



N.J.'S Gas Tax Fell By 8.3 Cents a Gallon. Here's Why You Won't Feel It at the Pump

By: Steve Strunsky, October 7, 2021

New Jersey cut its gas tax by 8.3 cents a gallon last Friday — a 16% drop in the state tax on gasoline — but most motorists probably haven't seen it reflected in lower prices at the pump. And it's possible they never will, according to advocates for the people who sell gas and those who burn it.

The New Jersey Department of the Treasury announced the gas tax cut on Aug. 24, lowering the state levy to a new total of 42.4 cents per gallon for gasoline and 49.4 cents per gallon for diesel. The federal government taxes gasoline separately.

The cut was the result of a projection that the old per-gallon rate of the state Petroleum Products Gross Receipts tax would exceed its annual target of \$2 billion in revenues, and therefore should be lowered, under the 2016 legislation upping the tax.

For years, New Jersey boasted one of the nation's lowest gas taxes, until the condition of its heavily traveled roads became so bad that the New Jersey Chamber of Commerce lobbied for a gas tax hike to replenish the state's depleted Transportation Trust Fund, and the state's Republican governor at the time, Chris Christie, reluctantly signed the law.

The reason last week's gas tax cut isn't likely to be perceptible at the pump is two-fold, industry officials say.

First, the gross receipts tax, which makes up most of the state's combined gasoline levy, is a wholesale tax, paid by gas station owners when they buy large shipments of gasoline or diesel fuel at a refinery or distribution site — “at the rack,” as wholesale purchases are known — through a distributor, said Sal Risalvato, executive director of the New Jersey Gasoline-Convenience-Automotive Association, an industry group that represents the owners of more than 800 gas stations around the state.

A spokesperson for the state treasury department, Melinda Caliendo, characterized the tax gross receipts tax differently, asserting that it's paid by the distributor.

"The gas station owner does not buy at the terminal rack, they buy from a distributor who brings the fuel from the terminal rack to the gas station," Caliendo said in an email. "Regarding who pays the tax, whether it is motorists or the gas station owners, there are two separate forces to consider here: first, how the law implements the tax and second, who ultimately bears the burden of the tax."

The "gas tax" actually consists of two separate taxes. Statutorily, the Petroleum Products Gross Receipts (PPGR) tax is imposed during the first sale in New Jersey, which is between suppliers and distributors. This tax is collected by suppliers at the terminal. Statutorily, the Motor Fuels tax is imposed on consumers, but collected by suppliers. As a result, both taxes are generally collected by suppliers at the terminal, and then remitted to the State.

Typically, station owners buy gas in shipments of 8,800 gallons, which is the standard capacity of tanker trucks that deliver gasoline and diesel to stations, often in different compartments on the same truck. Typical distribution contracts require stations to take full shipments only, with penalties for failing to take all the gas that's delivered, Risalvato said.

Because service stations buy such large amounts of fuel at a time, they typically have gasoline or diesel on hand that they had already purchased at the old tax when a new rate takes effect, Risalvato said. Therefore, the station owners have to keep selling that gas at the same price they were charging when they bought it at the higher tax rate, in order to recoup what they had paid. If stations immediately cut the pump price to reflect the newly lowered tax rate, they would essentially be paying for that tax cut out of their own pockets, Risalvato said.

"If he's got his delivery on Thursday, before the tax cut takes effect, and it takes him five days to sell it, he's going to lose money on every gallon he sells," at the reduced tax rate, Risalvato said.

Caliendo confirmed that it's up to gas stations when and if to pass a gas tax cut on to motorists.

"There is no statutory requirement forcing gas stations to lower the price," Caliendo said in an email.

Risalvato said station owners typically do pass along a reduction in the wholesale cost of fuel — be it a tax cut or drop in the price they pay suppliers — but the owners will wait until they benefit from the reduced cost themselves, with their first wholesale purchase under it. Depending on the volume of gas a station pumps, that lag between the tax cut's effective date and when motorists begin benefiting from it can range from a few days to a week or more.

That's all true, said Steve Carrellas, who heads the New Jersey chapter of the National Motorists Association, which advocates for drivers.

"Be patient," Carrellas advised motorists, referring to the cost savings that motorists typically see in the wake of a gas tax cut. "The change will come."

Except that in this particular case that change might not come, he, Risalvato and others said, due to rising oil prices and the subsequent increases in wholesale gasoline and diesel fuel prices that have resulted.

"They're not going to see that 8-cent reduction," Risalvato, a former gas station owner, said of motorists. "You know why? Since Thursday, the day before the tax went down, the wholesale price of gas went up 10 cents per gallon."

The increase in the wholesale price of gas, Risalvato noted, was consistent with rising crude oil prices attributed to strong global demand for fuel, essentially the same dynamic that, on the state level, led to Friday's gas tax cut in New Jersey.

Certainly, New Jersey motorists as a whole have not seen any a decline in gas prices since the tax cut took effect. Tuesday's statewide average price for gasoline was \$3.22 per gallon, exactly the same as it was on Thursday, the day before the cut's effective date, said Robert Sinclair, a spokesman for AAA Northeast, which includes New Jersey.

State and federal gas taxes now account for just under one-fifth of the price motorists pay at the pump.

New Jersey's combined gas tax of 42.4 cents per gallon is made up of an excise tax, or sales tax, of 10.5 cents per gallon, plus the per-gallon gross receipts tax of 31.9 cents. On top of that, there is a federal excise tax of 18.4 cents per gallon, for a total tax on gasoline of 60.8 cents per gallon in New Jersey.

Diesel fuel, used mainly by trucks, is taxed at a higher rate, 73.8 cents per gallon, including the state's 13.5-cent state excise tax and a 35.9-cent gross receipts tax, plus a 24.4-cent federal excise tax. Beyond the taxes, there are also relatively modest state and federal spill fund fees of .055 and .21 cents per gallon, respectively.

With typical profit margins on the sale of gas at a slim 10 cents a gallon or so, Risilvato, Carrellas and Sinclair said many gas stations don't even rely on gasoline to make money these days. It's repair work or the sale of coffee, cigarettes and other convenience items that drive profits, a reality reflected in the very name of their main trade organization, the Gasoline-Convenience-Automotive Association.

The experts agreed that the uniquely transparent and competitive nature of the retail fuel industry makes it unlikely that station owners would try to pocket any savings from Friday's tax cut, at least not for long. The requirement that stations display prices in block

letters visible from the street allows motorists to vote with their gas pedals, forcing stations to trim their margins as closely as possible.

“The market will dictate what happens,” Sinclair said. “Usually, the retailer is the low person on the totem pole in terms of making money.”