



MEMO TO: House Taxation Committee
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and
Convenience Store Association of Kansas
DATE: January 25, 2017
RE: Proposed Tax Increases – Motor Fuel & Tobacco

Mr. Chairman and members of the House Taxation Committee: My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 300 independent petroleum marketers and convenience store retailers throughout Kansas.

I appreciate the opportunity to offer comments regarding the governor's proposed tax increases for tobacco, other tobacco products and motor fuel. I would also like to thank the chairman for allowing me to speak to the committee today because I have a schedule conflict for next week. I have asked Brenda Elsworth, Pete's Corporation, Parsons to come in next week to give you a small business perspective regarding past tax increases and how they have impacted motor fuel and tobacco retailing.

To say that we are upset that convenience stores are once again the target for tax increases in an understatement. The tax increases approved by the Kansas Legislature in 2015 have had a big impact on C-Stores located along state borders. Tobacco excise tax was increased \$.50 per pack (now \$1.29) and the state sales tax went from 6.15% to 6.5%. Now the governor is coming back for more and he wants to add another \$1.00 per pack on cigarettes. Also, included in his proposal he has included an increased tax for "other tobacco products (double the tax 10% to 20%) (smokeless tobacco).

Convenience store owners in Kansas who compete with bordering states will be at a tremendous competitive disadvantage if the legislature passes the tax increases listed above. It is interesting to note that although tobacco has been deemed bad, the state of Kansas and the convenience store industry have a common bond with tobacco. Both rely on the revenues from the sale of cigarettes to meet budget demands. The current price for cigarettes at \$1.29 cent per pack has Kansas retailers at a competitive disadvantage with our neighboring state, Missouri. And the additional increase only exacerbates the problem. Missouri has the lowest tobacco tax in the United States at \$.17 per pack. Oklahoma's tax is \$1.03, Nebraska \$.64 and Colorado \$.84. With the proposed change the new tax rate will rank Kansas 7th in the country with the highest tax rate.

Tobacco sales at convenience stores account for 32% of gross inside store sales...the number one product. Consumers usually purchase individual packs and they also purchase ancillary products like; coffee, pop, sandwiches, Lottery tickets etc. Kansans living near the border may, and many times do, opt to avoid paying Kansas taxes by crossing state lines where the tax is lower. When

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this occurs, both the retailer and the state lose. The retailer loses the sale and the state loses sales tax revenue. I have included a document prepared by Altria that illustrates the decline in sales in KS and increased sales in MO.

Raising tobacco excise taxes provides an uncertain revenue source. The Tax Facts booklet provided by the Kansas Legislative Research Department validates that tobacco revenues have declined since 2013. The only reason the revenues went up in 2016 was due to inventory tax. **(See chart)**

Raising tobacco excise taxes also burdens low-income earners. Cigarette excise taxes are regressive because they most negatively affect lower-income adult smokers. Based on data from the Center for Disease Control and Prevention, 34.5% of adults in Kansas who earn less than \$15,000 are smokers, whereas only 10% of adults who earn \$50,000 or more are smokers. Raising taxes will unfairly further burden low income earners.

Tobacco sales and gas sales are the “bread and butter” of the convenience store industry. Consumers usually stop at a convenience store because service is quick, and the customer can be in and out of the store in less than 1 minute. The increased price of cigarettes has the potential of changing peoples’ buying patterns, thus reducing store revenues for all products sold in convenience stores....as well as sales tax for the State of Kansas.

Over the past few years’ tobacco increases have been proposed in the legislature as a way to STOP people from smoking. If this is true, how can the state rely on tobacco revenue to fund new government programs? How will the money the state receives from the MSA be impacted? I would assume the state will see a reduction should tobacco sales decline. Also, Internet sales have become a factor. It is a sure bet that with an increase in cigarette taxes, the consumer will be motivated to use the Internet to purchase tobacco products, in ever-increasing numbers.

Clearly smokers have options when it comes to purchasing cigarettes. The tax increases proposed by the governor will surely change buying habits once again. And it appears the surrounding states will be the benefactors.

Motor Fuel

There are rumors that a coalition may introduce a bill that will increase the motor fuel excise tax \$.11 to offset KDOT funds swept by Governor Brownback. Let me be perfectly clear, PMCA does not support a fuel tax increase. In fact, on the contrary, we believe the fuel tax should be lowered. If the Kansas Legislature can approve sweeping over \$2 billion dollars out of KDOT and continue new projects as well as maintain highways...we are paying more than enough in fuel excise taxes.

