

HISTORY OF THE FEDERAL MANUFACTURERS'
EXCISE TAX ON GASOLINE

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HISTORY OF THE FEDERAL MANUFACTURERS' EXCISE TAX ON GASOLINE

The Federal manufacturers' excise tax on gasoline was first made a part of our Federal tax structure by the Revenue Act of 1932 which became law on June 6, 1932.

Prior to this legislation, there had been a reluctance on the part of Federal officials and Congress to impose this tax at the Federal level. Instead, they preferred to relinquish this revenue source to the States to help them finance their requirements. As of January 1932 all of the States and the District of Columbia had enacted legislation imposing a tax on gasoline with rates which ranged from two to seven cents per gallon.

However, during the severe depression of the 1930's, Federal revenues were sharply reduced and higher expenditures were necessitated for relief and public works programs. As a result, the Secretary of the Treasury in his Annual Report for the fiscal year 1931, reported that the Federal Government had incurred a budgetary deficit of some \$903 million that year. This marked the first year in more than a decade when Federal receipts failed to exceed Federal expenditures and produce a budgetary surplus. Moreover, the Secretary of the Treasury estimated at that time that even higher deficits were anticipated in the years immediately following: \$2.1 billion in the fiscal year 1932 and \$1.4 billion in the fiscal year 1933.

In order to correct this budgetary imbalance, the Secretary of the Treasury submitted comprehensive tax-raising and expenditure-reduction proposals for Congressional action. Among the tax recommendations were those for legislation increasing individual and corporation, estate and gift, excise and other taxes. Included in the excise tax proposals was the request for a new Federal manufacturers' excise tax on gasoline to be levied at the rate of one cent a gallon, and which

would terminate in 1934. It was estimated that adoption of such a tax would yield the U. S. Treasury approximately \$165 million in revenues during the fiscal year 1933.

The House of Representatives, in its consideration of and action on these revenue-raising proposals, failed to approve a new Federal tax on gasoline. However, the Senate amended the House-passed bill, authorizing this tax at the rate of one cent per gallon, and it was retained in the final version of the bill approved by the House and Senate Conference Committee and signed into law.

As finally approved, Section 617(a) of the Revenue Act of 1932^{1/} imposed a Federal tax on gasoline sold by a producer or importer at the rate of one cent per gallon. Under Section 617(c) of this legislation, the term "producer" included a "refiner, compounder, or blender, and a dealer selling gasoline exclusively to producers of gasoline, as well as a producer." Gasoline was defined to include gasoline, benzol, and any other liquid which is used primarily as a fuel to propel motor vehicles, motor boats or airplanes. Section 629 of this Act made this tax effective on June 21, 1932 for a temporary period, with provision for its termination on June 30, 1933: The Annual Report of the Commissioner of Internal Revenue for the fiscal year which ended on June 30, 1933 reports that \$124.9 million was derived by the Federal Government from this source during the first year this legislation was in effect. This amount represented 7.7 percent of total Internal Revenue collections of \$1,620 million derived from all sources during the fiscal year 1933.

Shortly before its scheduled expiration at the end of the fiscal year 1933, Congress enacted two bills into law which extended this tax for an additional year.

^{1/} Revenue Act of 1932, Public Law 154, 72d Congress, approved June 6, 1932 (47 Stat. 266).

and increased its rate. Under Public Law 73 approved by the 73rd Congress ^{1/} this tax was extended until June 30, 1934. The National Industrial Recovery Act, ^{2/} signed into law on the same day, included provisions governing the rate of this tax. Section 211(a) of this Act authorized that the Federal gasoline tax be increased from one cent to one and one-half cents per gallon, effective June 17, 1933. Section 217(b) provided that this tax be reduced to one cent per gallon on the first day of the calendar year following the date proclaimed by the President when either of the following occurred first: 1) the close of the first fiscal year ending after 1933 when total Federal receipts exceeded total Federal expenditures, or 2) the 18th Amendment to the Constitution, establishing national prohibition, was repealed (which would bring in additional revenues to the Federal Treasury from liquor taxes).

Subsequently, President Franklin D. Roosevelt proclaimed repeal of the 18th Amendment to the Constitution on December 5, 1933. Therefore, under authority of Section 217(b) of the National Industrial Recovery Act, the Federal gasoline tax reverted to its former rate of one cent per gallon on January 1, 1934.

Section 603 of the Revenue Act of 1934, ^{3/} approved in the Spring of 1934, continued this tax at the rate of one cent per gallon beyond its scheduled expiration date of June 30, 1934.

^{1/} Act to extend the gasoline tax for one year, to modify postage rates on mail matter and for other purposes, Public Law 73, 73rd Congress, approved June 16, 1933 (48 Stat. 254).

^{2/} National Industrial Recovery Act, Public Law 67, 73rd Congress, approved June 16, 1933 (48 Stat. 206).

