transfers made in previous fiscal years. Also, note that the HTF Income Statement for the FY 1994 was revised to include the May 1994, July 1994, and September 1994 adjustments, previously reported as revenue in FY 1995. The FY 1995 Income Statement was revised to exclude these adjustments. These revisions were not correcting adjustments; they addressed the inaccurate reporting of actual receipts.

⁹ See "Fuels Used for Off-Highway Recreation," U.S. Department of Transportation, page 79. For purposes of this study, Oak Ridge National Laboratory estimates that approximately 1.5 billion gallons of fuel were consumed in off-highway recreational use in 1992. The difference between OTA's estimate of gallons consumed and Oak Ridge National Laboratory is attributable to the number of gallons consumed in off-highway recreational use by light duty trucks.

Table 1

Non-highway Recreational Fuel Taxes

	FY 1994	FY 1995
Non-highway Recreational Fuels:		
Gallons Consumed	565 million	574 million
HTF Financing Rate	\$0.115 per gallon	\$0.115 per gallon
Tax Receipts	\$65 million	\$66 million
Highway Trust Fund Net Tax Revenue	\$18,258 million	\$21,022 million
Non-highway Recreational Fuel Taxes as Percent of HTF Receipts	0.36 percent	0.31 percent

The Department of the Treasury
Office of Tax Analysis

V. STATUS OF THE NATIONAL RECREATIONAL TRAILS TRUST FUND

As mentioned above, IRC Section 9503(c)(6) limits the amount of non-highway recreational fuel taxes that may be paid into the NRTTF during any fiscal year to the amount that has been obligated to be spent from the fund that year.¹⁰ However, since no appropriations have ever been made from the NRTTF, no obligations have been incurred, and, as a result, no transfer of funds has ever been made. At this time, the trust fund has a zero balance. If funds are appropriated from the NRTTF and obligations against the fund are incurred, Treasury will transfer amounts as needed to cover anticipated outlays and provide an adequate working balance.

VI. SUMMARY AND CONCLUSION

The Intermodal Surface Transportation Act of 1991 established the National Recreational Trails Trust Fund (NRTTF) and directed Treasury to report to Congress annually its estimate of non-highway recreational fuel taxes. Such taxes are those fuel taxes received in the Treasury (to the extent attributable to the Highway Trust Fund financing rate) resulting from use of vehicles on recreational trails and back country terrain, and certain camping activities. Treasury has found that

¹⁰ In addition, the amount obligated during any fiscal year through 1997 may not exceed \$30 million. See ISTEA Section 1302(d)(3) for limitations on obligations.

these taxes amounted to approximately \$65 million and \$66 million in fiscal years 1994 and 1995 respectively, or 0.36 percent and 0.31 percent respectively of total Highway Trust Fund revenues.

The NRTTF currently has a zero balance, and no monies have ever been credited to the fund. Transfers of taxes from the Highway Trust Fund to the NRTTF for any year cannot exceed the amount obligated to be spent from the trails fund. Since no funds have ever been appropriated from the NRTTF, no obligations against the fund have been incurred, and no monies have been transferred to the fund. If an appropriation is made from the NRTTF, Treasury will transfer amounts from time to time during the year sufficient to cover anticipated outlays and provide an adequate working balance.

APPENDIX

SOURCES OF DATA AND OTHER ORGANIZATIONS CONTACTED REGARDING NON-HIGHWAY RECREATIONAL FUELS

Published Data Sources

Fuel Used for Off-Highway Recreation, Oak Ridge National Laboratory, U.S. Department of Energy, July 1994.

Highway Statistics, U.S. Department of Transportation, Federal Highway Administration, Washington, DC, various issues.

Motorcycle Statistical Annual, Motorcycle Industry Council, Inc., Irvine, CA, various issues.

MVMA - Motor Vehicle Facts & Figures, American Automobile Manufacturers Association, Inc., Detroit MI, various issues.

1987 Census of Transportation: Truck Inventory and Use Survey, United States. U.S. Department of Commerce, Washington, DC, August 1990.

1985-87 Public Area Recreation Visitor Survey, U.S. Department of Agriculture, Forest Service, Athens, GA, July 1988.

Report of the 1994 Utah Off-Highway Vehicle Users Survey, Utah Department of Natural Resources, June 1994.

Gasoline Consumption of Off-Highway Vehicles in Colorado, Colorado Department of Transportation, Office of Financial Management and Budget, June 1992.

Off-Road Vehicle Study, Washington State Department of Transportation, December 1986.

A Study to Determine Fuel Tax Attributable to Off-Highway and Street Licensed Vehicles Used for Recreation Off-Highway, California Department of Transportation, November 1990.

Other Organizations Contacted

State Agencies

Arizona Department of Transportation, Transportation Planning Division, Phoenix, AZ.

California Department of Parks and Recreation, Off-Highway Motor Vehicle Recreation Division, Sacramento, CA.

Michigan Department of Natural Resources, Forest Management Division, Lansing, MI.

Oregon Department of Transportation, Highway Division, Salem, OR.

User Groups

TREAD LIGHTLY! On Public and Private Land, Ogden UT.
Coalition for Recreational Trails, Washington, DC
American Recreation Coalition, Washington, DC
Colorado Off-Highway Vehicle Coalition, Littleton, CO.
United 4 Wheel Drive Association, Felton, PA.

Trade Publications

Off Road, Argus Publishing Co., Los Angeles, CA.
Four Wheeler, Canoga Park, CA.
4-Wheeler & Off-Road, Petersen Publishing Co., Los Angeles, CA.

Industry Representatives

International Snowmobile Industry Association, Fairfax, VA.
Recreation Vehicle Industry Association, Reston, VA.
Coleman Corporation, Wichita, KS.
Specialty Equipment Market Association, Diamond Bar, CA.
Association of International Automobile Manufacturers, Arlington, VA.
Chrysler Corporation.
Ford Motor Company.
General Motors Corporation.