PMCA members collect over \$400 million annually in motor fuel tax.

As mentioned above, convenience store owners in Kansas who compete with bordering states are already at a competitive disadvantage due to the disparity of the excise tax rates.

KS	\$.253 (gas)	\$.273 (diesel)
NE	\$.273	\$.273
MO	\$.173	\$.173
CO	\$.22	\$.205
OK	\$.170	\$.140

(Includes environmental and inspection fees)

I have also included with my testimony a state-by-state comparison of fuel tax rates for your review.

As you can see three out of the four contiguous states have lower fuel tax than Kansas. Nebraska being the lone exception. However, if the Kansas Legislature passes any increase in the fuel excise tax Kansas will have the highest fuel tax when compared to surrounding states.

Consumers buy fuel based on price. The National Association of Convenience Stores has reported that consumers are more sensitive to gas prices than other top economic concerns. Consumers will change their behavior to save a few cents per gallon. In fact, it would not be uncommon for a person to drive 5-7 miles out of their way to save 2 cents per gallon. Price is the deciding factor where consumers purchase fuel. If people are willing to drive 5-7 miles out of their way to save 2 cents per gallon, it is a pretty good guess that they will have no problem driving 10-15 miles (or more) out of their way to save 20 cents (MO & OK) cents per gallon.

What one retailer did to increase profit

Not too long ago (2010), a Kansas retailer decided to change its street address to a Missouri address because taxes were less. I am referring to the actions taken by the QuikTrip Corporation. QuikTrip moved a store in Kansas City, Kansas 100 feet to the east so that it would have a Missouri address – at a cost of \$3.4 million. The loss to Kansas was estimated to be \$1.4 million in state and local taxes. The \$1.4 million is a financial loss that Kansas cannot afford. I would venture a guess that if more Kansas convenience store retailers had the financial resources to do the same thing QuikTrip did, they would give serious consideration to a similar move.

When fuel prices increase so do credit card processing costs...***and unlike the state or local government, we cannot pass on the fees to the consumer.*** Today 70% of fuel sales are paid by debit or credit card. Credit card fees account for the highest expense item on a P &L, for a convenience store just below employee costs. And on top of the current discount points that are paid per transaction retailers are now required to be EMV compliant. **EMV stands for Europay, MasterCard and Visa.** This more secure credit card technology, which has long been used

throughout Europe, recognizes unique microchips embedded in credit and debit cards and validates their legitimacy, potentially cutting down on card fraud. Beginning October 1, 2015, U.S. retailers who have not installed EMV-capable payment terminals will be held liable for fraud resulting from transactions at their locations. On October 1, 2020 fuel retailers will be required to have the chip card available at the pump. Retailers that are branded MUST comply with this extremely expensive approach to accepting credit cards.

Mr. Chairman, the tax increases proposed today (or soon) will have a negative impact upon every convenience store retailer in the state. Consumers won't change what they buy; they will change where they buy: they will simply find a cheaper way to purchase their goods. More specifically, retailers who compete along the border are hit the hardest when tax increases in their home state are passed. They watch the exodus of their customers cross the state line without the wherewithal to do anything about the cost disparity. They simply can't lower their prices enough to be competitive.

The tax increases proposed by the governor (and others) are excellent **economic development for our neighboring states!**

Thank you.

COMBINED STATE AND LOCAL TAX REVENUE

Kansas state and local government net tax revenue totaled \$13.719 billion in FY 2016. Following are the tax levies or collections, combining state and local tax revenue, in descending order of magnitude for FY 2016.

