

The information in this legislative brief has been prepared by the staff
of the Wisconsin Electric Cooperative Association.

Gross Receipts Tax on Motor Fuel Sales

Background:

Governor Doyle's budget package contains language requiring a tax on gross receipts from motor fuel sales. The idea was that if oil companies obtain revenue from vehicles driving on roads, then they should help pay for road maintenance or construction. But the details are troubling.

The obvious target was "big oil" or those companies that can recover costs such as taxes in other ways than adding the amount to the price at the pump. In reality, it will be the little guys who will have to pay.

Co-ops turn their net revenues (profits to other companies) back to their member-owners in the form of payments called patronage capital. Most of the money comes back to the local economy. They are not big oil but will be affected negatively by this tax. It would effectively eliminate the co-ops distribution of patronage capital to local members.

This budget provision also contains anti-pass-through language which was aimed to protect retail consumers from big oil companies that would include the cost of the tax in the price at the pump rather than reduce profits for shareholders.

This anti-pass-through language raises questions of constitutionality, as similar legislation in New York State has been found unconstitutional on grounds that it violates the Commerce Clause.

This type of tax is considered segregated revenue in budget terms. Segregated revenue is gathered from taxes or fees related to a specific activity and its spending is reserved to support related activities. However, segregated revenue has **routinely been raided** by governors and legislators to patch budget holes. There is nothing preventing this gross receipts tax, if collected, to be used for other purposes in the future. Effectively, cooperative patronage capital could be funding the next state budget deficit.

Wisconsin could suffer from diminishing competition and higher prices as oil companies could divert product supply to without such taxes on sales.

Key Points about the Oil Tax:

- This proposal would likely eliminate distribution of cooperative patronage capital and harm local economies
- The Budget Bill labels it as big oil company profits tax but in reality it has nothing to do with profits. It's a tax on total sales, payable even if a company is losing money.
- The higher the price at the pump, the higher the tax amounts collected.
- Anti-pass-through language means a company cannot recover the cost by raising prices.
- Such segregated revenue is often used by state government for purposes other than what those funds were intended for.

Action: Ask your legislator to ♦ oppose the oil tax in the state budget ♦