



## **Testimony on House Bill 6022 (an act replacing the petroleum products gross- earnings tax with a per-gallon tax)**

Submitted by Scott Shepard, Policy Director

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Good afternoon. My name is Scott Shepard. I am the Policy & Research Director for the Yankee Institute for Public Policy, Connecticut's free-market think tank. I submit this note in support of **House Bill 6022**.

Connecticut presently levies both a petroleum products gross-earnings tax and a per-gallon gasoline tax. Basic principles of good government require opposition to such a regime, and so we support this bill to fold the gross-earnings tax into the per-gallon gas tax. This position is ratified by the fact that the gross-earnings tax was passed at one of the heights of the 1970s-era oil crisis on an economically illiterate and constitutionally unsound premise the falsity of which has been clear in law and practice for nearly 40 years. It is time for the gross-earnings tax to go.

Government should be as efficient as possible. It is manifestly inefficient to have two separate taxes on the same source running to the same treasury for the same general purposes, where there could be just one. Efficiency requires that the gross-earnings tax be melded into the per-gallon gas tax.

Government should also be as transparent as possible, and *never* purposefully or knowingly opaque. Yet that is exactly what this double taxation of the same product in effectively the same way turns out to be. If Connecticut charged only one, per-gallon gas tax, citizens could know how much they were paying fairly easily, and voters could compare our tax level to those of other states. With the two taxes, it's much harder to figure out the total paid. In fact, it's even worse than that, because the gross-earnings tax is applied to the price at the wholesale level, before the retail price is set.<sup>1</sup> The per-mile tax is then levied on a price that includes the gross-earnings tax, so that part of the per-gallon tax is in fact a tax on a tax. This pushes knowing opacity to the teetering edge of fraud against the public. It should surely be eliminated.

The history of the gross-earnings tax drills this opacity and fundamental impropriety even deeper. The tax was initially levied in 1981, as the second oil crisis deepened and gas prices spiraled to economically incapacitating levels.<sup>2</sup> Connecticut responded to these escalating fuel prices by levying *yet another tax* on fuel. The rationale for this escalation of energy-price

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<sup>1</sup> See Rute Pinho, *Petroleum Products Gross Earnings Tax*, OLR RESEARCH REPORT 2012-R-0034 (Jan. 19, 2012).

<sup>2</sup> See *id.*

inflation was that the tax would be paid by oil companies without allowing those companies to pass the tax onto consumers.

This plan somehow to delimit the effects of the tax was soon ruled an unconstitutional interference by Connecticut in interstate commerce.<sup>3</sup> It is also economically incoherent; there is no way to levy a tax on a supplier that won't materially be passed onto consumers, either directly or indirectly, unless the levying of the tax in one way or another forces the supplier out of the market in which the tax is levied.

Despite this failure in purpose and practice, the state did not repeal the gross-earnings tax. Rather, it kept the tax, expanded its reach, and raised its rate.

The gross-earnings tax was ill-conceived from the first. It has never done what it was intended to do. It serves now only to make collection of fuel taxes inefficient and opaque, which are not acceptable positions for government to maintain. For all of these reasons we support **HB 6022** and call for the gross-earnings tax on gasoline to be folded into the per-gallon tax.

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<sup>3</sup> See *id.*