

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7833

BILL NUMBER: HB 1613

DATE PREPARED: Jan 10, 2001

BILL AMENDED:

SUBJECT: Sales Tax Exemption for Gasohol.

FISCAL ANALYST: John Parkey

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: For purposes of the state gross retail tax, this bill defines "gasohol" to mean a fuel that contains not more than 90% gasoline and at least 10% agriculturally derived ethyl alcohol. The bill exempts two-fifths of the state gross retail income derived from sales of gasohol from the state gross retail tax. The bill requires a retail merchant to collect state gross retail tax in an amount equal to 3% of the price per unit, before taxes, of gasohol sold.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The bill may require administrative changes within the Department of State Revenue associated with changing of forms and accounting procedures. Costs associated with these changes could be covered using existing staff and resources.

Explanation of State Revenues: This bill would reduce the sales tax rate on gasohol from the current 5% rate to 3%. Revenue from the sales tax on gasohol is distributed, as is revenue from all Gross Retail (Sales) and Use taxes, in the following manner: the State General Fund (59.03%), the Property Tax Replacement Fund (40.00%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%). This bill would reduce the distributions to each of these funds.

The current 5% sales tax on gasohol is expected to generate approximately \$36.9 M in FY 2002. The reduction in the sales tax rate on gasohol is estimated to reduce state revenue by approximately **\$14.8 M** in FY 2002. The change in the sales tax would reduce the sales tax distributions by the following amounts: the State General Fund, \$8,736,440; the Property Tax Replacement Fund, \$5,920,000; the Public Mass Transportation Fund, \$112,480; the Commuter Rail Service Fund, \$25,160; and the Industrial Rail Service Fund, \$5,920.

The following table illustrates the changes in the distributions to the funds under current law and with the proposed change.

Estimated FY 2002 Sales Tax Revenue on Gasohol, as distributed under current law and with the proposed changes.			
Fund	Current Law	Proposed Law	Difference
State General Fund	21,782,070	13,045,630	(8,736,440)
Property Tax Replacement Fund	14,760,000	8,840,000	(5,920,000)
Public Mass Transportation Fund	280,440	167,960	(112,480)
Commuter Rail Service Fund	62,730	37,570	(25,160)
Industrial Rail Service Fund	14,760	8,840	(5,920)
Total	\$ 36,900,000	\$ 22,100,000	\$ 14,800,000
Note: This table assumes twelve months of sales tax collections at the new rate. However, due timing of the posting and remittance of funds, the full impact of the bill on sales tax collections may not be realized until FY 2003.			

Due to the timing of remittance and posting of motor fuel sales tax returns, however, a portion of the revenue generated during FY 2001, under the current rate may be distributed in FY 2002, thus delaying the full impact of this bill.

Background Information: Future sales tax collections on gasohol are contingent upon the price and quantity of fuel consumed by motorists in Indiana. The above estimate is a projection based on historical consumption data provided by the Department of State Revenue and projected fuel prices from the US Department of Energy, Office of Energy Information. The data were adjusted for inflation and the expected growth in Indiana income. The estimates above do not include any increases in the consumption of gasohol may result as demand for oxygenated fuels increases. Additionally, recent environment concerns related to the use of MTBE, an oxygenating fuel additive, could cause retailers and consumers to use more gasohol as a substitute. It is important to note that fluctuations in the price of gasohol will affect the amount of sales tax revenue collected.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue; US Bureau of Labor Statistics; US Department of Energy, Energy Information Agency.