

# Taxation of Alternative Fuels for Highway Use

## Is There a Better Way to Impose or Enforce this Tax?

### **Problem:**

People who use alternative fuels instead of gasoline or diesel fuel to power their vehicle may not be paying fuel taxes for the use of the highway.

### **Current Requirement:**

An owner of a vehicle powered, full-time or part-time, by propane, natural gas, electricity, or other clean fuel is required to purchase an annual clean special fuel tax certificate in lieu of paying the 24½ cents per gallon state fuel tax. The cost of the certificate is \$82 per year for a passenger vehicle compared to an average of \$162<sup>1</sup> paid in fuel taxes for all other vehicles.

### **Certificate Requirement Lacks Enforcement:**

The Tax Commission has reported that they have not found a good method to enforce the purchase of the certificates and relies largely on taxpayer knowledge of the requirement and honesty. In Fiscal Year 2002, only 526 certificates<sup>2</sup> were sold compared to 918 the previous year, a drop of 43 percent. The U.S. Department of Energy estimates Utah has 6,325 alternatively fueled vehicles. If these figures are accurate, certificates are being sold to only 8.3 percent of the vehicles that should be purchasing them.

### **How Did This Happen?**

As shown in appendix A, a partial answer is that small statutory changes over time have resulted in a reduced ability to enforce the certificate requirement.

### **Policy Options:**

1. Collect the tax at the retail level for any clean fuel practical to tax at that level, including propane and natural gas
  - a. Keep certificates for electricity and other untaxed clean fuels
  - b. Track previously issued certificates and bill vehicle owners at the time of registration
  - c. Possibly offer reduced tax rates for clean fuels taxed at the retail level
2. Require vehicles that use clean fuels to register as a clean fuel vehicle and bill them for the certificate at the time of registration (The Tax Commission reports that 484 certificates are currently being billed with motor vehicle registrations.)
  - a. Track previously issued certificates and bill vehicle owners at the time of registration
  - b. Track previous and newly converted vehicles that apply for a state or federal income tax credit
  - c. Find and implement other ways to include vehicles being missed
  - d. Possibly increase the certificate fee to reflect changes in other fuel tax rates

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<sup>1</sup> Based on tax rate, total gallons taxed, number of registered vehicles, and adjusted to 2001 dollars by CPI-U. Data obtained from the Utah State Tax Commission, Utah Department of Transportation, and U.S. Bureau of Labor Statistics.

<sup>2</sup> Based revenue from the \$35 clean fuel incentive surcharge as reported by the Utah State Tax Commission - Tax Collections, Financial Analysis and Reporting, TC-23 Rev. 9/98 Printed 7/11/2002.