

MEMO TO: House Taxation Committee
FROM: Thomas M. Palace, Executive Director of the Petroleum Marketers and
Convenience Store Association of Kansas
DATE: February 7, 2017
RE: HB 2237

Mr. Chairman and members of the House Taxation Committee: My name is Tom Palace and I am the Executive Director of the Petroleum Marketers and Convenience Store Association of Kansas (PMCA), a statewide trade association that represents over 360 independent petroleum marketers and convenience store retailer throughout Kansas.

I appreciate the opportunity to offer testimony in opposition to HB 2237.

I realize HB 2237 does more than increase motor fuel taxes but today my testimony only focuses on Section 22 of the bill.

PMCA does not support the fuel tax increase in HB 2237. In fact, on the contrary, we believe the fuel tax should be lowered. If the Kansas Legislature can approve sweeping over \$2 billion dollars out of KDOT and continue new projects as well as maintain highways...we are paying more than enough in fuel excise taxes.

The increase in motor fuel taxes is one of several tax increases that the Kansas Legislature is considering that will have a direct impact on the consumer and convenience store retailers in Kansas. Tobacco (both cigarettes and other tobacco products) account for 35% of a convenience stores gross inside sales and retailers are feeling the pain of lost sales along the border from the 2015 \$.50 tax increase. Motor fuel is 60-65% of gross sales. Obviously, motor fuel and tobacco are key products for retailers. Also, selling tobacco and motor fuel spur ancillary sales as well...coffee, sandwiches, lottery tickets; bring in added revenue for the retailer but also the State of Kansas.

For retailers that compete on the border, we will see further deterioration of their customer base if these taxes are approved and Kansas will lose on lost sales tax.

Convenience store owners in Kansas who compete with bordering states are already at a competitive disadvantage due to the disparity of the excise tax rates.

KS	\$.253 (gas)	\$.273 (diesel)
NE	\$.265	\$.259
MO	\$.173	\$.173
CO	\$.22	\$.205
OK	\$.170	\$.140

If HB 2237 passes Kansas will have the highest tax rate of all 4 contiguous states.

MO	\$.19 advantage on gas	\$.21 advantage on diesel tax
NE	\$.09	\$.11
CO	\$.14	\$.18
OK	\$.19	\$.24

(Includes environmental and inspection fees)

As you can see three out of the four contiguous states have lower fuel tax than Kansas. Nebraska being the lone exception. However, if the Kansas Legislature approves HB 2237 Kansas will have the highest fuel tax when compared to surrounding states.

I have also included with my testimony a state-by-state comparison of fuel tax rates for your review.

Fuel retailers and distributors collect over \$400 million annually in motor fuel tax.

Consumers buy fuel based on price. The National Association of Convenience Stores has reported that consumers are more sensitive to gas prices than other top economic concerns. Consumers will change their behavior to save a few cents per gallon. In fact, it would not be uncommon for a person to drive 5-7 miles out of their way to save 2 cents per gallon. Price is the deciding factor where consumers purchase fuel. If people are willing to drive 5-7 miles out of their way to save 2 cents per gallon, it is a pretty good guess that driving 10-15 miles (or more) out of their way to save 20 cents (MO & OK) cents per gallon makes sense.

What One Retailer Did

It is no secret that there is a tax disparity for retailers that compete on the border. Not too long ago (2010) a Kansas retailer decided to change its street address to a Missouri address. I am referring to the actions taken by the QuikTrip Corporation. QuikTrip moved a store in Kansas City, Kansas 100 feet to the east so that it would have a Missouri address – at a cost of \$3.4 million. The loss to Kansas was estimated to be \$1.4 million in state and local taxes. The \$1.4 million is a financial loss that Kansas cannot afford. I would venture a guess that if more Kansas convenience store retailers had the corporate backing to be able to do the same thing QuikTrip did, they would give serious consideration to a similar move.

