



The Drawback to Applying Sales Tax to Gasoline: How Not to Fund N.J's Transportation Trust Fund

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"In recent months, the dire state of New Jersey's infrastructure network and the depleted Transportation Trust Fund have been the focus of numerous legislative hearings and discussions by New Jersey Legislators and various interested parties. Many possible solutions have been put on the table, each with their own merits and drawbacks. As the nonprofit trade association representing the roughly 2,300 motor fuel retailers in this state, it is my contention that extending the 7% New Jersey sales tax to motor fuel would be disastrous, not only to consumers and businesses, but also to State government."

"This plan has numerous drawbacks, all outlined in the aforementioned report, which is available [online here](#). For one, gas prices are unpredictable, and do not necessarily track with inflation. There are professionals who dedicate their lives to analyzing gas prices, who are incapable of estimating what the average price of gas will be over any given 12-month period. As such, drafters of the State Budget will be unable to calculate how much revenue to anticipate. Massive shortfalls are the primary reason why several other states with percentage-based taxes on fuel have changed their laws in recent years to move away from this policy," Risalvato stated.

"Conversely," Risalvato continued, "we know full well that fuel prices do not only fall rapidly, they can also quickly increase. State revenues would increase because motorists would be paying more in taxes. The State would reap its windfall, while citizens struggle the most with the high cost of goods and services, in effect creating a perverse incentive in which the people's government directly benefits when its citizens are facing financial struggles. My associate Eric Blomgren did extensive research to support the findings in this report, and is continuing to look at the practices put forth in other states to deal with the same problem that New Jersey faces."

"Finally, this plan presents a significant accounting and administrative burden to gasoline retailers, and it will be rife with the potential for abuse. Currently, all taxes on motor fuel are paid at the fuel terminal. The oil company remits all taxes to the State government. The oil company includes the cost of the taxes when they sell their product to the fuel distributors. The fuel distributors collect the taxes from fuel retailers, who pass it on to their customers, the motorists. A sales tax at the pump changes this by requiring retailers to collect the sales tax directly from the consumers, and then remit it to the government. If an average station sells around 100,000 gallons per month, the gasoline retailer would have to sequester and remit anywhere from \$17,000-\$25,000 a month. Illinois is a state which applies the sales tax to gasoline. Just last month, the Illinois Attorney General announced that her office had recovered more than \$100 million in sales tax revenue that gas station owners had evaded paying. In Indiana, the Petroleum Marketers and C-Store Association estimated that the State had lost as much as \$50 billion in taxes over the last eight years."

"Most gasoline retailers are honest small business owners who work hard everyday. In fact, they are so honest that they will become victims of the few unscrupulous retailers who will easily find a way to skim tax dollars that should be remitted to the state. Unscrupulous gasoline retailers will gain an advantage over honest retailers and I simply can't allow that to happen", said Risalvato.

Risalvato continued, "It should be clear that NJGCA does not desire any increase in the gas tax or any other tax for that matter, however, if law makers can't find another source to replenish the TTF, then retailers prefer a simple increase of the present tax, rather than be faced with the accounting and administrative burden of adding a sales tax to gasoline and diesel."

"Although we disagree with the proposal to apply the sales tax to gasoline, there are still various other alternatives currently on the table, which are addressed in more detail in my report. It is my hope that NJGCA can continue to work with our State policymakers to alleviate the burden of a tax increase, if it is possible, or to find other alternatives to fund our State's transportation needs," Risalvato concluded.

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