

1. New replacement-tire Tax:

Taxing tires was introduced during the First World War. The federal government used the tax to fund the war effort. Today, many State and the Federal government tax tires (see Appendix). Tire taxes are levied at different levels of the distributions chain and at different rates. The federal government taxes the manufacturers and the importers, while the different states tax the wholesalers, retailers, users, and sometimes collect fees on vehicle registrations.

The uses of the revenue also vary, but it is mostly connected to tire use. While the Federal tax is a Highway Trust Fund source which is used in a cost responsibility fashion, most states use the tier tax for the purpose of disposing and recycling of tires. California seems to be one of few states if not the only state that uses the revenue to also fund emission reduction programs.

Washington and Ohio charge \$1, while California charges \$1.75 per tire. California seems to have the highest proportion per capita, at around 0.9 tire per person per year. While Washington is less than 0.6 per capita. Ohio hovers around 0.7 tire per person per year. Oregon is expected to maintain its retail advantage (due to the absence of retail tax) and exhibit about 0.72 tires per capita annually.

Using the deduced assumptions stated above, then;

The annual average revenue from a surcharge of a **\$1 per tire is about \$3.1 million** growing by the rate of population growth of 1.2% per year.

If the surcharge is to be slightly higher by \$0.25 to \$0.75, the revenue could be reasonably proportioned accordingly.

Using the new revenue to bond:

The option of selling **Revenue Bonds** could also be explored, if this new revenue source is dedicated for debt service payments then it will enable the sale of different amounts of bonds for a different duration and length of time.

If all the revenue generated from the tire surcharge is to be used for debt service, then:

A 10-year bond could yield \$24 million.

For 15 years bond, it will be \$32 million.

For a 20-year bond, the proceeds would be \$38 million.

2. Using General Obligation Bonds

On the other hand, if this policy is determined to be a general societal benefit, then the **general fund** could be used to cover the debt service for bonds that will finance the program. Using bond proceeds to provides the advantage of accomplishing a large project in a short time and paying for it over an extended period time. If Oregon is to finance the program using (General Obligation) **GO bonds** in an amount proportionate to **California's one Billion** program for Diesel reduction, **Oregon will end up selling about \$85 million in bonds.** That level of bonding will require an annual debt service of about **\$8.2 million for 15 years.**

3. Surcharge on the sale, lease and rental of off-road equipment.

The state of Texas imposes a 1.5% surcharge on the sale price or lease/rental amount of off-road diesel equipment sold, rented, or leased (a surcharge is also applied to the storage, use, or consumption of this equipment in Texas). The state of Texas collects about \$65 to \$70 million annually from that surcharge. The funds from this source are expended primely to aid and incentivize the off-road equipments to reduce their diesel emissions. In essence a very strong nexus.

Using an adjusted base of about 13.56% of Oregon transactions relative to Texas, A similar surcharge (1.5%) in Oregon is likely to produce about **\$9 million annually.** That translates to about \$3 million of each 0.5%.

The same nexus used in Texas can be applied (off-road diesel emissions reduction) in Oregon, or the program could be expanded to cover all Diesel Engines.

4. New heavy-duty (>26,000 lbs. GVWR) vehicle dealer's privilege tax

Oregon's existing Dealer privilege tax on sales of new vehicles applies to most vehicles and trucks less than 26,000 lbs. GRVW.

The tax is assessed on the privilege of selling vehicles in Oregon at 0.5% of the retail sales price. If this tax is extended to Heavy Trucks, then the **Privilege tax** is likely to produce **\$4.6 million annually.** The revenue would be dedicated to emission reduction through fleet modernization. This is a clear connected nexus.

The equivalent **Use Tax** (on sales from outside Oregon, but titled in Oregon, in the same fashion as light vehicles are treated), is likely to **generate \$1.45 million per year**, and would be dedicated to the construction and maintenance of highways.

5. Tax on nonroad Diesel use

Oregon and the Federal Government do not tax off-road diesel use. This is known mostly as Dyed or Red Diesel. This form of diesel is used in multiple ways such as construction equipment, Agricultural, Commercial, Industrial, logging, and other equipment. There are also on-road uses that are exempt, such as transit and school busses.

If we consider a diesel fuel tax on off-road use (and could possibly extend it to on-road exempt uses), which has a nexus with general diesel emissions, then the revenue could be used for emissions reductions. The tax can be collected by the fuel distributor (or at a higher level such as the rack) in the same way as gasoline. The Weight-Mile tax paying vehicles can get credit for their payments. Primarily it ends up being a transfer to a non-highway use account (such as the existing Clean Diesel Engine Fund). It is a stable funding source that would be principally paid by the diesel farm, construction, utility, and power equipment.”