^{3/} Revenue Act of 1934, Public Law 216, 73rd Congress, approved May 10, 1934 (48 Stat. 764).

This rate was maintained until just before the United States entered World War II, when as a result of increased national defense requirements, Congress again took action increasing this tax. Section 210 of the Revenue Act of 1940^{1/} authorized an increase to one and one-half cents per gallon for the five-year period beginning on July 1, 1940 and continuing through June 30, 1945 as part of a defense tax.

The following year, under Section 521(a)(20) of the Revenue Act of 1941,^{2/} this rate was made permanent by elimination of the June 30, 1945 expiration date which had been specified in the previous legislation.

This rate continued for more than a decade until the outbreak of the Korean War, when it was increased to two cents per gallon under authority of Section 489 of the Revenue Act of 1951.^{3/} This rate became effective on November 1, 1951 and it was authorized to continue until March 31, 1954. After this date, it was scheduled to be reduced to its former rate of one and one-half cents per gallon.

Before this reduction took place, Congress passed the Excise Tax Reduction Act of 1954,^{4/} and under Section 601(a)(6) of this legislation, this two-cents-per-gallon rate was extended for an additional year--until March 31, 1955.

During the next two years Congress passed legislation granting one year extensions of this two-cents-per-gallon tax on gasoline by approval of the Tax Rate

^{1/} Revenue Act of 1940, Public Law 656, 76th Congress, approved June 25, 1940 (54 Stat. 522).

^{2/} Revenue Act of 1941, Public Law 250; 77th Congress, approved September 20, 1941 (55 Stat. 707).

^{3/} Revenue Act of 1951, Public Law 183, 82d Congress, approved October 20, 1951 (65 Stat. 536).

^{4/} The Excise Tax Reduction Act of 1954, Public Law 324, 83rd Congress, approved March 31, 1954 (68 Stat. 45).

Extension Act of 1955 ^{1/} [Section 3(a)(3)] and the Tax Rate Extension Act of 1956 ^{2/} [Section 3(a)(3)], which continued this rate to March 31, 1956 and March 31, 1957, respectively.

Public Law 466, enacted by the 84th Congress, ^{3/} provided that the Treasury Department refund those taxes paid on gasoline used on farms for farming purposes which had been purchased after December 31, 1955.

The Federal-Aid Highway Act of 1956 ^{4/} provided for a significant expansion in the Federal-aid highway program and authorized Federal funding over a longer period of time in order to permit long-range planning. In particular, it was considered necessary to authorize the entire Interstate Highway program in order to assure orderly planning and completion of this network of highways throughout the United States as efficiently and as economically as possible. For this reason, this Act authorized appropriations for the thirteen-year period from fiscal year 1957 through 1969 for this system.

In order to make the Federal-aid highway program self-financing, the Highway Revenue Act of 1956 ^{4/} was incorporated as Title II of this legislation which imposed new taxes and increased others levied on highway users who are the direct beneficiaries of this program.

^{1/} Tax Rate Extension Act of 1955, Public Law 18, 84th Congress, approved March 30, 1955 (69 Stat. 14).

^{2/} Tax Rate Extension Act of 1956, Public Law 458, 84th Congress, approved March 29, 1956 (70 Stat. 66).

^{3/} Act to amend the Internal Revenue Code of 1954 to relieve farmers from excise taxes in the case of gasoline and special fuels used on farms for farming purposes, Public Law 266, 84th Congress, approved April 2, 1956 (70 Stat. 87).

^{4/} Federal-Aid Highway and Highway Revenue Acts of 1956, Public Law 627, 84th Congress approved June 29, 1956 (70 Stat. 374).

Section 205 of this Highway Revenue Act authorized an increase in the Federal gasoline tax from two to three cents per gallon for the sixteen-year period from July 1, 1956 through June 30, 1972. Thereafter, it was scheduled to be reduced to one and one-half cents per gallon.

Section 209 of this Act authorized the creation of the Highway Trust Fund to which there was to be appropriated from the General Fund of the Treasury certain percentages of receipts derived from highway-user taxes: gasoline, diesel and special motor fuel, tread rubber, tires and inner tubes, trucks, buses, etc. One hundred percent of the Federal gasoline tax receipts were to be transferred to this trust fund.

It was argued that such taxes transferred to the Highway Trust Fund were necessary to cover anticipated expenditures to be made under the Federal-aid highway program for the sixteen-year period from fiscal year 1957 through 1972. House Report 2022 (84th Congress), issued on this legislation, estimated that highway-user taxes would yield some \$38.5 billion in revenues for this trust fund during this sixteen-year period--enough to cover anticipated expenditures for the Federal-aid highway program of approximately \$37.3 billion during this same period.

This legislation also made provision for refunding a certain portion of Federal gasoline taxes paid which were used for nonhighway purposes or by local transit systems.

