

OREA EXPLAINS: The "Gas Tax"



August 2021

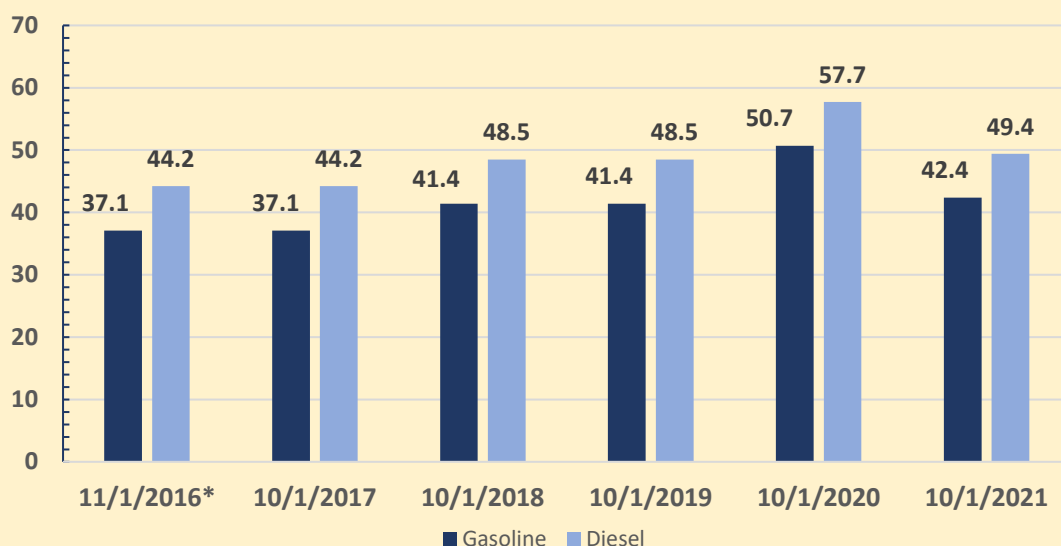
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THE GAS TAX

What is generally called the "gas tax" or the "highway fuels tax" is actually two separate taxes on gasoline and diesel: the **Motor Fuels tax** and the **Petroleum Products Gross Receipts (PPGR) tax**.

According to the statutory formula, New Jersey's **Petroleum Products Gross Receipts tax rate will decrease by 8.3 cents per gallon**, effective Oct. 1, 2021. The total tax rates for gasoline and diesel fuel will be 42.4 cents and 49.4 cents per gallon, respectively.

New Jersey Highway Fuels Tax Rate, 2016 to Present ¹
Cents per Gallon



*Chapter 57 included a 22.6 cent increase in the tax rate, effective Nov. 1, 2016..

CHAPTER 57

Signed into law in 2016, part of Chapter 57 established the formula that is used annually to determine whether the **PPGR** rate must be adjusted upward or downward to generate roughly \$2 billion per year to support the state's Transportation Trust Fund (TTF) program.²

Statutory Rate Review Process

July

OREA calculates the revenue target based on prior fiscal year consumption and recommends the new PPGR tax rate based on an estimate of consumption for the current fiscal year.

August

The Treasurer presents the rate recommendation to the Legislative Budget and Finance Officer (LBFO) for review and comments.

The LBFO independently reviews and consults with the Treasurer.

Treasurer announces new PPGR tax rate.

October

New PPGR tax rate goes into effect.

TTF PROGRAM

Under Chapter 57, New Jersey's TTF program is required to provide \$16 billion over eight years to support critical infrastructure improvements to the State's roadways and bridges, and is scheduled to expire in 2024.

Statutory Rate Formula

The foundation of the PPGR rate adjustment formula established by C.57 is highway fuels revenue consumption in FY 2016.

Baseline Revenue Target = FY 2016 Consumption x Tax Rates

The PPGR rate is adjusted annually to:

- 1) correct for the prior fiscal year's shortage or surplus in meeting the baseline revenue target (FY 2016).
- 2) correct for whether projected highway fuels consumption in the current fiscal year will be above or below FY 2016 levels.

If revenues last fiscal year were below (above) target, then this year's target is adjusted higher (lower).

