

# Research Department

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# Minnesota House of Representatives

September 18, 2009

TO: Transportation Finance and Policy Division Members

FROM: Matt Burrell, Legislative Analyst (651-296-5045)

RE: September 23, 2009 hearing – special fuels topic overview

In conjunction with one of the discussion topics for the committee hearing on September 23, 2009, this memo summarizes some aspects of motor fuels taxes. It focuses on special fuels that are taxed in addition to gasoline used by a typical passenger car, SUV, or pickup truck.

**Types of fuel.** Special or alternative fuels are combustible fuels that are refined and processed from petroleum and natural gas sources. The category includes diesel, compressed natural gas, liquefied petroleum gas, liquefied natural gas, and E-85. At the end of this memo there is a table that outlines special motor fuels taxed under Minnesota law. Minn. Stat. §§ 296A.07, 296A.08.

**Tax collection.** In general, the tax on motor fuels is collected at the wholesaler level, once the petroleum or gas has been processed into a finished product and it leaves a terminal or refinery. With special motor fuels other than E-85, such as compressed natural gas and propane, the tax is collected at the “point of sale.” The taxes are handled on a monthly basis using electronic filing and electronic funds transfer between the business collecting the tax and the Minnesota Department of Revenue.

However, tax collection at the point of sale is a bit of a misnomer. The fuel is most typically used by a business or local unit of government that maintains a fleet of alternative fuel vehicles in-house. Each company maintains its own pumps and generally does not sell the fuel to others. Therefore, the fuel is not typically “sold,” but rather is used internally by the business. An example of this arrangement is Centerpoint Energy, which owns around 70 compressed natural gas vehicles, and has its own pumping stations – one of which is open to the public and has a small number of regular customers.

**Rates of taxation.** Differing tax rates for special fuels were first introduced in 1995. Laws 1995, ch. 264, art. 2, secs. 17, 20. The tax rates were proportional based on the energy content of each type of fuel, so the rates were designed to be the same for all fuels on a BTU basis. Before that time, special fuels were taxed at the same rate as regular gasoline. Diesel fuel has been the exception; its tax rate remains the same as that of gasoline.

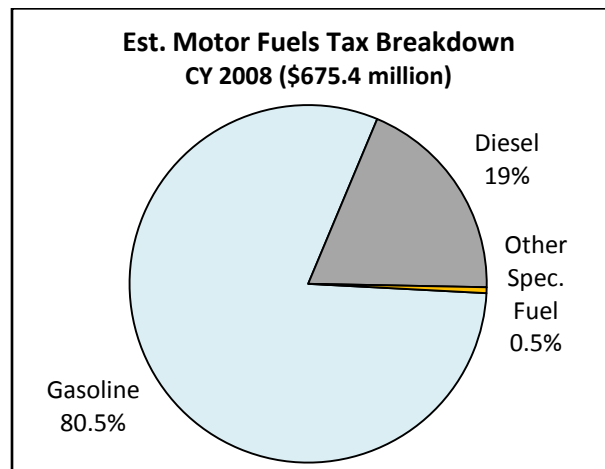
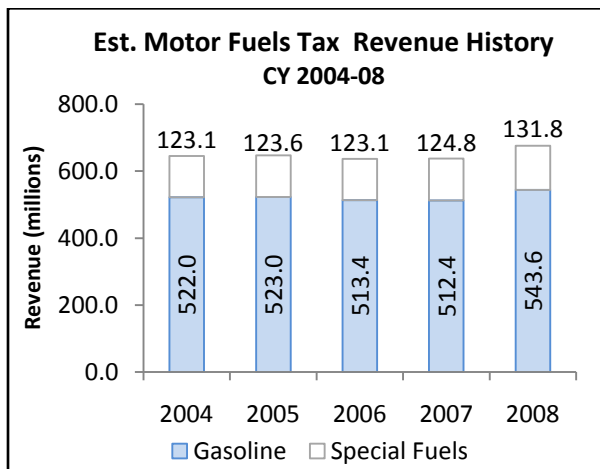
In 2008, the legislature enacted increases to motor fuel taxes that will be phased in over fiscal years 2008 to 2013. Laws 2008, ch. 152. The following table outlines the phase-in schedule of tax rates (taking into account both the direct tax rate increases and a debt service surcharge also established in the legislation).

