

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1703

Bill Subtitle: TO AMEND THE ALTERNATIVE FUELS TAX LAW; TO AMEND THE EXCISE TAX LEVIED ON ALTERNATIVE FUELS; TO CREATE A FAIR AND EQUITABLE METHOD OF MAINTAINING THE ROADS IN THE STATE; AND TO DECLARE AN EMERGENCY.

Basic Change : Sponsor: Representative D. Douglas

The bill amends the Arkansas Alternative Fuels Tax code provisions to provide definitive dates for the progression of the tax rates on alternative fuels, provide new definitions for natural gas based fuels and gallon equivalents and removes the Department of Finance and Administration from the responsibility of determining if thresholds have been met for tax rate changes. Under current law, the tax rates on alternative fuels will increase as the number of motor vehicles licensed in Arkansas that use alternative fuels also increases. DFA is assigned the responsibility to determine the number of vehicles licensed and increase the tax rates accordingly. The bill replaces this requirement and provides for definitive dates for the tax rates changes.

This bill maintains the current tax rate of five cents (\$.05) per gallon on compressed natural gas (CNG) and liquefied natural gas (LNG) fuels for FY2016 with annual increases until the tax rates are equal to the existing tax rates on gasoline and diesel. The tax rates established would be as follows:

July 1, 2015	5¢ per gallon (current rate)
July 1, 2016	8¢ per gallon
July 1, 2017	11¢ per gallon
July 1, 2018	17¢ per gallon
July 1, 2019	21½¢ per gallon on CNG --- Same as Current Gasoline Tax 22½ ¢ per gallon on LNG --- Same as Current Diesel Tax 21½¢ per gallon on Other Alternative Fuels --- Same as Current Gas Tax

Under the proposed schedule and beginning on July 1, 2019, compressed natural gas fuels (CNG) and other alternative fuels would be taxed the same as gasoline and liquefied natural gas fuel (LNG) would be taxed the same as diesel. Under current law, liquefied natural gas fuels are not referenced and are anticipated as being the primary natural gas based fuel type that will be used in interstate trucking.

The bill also amends the definition of "gallon equivalent" for purposes of the alternative fuels tax law. Currently, one hundred cubic feet (100 c.f.) of natural gas fuel is equal to one U.S. gallon of gasoline. The bill amends the definition to provide that one hundred twenty-five cubic feet (125 c.f.) of natural gas fuel is equal to one U.S. gallon of gasoline. The bill also provides that one gallon of liquefied natural gas fuel (LNG) is equal to one U.S. gallon of distillate special fuel (diesel). The proposal includes an emergency clause and the provisions of the bill would be effective July 1, 2015.

Revenue Impact :

Compressed Natural Gas (CNG):

FY2016	Tax Reduction of \$5,000	(5¢ per gallon tax rate)***
FY2017	Tax Increase of \$24,000	(8¢ per gallon tax rate)
FY2018	Tax Increase of \$24,000	(11¢ per gallon tax rate)
FY2019	Tax Increase of \$48,000	(17¢ per gallon tax rate)
FY2020	Tax Increase of \$36,000	(21.5¢ per gallon tax rate)

Based on current consumption levels of compressed natural Gas (CNG) of approximately 900,000 gallon equivalents per year at one gallon = 100 c.f. Under the proposal of one gallon = 125 c.f., current consumption level would equal 800,000 gallon equivalents.

***This tax reduction is due to the CNG measurement equivalent per gallon change from 100 c.f. to 125 c.f.

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Liquefied natural gas (LNG):

FY2016	Tax Revenue of \$1,250	(5¢ per gallon tax rate)
FY2017	Tax Increase of \$ 750	(8¢ per gallon tax rate)
FY2018	Tax Increase of \$ 750	(11¢ per gallon tax rate)
FY2019	Tax Increase of \$ 1,500	(17¢ per gallon tax rate)
FY2020	Tax Increase of \$ 1,125	(21.5¢ per gallon tax rate)

Based on current consumption levels of liquefied natural gas (LNG) of approximately 25,000 gallon equivalents per year.

Taxpayer Impact :

Licensed suppliers will be responsible for collecting the tax on CNG and LNG and updating the tax rate beginning in July 1, 2016 and for each following year until July 1, 2019. They will also need to change the measurement equivalent per gallon beginning July 1, 2015, from one hundred cubic feet to one hundred twenty-five cubic feet for CNG.

Resources Required :

None

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Changes will be made to the compressed natural gas and liquefied natural gas formats in the Arkansas Integrated Revenue System (AIRS) software used by the Motor Fuel Tax Section to process the returns. These changes will occur each year to reflect the updated tax rate. Education of taxpayers, Motor Fuel Tax staff, and Highway Department Auditors regarding the tax rate adjustments.

Other Comments :

Page 2 – Line 36 --- provides a definition for Compressed Natural Gas as follows:

(15) "Compressed natural gas" means natural gas that is compressed to a point at which five and sixty-six hundredths pounds (5.66 lbs.) of natural gas equals the energy contained in one United States gallon (1 U.S. gal.) of gasoline; The definition language used is the standard definition for "Liquefied Natural Gas" rather than compressed natural gas.

Legal Analysis :

HB1703 creates three additional alternative fuel categories: natural gas fuels, compressed natural gas, and liquefied natural gas. While natural gas is already defined in § 26-62-102(9), the bill creates definitions for compressed natural gas and liquefied natural gas to distinguish them from natural gas in § 26-62-102. The bill also redefines the "gallon equivalent" from 100 cubic feet of natural gas fuels to 125 cubic feet of compressed natural gas.

HB1703 removes statutory requirements for DFA. Specifically, DFA will no longer be required to determine the various types of alternative fuels and applicable rates for each fuel, because the tax rates are specifically stated for each year through 2019 and thereafter. The necessity of DFA to determine the number of alternative fuel vehicles licensed in this state is also removed. The bill adds the requirement that DFA obtain itemized statements of the number of gallons of alternative fuels sold and delivered to an alternative fuels dealer that sell or delivers alternative fuels to a user at retail for use in a motor vehicle.

HB1703 contains an emergency clause with an effective date of July 1, 2015.