

# What's New in Federal Excise Taxation, Fiscal Years 1992-2006

by Melissa Laine

Federal receipts from excise taxation reached a level of \$76.1 billion for Fiscal Year (FY) 2006 (Figure A). The FY 2006 receipts represented a 1.2-percent increase from FY 2005 and a 35.9-percent increase since FY 1996.<sup>1,2</sup> Excise taxes accounted for 3 percent of total receipts for the U.S. Government in FY 2006.<sup>3</sup> This article will explore some of the changes in tax law that occurred between FY 1993 and 2006 in the areas of retail and manufacturers' excise taxes.

An excise tax is a tax paid on the purchase of a particular good or the occurrence of a particular event. Excise taxes may be broken out into broad categories such as: retail excise taxes, manufacturing excise taxes, taxes on facilities and services, environmental excise taxes, taxes on private foundations, and others. Retail excise taxes are imposed when purchases are made of a certain good by the consumer or seller of the good. An example of a retail excise tax is tax paid on compressed natural gas and dyed diesel fuel used in trains. Manufacturing excise taxes, imposed on manufacturers, producers, or importers of taxable products, include taxes paid on gas guzzlers, which are vehicles that do not meet certain fuel economy standards. Environmental excise taxes exist on ozone-depleting chemicals and products containing these chemicals. Finally, taxes are imposed on private foundations' net investment income and certain prohibited activities.

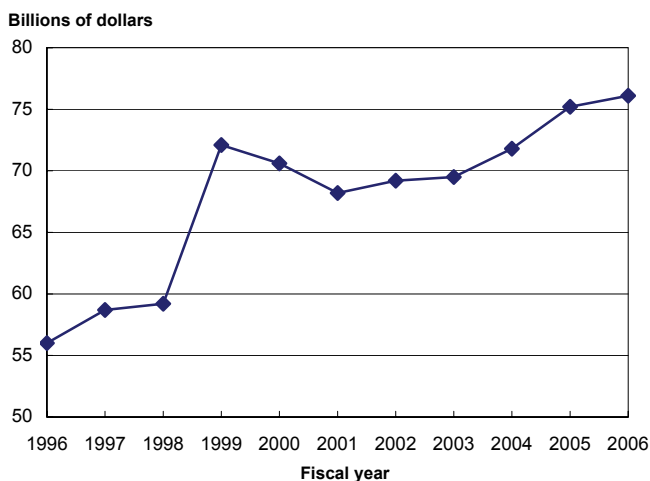
The majority of excise tax liability is reported on Form 720, *Quarterly Federal Excise Tax Return*. Some types of excise taxes have separate forms, such as the heavy highway vehicle use tax (Form 290), gas guzzler tax (Form 6197), and excise tax on greenmail (Form 8725).

Some excise taxes are earmarked to a Federal fund that is used for a specific purpose related to the nature of the tax. For example, excise tax levied on coal is deposited into the Black Lung Disability Trust

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Figure A

## Total Excise Tax Collections, Fiscal Years 1996-2006



Fund which benefits miners suffering from black lung disease. Money collected from taxable tires is placed in the Highway Account of the Highway Trust Fund, which is a source of revenue for interstate highways and other Federal highway programs. When excise taxes are not placed into a specific fund, they are placed in the General Fund of the Treasury.<sup>4</sup>

### Retail Excise Tax: Introduction

Federal retail excise taxes are currently imposed on, but not limited to, the following goods: special motor fuels, compressed natural gas, alcohol fuels, fuels used on inland waterways, and truck, trailer, and semitrailer chassis and bodies, and tractors. As shown in Figure B, total retail excise tax in the last 10 fiscal years reached a low in 2003, before rebounding and steadily climbing in FY 2004-2006. In FY 2006, retail excise taxes collected finally reached a level of \$3.74 billion, slightly larger than the \$3.68 billion reported in FY 1999.

### Retail Excise Tax Law Change: Luxury Excise Tax

A recent change in retail excise tax law is the expiration of the luxury tax on passenger vehicles. Modern

<sup>1</sup> IRS, *Statistics of Income Bulletin*, Fall 1997-Winter 2000-2001, Table 20.