Since enactment of this legislation, Congress has continued to pass laws extending the life of the Highway Trust Fund and extending and increasing the rates imposed on gasoline.

Under Section 201(a) of the Federal-Aid Highway Act of 1959,^{1/} the Federal gasoline tax was increased from three to four cents per gallon which was to be in effect from October 1, 1959 through June 30, 1961.

Under Section 201(b) of the Federal-Aid Highway Act of 1961,^{2/} this four-cent rate was extended beyond June 30, 1961, and the scheduled reduction to one and one-half cents per gallon, which the Highway Revenue Act of 1956 had authorized to take place on July 1, 1972, was deferred until October 1, 1972.

The most recent legislation enacted affecting the Federal gasoline tax was the Federal-Aid Highway Act of 1970.^{3/} Under Section 303(a)(6) of this Act, the scheduled reduction in the rate of this tax to one and one-half cents per gallon was deferred from October 1, 1972 to October 1, 1977.

To summarize current Federal tax law relating to the Federal manufacturers' excise tax on gasoline, the following provisions are in effect: Under Section 4081 of the Internal Revenue Code, this tax is imposed at the rate of four cents per gallon on "gasoline sold by the producer or importer thereof, or by any producer of gasoline." Under Section 4082(a) of this code, a producer is defined to include a "refiner, compounder, blender, or wholesale distributor, and a dealer selling gasoline exclusively to producers of gasoline, as well as a producer." Section 4082(b) defines gasoline as including "all products commonly or commercially known or sold as gasoline which are suitable for use as a motor fuel." Sections 6420 and 6421 further provide that the Treasury Department shall

^{1/} Federal-Aid Highway Act of 1959, Public Law 86-342, approved September 21, 1959 (73 Stat. 613).

^{2/} Federal-Aid Highway Act of 1961, Public Law 87-61, approved June 29, 1961 (75 Stat. 123).

^{3/} Federal-Aid Highway Act of 1970, Public Law 91-605, approved December 31, 1970 (84 Stat. 1743).

refund taxes on gasoline which is used on farms, for nonhighway purposes -- or local transit systems. In the case of gasoline used on farms for farming purposes and as fuel for airplanes, the full amount of Federal gasoline taxes paid are to be refunded. With respect to gasoline used for certain other nonhighway purposes and in local transit systems, a partial refund is granted.

A summary of the change in the rate of this tax from the time it was first imposed in 1932 to the present time is given in Table I following.

The Federal manufacturers' excise tax on gasoline continues to provide our national government with substantial revenues each year. Table II shows how gasoline tax collections have increased nearly 30 times from the \$124.9 million reported for the fiscal year 1933 to the \$3.7 billion collected in the most recent fiscal year 1972. Federal gasoline tax collections during 1972 accounted for 1.8 percent of total Internal Revenue Service collections of \$209.9 billion derived from all sources.

TABLE ISUMMARY OF CHANGES IN THE RATE OF THE FEDERAL
MANUFACTURERS' EXCISE TAX ON GASOLINE

<u>Rate of Tax</u> (cents per gallon)	<u>Period to Which Applicable</u>
1	June 21, 1932 to June 16, 1933
1 1/2	June 17, 1933 to December 31, 1933
1	January 1, 1934 to June 30, 1940
1 1/2	July 1, 1940 to October 31, 1951
2	November 1, 1951 to June 30, 1956
3	July 1, 1956 to September 30, 1959
4	October 1, 1959 to September 30, 1977

TABLE II

FEDERAL GASOLINE TAX COLLECTIONS,
FISCAL YEARS 1933-1972

(in thousands)

<u>Fiscal Year</u>	<u>Amount Collected</u>
1933	\$ 124,929
1934	202,575
1935	161,532
1936	177,340
1937	196,533
1938	203,648
1939	207,019
1940	226,187
1941	343,021
1942	369,587
1943	288,786
1944	271,217
1945	405,563
1946	405,695
1947	433,676
1948	478,638
1949	503,647
1950	534,270
1951	588,647
1952	734,715
1953	890,679
1954	836,893
1955	954,678
1956	1,030,397
1957	1,458,217
1958	1,636,629
1959	1,700,253
1960	2,015,863
1961	2,370,303
1962	2,412,714
1963	2,497,316
1964	2,618,370
1965	2,687,135
1966	2,824,189
1967	2,932,894

TABLE II - continuedFEDERAL GASOLINE TAX COLLECTIONS,
FISCAL YEARS 1933-1972

(in thousands)

<u>Fiscal Year</u>	<u>Amount Collected</u>
1968	\$ 3,030,792
1969	3,188,239
1970	3,430,076
1971	3,547,678
1972	3,737,161

Source: U. S. Treasury Department, Annual Report of the Secretary of the Treasury on the State of the Finances. Volumes for the fiscal Year 1950, p. 484 and 1971 (Statistical Appendix), p. 48; U. S. Internal Revenue Service.