This diesel fuel tax would primely be collected at the highest level of distribution, which allows it to be done in a way that is relatively easy to administer and does not significantly increase collection costs.

The revenue amounts **per penny would be about \$1.7 million**. If the tax is to be 10 cents, then revenue is \$17 million. However, if the policy of exempting Agriculture and logging equipment is to persist, then these users can apply for refunds (in the same way as gasoline off-road uses are done today). Agriculture and logging constitute about 30% of the non-Road diesel.

Thus, if a tax of 40 cents a gallon (equivalent to gasoline tax) is levied with the exemption of AG & Logging, then the **revenue is likely to reach \$47 million each year**. If no exemptions are considered, the revenue would be \$67 million annually.

This revenue source can also be bonded for a larger impact at the early years.

6. Tax Credits

Tax credits are effective when they are focused and well designed to achieve their objective. For tax credits to be effective in incentivizing businesses and individuals to modernize trucks and engines, they need to be significant and appealing, in order to make the transition economically effective. However, they should be capped by defined annual amounts, easy to verify, and time limited. There also need to be enough side boundaries put in place not to make Oregon a solution for other states’ problems. Tax credits move the onus of achieving the objective form the government agencies to the businesses and

individuals. Tax credits can be made even more effective if they are coupled with penalties for noncompliance.

Tax credits can be all financed by the general fund or can be supplemented from other sources of revenue that were discussed above. In other words, they would be taken by the users on ir tax returns, then the General Fund would be compensated from the other revenue sources.

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Appendix A**Background on Tire Taxes*****Sources to be refined and included***

The excise tax on tires was first levied in 1918 mainly because of revenue needs brought about by World War I. The tax was reduced after the war, and then repealed in 1926. The levy was reintroduced during the Great Depression at a time when federal individual income tax revenues were plummeting and was increased to help finance World War II. A general reduction in rates was in the offing just before the outbreak of the Korean conflict but revenue needs brought about by that war prevented the lowering of rates. More recent history shows that in 1956 the rate of the tax was raised in response to legislation enacted to build the interstate highway system and to create the Highway Trust Fund. Scheduled reductions did not occur after the construction of the interstate highway system had been extended. A goal of the Surface Transportation Assistance Act of 1982 was to redistribute highway costs between car and truck users. At that time, the tax structure was changed so that the tax was imposed only on heavy tires with tax rates that are graduated and increased along with the tire's weight. The Taxpayer Relief Act of 1997 repealed the exclusion of the value of the tires from the 12% retail excise tax on heavy highway trucks, trailers, and tractors, but provided a credit offset to the retail tax for the tire tax paid. Under the American Jobs Creation Act of 2004, the tax based on tire weight was replaced with rates based on the load capacity of the tire.

Today, the premise for the excise tax on tires is that heavier vehicles cause greater damage to both roadways and bridges, and that the excise tax on tires resembles a pricing mechanism that is a proxy for highway wear-and-tear charges. This premise still holds true as load capacity must exceed 3,500 pounds before the tax is imposed, thus exempting tires on lighter vehicles. Tire excise taxes still produce revenues for the Highway Trust Fund and repeal of the existing tax would require additional taxes to be imposed on other sources so as to provide an equivalent amount of revenues to build and maintain roadways. This excise tax is said to be easy to administer with minimal federal collection costs.

Several arguments are advanced against the imposition of the tire tax. First, some view this selective excise tax as discriminating against the tire and related industries whose products are taxed and also the trucking industry, which depends on the product. The commercial truck transportation industry pays this tax while competitors such as railroads and waterways have no corresponding excise tax, thus creating an intermodal equity issue. Second, to the extent that the excise tax on tires is passed forward into the cost of goods sold, it places a burden on lower income individuals since individuals with lower incomes, relative to those with higher incomes, tend to spend a larger portion of their income for the same consumption amount (thus, to the extent that the tax is passed forward to consumers, the tax is regressive).

The EPA estimates that one scrap or waste tire is generated per person per year in the United States. Tires are very tricky to dispose of and to recycle. Stockpiling waste tires can not only pollute the environment, it can also cause safety and health problems. However, recycling tires can be cost prohibitive. As a result, most states impose tire recycling fees in order to support recycling efforts.

The Federal Excise Tax (FET) is a tax on tires that the manufacturer pays and then passes the charge down the supply chain and the consumer ultimately ends up paying for it in the end. The tax is not remitted by the installer as the tax was already paid to the government by the manufacturer.