Table 1
Kansas State and Local Taxes
(In Thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	Percent of FY 2016 Total	Percent Change from FY 2015
General Property (a)	\$ 4,229,149	\$ 4,300,213	\$ 4,389,000	\$ 4,577,497	33.37 %	4.29 %
Sales and Use (b)	3,828,962	3,974,809	4,098,000	4,317,247	31.47	5.35
Income and Privilege	3,359,986	2,685,378	2,760,809	2,664,938	19.43	(3.47)
Motor Fuels	415,352	441,841	439,558	450,800	3.29	2.56
Various Vehicle (a) (c)	360,854	375,538	381,951	398,261	2.90	4.27
Unemployment Comp.	425,462	406,639	415,717	339,928	2.48	(18.23)
Insurance Premiums	174,531	198,356	211,765	298,979	2.18	41.18
Vehicle Registration	221,664	228,625	238,017	237,512	1.73	(0.21)
Cigarette and Tobacco	98,985	97,813	96,303	146,552	1.07	52.18
Liquor and Beer	121,318	126,861	132,251	133,512	0.97	1.03
Transient Guest	36,010	39,749	42,746	46,074	0.34	7.79
Severance	122,895	151,082	121,257	40,423	0.29	(66.66)
Mortgage Registration	47,842	46,272	39,901	40,214	0.29	0.78
Motor Carrier Property	28,855	35,708	11,145	11,376	0.08	2.07
Corporation Franchise	(4,167)	6,632	7,287	6,884	0.05	(5.53)
Intangibles (a)	2,170	2,129	1,821	1,677	0.01	(7.91)
Estate/Inheritance	(77)	136	0	10	0.00	—
All Other (d)	8,686	8,528	7,299	7,087	0.05	(2.90)
Total	\$ 13,478,477	\$ 13,126,109	\$ 13,394,827	\$ 13,719,071	100.00 %	2.42 %

- (a) Taxes levied for collection during the fiscal year (b) Includes state, county, city, municipal university, and other special district sales and use taxes.
(c) Includes motor vehicle, recreational vehicle, 16M and 20M "tagged" vehicles, and rental car excise taxes.
(d) Total revenue from nine taxes, the largest of which for FY 2016 was the clean water drinking tax at \$2.790 million.

State and Local Tax Structure – Overview

Kansas has had a broad-based state and local tax structure since the 1930s when income, sales, and other taxes were adopted. The broadening continued—at least through the 1980s—with the adoption of various privilege, gross receipts, and severance taxes. One result of these changes is that the general property tax, while still by far the most important tax source for local governments, now is far less significant in terms of the overall state and local tax mix.

The 1992 school finance law substantially altered school district property taxes. In 1991, school district general fund property tax levies ranged from 9.12 mills (Burlington) to 97.69 mills (Parsons). The 1992 law established a uniform general fund mill levy rate of 32 mills for 1992, 33 mills for 1993, and 35 mills for 1994 and thereafter. Beginning in 1997, the Legislature provided major reductions in the general fund levy—which currently is set at 20 mills—in addition to an exemption from that levy for the first \$20,000 of a residential parcel's valuation.



STATE CIGARETTE EXCISE TAX RATES & RANKINGS

Overall All States' Average: \$1.69 per pack
 Major Tobacco States' Average: 48.5 cents per pack
 Other States' Average: \$1.85 per pack

State	Tax	Rank
Alabama	\$0.675	40th
Alaska	\$2.00	14th
Arizona	\$2.00	14th
Arkansas	\$1.15	34th
California	\$2.87	9th
Colorado	\$0.84	38th
Connecticut	\$3.90	2nd
Delaware	\$1.60	25th
DC	\$2.50	13th
Florida	\$1.339	30th
Georgia	\$0.37	49th
Hawaii	\$3.20	5th
Idaho	\$0.57	45th
Illinois	\$1.98	19th
Indiana	\$0.995	37th
Iowa	\$1.36	29th
Kansas	\$1.29	32nd
Kentucky	\$0.60	43rd

State	Tax	Rank
Louisiana	\$1.08	35th
Maine	\$2.00	14th
Maryland	\$2.00	14th
Massachusetts	\$3.51	4th
Michigan	\$2.00	14th
Minnesota	\$3.04	7th
Mississippi	\$0.68	39th
Missouri	\$0.17	51st
Montana	\$1.70	22nd
Nebraska	\$0.64	41st
Nevada	\$1.80	20th
New Hampshire	\$1.78	21st
New Jersey	\$2.70	10th
New Mexico	\$1.66	24th
New York	\$4.35	1st
North Carolina	\$0.45	47th
North Dakota	\$0.44	48th
Ohio	\$1.60	25th

State	Tax	Rank
Oklahoma	\$1.03	36th
Oregon	\$1.32	31st
Pennsylvania	\$2.60	11th
Rhode Island	\$3.75	3rd
South Carolina	\$0.57	45th
South Dakota	\$1.53	27th
Tennessee	\$0.62	42nd
Texas	\$1.41	28th
Utah	\$1.70	22nd
Vermont	\$3.08	6th
Virginia	\$0.30	50th
Washington	\$3.025	8th
West Virginia	\$1.20	33rd
Wisconsin	\$2.52	12th
Wyoming	\$0.60	43rd
Puerto Rico	\$3.40	NA
Guam	\$3.00	NA
Northern Marianas	\$1.75	NA

