

SPECIAL FUEL TAX
RCW 82.38 and 70.149

Tax Base All combustible gases and liquids used to propel motor vehicles, except motor vehicle fuel (gasoline). The principal types of fuel subject to the tax are diesel, natural gas, propane, and butane. For liquids, the tax is measured by gallons; for gases, the tax applies on the basis of 100 cubic feet measured at standard pressure and temperature.

Similar to the motor vehicle fuel tax, the special fuel tax is now applied when the fuel is delivered from a "terminal rack" within the state, instead of at the distributor level. The terminal rack is the platform from which the fuel is delivered into trucks, trailers, or rail cars from a refinery or import terminal.

An additional tax applies to each gallon of petroleum-based product (including stove oil, diesel, or kerosene) used for space heating (RCW 70.149.080). This tax, the pollution liability insurance fee, is scheduled to expire on June 1, 2013. (NOTE: Heating oil is also subject to retail sales tax when purchased by consumers.)

Tax Rate Same as motor vehicle fuel tax rate: currently 34 cents. Scheduled to increase:

- to 36 cents per gallon on July 1, 2007, and
- to 37.5 cents per gallon on July 1, 2008.

The federal government taxes diesel fuel at 24.4 cents per gallon, propane at 18.3 cents, and natural gas at 4.3 cents.

To encourage the use of nonpolluting fuels, RCW 82.38.075 provides an alternate fee schedule for natural gas or propane in lieu of the special fuel tax, based on the gross tonnage of the vehicle. The annual fee schedule ranges from \$45 to \$250 and is adjusted based on changes in the motor vehicle fuel tax rate enacted since 1977.

Heating oil tax: 1.2 cents per gallon per RCW 70.149.080.

Counties. An additional special fuel tax may also be levied by counties or regional transportation investment districts (RTIDs) for local transportation purposes (RCWs 82.80.010, 82.80.110, and 82.80.120). The maximum rate is 10 percent of the state tax (i.e., currently 3.4 cents per gallon) and the tax must be approved by the voters. The local tax for counties is to be administered by the Department of Revenue, rather than the Department of Licensing, and is added to the state rate. The local tax for an RTID is to be administered by the Department of Licensing. This authority was instituted in 1990 and extended in 2003 but no county or RTID has yet adopted such a local special fuel tax.

Border area cities. Per RCW 82.47, adopted in 1991, cities that are located within ten miles of an international border crossing or transit districts that include such a border crossing may levy an additional local special fuel tax. The maximum rate is 1 cent per gallon, and the receipts must be devoted to street improvements. Such a tax would be locally administered. To date, this tax has been imposed by the cities of Blaine, Sumas, and Nooksack and the Point Roberts transit district.

Levied by State

Administration Department of Licensing (or Department of Revenue for the 3.4 cent local taxes by counties). Special fuel is taxed according to the intended use. Non-dyed (clear) special fuel is intended for use on the public highways and is subject to special fuel tax at the terminal rack. The terminal rack suppliers remit the fuel tax directly to the Department of Licensing. Also, special fuel importers must report and remit the tax on imported special fuel. The tax is due by the 10th calendar day of the second month immediately following the reporting period. Dyed special fuel is subject to sales tax instead of the special fuel tax, because it is intended for off-road use only. The retail sales tax applies to such fuel; it is paid by the consumer and remitted to the Department of Revenue by the retail vendor.

The heating oil tax is remitted by dealers of special fuel at the same time as their special fuel dealer's tax is paid.

Recent Collections* (\$000)

<u>Fiscal Year</u>	<u>Collections</u>	<u>% Change</u>	<u>% of All State Taxes</u>
2006	\$212,913	4.8%	1.4%
2005	203,129	31.8	1.5
2004	154,146	24.2	1.2
2003	124,145	4.3	1.0
2002	119,045	3.8	1.0
2001	114,655	(9.0)	1.0
2000	125,955	7.6	1.1
1999	117,101	(0.9)	1.0
1998	118,181	6.7	1.1
1997	110,739	5.9	1.1

*Special fuel tax only; does not include heating oil tax.

Distribution of Receipts

The special fuel tax goes to the motor vehicle fund and is distributed in the same manner as the motor vehicle fuel tax.

The heating oil tax is deposited in the heating oil pollution liability trust account and is used by the Washington State Pollution Liability Insurance Agency.

Exemptions and Refunds

- fuel used in government vehicles for street construction and repair;
- publicly owned fire fighting equipment;
- special construction equipment defined in RCW 46.04.552;
- power take-off and pumping equipment;
- federally-owned vehicles;
- special fuel used for heating;
- fuel used for incidental moving of equipment used principally on private property;
- nonprofit providers of transportation for the elderly or handicapped;
- urban passenger transportation systems;
- exemption for fuel used in vehicles engaged in logging operations on federal lands;
- refund for bad debts claimed by special fuel dealers;
- refund for special fuel not used on public highways;
- refund for exported special fuel;
- refund for taxes paid erroneously or illegally;
- refund for special fuel that is lost or destroyed via fire, flood, or explosion;
- refund for special fuel of more than 500 gallons that is lost as a result of leakage or other casualties.

History

Special fuels were initially subject to the motor vehicle fuel tax that was adopted in 1921. A separate "use" fuel tax was established in 1941 which levied a 5 cent per gallon tax on diesel fuel. The current special fuel tax statute was adopted in 1971 with a rate of 9 cents per gallon. Subsequent rate changes are the same as for the motor vehicle fuel tax.

The heating oil tax was established in 1995 at 0.6 cents per gallon and the rate was doubled in 2004. The tax was originally scheduled to expire on June 1, 2001, but was extended for six years in 2000 and an additional six years in 2006.

Discussion/Major Issues

The purpose of the tax is to supplement the motor vehicle fuel tax by imposing a tax on all fuels which are not subject to the motor vehicle fuel tax but which are used to propel motor vehicles on the highways of the state.