**Motor Fuel Tax Rates Summary (\$ in cents)**

Type of Fuel	Thru 3/31/08	4/1/08 – 7/31/08	8/1/08 – 9/30/08	10/1/08 – 6/30/09	7/1/09 – 6/30/10	7/1/10 – 6/30/11	7/1/11 – 6/30/12	7/1/12 & After
Gasoline	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50
E-85	14.2	15.62	15.98	18.11	19.24	19.53	19.88	20.24
M85	11.4	12.54	12.83	14.54	15.45	15.68	15.96	16.25
Diesel	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50
Liquefied petroleum gas (LPG)	15.0	16.50	16.88	19.13	20.33	20.63	21.00	21.38
Liquefied natural gas (LNG)	12.0	13.20	13.50	15.30	16.26	16.50	16.80	17.10
Compressed natural gas (CNG)	1.739	1.1913 <sup>1</sup>	1.235 <sup>1</sup>	2.217	2.356	2.391	2.435	2.478
Other special fuel	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50

<sup>1</sup> Rate change is not proportional due to a drafting error.  
**Notes:** Amounts include tax rate increases and debt service surcharge. Amounts are per gallon, except amounts for CNG are per 1,000 cubic feet.  
 Laws 2008, ch. 152, art. 2, § 1; art. 3, §§ 3-6.

**Tax revenue.** In recent years, gasoline has accounted for about 81 percent of motor fuels tax revenue, and diesel accounted for the majority of tax revenue from special fuels. The following tables summarize estimates for the amount and distribution of revenue between gasoline and special fuels (some assumptions are necessary to allocate revenue between gasoline, diesel, and other special fuels). Note that the amounts in the tables (1) exclude aviation fuel revenue, and (2) are for calendar years (and accordingly will not directly match fund balance statements).



## Special Motor Fuels Summary

Fuel Type	Description	Tax Collection	Use in Motor Vehicles
E85	E85 is a blend of gasoline and ethanol (typically 85% ethanol and 15% gasoline). Ethanol is grain alcohol created through a process of fermenting biomass such as corn.	Tax collection is at the wholesaler level, and is owed by the first receiver of the gasoline product from a terminal (storage location) or refinery.	It is most typically used in “flexible fuel vehicles” that are designed to run on gasoline or any mixture of up to 85% ethanol. A number of light trucks and SUVs from major automakers are actually flexible fuel vehicles.
M85	M85 is a blend of gasoline and methanol, which is typically converted from natural gas (but can come from other sources like coal or biomass).	N/A  <b>Note:</b> Methane blends are not currently allowed in Minnesota (largely due to corrosiveness).	It was more popular in the 1990s, and is most typically found in flexible fuel vehicles.
Compressed natural gas (CNG)	CNG is natural gas (mainly methane) that is compressed under high pressure for efficient storage.	The tax is imposed at the point of sale, but CNG is not typically sold at retail. Businesses use CNG in their fleets and handle tax collection internally. The tax is processed monthly through an electronic tax return system.	CNG vehicles are typically light- and medium-duty trucks and vans, with major automakers offering a limited number of models. They are primarily sold to business customers for fleets.
Liquefied petroleum gas (LPG) or propane	Propane, which is synonymous with liquefied petroleum gas, is a product of refining petroleum as well as processing natural gas.	The tax is imposed at the point of sale, but LPG is not typically sold at retail. Businesses use LPG in their fleets and handle tax collection internally. The tax is processed monthly through an electronic tax return system.	A few manufacturers build vehicles that run on propane, and gasoline engines can be converted using aftermarket kits. They are primarily sold to business customers for fleets.
Liquefied natural gas (LNG)	LNG is natural gas that has been cooled sufficiently to convert it to a liquid form.	The tax is imposed at the point of sale, but LNG is not typically sold at retail. Businesses use LNG in their fleets and handle tax collection internally. The tax is processed monthly through an electronic tax return system.	LNG vehicles are most typically heavy-duty vehicles. They are primarily sold to business customers for fleets. It might not be currently used in Minnesota (or is very rare).