MTAC MOTOR TRANSPORT ASSOCIATION OF CONNECTICUT, INC.

MICHAEL J. RILEY
PRESIDENT

Statement of Michael J. Riley
President
Motor Transport Association of Connecticut
Before
The Joint Committee on Finance Revenue and Bonding

March 18, 2013

Re: SENATE Bill No. 1095 AN ACT ELIMINATING THE INCREASE IN THE PETROLEUM PRODUCTS GROSS EARNINGS TAX.

I am Michael J. Riley, President of Motor Transport Association of Connecticut (MTAC), a statewide trade association, which represents 800 companies that operate commercial motor vehicles in and through the state of Connecticut. Our membership includes freight haulers, movers of household goods, construction companies, distributors, tank truck operators and hundreds of companies that use trucks in their business and firms that provide goods and services to truck owners.

MTAC SUPPORTS THIS BILL

Connecticut's Gross Earning Tax on Petroleum Products (GET) is a cruel tax. It increases the burden on Connecticut's citizens and businesses at times when gasoline and diesel fuel prices are increased by external factors. Unpredictable events like natural disasters, blockades, civil unrest, wars, and the vagaries of the supply and demand cycle affect the world wide cost of petroleum and its byproducts. As the price of petroleum goes up, because the Connecticut GET is a percentage and not a "cents per gallon tax", the tax on a unit of fuel increases.

The rate of the GET was increased from 3% to 5% in 1991. This was a time of relatively stable fuel prices with gasoline costing a little over $2.00 per gallon. This money was revenue to the General Fund and very little of it was used for transportation purposes.

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In 2005, in an effort to address Connecticut's troubling deficiencies in highway construction, maintenance and repair, the GET was incrementally increased on the following schedule:

2005 5.0%
2006 5.8%
2007 6.3%
2008 7.0%
2009 to 2013 7.5%
2014 8.1%

In 2008, after the price soared to over $4.50 per gallon for gasoline and $5.00 per gallon for diesel fuel, the Legislature wisely eliminated the increase to 7.5% in 2009. However, they did not remove the 8% rate which, if not eliminated by this bill, will go into place on July 1, 2013.

In the meantime, the state did very well. The GET kept producing revenue. According to a August 3, 2008, *New York Times* article by Keith M. Phaneuf, "when the wholesale tax increase was approved in May 2005, the state anticipated that it would receive $206 million new revenue during the first four years, which in turn would finance the debt service of the transportation program. Instead, the General Assembly's Office of Fiscal Analysis reports that the state has collected $427 million in new revenue in the last three years – and should receive another $253 million this year. That totals $680 million."

According to the office of Fiscal Analysis, nearly 41 percent of the extra $680 million in additional revenue, generated by the sale of gasoline and diesel tax, was spent on non-transportation projects. And that trend continued as the chart from the February 19, 2010 article in *Connecticut Mirror* clearly shows.

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SYPHONING OFF THE FUEL TAX
($ in millions)

Fiscal Year	Total Receipts	Special Transportation Fund	Other Funds
2006	$279.6	$43.5	$236.0
2007	$309.4	$141.0	$168.4
2008	$357.8	$127.8	$220.0
2009	$267.8	$141.9	$125.9
2010*	$271.3	$141.9	$129.4

*estimated

Source: state Office of Fiscal Analysis

The point I am trying to make is that when the increases in the GET were put into law, nobody could foresee the precipitous and damaging increases in the cost of gasoline and diesel fuel which occurred over the next several years. Those increases sapped Connecticut's citizens and businesses of money that they could have used for more productive purposes. But there is little that individuals or Legislators can do about a free international market in a commodity so critical to our daily lives.

But there is something that this committee can do to show good faith with the citizens of this state. And that is to pass Senate Bill No. 1095 which will eliminate the increase from 7% to 8.1% in the GET scheduled to occur on July 1, of this year. Last year, the legislature capped the GET on gasoline at $3.00. If this bill doesn't pass, I understand that the cap will be removed.

In his first year in office Governor Malloy proposed a three cent per gallon increase in the base tax for both gasoline and diesel fuel. The Legislature chose to go ahead with the three cents on diesel but did not increase the gas tax.

As you can see by the attached report, Connecticut's diesel fuel tax is by far the highest in the country. Currently, the diesel tax in Connecticut is 51.2 cents per gallon. The next closest to us is California at 44.5 cents.

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The diesel fuel tax is a "cent per gallon" tax that is set annually. It is composed of two elements; one is the base tax, currently 29 cents per gallon. The other factor is adjusted every July 1 based on two factors; one is the average cost of diesel fuel over the previous year, and the second is the rate of the GET at that date. These components are applied and the result is an amount added to the base tax. So, an increase in the GET will make its way into the cost of diesel fuel.

According to an Office of Legislative Research Report, July 2012, only four states have gross earnings taxes on petroleum products. Delaware taxes both the wholesaler and retailer both of which are under 2%. New Jersey has a tax of 2.75%. And, Washington has a tax of .05%

While the people of this state grappled with the increased cost of driving to work, operating machinery, transporting products and running their businesses, the coffers of state government received unexpected windfalls. The increases in the rate of the GET were put into place to cover the costs of the debt service on the transportation package adopted in 2005. Those annual requirements have long since been satisfied and the General Fund has been the unintended beneficiary of the excess. It is time to stop this unfair hidden tax and it is certainly not time to make it worse by allowing the cruel, unjustified and crippling increase in this tax to occur.

Since this is a "gross" tax, the actual increase will be almost 9% of the wholesale cost of fuel!

Please support SB 1095 AN ACT ELIMINATIIN THE INCREASE IN THE PETROLEUM PRODUCTS GROSS EARNINGS TAX.

Thank you.