When fuel prices increase so do credit card processing costs...***and unlike the state or local government, we cannot pass on the fees to the consumer.*** Today 70% of fuel sales are paid by debit or credit card. Credit card fees account for the highest expense item on a P &L, for a convenience store just below employee costs. And on top of the current discount points that are paid per transaction retailers are now required to be EMV compliant. **EMV stands for Europay, MasterCard and Visa.** This more secure credit card technology, which has long been used throughout Europe, recognizes unique microchips embedded in credit and debit cards and validates their legitimacy, potentially cutting down on card fraud. Beginning October 1, 2015,

U.S. retailers who have not installed EMV-capable payment terminals will be held liable for fraud resulting from transactions at their locations. On October 1, 2020, fuel retailers will be required to have the chip card available at the pump. Retailers that are branded MUST comply with this extremely expensive approach to accepting credit cards.

Mr. Chairman, the tax increases being proposed by HB 2237 will have a negative impact on all convenience stores that try to compete on the border. Retailers are still feeling the effects from the tobacco and sales tax increases levied in 2015 (lost sales). Increasing motor fuel taxes as well as the potential of another tobacco tax could be the deciding factors for small business owners...can I continue to stay in business or not? Consumers won't change what they buy; they will change where they buy; they will simply find a cheaper way to purchase their goods. More specifically, retailers who compete along the border are hit the hardest when tax increases in their home state are passed. They watch the exodus of their customers cross the state line without the wherewithal to do anything about the cost disparity. They simply can't lower their prices enough to be competitive.

The tax increases proposed by the governor (and others) are excellent **economic development for our neighboring states!**

Thank you.

State Motor Fuel Tax Rates
(January 1, 2017)