<sup>2</sup> IRS, *Statistics of Income Bulletin*, Spring 2001-Spring 2007, Table 21.

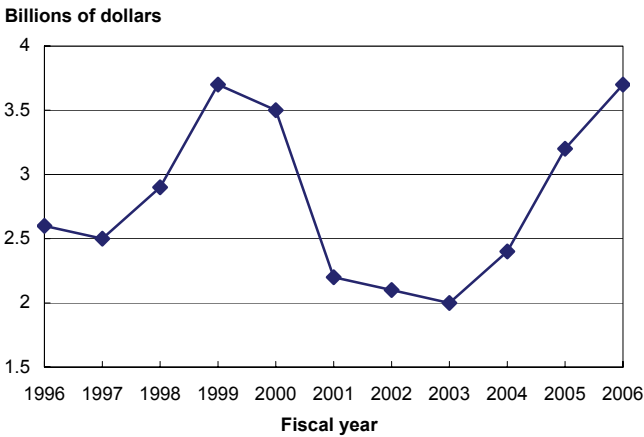
<sup>3</sup> U.S. Department of the Treasury, Financial Management Service, *Monthly Treasury Statement of Receipts and Outlays of the United States Government*, FY 2003-2006.

<sup>4</sup> CCH Incorporated, *U.S. Master Excise Tax Guide*, 5<sup>th</sup> Edition, 2005.

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**Figure B**

**Total Retail Excise Taxes, Fiscal Years 1996-2006**



**Figure C**

**Passenger Vehicle Luxury Tax Rates and Thresholds, Tax Years 1991-2002**

Tax Year	Tax rate (percent)	Threshold (dollars)
1991.....	10	30,000
1992.....	10	30,000
1993.....	10	30,000
1994.....	10	32,000
1995.....	10	32,000
1996.....	9	34,000
1997.....	8	36,000
1998.....	7	36,000
1999.....	6	36,000
2000.....	5	38,000
2001.....	4	38,000
2002.....	3	40,000

luxury excise taxes, taxes paid on expensive goods and services considered nonessential by the U.S. Government, were first enacted under the Omnibus Budget Reconciliation Act of 1990, which imposed a 10-percent tax on the following items if their first retail sale price exceeds a certain threshold: aircrafts over \$250,000, boats over \$100,000, passenger vehicles over \$30,000, furs over \$10,000, and jewelry over \$10,000.<sup>5,6</sup> These luxury taxes were reported

on Form 8807, *Certain Manufacturers and Retailers Excise Tax*, now obsolete. The luxury taxes were short-lived, however, and Congress repealed the taxes on aircrafts, boats, furs, and jewelry with the Omnibus Budget Reconciliation Act of 1993, effective on or after January 1, 1993.<sup>7</sup> The Small Business Job Protection Act of 1996 phased out the luxury tax on passenger vehicles beginning with sales after August 27, 1996, and the tax expired for sales after December 31, 2002.<sup>4,8</sup>

The passenger vehicle luxury tax was imposed on vehicles that had an unloaded weight of less than 6,000 pounds. The tax was directly paid by the seller of the vehicle who filed IRS Form 790, or used Form 8807, depending on the tax year. Luxury vehicles entering into a long-term lease were also subject to the tax. Limousines were taxable regardless of weight, while taxicabs and other vehicles specifically used for the business of transporting persons or property for hire were exempt. Also excluded were vehicles used for law enforcement, public safety, and public works, including emergency medical service vehicles.

During the life of luxury taxes on passenger vehicles, the sales price threshold was indexed to reflect inflation, in increments of \$2,000, and the tax rate was decreased as part of the phaseout of the tax legislated in the Small Business Job Protection Act of 1996. Figure C provides a summary of the threshold and tax rates for 1991-2002.

