

# ***INTERSTATE CLEAN TRANSPORTATION CORRIDOR***

## **Information Update: Tax Relief for Alternative Fuels**

*August 18, 1997*

On August 5<sup>th</sup>, 1997 President Clinton signed the Taxpayer Relief Act of 1997, a comprehensive bill to balance the Federal budget by the year 2002. Section 907 of the Act, which goes into effect on October 1, 1997, lowers federal excise taxes on several alternative fuels, including liquefied petroleum gas, liquefied natural gas, and methanol. The statute reads as follows:

- §907(a)(2)(B) RATE OF TAX- The rate of the tax imposed by this paragraph shall be--
- (i) except as otherwise provided in this subparagraph, the rate of tax specified in section 4081(a)(2)(A)(i) which is in effect at the time of such sale or use,
  - (ii) 13.6 cents per gallon in the case of liquefied petroleum gas, and
  - (iii) 11.9 cents per gallon in the case of liquefied natural gas.

In the case of any sale or use after September 30, 1999, clause (ii) shall be applied by substituting '3.2 cents' for '13.6 cents', and clause (iii) shall be applied by substituting '2.8 cents' for '11.9 cents'.

§907(b) METHANOL FUEL PRODUCED FROM NATURAL GAS- Subparagraph (A) of section 4041(m)(1) is amended to read as follows:

- (A) the rate of the tax imposed by subsection (a)(2) shall be--
- (i) after September 30, 1997, and before October 1, 1999--
    - (I) in the case of fuel none of the alcohol in which consists of ethanol, 9.15 cents per gallon, and
    - (II) in any other case, 11.3 cents per gallon, and
  - (ii) after September 30, 1999--
    - (I) in the case of fuel none of the alcohol in which consists of ethanol, 2.15 cents per gallon, and
    - (II) in any other case, 4.3 cents per gallon, and'

There has been some confusion regarding the language which appears to reduce the tax on these clean, alternative fuels even further after September 30, 1999. *This is not the case.* Federal taxes on motor fuels are made up of two components, the Federal Excise Tax (14 cents per gasoline gallon) and the deficit reduction tax (4.3 cents per gasoline gallon which, as of this Act, will be deposited in the Highway Trust Fund). The FET sunsets on September 30, 1999, while the deficit reduction tax requires an act of Congress to terminate. The language pertaining to lower tax simply outlines what the levy on these fuels will be in the unlikely event that Congress fails to reauthorize the Highway Trust Fund by September 30, 1999. The language describing the tax on the three fuels after September 30, 1999 is simply 4.3 cents adjusted for the BTU content of these alternatives.

Congratulations to everyone who worked to lower Federal taxes on clean, alternative fuels. The potential impact of this bill on the alternative fuels market is considerable. In reconciling the tax on several alternative fuels with gasoline, Section 907 significantly reduces the unfair burden which has hindered the use of these clean-burning fuels. The FET on LNG, for example, has been reduced from 18.3 cents to 11.9 cents per gallon. It takes roughly two gallons of LNG to equal one gallon of diesel in on-road applications, meaning that the 6.4 cent decrease actually reduces expected operating costs for an LNG tractor *by nearly 13 cents per diesel equivalent gallon* when compared with the current rate! These savings are critical if fleet operators, facing tremendous competition, are going to purchase and deploy clean, alternative fuel vehicles. *If you would like more information about the FET, please call Cliff Gladstein or Bruce Reznik at 310-204-1994.*