Taxable tires are divided into three categories for reporting and figuring the tax as described below.

A tax is imposed on taxable tires sold by the manufacturer, producer, or importer at the rate of \$.0945 (\$.04725 in the case of a biasply tire or super single tire) for each 10 pounds of the maximum rated load capacity over 3,500 pounds. The three categories for reporting the tax and the tax rate are listed below.

- Taxable tires other than biasply or super single tires at \$.0945.
- Taxable tires, biasply or super single tires (other than super single tires designed for steering) at \$.04725.
- Taxable tires, super single tires designed for steering at \$.0945.

In the different states, tire fees range from twenty-five cents to five dollars per tire. A tire fee may vary based on the size of the tire, the type of vehicle the tire is made for, or whether or not the tire is studded. Some states leave tire fees in the hands of retailers. Hawaii requires tire retailers to charge a fee for disposal of waste tires but leaves the amount of the fee up to retailers. On the other hand, Iowa gives retailers the option of charging a tire fee. Fees set by retailers are generally encouraged to be included in the price of the tire, meaning the fee would be included in the total amount subject to sales taxes.

States that mandate and set the amount of the tire fee typically exclude the fee from sales tax liability. However, as with everything, there are some exceptions. Florida, for example, mandates a one-dollar fee per tire sold and requires the fee to be included in the total amount subject to sales and use tax.

Many states have used the funds collected from tire disposal fees to find new uses for materials from recycled tires. According to the Environmental Protection Agency, Florida, California, Arizona, Alaska, and New Jersey have used rubber from tires in asphalt rubber for highway pavement. Iowa and South Dakota have been able to use recycled tire materials for civil engineering purposes, as well as tire-derived fuel. Drain fields for septic systems made from tire shreds have been created in Alabama, Florida, Georgia, and South Carolina. Oklahoma and Vermont have used scrap tires to stabilize riverbanks and slopes.² As state research continues, funded by tire disposal fees, the potential new uses for recycled tires keep on growing.

Tire Taxes and Fees (as of Jan. 2020)

Collected by Wholesaler or Retailer

State	Fee
AL	\$1.00 per tire
AK	\$2.50 per tire
AZ	\$3.00 per tire
AR	\$2.00 per passenger tire \$5.00 per medium truck tire
CA	\$1.75 per tire
CO	\$0.55 per tire
FL	\$1.00 per tire
GA	\$1.00 on each new tire with a rim size greater than 12 inches
IL	\$2.50 per tire
IN	\$0.25 per tire
IA	\$1.00 per tire
KS	\$0.25 per tire
KY	\$2.00 per tire
LA	\$2.00 per passenger/light truck tire \$5.00 per medium truck tire \$10.00 per large (off road) tire
ME	\$1.00 per tire

MD	\$0.80 per tire
MS	\$1.00 per tire - rim size less than 24 inches \$2.00 per tire - rim size 24 inches or more
MO	\$0.50 per tire
NE	\$1.00 per tire
NV	\$1.00 per tire
NJ	\$1.50 per tire
NY	\$2.50 per tire
NC	2% of cost of tire - rim size less than 20 inches 1% of cost of tire - rim size 20 inches or more
OH	\$1.00 per tire
OK	\$2.90 per tire - rim size 19.5 inches or less up to \$10.00 per tire - rim size more than 19.5 inches
PA	\$1.00 per tire
RI	\$1.00 per tire
SC	\$2.00 per tire
TN	\$1.35 per tire
UT	\$1.00 per tire
VA	\$0.50 per tire

WA	\$1.00 per tire
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State tire fees collected by states

State	Fee
MI	\$1.50 per vehicle registration
NM	\$1.50 per vehicle registration
ND	\$2.00 per vehicle registration
SD	\$2.00 per vehicle registration
WV	\$5.00 per vehicle registration

State tire fees collected by importer

HI	\$1.00 per tire
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California Tire Fee

The tire fee is imposed on California consumers for each new tire purchased. Generally, the retailer will collect the tire fee from the customer at the time of the sale. CDTFA administers the California Tire Fee program in cooperation with the Department of Resources Recycling and Recovery (CalRecycle) and the California Air Resources Board (CARB).

How the Revenue is Used

The funds are used to award grants, loans, and subsidies to businesses or other entities that promote activities or develop technologies for tire recycling. The funds are also used by the CARB for air pollution control and prevention.

California Tire Fee

Rate Per New Tire January 1, 2005 – Present \$1.75 January 1, 2001 \$1.00 January 1, 1997 \$0.25