Table shows all cigarette tax rates in effect as of April 1, 2017 (CA effective 4/1/17). Since 2002, 48 states and the District of Columbia have increased their cigarette tax rates 128 times. The states in bold have not increased their tax for at least 10 years (since 2007 or earlier). Currently, 35 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of \$1.00 per pack or higher; 17 states, DC, Puerto Rico, and Guam have cigarette tax rates of \$2.00 per pack or higher; eight states, Puerto Rico and Guam have cigarette tax rates of \$3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than \$4.00 per pack. Tobacco states are KY, VA, NC, SC, GA, and TN. States' average includes DC, but not Puerto Rico, other U.S. territories, or local cigarette taxes. The median tax rate is \$1.60 per pack. AK, MI, MN, MS, TX, and UT also have special taxes or fees on brands of manufacturers not participating in the state tobacco lawsuit settlements (NPMs).

The highest combined state-local tax rate is \$6.16 in Chicago, IL, with New York City second at \$5.85 per pack. Other high state-local rates include Evanston, IL at \$5.48 and Juneau, AK at \$5.00 per pack. For more on local cigarette taxes, see: <http://tobaccofreekids.org/research/factsheets/pdf/0267.pdf>.

Federal cigarette tax is \$1.01 per pack. From the beginning of 1998 through 2002, the major cigarette companies increased the prices they charge by more than \$1.25 per pack (but also instituted aggressive retail-level discounting for competitive purposes and to reduce related consumption declines). In January 2003, Philip Morris instituted a 65-cent per pack price cut for four of its major brands, to replace its retail-level discounting and fight sales losses to discount brands, and R.J. Reynolds followed suit. In the last several years, the major cigarette companies have increased their product prices by almost \$1.00 per pack. **Nationally, estimated smoking-caused health costs and lost productivity totals \$19.16 per pack.**

The weighted average price for a pack of cigarettes nationwide is roughly \$6.16 (including statewide sales taxes but not local cigarette or sales taxes, other than NYC's \$1.50 per pack cigarette tax), with considerable state-to-state differences because of different state tax rates, and different manufacturer, wholesaler, and retailer pricing and discounting practices. AK, DE, MT, NH & OR have no state retail sales tax at all; OK has a state sales tax, but does not apply it to cigarettes; MN & DC apply a per-pack sales tax at the wholesale level; and AL, GA & MO (unlike the rest of the states) do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Campaign for Tobacco-Free Kids, January 3, 2017 / Ann Boonn

For additional information see the Campaign's website at http://www.tobaccofreekids.org/what_we_do/state_local/taxes/.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2015; media reports; state revenue department websites.

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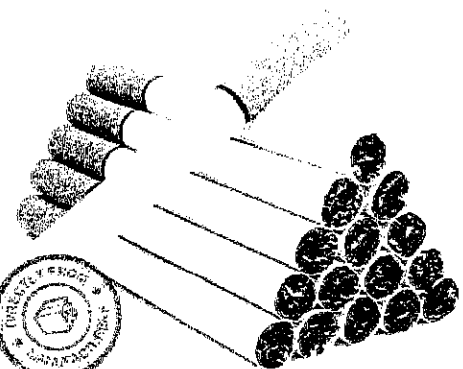


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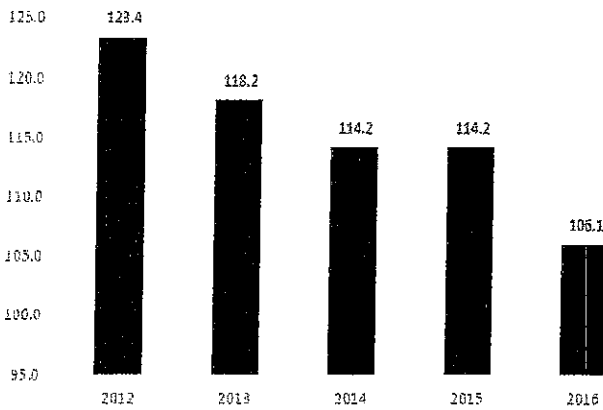
The Impact on Tax-paid Cigarette Sales Along the Kansas-Missouri Border Following the 50-cent Cigarette Excise Tax Increase in Kansas

Effective July 1, 2015 (the start of FY2016), Kansas increased its cigarette excise tax by 50-cents per pack, which increased the average price for a pack of cigarettes 10.9% from \$5.67 to \$6.27.

