

Governor Phil Murphy

# ICYMI: Treasury Announces Gas Tax Rate Will Decrease by 1.0 Cent Effective October 1

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*2016 Law Mandates Adjustments to Ensure Funding for Critical Infrastructure Projects*

**(TRENTON)** – After a thorough review of fuel consumption statistics and consultation with the Legislative Budget and Finance Officer, the Department of the Treasury announced on Monday that New Jersey’s gas tax rate will decrease by 1.0 cent per gallon beginning October 1 to comport with the 2016 law that requires a steady stream of revenue to support the State’s Transportation Trust Fund (TTF) program.

“Because actual consumption in Fiscal Year 2022 was moderately above our projections made last August, and consumption in the current fiscal year is projected to be slightly above last fiscal year’s levels, our analysis of the formula dictates a 1.0 cent decrease this coming October,” said **State Treasurer Elizabeth Maher Muoio**. “We are pleased that this dedicated funding stream continues to provide billions of dollars across the state to support our critical transportation infrastructure needs.”

Under the 2016 law (Chapter 57) enacted prior to the Murphy Administration, New Jersey’s TTF program is required to provide approximately \$16 billion over eight years to support critical infrastructure improvements to the state’s roadways and bridges. In order to ensure the State has the funds necessary to support these projects, the law dictates that the Petroleum Products Gross Receipt tax rate must be adjusted accordingly to generate roughly \$2 billion per year.

What is generally called the “gas tax” or the “highway fuels tax” is actually two separate taxes on gasoline and diesel fuel - the Motor Fuels tax and the Petroleum Products Gross Receipts (PPGR) tax.

Under the formula explicitly outlined in the 2016 law, the PPGR tax rate will decrease on October 1, 2022 from 31.9 cents to 30.9 cents for gasoline and from 35.9 cents to 34.9 cents for diesel fuel. When combined with the Motor Fuels Tax, which is fixed at 10.5 cents for gasoline and 13.5 cents for diesel fuel, the total tax rates that motorists will pay for gasoline and diesel fuel will be 41.4 cents and 48.4 cents, respectively.

## Background on Chapter 57 & calculation of tax rate formula

Under P.L. 2016, Chapter 57, a statutory formula determines how much the PPGR tax rate is to be adjusted annually in order to meet the Highway Fuels Revenue Target. The Highway Fuels Revenue Target is required to be reviewed annually each August by the Treasurer, in consultation with the Legislative Budget and Finance Officer (LBFO). This process just concluded, with Treasurer Muoio and LBFO Thomas Koenig consulting on consumption data and revenue collections.

In order to calculate whether a change in the PPGR tax rate is necessary to achieve the Highway Fuels Revenue Target, the statutory formula requires Treasury to first look at the baseline Highway Fuels Revenue Target, which is the amount of revenue collected from the taxation of highway fuels (gasoline and diesel fuel) when the law first went into effect in FY2016.

The PPGR rate may be adjusted annually for the following two reasons:

- to correct for the prior fiscal year’s revenue shortfall or surplus in meeting the FY2016 baseline Highway Fuels Revenue Target; and
- to correct for whether projected highway fuels consumption in the current fiscal year will be above or below FY2016 consumption levels.

When necessary, the PPGR rate is adjusted:

- higher (lower) if revenues last fiscal year were below (above) the revenue target for that year;
- higher (lower) if consumption for the current fiscal year is projected to be lower (higher) than FY2016 consumption levels.

## FY2023 Rate Calculation

Treasury applied the above formula based on the following revenue numbers:

- Highway fuels revenue collections in FY2022 are projected to exceed the FY2021 Highway Fuels Revenue Target by \$43.1 million.
- Additionally, the actual surplus for FY2021 ended up being \$2.5 million higher than the \$58.8 million surplus that was projected last August. (Highway fuels consumption for the month of June must be estimated every year because the actual data is not available in time for the annual rate review.)
- Based on the consultation between the State Treasurer and the Legislative Budget and Finance Officer during the review period in August 2022, the Highway Fuels Revenue Target for FY2023 is \$1.902 billion = \$1.948 billion (FY 2016 baseline) - \$43.1 million (FY 2022 surplus) - \$2.5 million (FY 2021 adjustment).

## Supporting Statistics

Last year, Treasury estimated that consumption of gasoline and diesel fuel in FY2022 was projected to decline by 9.3 percent from pre-pandemic levels in FY 2019 and 14.3 percent from the FY2016 baseline consumption level when the law was established.

However, because of better than expected recovery, consumption of gasoline and diesel fuel in FY2022 only declined by 7.5 percent from pre-pandemic levels in FY 2019 and 12.5 percent from the FY2016 baseline consumption level.

Because actual consumption in FY2022 was above projections, the PPGR tax rate did not need to be increased to make up for any shortfall in highway fuel revenue collections from the prior fiscal year.

While consumption of gasoline and diesel fuel in FY2023 is projected to be 12.2 percent lower than FY 2016 levels since many workers will continue to work from home, it is expected to be above FY2022 levels.

As a result, the FY2023 PPGR tax rate will be lower than in FY2022 because there is no shortfall in prior fiscal year collections, but it will continue to be above the original 22.6 cent tax rate. Treasury also noted that only legislative action can change the statutory formula and any new statutory change would still need to secure reliable annual revenues for the Transportation Trust Fund.

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Office of Governor PO Box 001  
Trenton, NJ 08625  
609-292-6000

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