LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
301 State House
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FISCAL IMPACT STATEMENT

LS 6939
BILL NUMBER: HB 1336

DATE PREPARED: Jan 26, 1999
BILL AMENDED:

SUBJECT: Prepaid sales tax on gasoline.

FISCAL ANALYST: Jim Mundt
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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill repeals the prepaid sales tax on gasoline. It reverts to the previous system in which the sales tax was collected on the actual retail transaction.

Effective Date: January 1, 2000.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) This bill should not impact the amount of sales tax generated by the sale of gasoline. It will change the method currently used to collect the tax. There will be a one time shift of revenue collections from FY 2000 to the future. Since this proposal will eliminate the remittance of prepaid tax made on the 10th and 25th of each month, approximately 90% (the rate used to determine prepayment) of one month's collections will not be collected in FY 2000. Based on 1997 collection figures and adjusting for growth, it is estimated that approximately $13.8 million in sales tax collections will be shifted from FY 2000 to the future as a result of this bill. In addition, there will be some lost interest because of the elimination of the prepayment. It is estimated that interest will be lost on ½ of one month's collections for 26 days and on the other ½ for 10 days. Assuming interest earnings of 5%, the estimated loss is $34,000.

Beginning in January, 1988, sales tax on gasoline has been prepaid. The prepayment rate is the statewide average price per gallon of gasoline (excluding Indiana and Federal gasoline taxes and the Indiana sales tax), times the sales tax rate, times 90%. The rate is determined twice each year, in December and June.

The sales tax is prepaid by the retail merchant to a refiner, terminal operator, or qualified distributor. The collector remits the prepaid tax to the Department of Revenue semi-monthly. The retail merchant, when calculating it's monthly liability, will deduct the amount of prepayment before determining the amount due. The retailer will remit any difference between the amount of tax it collected and the amount prepaid.

This procedure was designed to insure the collection of sales tax from some retailers that collected large amounts of sales tax on gasoline but went out of business before remitting the tax to the state. Should this practice occur in the future, it is possible that reverting to the previous system could result in more difficult tax compliance on these types of sales.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue, 1997 Sales Tax Statistics; Tom Conley, 232-2107.