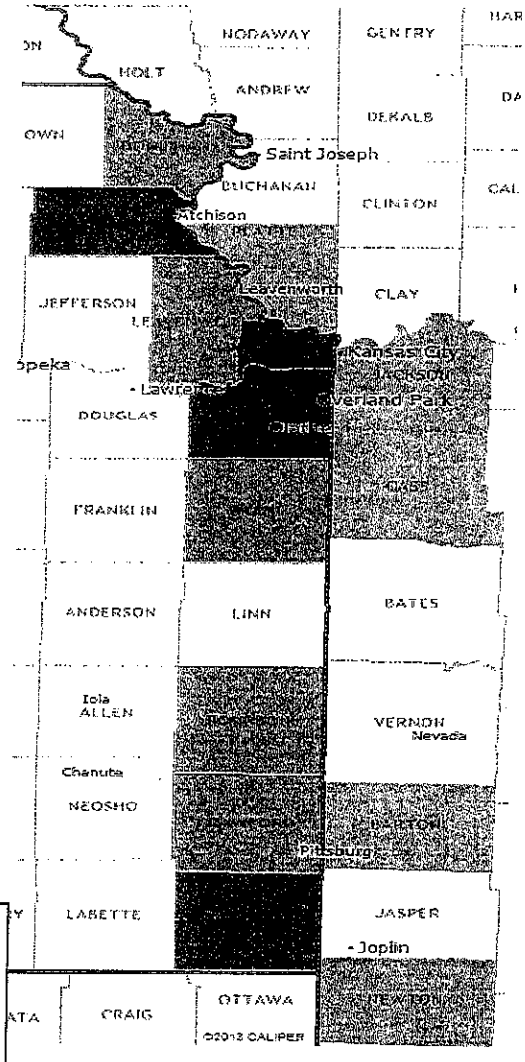
Following the tax increase, the typical decline in tax paid cigarette sales in Kansas accelerated, falling 7.1% in FY2016 compared to FY2015.¹ Some of the largest declines occurred around the Kansas City area. For instance, tax-paid cigarette sales declined 12.1% in Wyandotte County and declined 14.1% in Johnson County. The largest percentage decline in tax-paid sales occurred in Atchison County (-18.8%).

In comparison, total state tax-paid cigarette sales declined a much smaller 1.5% in FY2016 nationally.

Total Kansas Tax Paid Sales
(in millions of packs)



Percentage Change in State Tax-paid Sales Along KS-MO Border
FY2015-FY2016



Prior to the tax increase in Kansas, tax-paid sales had been declining 2.4% per year, on average, in Missouri.² Following the 50-cent tax increase in Kansas, tax-paid sales in Missouri increased 2.4%.

The map to the right illustrates the stark differences between the increases in tax-paid sales along the Missouri side of the border and the steep declines in tax-paid sales along the Kansas side of the border following the 50-cent tax increase in Kansas.

Based on the impacts following the 50-cent tax increase in FY2016, further tax increases in Kansas will only worsen the problem of cross border sales.

¹ Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 51 (February 2017); funded in part by Altria Client Services Inc.

² Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 51 (February 2017); funded in part by Altria Client Services Inc. Average annual decline is calculated based on annual percentage changes between 2012 and 2015.



