

**Annual Indexing (Chapter 68 Law)
Gas Tax**

| | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|------------------------------------|----------------|----------------|----------------|----------------|
| | | (\$000s) | | |
| Payments to Counties with Casinos | \$0 | (\$20) | (\$30) | (\$30) |
| Tribal Tax Agreements | <u>\$0</u> | <u>(\$570)</u> | <u>(\$710)</u> | <u>(\$760)</u> |
| General Fund | \$0 | (\$590) | (\$740) | (\$790) |
| | | | | |
| Motor Fuels Excise Tax | \$0 | \$41,100 | \$110,500 | \$126,000 |
| Qualifying Service Station Credit | <u>\$0</u> | <u>(\$420)</u> | <u>(\$520)</u> | <u>(\$550)</u> |
| Highway User Tax Distribution Fund | \$0 | \$40,680 | \$109,980 | \$125,450 |
| | | | | |
| Total – All Funds | \$0 | \$40,090 | \$109,240 | \$124,660 |

Effective July 1, 2023, and applies for taxes imposed on or after January 1, 2024.

Motor Fuels Excise Tax

The gasoline excise tax rate is 28.5¢ per gallon. The gasoline excise tax is paid at the time of first receipt in Minnesota and included as part of the subsequent sales prices. The revenue from the gasoline excise tax is deposited in the Highway User Tax Distribution Fund.

Qualifying Service Station Credit

Current law provides a credit for gasoline, undyed diesel fuel, and undyed kerosene delivered to service stations within 7.5 miles, by public road, of a station in a contiguous state. The credit is the difference between the Minnesota motor fuels excise tax rate and an amount 3¢ per gallon more than the tax rate for the same fuel product in the contiguous state.

Tribal Tax Agreements

The Department of Revenue has agreements with tribal governments for the collection of motor fuels excise tax revenue on reservation lands. Increasing the motor fuels excise tax would increase payments to tribal governments.

Payments to Counties with Casinos

For each county with a gaming casino, the state will pay to the county a percentage of the state share of all taxes generated from activities on reservations and collected under a tax agreement with the tribal government for the reservation located in that county.

The bill would index the gasoline excise tax and the special fuels excise tax. Each year one plus the percentage increase, if any, of the Minnesota Highway Construction Cost Index (MHCCI) of the reference year, which is the 12-month period ending on June 30 two years prior to the year of the calculation. The tax rate must be rounded to the nearest tenth of a cent. Annually on August 1, the tax rate will be determined by the commissioner of revenue for the upcoming year beginning January 1. Beginning with the calculation on August 1, 2025, the percentage change in the calculation must not exceed three percent.

Motor Fuels Excise Tax

- The annual indexing factor would be determined by August 1 each year for a rate change beginning the following January 1, using the MHCCI.
- Is it assumed the reference year is two calendar years prior to the year of calculation. The annual MHCCI change in 2021 was negative so there is no increase in the gas tax for fiscal year 2024. The first increase will occur in fiscal year 2025.
- The fiscal year 2025 estimate is adjusted for five months of fiscal impact.

Qualifying Service Station Credit

- Currently there are 15 wholesalers providing fuels to an estimated 25 service stations within 7.5 miles of stations in North Dakota that are claiming the credit.
- Services stations along the North Dakota border are currently receiving a credit of 2.5¢ per gallon. By fiscal year 2027, it is estimated the credit amount for service stations bordering North Dakota will have increased 4.4¢ to a total of 6.9¢ per gallon.
- It is expected that fewer than 10 Minnesota stations along the South Dakota border will qualify for the credit during the forecast period. By fiscal year 2027, it is estimated the credit amount for service stations bordering South Dakota will be 1.9¢ per gallon.
- The total amount of credit claimed was \$495,000 in fiscal year 2019.
- The fiscal year 2025 estimate is adjusted for five months of fiscal impact.

Tribal Tax Agreements

- Payments to tribal governments are determined on a per capita basis and are made quarterly.
- On or before July 1 of each year the tribes certify reservation populations.
- The refunds are recalculated by September each year to reflect changes in the Consumer Price Index for the Minneapolis/St. Paul area for the previous fiscal year.
- The fiscal year 2025 estimate is adjusted for a partial year impact.

Payments to Counties with Casinos

- Payments to the counties are required to be made by February 28 of the year following the year the taxes are collected.
- The fiscal year 2025 estimate is adjusted for a partial year impact.
- The amount sufficient to make the payments is appropriated from the General Fund annually.

Minnesota Department of Revenue
Tax Research Division
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