

MOTOR VEHICLE FUEL TAX

DESCRIPTION

The motor vehicle fuel tax is levied on each gallon of motor vehicle fuel, commonly known as gasoline, produced or imported into the state by a distributor. The tax rate is 18¢ per gallon, and the large majority of revenues are deposited in the Highway User Revenue Fund to pay for highway construction and maintenance.

DISTRIBUTION

The tax on motor vehicle fuel consumed in vehicles operated on Arizona roads and highways is deposited in the Highway User Revenue Fund [A.R.S. § 28-6533].

Tax collections are distributed on the following basis (see [Table 2](#) on following page):

- *Watercraft.* Tax collections on fuel for watercrafts pay for the cost of conducting a survey to determine the percent of fuel taxes collected from watercraft. One percent of such collections are retained by the State Highway Department to defray administrative expenses. The remaining collections are deposited in the State Lake Improvement Fund [A.R.S. § 28-5926].
- *Off-Highway Vehicles.* Fifty-five one hundredths of 1% of the tax collections on motor vehicle fuel is transferred to the Off-Highway Vehicle Recreation Fund on a monthly basis [A.R.S. § 28-5927].
- *Aircraft.* Taxes collected from sales of motor vehicle fuel consumed in aircraft are deposited in the State Aviation Fund. However, if a refund is claimed, 5¢ on each gallon of tax collected remains in the State Aviation Fund and the balance is refunded to the taxpayer [A.R.S. § 28-5611].
- *Remainder.* The net collections remaining after refunds and the above distributions are deposited in the Highway User Revenue Fund [A.R.S. § 28-5925]. (See *Highway User Revenue Fund Overview* at the beginning of this section for distribution of the Highway User Revenue Fund.)

Table 1			
MOTOR VEHICLE FUEL TAX COLLECTIONS			
<u>Fiscal Year</u>	<u>Net Collections</u>	<u>Fiscal Year</u>	<u>Net Collections</u>
FY 2005	\$496,340,649	FY 1995	\$351,038,867
FY 2004	\$478,829,323	FY 1994	\$341,252,229
FY 2003	\$463,864,197	FY 1993	\$322,572,576
FY 2002	\$452,550,965	FY 1992	\$317,996,785
FY 2001	\$436,073,531	FY 1991	\$305,756,113
FY 2000	\$424,486,824	FY 1990	\$294,050,829
FY 1999	\$410,037,087	FY 1989	\$292,334,836
FY 1998	\$376,348,116	FY 1988	\$271,459,606
FY 1997	\$373,986,908	FY 1987	\$268,958,183
FY 1996	\$369,058,121	FY 1986	\$222,687,959

SOURCE: Department of Transportation, Office of Financial Planning.

WHO PAYS THE TAX

The motor vehicle fuel tax is presumed to be a direct tax on the consumer but is still collected and remitted to the Department of Transportation by suppliers for the purpose of convenience. In other words, the tax is collected and paid to the Department by a supplier, who then adds the tax to the price of motor vehicle fuel in order to recover it from the consumer [A.R.S. § 28-5606].

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Table 2

DISTRIBUTION OF MOTOR VEHICLE FUEL TAX COLLECTIONS

<u>Fiscal Year</u>	<u>Highway User Revenue Fund</u> ^{1/}	<u>Special Funds and Refunds</u>
FY 2005	\$481,284,019	\$15,056,630
FY 2004	\$463,530,904	\$15,298,419
FY 2003	\$446,890,929	\$16,973,268
FY 2002	\$434,817,721	\$17,733,244
FY 2001	\$418,399,657	\$17,673,874
FY 2000	\$409,137,312	\$15,349,512
FY 1999	\$397,463,146	\$12,573,941
FY 1998	\$366,376,609	\$9,971,507
FY 1997	\$363,953,161	\$11,183,328
FY 1996	\$358,961,177	\$11,119,079
FY 1995	\$342,229,293	\$8,739,574
FY 1994	\$334,643,264	\$6,608,965
FY 1993	\$315,227,469	\$7,345,107
FY 1992	\$307,879,175	\$10,117,610
FY 1991	\$296,316,495	\$8,939,628
FY 1990	\$286,237,290	\$7,813,539
FY 1989	\$286,101,273	\$6,233,563
FY 1988	\$267,317,687	\$4,141,919
FY 1987	\$264,592,684	\$4,365,499
FY 1986	\$218,666,021	\$4,021,938

^{1/} Use Fuel Tax collections excluded.

SOURCE: Department of Transportation, Office of Financial Planning.

TAX BASE AND RATE

The tax base is motor vehicle fuel, which includes all products that are commonly or commercially known or sold as gasoline. This definition includes casinghead gasoline (unprocessed natural gas containing natural gasoline and other liquid hydrocarbon vapors produced from an oil well), natural gasoline and all flammable liquids composed of a mixture of selected hydrocarbons manufactured or blended for use in internal combustion engines. Motor vehicle fuel does not include transmix, jet or aviation fuel, or any fuels covered under the use fuel tax [A.R.S. § 28-101].

The following are exempted from the motor vehicle fuel tax [A.R.S. § 28-5610]:

- Motor vehicle fuel for which proof of export is available in the form of a terminal issued destination state shipping paper, and is either exported by a supplier that is licensed in the destination state, or sold by a supplier to a distributor for immediate export.
- Motor vehicle fuel that was acquired by a distributor on which the tax has previously been paid and was subsequently exported across the state border.
- Motor vehicle fuel sold on an Indian reservation to a tribal member.
- Motor vehicle fuel sold off an Indian reservation for purposes of operating a motor vehicle for the benefit of an Indian tribe.
- Motor vehicle fuel that is moving in interstate or foreign commerce and that is not destined or diverted to a point in this state.
- Motor vehicle fuel that is sold to the United States or its agencies or instrumentalities.

The tax rate is 18¢ per gallon [A.R.S. § 28-5606].

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TAX REFUNDS AND/OR TAX CREDITS

A person who buys and uses motor vehicle fuel is entitled to a refund if he or she pays the tax on the fuel and either [A.R.S. § 28-5611]:

- uses the fuel for purposes other than for operating a motor vehicle or a watercraft in Arizona,
- buys aviation fuel for use in aircraft applying seeds, fertilizer, or pesticides, or
- loses the fuel by fire, theft or other accident.

PAYMENT SCHEDULE

The motor fuel tax that is accrued in any calendar month shall be paid on or before the 27th day of the succeeding calendar month to the Department of Transportation [A.R.S. § 28-5925].

IMPACT OF TAX LAW AND REVENUE CHANGES

The following section is a summary by year of tax law changes that have been enacted by the Legislature since 1999.

There were no changes enacted to this tax in the period from 1999 to 2000 and 2002 to 2005.

2001 TAX LAWS

Laws 2001, Chapter 287 provided a number of technical and clarifying changes to statutes, and combined fuel tax statutes for motor vehicle fuel and use fuel into one article. The act also included several substantive provisions, such as an increase in the bonding levels for fuel suppliers and criminal penalty for fuel tax evasion. (Effective August 9, 2001)

A listing of tax law changes prior to the 1999 legislative session is available on the JLBC Web site located at www.azleg.state.az.us/jlbc/05taxbook/05taxbk.pdf.