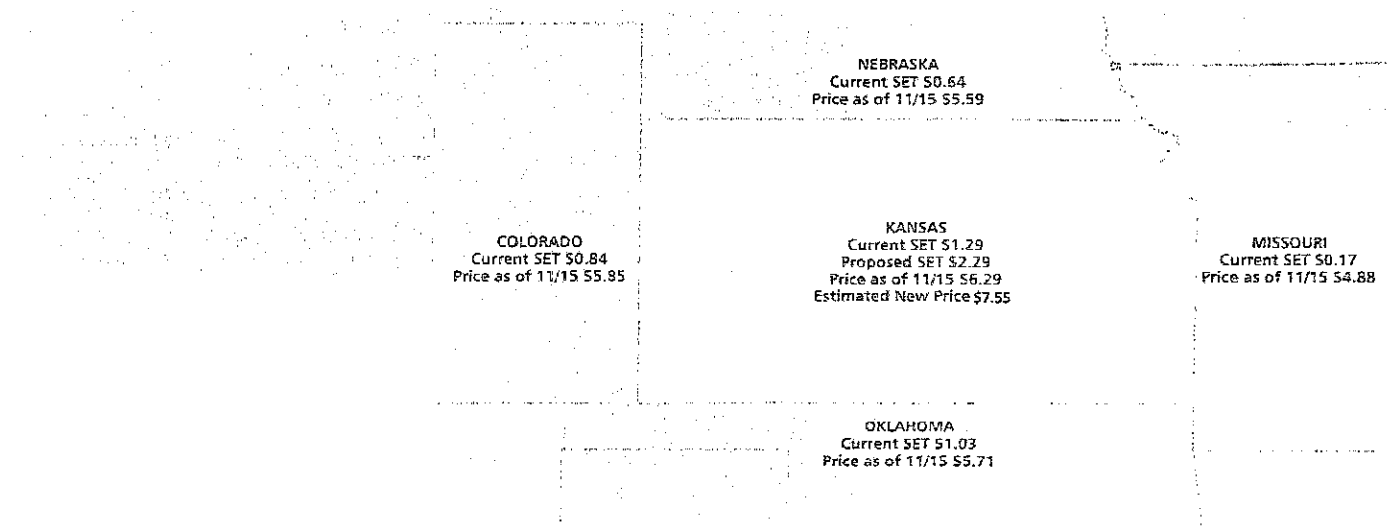
Kansas Will Lose Money to Neighboring States from a Cigarette Excise Tax Increase

A cigarette excise tax increase would raise pack prices and encourage adult smokers to make purchases in states with lower taxes. Lost sales means lost revenues for the Kansas government.

The proposed \$1.00 cigarette excise tax increase will cause cigarette packs to be more expensive in Kansas when compared to its neighbors. The current average price per pack in Kansas is \$6.29.¹ If this tax increase were implemented, the average price would jump to \$7.55 per pack.²

Adult smokers in Kansas could save \$2.68 per pack or \$978 annually by purchasing cigarettes in Missouri where the average price is only \$4.88 per pack.³

Potential Annual Savings for Pack-a-Day Adult Smoker across Kansas's Borders



As adult smokers shift purchases to other states, the government will collect less revenue than expected from a cigarette tax increase.

Combined with the fact that tax-paid cigarette sales are on the decline, cross-border sales will further destabilize this revenue stream.

¹ Bill Orzechowski & Rob Walker. *The Tax Burden on Tobacco, vol.51 (February 2017)*; funded in part by Altria Client Services, Inc.

² The resulting price in Kansas has been estimated by adding the \$1.00 tax increase, the resulting increase in the sales tax per pack and including an estimated 16.2% trade margin. The estimated trade margin is based on National Association of Convenience Stores (NACS), NACS State of the Industry Report -- 2015, National Association of Convenience Stores.

Numbers may not add due to rounding.

State Motor Fuel Tax Rates

(January 1, 2017)