If consumption this fiscal year is projected to be lower (higher) than FY 2016 levels, then the rate is adjusted higher (lower) in order to meet the revenue target.

FY 2022 Rate Calculation

FY 2021: The PPGR tax rate was raised 9.3 cents on October 1, 2020 because:

- 1) highway fuels revenues in FY 2020 were \$154 million below target due to the pandemic, and
- 2) highway fuels consumption in FY 2021 was projected to be 20.2 percent below FY 2016 levels.

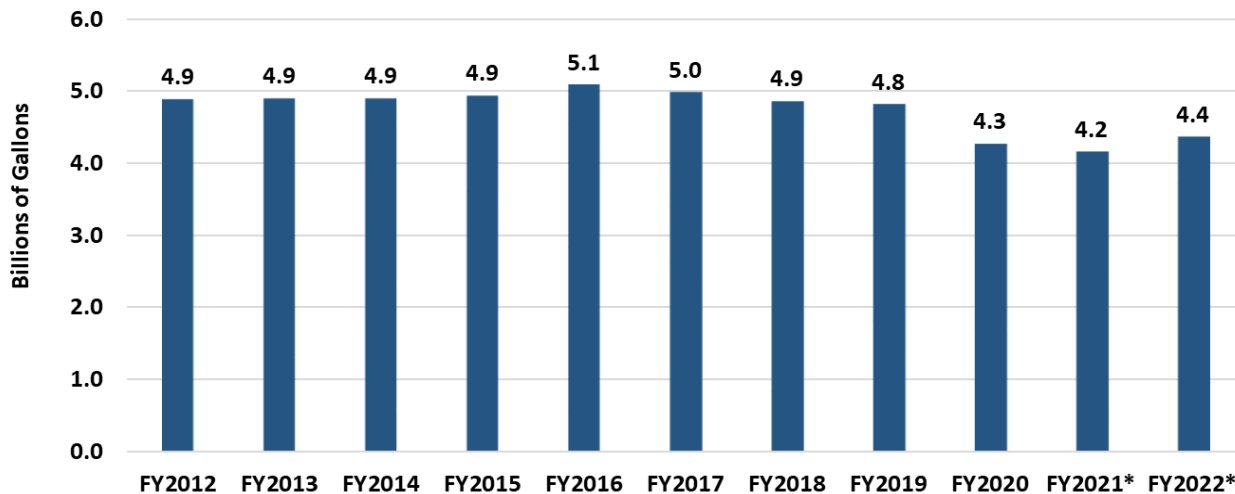
FY 2022: The PPGR tax rate will decrease by 8.3 cents on October 1, 2021 because:

- 1) highway fuels revenues in FY 2021 were 2.8 percent above the target, but
- 2) highway fuels consumption in FY 2022 is projected to be 14.3 percent below FY 2016 levels.

The FY 2022 PPGR tax rate will be lower than in FY 2021, but will remain above the original rate increase of 22.6 cents.

**Historic Highway Fuels Consumption
FY2012 - FY2022**

■ Total Highway Fuels



*FY 2021: actuals through May; projection for June

*FY 2022: projection

FY 2016 Highway Fuels Consumption: The Baseline

Consumption of highway fuels peaked in FY 2016 at 5.083 billion gallons of gasoline and diesel fuel due to exceptionally low prices at the time. FY 2016 is a baseline that New Jersey is not likely to ever replicate.

OUTLOOK:

- Consumption of gasoline has been gradually declining over the past few years because of increases in fuel efficiency and electric vehicles, which is a trend that is expected to continue.³
- Consumption of gasoline is not expected to return to its pre-pandemic trend in FY 2022.

SOURCES:

¹ New Jersey Division of Taxation, Rates for the Petroleum Products Gross Receipts Tax, <https://www.nj.gov/treasury/taxation/petroleum/rates.shtml>

² P.L. 2016, Chapter 57, https://www.njleg.state.nj.us/2016/Bills/PL16/57_PDF

³ New Jersey Department of Environmental Protection, Drive Green NJ, Electric Vehicle Basics: <https://www.drivegreen.nj.gov/dg-electric-vehicles-basics.html>

