

LEGISLATIVE RESEARCH UNIT

PATRICK D. O'GRADY, EXECUTIVE DIRECTOR

September 30, 2008

TAXES ON MOTOR FUELS IN ILLINOIS AND BORDERING STATES

asked about motor fuel tax rates in Illinois, Iowa, Missouri, and Wisconsin. To offer a more complete comparison, we also researched such rates in the three other states that border Illinois by land or water: Indiana, Kentucky, and Michigan. Illinois' motor fuel tax of 20.1¢ per gallon on gasoline is slightly below the average in those seven states. But Illinois (like Indiana and Michigan) also collects sales tax on motor fuels. We describe below the motor fuel tax rates in Illinois and its six bordering states, and their fiscal year 2007 motor fuel tax collections. We also enclose a copy of our *Illinois Tax Handbook for Legislators*, which has a chapter on motor fuel taxes.

Illinois

Illinois' basic motor fuel tax rates are 19¢ per gallon on gasoline and 21.5¢ per gallon on diesel fuel.¹ Proceeds go to the Motor Fuel Tax Fund. Their distribution is described on pages 73 to 74 of the *Illinois Tax Handbook*.²

Illinois also collects a tax of 0.3¢ per gallon,³ and an environmental impact fee of 0.8¢ per gallon,⁴ on gasoline, special fuel, aviation fuel (unless sold at O'Hare or Midway Airport), kerosene, and home heating oil. Proceeds go to the Underground Storage Tank Fund.⁵ Thus total state motor fuel taxes per gallon are 20.1¢ for gasoline and 22.6¢ for diesel fuel.

Home-rule units may also tax motor fuels. Any city of over 100,000 may impose a motor fuel tax of 1¢ per gallon by referendum.⁶

LRU

Finally, as stated earlier, Illinois collects sales tax on motor fuels. The state's basic sales tax rate of 6.25% is imposed on the price *after* all federal taxes but *before* state motor fuel taxes and environmental fees. The following example shows the approximate effect of the sales tax on regular gasoline at recent price levels per gallon.

Wholesale price	\$3.00
Federal motor fuel tax	0.184
State sales tax (6.25% of \$3.184)	0.199
State motor fuel tax	0.19
State environmental (underground tank) fees	0.011
Local motor fuel taxes (approximate average)	0.055
Total	\$3.64

The numbers above apply to gasoline products with no ethanol content. They would be slightly higher for diesel fuel, due to its higher federal tax rate and typically higher price. On the other hand, since Illinois has a temporary sales tax reduction for ethanol,⁷ the amounts of tax collected are slightly lower for 10% ethanol blends—and considerably lower for products with more ethanol, such as E-85.

Other States

Table 1 below lists gasoline and diesel fuel tax rates in Illinois and the surrounding states.

Table 1: Motor Fuel Tax Rates in Illinois and Bordering States (from highest to lowest per gallon of gasoline)*

<i>State</i>	<i>Gasoline</i>	<i>Diesel fuel</i>
Wisconsin	32.9 ¢	32.9 ¢
Kentucky	22.5	19.5
Iowa	22.0	23.5
Illinois	20.1	22.6
Michigan	19.875	15.875
Indiana	19.0	17.0
Missouri	17.55	17.55

* Rates consist of basic tax rates on motor fuel plus applicable fees and surcharges, but exclude sales taxes.

Notes on each state:

- Illinois: Rates include a 0.3¢ per gallon tax, and a 0.8¢ per gallon environmental impact fee. Sales tax is imposed on fuels.
- Indiana: Rates include a 1¢ per gallon oil inspection fee. Sales tax is imposed on fuel sales.
- Iowa: Rates are adjusted annually. They include an environmental protection charge of 1¢ per gallon.
- Kentucky: Rates are adjusted quarterly. These rates are for the fourth quarter of 2008, and include a petroleum environmental assurance fee of 1.4¢ per gallon.
- Michigan: Rates include an environmental protection fee of 0.875¢ per gallon. Sales tax is imposed on fuel sales.
- Missouri: Rates include a petroleum products surcharge of 0.5¢ per gallon and a petroleum inspection fee of 0.05¢ per gallon.
- Wisconsin: Rates include a petroleum inspection fee of 2¢ per gallon.

Sources: Commerce Clearing House, *State Tax Guide* (looseleaf to date) and states' Revenue Department Internet sites.

Table 2 reports fiscal year 2007 motor fuel tax collections in the surveyed states.

Table 2: Motor Fuel Tax Collections in Illinois and Bordering States, FY 2007 (from highest to lowest)

<i>State</i>	<i>Collections (millions)</i>
Illinois	\$1,453.7
Michigan	1,034.5
Wisconsin	996.2
Indiana	880.9
Missouri	736.7
Kentucky	570.5
Iowa	447.5

Source: U.S. Department of Commerce, Bureau of the Census, "State Government Tax Collections: 2007" (downloaded from Census Bureau Internet site).

We hope this information is helpful. Please let us know if you need anything further.

Sincerely,



Sarah E. Franklin
Senior Research Associate

SEF:mf

Enclosure

Illinois Legislative Research Unit, *Illinois Tax Handbook for Legislators* (24th ed. 2008).

Notes

1. 35 ILCS 505/2(a) and (b).
2. 35 ILCS 505/8.
3. 35 ILCS 505/2a.
4. 415 ILCS 125/310.
5. 35 ILCS 505/8a and 415 ILCS 125/320.
6. 65 ILCS 5/8-11-15.
7. See 35 ILCS 120/2-10.