	GASOLINE			DIESEL FUEL			GASOHOL			Notes
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	
Alabama /1	18.0	2.0	20.0	19.0		19.0	18.0	2.0	20.0	Inspection fee
Alaska	8.0	0.95	8.95	8.0	0.95	8.95	8.0	0.95	8.95	Refining Surcharge
Arizona	18.0	1.0	19.0	26.0	1.0	27.0	18.0	1.0	19.0	/8 LUST Tax
Arkansas	21.5	0.3	21.8	22.5	0.3	22.8	21.5	0.3	21.8	Environmental fee
California	27.8	5.0	32.8	16.0	17.0	33.0	27.8	5.0	32.8	Includes prepaid sales tax /7
Colorado	22.0		22.0	20.5		20.5	20.0		20.0	
Connecticut	25.0		25.0	41.7		41.7	25.0		25.0	Plus a 8.1% Petroleum tax (gas)
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.9% GRT
Florida /2	17.4	13.525	30.925	17.4	14.4	31.8	17.4	13.525	30.925	Sales tax added to excise /2
Georgia /5	26.3		26.3	29.4		29.4	26.3		26.3	/5 Local sales tax additional
Hawaii /1	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax additional
Idaho	32.0	1	33.0	32.0	1	33.0	32.0	1	33.0	Clean water tax
Illinois /1	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee /3
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax additional /3
Iowa	30.7		30.7	32.5		32.5	29.0		29.0	
Kansas	24.0	1.03	25.03	26.0	1.03	27.03	24.0	1.03	25.03	Environmental & Inspection fees
Kentucky	24.6	1.4	26.0	21.6	1.4	23.0	24.6	1.4	26.0	Environmental fee /4 /3
Louisiana	20.0	0.125	20.125	20.0	0.125	20.125	20.0	0.125	20.125	Inspection fee
Maine	30.0		30.0	31.2		31.2	30.0		30.0	
Maryland /5	33.5		33.5	34.50		34.50	33.5		33.5	/5
Massachusetts	24.0		24.0	24.0		24.0	24.0		24.0	
Michigan	26.3		26.3	26.3		26.3	26.3		26.3	Sales tax additional
Minnesota	28.5	0.1	28.6	28.5	0.1	28.6	28.5	0.1	28.6	Inspect fee
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.3	17.3	17.0	0.3	17.3	17.0	0.3	17.3	Inspection & Load fees
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	27.3	0.9	28.2	27.3	0.3	27.6	27.3	0.9	28.2	Petroleum fee /5
Nevada /1	24.0	0.805	24.805	27.0	0.75	27.75	24.0	0.805	24.805	Inspection & cleanup fee
New Hampshire	22.2	1.625	23.825	22.2	1.625	23.825	22.2	1.625	23.825	Oil discharge cleanup fee
New Jersey	10.5	26.6	37.10	13.5	19.9	33.40	10.5	26.6	37.10	Petroleum fee
New Mexico	17.0	1.875	18.875	21.0	1.875	22.875	17.0	1.875	18.875	Petroleum loading fee
New York	8.0	16.2	24.2	8.0	14.45	22.45	8.0	16.2	24.2	Petroleum Tax, Sales tax additional
North Carolina	34.3	0.25	34.55	34.3	0.25	34.55	34.3	0.25	34.55	/5 /10 Inspection tax
North Dakota	23.0		23.0	23.0		23.0	23.0		23.0	
Ohio	28.0		28.0	28.0		28.0	28.0		28.0	
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon /1	30.0		30.0	30.0		30.0	30.0		30.0	
Pennsylvania	58.2		58.2	74.7		74.7	58.2		58.2	Oil franchise tax only
Rhode Island	33.0	1	34.0	33.0	1	34.0	33.0	1	34.0	LUST tax
South Carolina	16.0	0.75	16.75	16.0	0.75	16.75	16.0	0.75	16.75	Inspection fee & LUST tax
South Dakota /1	28.0	2	30.0	28.0	2	30.0	14.0	2	16.0	Inspection fee
Tennessee /1	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. Fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	29.4		29.4	29.4		29.4	29.4		29.4	
Vermont /5	12.1	18.36	30.46	28.0	4.0	32.0	12.1	18.36	30.46	Cleanup Fee & Trans. Fee
Virginia /1	16.2		16.2	20.2		20.2	16.2		16.2	/6
Washington	49.4		49.4	49.4		49.4	49.4		49.4	0.5% privilege tax
West Virginia	20.5	11.7	32.2	20.5	11.7	32.2	20.5	11.7	32.2	Sales tax added to excise
Wisconsin	30.9	2.0	32.9	30.9	2.0	32.9	30.9	2.0	32.9	Petroleum Insp. Fee
Wyoming	23.0	1	24.0	23.0	1	24.0	23.0	1	24.0	License tax
Dist. of Columbia	23.5		23.5	23.5		23.5	23.5		23.5	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	/7 LUST tax

SOURCE: Compiled by FTA from various sources.

/1 Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 5 cents; SD and TN, one cent; and VA 2.1%.

/2 Local taxes for gasoline and gasohol vary from 0 cents to 6.0 cents. Includes Inspection Fee, SCETS, & Statewide Local Tax.

/3 Carriers pay an additional surcharge equal to IL-18.8 cents (g) 14.1 cents (d), IN-11 cents, KY-2% (g) 4.7% (d).

/4 Tax rate is based on the average wholesale price and is adjusted annually. The actual rates are: KY, 9%; and UT, 12%.

/5 Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.

/6 Large trucks pay an additional (d) 3.5 cents (g) 12.6 cents. Actual rates (g) 5.1%, (d) 6%.

