What is the tax base?

Minnesota’s motor fuels tax is paid on fuels used in highway (street) vehicles, aircraft, boats, snowmobiles and all-terrain vehicles. The rate varies by the type of fuel and includes a surcharge (enacted in 2008), as follows:

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Rate ** (per gallon unless noted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highway Fuels:</td>
<td></td>
</tr>
<tr>
<td>Gasoline and Diesel</td>
<td>28.5 cents</td>
</tr>
<tr>
<td>Alternative highway fuels:</td>
<td></td>
</tr>
<tr>
<td>Ethanol and gasoline blend (E85)</td>
<td>20.25 cents</td>
</tr>
<tr>
<td>Liquefied petroleum gas or propane</td>
<td>21.35 cents</td>
</tr>
<tr>
<td>Compressed natural gas</td>
<td>$2.474 per 1,000 cubic feet</td>
</tr>
<tr>
<td>Liquefied natural gas</td>
<td>17.1 cents</td>
</tr>
<tr>
<td>Aviation Fuels:</td>
<td>5 cents, less annual refund</td>
</tr>
</tbody>
</table>

** For highway fuels: Includes a 3.5 cents-per-gallon surcharge for gasoline and diesel, and a proportional surcharge for other highway fuels.

Who pays?

Typically, the state’s 423 distributors collect and remit the motor fuels tax, but in some cases the tax is collected by special fuel dealers or bulk purchasers.

There are 168 licensed special fuel dealers in the state.

How much does the motor fuels tax raise?

In FY 2012, Minnesota’s motor fuels taxes raised about $850.2 million. Changing the rate for highway fuels by 1 cent per gallon would affect annual revenue by about $31 million.

In recent years, the motor fuels tax raised ($/millions):

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Recent Changes to the Motor Fuels Tax*

- Aviation rate increased to 5 cents. Highway rate increased to 16 cents.
- Highway rate increased to 20 cents.
- Highway rate increased to 25 cents. Surcharge enacted, phased in from 0.5 cents in FY 2009 to 3.5 cents in FY 2013
- Differing rates enacted for alternative fuels.

*For a full history of changes, see the Minnesota Tax Handbook, available at www.revenue.state.mn.us.

January 2013
How is the revenue distributed?
Revenues from the tax on aviation fuels go to the State Airports Fund. Revenues from the motor fuels tax are dedicated as follows:

- 97 percent to the Highway User Tax Distribution Fund;
- 1.6 percent to the Special Revenue fund for boat and forest road usage; and
- 1.4 percent to the Natural Resources Fund for snowmobile, all-terrain vehicle and off-road vehicle usage.

Major exemptions
For a full listing of exemptions, credits and related costs, see the Minnesota Tax Expenditure Budget.

Transit systems that receive state aid and qualifying medical transportation providers
260 transit systems and medical transportation providers qualify
Cost: $5.4 million (in FY 12)
Fuel used by transit systems that receive state financial assistance, such as Metro Transit, is exempt from the tax.

Municipal governments that operate marked public safety vehicles that do not need to be licensed
3,100 vehicles qualify
Cost: $800,000 (in FY 12)
The purchase of special (diesel) fuel by a local government for police vehicles, fire trucks and ambulances is exempt from the tax.

Licensed private ambulance services
500 vehicles qualify
Cost: $300,000 (in FY 12)
The purchase of gasoline or special (diesel) fuel by a licensed ambulance service is exempt from the tax.