ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3014

STATE OF NEW JERSEY

DATED: JUNE 24, 2010

The Assembly Budget Committee reports favorably Assembly Bill No. 3014.

The bill provides the "Motor Fuel Tax Act," a bill that modernizes the system for assessing the taxes on highway motor vehicles that are principally dedicated by the New Jersey Constitution to the costs of the State transportation system.

The current system for collecting the taxes on motor fuels is the result of revisions to the system made in 1992. Taxable diesel fuel is virtually the same product as tax exempt home heating oil. In response to a number of reports on fuel-tax evasion based on the difficulty of distinguishing taxable from nontaxable products and corporate manipulation of fuel tax records, including a report by the State Commission of Investigation, a new set of procedures was introduced that emphasized the tracking of the fuel through the chain of distribution.

The 1992 system emphasized the licensing or each party in the distribution chain, and regular reporting of purchases and sales by each party, bonding, and other steps to address the problem of substitution of tax-exempt No. 2 fuel oil for taxable diesel fuel. The new system circumvented the problem of manipulation of falsified corporate records of putatively taxed fuel by imposing the tax on diesel fuel at retail consumer level.

Much has changed since 1992, including the introduction of the federal dyed fuel system, under which fuel for exempt purposes is dyed while fuel for taxable purposes is undyed or "clear." Although New Jersey was one of the two test states that cooperated with the federal Internal Revenue Service in the initial testing or the federal dyed fuel system, it is one of the last of the industrialized states to use the dyed fuel system in its own motor fuels tax administration.

This bill changes the point of taxation of diesel fuel from the retail level to the level at which it is removed from the bulk fuel storage and distribution system of refineries, pipelines, ships and barges, at a terminal. The bill also changes the point of taxation of gasoline from the distributor level to the terminal level.

The bill includes requirements for transporting and labeling dyed fuel, and penalties for mishandling dyed (tax-exempt) fuel and for using dyed fuel in highway vehicles. The bill also authorizes the co-

collection of petroleum products gross receipts tax with the motor fuel taxes, when that is feasible.

FISCAL IMPACT:

The change in the point of taxation will decrease the number of taxpayers and decrease the volume of paperwork, potentially by more than 80% based on information supplied by the Division of Taxation. This will save substantial compliance costs for the industry, and a lesser amount of savings for the administration of tax. Although the Division of Taxation will have less need to process and store tax returns, the actual advantage for the division staff will be its ability to direct more of its attention at fewer taxpayers. With more attention focused on each taxpayer, the taxpayers who remain will be better screened and more skilled at maintaining compliance. The division has estimated that the combination of reduced compliance costs and improved audit and review focus will result in cost savings and increased compliance revenue totaling $18 million annually.