/7 California Gasoline subject to 2.25% sales tax. Diesel subject to a 9.25% sales tax.

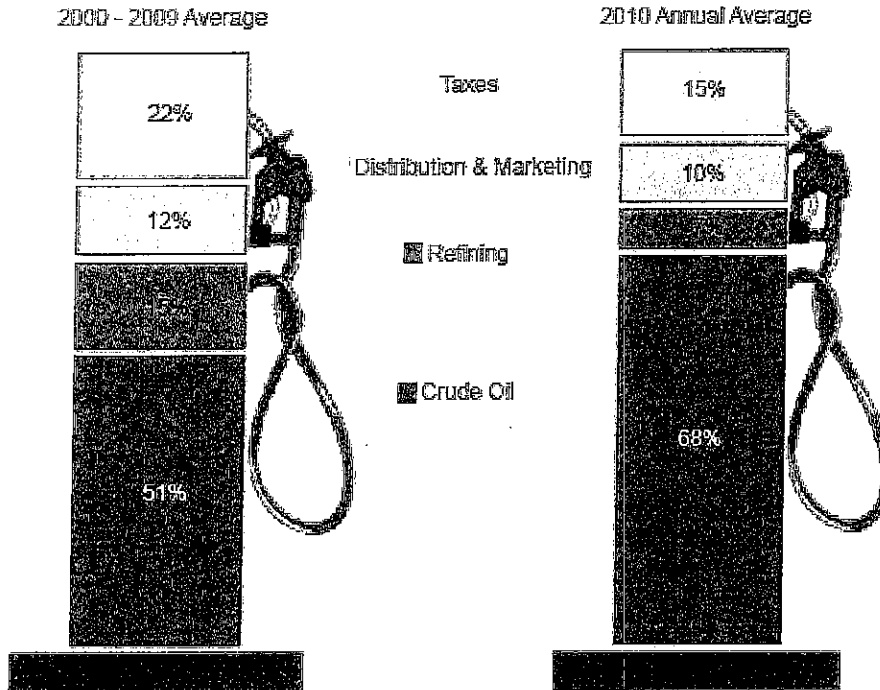
/8 Diesel rate specified is the fuel use tax rate on large trucks. Small vehicles are subject to 18 cent tax rate.

Today in Energy

March 11, 2011

What we pay for in a gallon of regular gasoline

What We Pay for in a Gallon of Regular Gasoline



Source: U.S. Energy Information Administration

Crude oil, refining, distribution & marketing, and taxes are the four major cost components for estimates of the retail price of a gallon of gasoline:

- **Crude oil** - the major feedstock used to produce gasoline. This portion of the gasoline price is represented by the cost of crude oil purchased by refiners.
- **Refining** - processing the crude oil into gasoline. The refining portion of the gasoline price is the spread between the cost of crude oil purchased by refiners and the wholesale price of gasoline. This spread represents both the costs and profits associated with the refining process.
- **Distribution & Marketing (Retail)** - the part of the supply chain where wholesale gasoline is brought to a retail station and sold to the final consumer. This portion of the gasoline price is the retail price minus the other three price components. It represents both the costs and profits associated with selling retail gasoline to the final consumer.
- **Taxes** - The Federal Government levies a tax of 18.4 cents on each gallon of gasoline, and the States levy an average tax of 22 cents on each gallon. This does not account for all State and local taxes, such as sales taxes, so this component, ranging from 7.5 to 37.5 cents per gallon across States, is probably understated (and the Distribution and Marketing component correspondingly overstated).

The portion of the gasoline price each of these components accounts for can vary significantly over time. Crude oil is typically the largest cost component of gasoline, and its share of the price of a gallon of gasoline was significantly higher in 2010 than it was, on average, over the 2000-2009 period. As shown in the data history, crude oil costs climbed to over 75% of the price of gasoline during the period of quickly-rising prices in late 2007 through mid-2008.

The refining component and the distribution and marketing component can also vary. They vary over longer periods due to refining market economics and petroleum product demand. They can also vary in the short term since there is typically a lag between changes in the spot price of wholesale gasoline and the retail price of gasoline. For example, if spot prices increase for wholesale gasoline, the impact of that change is not immediately passed through to retail prices. At that point in the price cycle, with increased spot prices and lagging retail prices (assuming constant crude oil prices), the refining component would expand while the distribution and marketing component would contract.