

Gasoline Tax

Background

In 1920, Kentucky levied a tax at the rate of 1 cent per gallon of gasoline. It was the fifth state to implement such a tax. In 1980, because the price of gasoline had increased so rapidly and was projected to continue to increase, the legislature changed the tax base to the average wholesale price per gallon and the rate to 9 percent of the average wholesale price per gallon. As designed, if the price of gasoline increased, the tax increased proportionally. At the same time, a minimum wholesale price of \$1.00 per gallon was established, thus creating a “floor”, or minimum tax, of 9 cents per gallon. In 1982, the minimum wholesale price was increased to \$1.11 per gallon, increasing the “floor” to 10 cents per gallon. In 1986, the “supplemental highway user tax”, at the rate of 5 cents per gallon, was enacted. This raised the minimum tax to 15 cents per gallon. In 2006, the minimum wholesale price was increased to \$1.342, raising the minimum tax to 17.1 cents per gallon.

Pursuant to the provisions of Section 230 of the Kentucky Constitution, the receipts generated by the tax are deposited in the Road Fund to be used for the construction and maintenance of Kentucky’s roads.

For FY07, gasoline tax collections totaled \$397.6 million. This accounted for 32.4 percent of total Road Fund tax receipts.

Current Rate Structure

The tax rate is 9 percent of the average wholesale price per gallon. A supplemental highway user tax is also levied. The rate for the supplemental tax is variable, based on changes in wholesale prices, and has a ceiling of 5 cents per gallon.

Tax Base

The tax is levied on the average wholesale price per gallon with a minimum wholesale price of \$1.342 per gallon. The tax becomes a liability of the dealer when the gasoline is received or enters the dealer’s storage facility. In reporting and paying the tax, the dealer is allowed a deduction to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax. An exemption is allowed for sales to the federal government, transfers to other licensed dealers, and for amounts

exported out of state or lost through accountable losses. Refunds or exemptions are allowed for amounts used in agriculture, aircraft, motorboats, city and suburban buses and taxicabs, senior citizen transportation programs, and nonprofit buses.

Tax Due Returns and payments of the tax are due monthly and are to be submitted by the twenty-fifth day of the following month.

Table 6. Total Gasoline Tax Expenditures

FY 2008	FY 2009	FY 2010
\$11.6 million	\$12.5 million	\$12.9 million

Tax Expenditures

1. Agricultural Exemption

Kentucky Revised Statute 138.344(1), effective 1946, revised 2002

The gasoline is sold tax free if the gasoline is used exclusively in tractors or stationary engines for agricultural purposes.

FY 2008	FY 2009	FY 2010
\$50,000	\$53,000	\$55,000

2. Aircraft Refund

Kentucky Revised Statute 138.341, effective 1942

One hundred percent of the tax paid is refunded to qualified purchasers if the gasoline is used in aircraft engaged in the transportation of persons or property.

FY 2008	FY 2009	FY 2010
\$478,000	\$519,000	\$536,000

3. Bus, Taxicab and Certain Senior Citizen's Programs Refunds

Kentucky Revised Statute 138.446, effective 1978

Seven-ninths of the tax paid is refunded if the gasoline is used in regularly scheduled operations of the city and suburban buses, taxicabs, senior citizen transportation and non-profit buses.

FY 2008	FY 2009	FY 2010
\$473,000	\$513,000	\$530,000

4. Dealer's Monthly Reporting Allowance

Kentucky Revised Statute 138.270(1)(b), effective 1936

A gasoline dealer is allowed a 2.25 percent credit of the net tax due when timely filing and paying a monthly tax return.

FY 2008	FY 2009	FY 2010
\$10.1 million	\$10.9 million	\$11.3 million

5. Watercraft Refund

Kentucky Revised Statute 138.445, effective 1960

The entire tax paid is refunded to qualified boat dock operators if the gasoline is used to operate or propel watercraft.

FY 2008	FY 2009	FY 2010
\$457,000	\$496,000	\$512,000