	GASOLINE			DIESEL FUEL			GASOHOL			Notes
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	
Alabama /1	18.0	2.0	20.0	19.0		19.0	18.0	2.0	20.0	Inspection fee
Alaska	8.0	0.95	8.95	8.0	0.95	8.95	8.0	0.95	8.95	Refining Surcharge
Arizona	18.0	1.0	19.0	26.0	1.0	27.0	18.0	1.0	19.0	/8 LUST Tax
Arkansas	21.5	0.3	21.8	22.5	0.3	22.8	21.5	0.3	21.8	Environmental fee
California	27.8	5.0	32.8	16.0	17.0	33.0	27.8	5.0	32.8	Includes prepaid sales tax /7
Colorado	22.0		22.0	20.5		20.5	20.0		20.0	
Connecticut	25.0		25.0	41.7		41.7	25.0		25.0	Plus a 8.1% Petroleum tax (gas)
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.9% GRT
Florida /2	17.4	13.525	30.925	17.4	14.4	31.8	17.4	13.525	30.925	Sales tax added to excise /2
Georgia /5	26.3		26.3	29.4		29.4	26.3		26.3	/5 Local sales tax additional
Hawaii /1	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax additional
Idaho	32.0	1	33.0	32.0	1	33.0	32.0	1	33.0	Clean water tax
Illinois /1	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee /3
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax additional /3
Iowa	30.7		30.7	32.5		32.5	29.0		29.0	
Kansas	24.0	1.03	25.03	26.0	1.03	27.03	24.0	1.03	25.03	Environmental & Inspection fees
Kentucky	24.6	1.4	26.0	21.6	1.4	23.0	24.6	1.4	26.0	Environmental fee /4/3
Louisiana	20.0	0.125	20.125	20.0	0.125	20.125	20.0	0.125	20.125	Inspection fee
Maine	30.0		30.0	31.2		31.2	30.0		30.0	
Maryland /5	33.5		33.5	34.50		34.50	33.5		33.5	/5
Massachusetts	24.0		24.0	24.0		24.0	24.0		24.0	
Michigan	26.3		26.3	26.3		26.3	26.3		26.3	Sales tax additional
Minnesota	28.5	0.1	28.6	28.5	0.1	28.6	28.5	0.1	28.6	Inspect fee
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.3	17.3	17.0	0.3	17.3	17.0	0.3	17.3	Inspection & Load fees
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	27.3	0.9	28.2	27.3	0.3	27.6	27.3	0.9	28.2	Petroleum fee /5
Nevada /1	24.0	0.805	24.805	27.0	0.75	27.75	24.0	0.805	24.805	Inspection & cleanup fee
New Hampshire	22.2	1.625	23.825	22.2	1.625	23.825	22.2	1.625	23.825	Oil discharge cleanup fee
New Jersey	10.5	26.6	37.10	13.5	19.9	33.40	10.5	26.6	37.10	Petroleum fee
New Mexico	17.0	1.875	18.875	21.0	1.875	22.875	17.0	1.875	18.875	Petroleum loading fee
New York	8.0	16.2	24.2	8.0	14.45	22.45	8.0	16.2	24.2	Petroleum Tax, Sales tax additional
North Carolina	34.3	0.25	34.55	34.3	0.25	34.55	34.3	0.25	34.55	/5 /10 Inspection tax
North Dakota	23.0		23.0	23.0		23.0	23.0		23.0	
Ohio	28.0		28.0	28.0		28.0	28.0		28.0	
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon /1	30.0		30.0	30.0		30.0	30.0		30.0	
Pennsylvania	58.2		58.2	74.7		74.7	58.2		58.2	Oil franchise tax only
Rhode Island	33.0	1	34.0	33.0	1	34.0	33.0	1	34.0	LUST tax
South Carolina	16.0	0.75	16.75	16.0	0.75	16.75	16.0	0.75	16.75	Inspection fee & LUST tax
South Dakota /1	28.0	2	30.0	28.0	2	30.0	14.0	2	16.0	Inspection fee
Tennessee /1	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. Fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	29.4		29.4	29.4		29.4	29.4		29.4	
Vermont /5	12.1	18.36	30.46	28.0	4.0	32.0	12.1	18.36	30.46	Cleanup Fee & Trans. Fee
Virginia /1	16.2		16.2	20.2		20.2	16.2		16.2	/6
Washington	49.4		49.4	49.4		49.4	49.4		49.4	0.5% privilege tax
West Virginia	20.5	11.7	32.2	20.5	11.7	32.2	20.5	11.7	32.2	Sales tax added to excise
Wisconsin	30.9	2.0	32.9	30.9	2.0	32.9	30.9	2.0	32.9	Petroleum Insp. Fee
Wyoming	23.0	1	24.0	23.0	1	24.0	23.0	1	24.0	License tax
Dist. of Columbia	23.5		23.5	23.5		23.5	23.5		23.5	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	/7 LUST tax

SOURCE: Compiled by FTA from various sources.

/1 Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 5 cents; SD and TN, one cent; and VA 2.1%.

/2 Local taxes for gasoline and gasohol vary from 0 cents to 6.0 cents. Includes Inspection Fee, SCETS, & Statewide Local Tax.

/3 Carriers pay an additional surcharge equal to IL-18.8 cents (g) 14.1 cents (d), IN-11 cents, KY-2% (g) 4.7% (d).

/4 Tax rate is based on the average wholesale price and is adjusted annually. The actual rates are: KY, 9%; and UT, 12%.

/5 Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.

/6 Large trucks pay an additional (d) 3.5 cents (g) 12.6 cents. Actual rates (g) 5.1%, (d) 6%.

/7 California Gasoline subject to 2.25% sales tax. Diesel subject to a 9.25% sales tax.

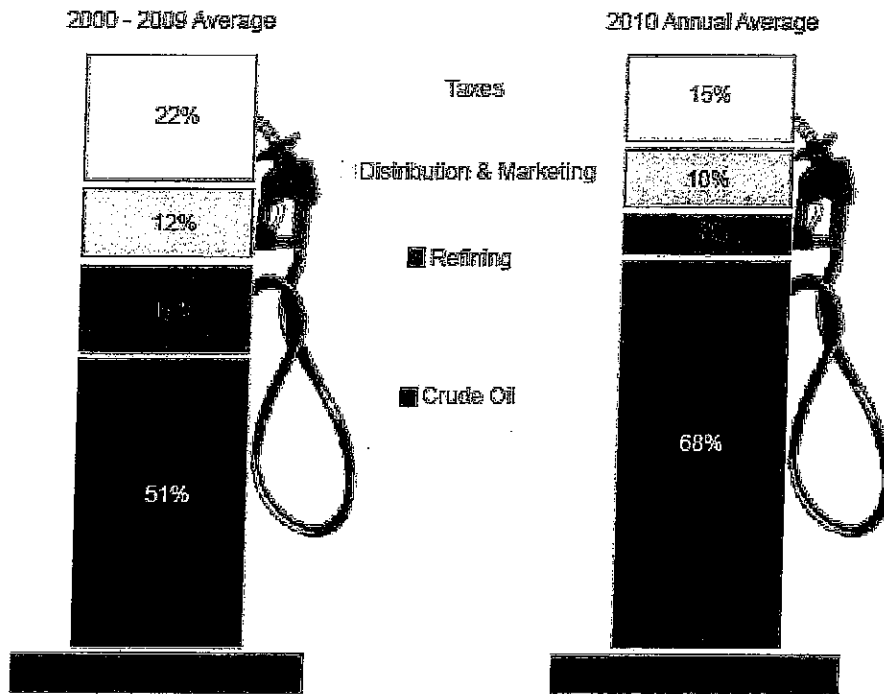
/8 Diesel rate specified is the fuel use tax rate on large trucks. Small vehicles are subject to 18 cent tax rate.

Today in Energy

March 11, 2011

What we pay for in a gallon of regular gasoline

What We Pay for in a Gallon of Regular Gasoline



Source: U.S. Energy Information Administration

Crude oil, refining, distribution & marketing, and taxes are the four major cost components for estimates of the retail price of a gallon of gasoline:

- **Crude oil** - the major feedstock used to produce gasoline. This portion of the gasoline price is represented by the cost of crude oil purchased by refiners.
- **Refining** - processing the crude oil into gasoline. The refining portion of the gasoline price is the spread between the cost of crude oil purchased by refiners and the wholesale price of gasoline. This spread represents both the costs and profits associated with the refining process.
- **Distribution & Marketing (Retail)** - the part of the supply chain where wholesale gasoline is brought to a retail station and sold to the final consumer. This portion of the gasoline price is the retail price minus the other three price components. It represents both the costs and profits associated with selling retail gasoline to the final consumer.
- **Taxes** - The Federal Government levies a tax of 18.4 cents on each gallon of gasoline, and the States levy an average tax of 22 cents on each gallon. This does not account for all State and local taxes, such as sales taxes, so this component, ranging from 7.5 to 37.5 cents per gallon across States, is probably understated (and the Distribution and Marketing component correspondingly overstated).

The portion of the gasoline price each of these components accounts for can vary significantly over time. Crude oil is typically the largest cost component of gasoline, and its share of the price of a gallon of gasoline was significantly higher in 2010 than it was, on average, over the 2000-2009 period. As shown in the data history, crude oil costs climbed to over 75% of the price of gasoline during the period of quickly-rising prices in late 2007 through mid-2008.

The refining component and the distribution and marketing component can also vary. They vary over longer periods due to refining market economics and petroleum product demand. They can also vary in the short term since there is typically a lag between changes in the spot price of wholesale gasoline and the retail price of gasoline. For example, if spot prices increase for wholesale gasoline, the impact of that change is not immediately passed through to retail prices. At that point in the price cycle, with increased spot prices and lagging retail prices (assuming constant crude oil prices), the refining component would expand while the distribution and marketing component would contract.