While the taxes were in effect on all luxury products in 1991, FY 1992 was the first year for which data are available. Figure D shows how much was collected in excise taxes on the different types of taxable luxury products in 1992. Figure E shows the amount collected from the passenger vehicle tax from 1992 through 2006. In FY 1992, \$276.1 million were collected in passenger vehicle excise taxes, followed by a steady increase in tax collection to the peak in FY 1996 with total taxes of \$532.2 million. Funds collected from FY 1997 through FY 2000 were relatively flat, until FY 2000-2004 which showed a decreasing trend. While the passenger vehicle luxury tax expired after December 31, 2002,

<sup>5</sup> The term "first retail sale" meant the first sale, for a purpose other than resale, after manufacture, production, or importation.

<sup>6</sup> Library of Congress, *Omnibus Budget Reconciliation Act of 1990*, 101<sup>st</sup> Congress, January 23, 1990.

<sup>7</sup> Library of Congress, *Omnibus Budget Reconciliation Act of 1993*, 103<sup>rd</sup> Congress, August 10, 1993.

<sup>8</sup> Library of Congress, *Small Business Job Protection Act of 1996*, 104<sup>th</sup> Congress, August 20, 1996.

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**Figure D**

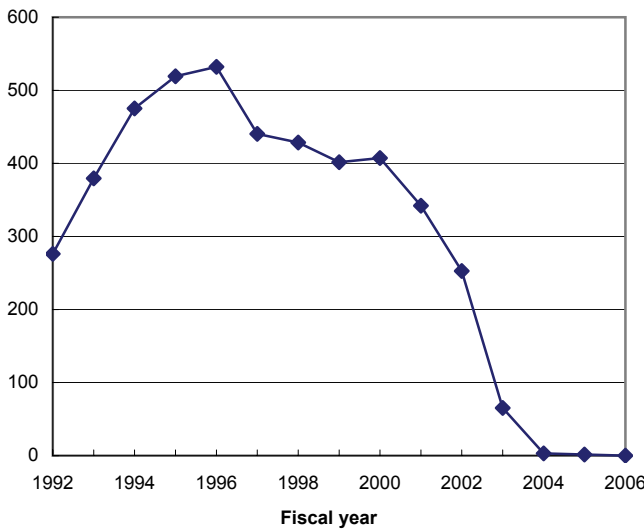
**Luxury Taxes, Fiscal Year 1992**

Type of tax	Dollars
Aircraft.....	151,000
Boats.....	12,205,000
Furs.....	735,000
Jewelry.....	15,942,000
Passenger vehicles.....	276,100,000

**Figure E**

**Passenger Vehicle Luxury Taxes, Fiscal Years 1992-2006**

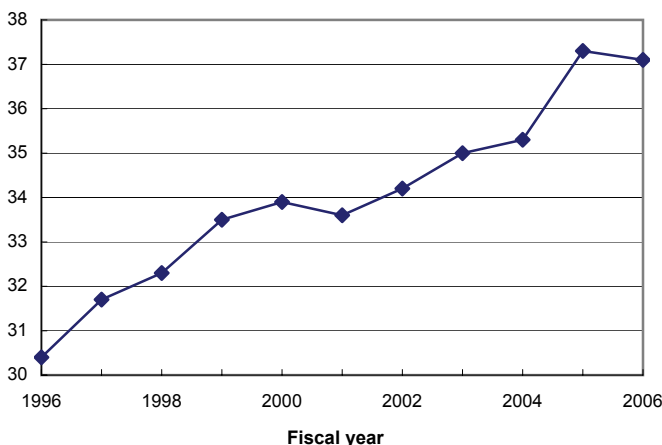
Millions of dollars



**Figure F**

**Total Manufacturers' Excise Taxes, Fiscal Years 1996-2006**

Billions of dollars



tax payments were still made from vehicles that entered into a long-term lease before 2003, and also due to IRS enforcement activities (audits). FY 2006, the most current year reported, showed a collection amount of -\$151,000, meaning there was a greater amount refunded than paid.

**Manufacturers' Excise Tax: Introduction**

Manufacturers' excise taxes are taxes imposed on manufacturers who produce taxable goods, including, but not limited to: kerosene for commercial and noncommercial uses, aviation gasoline, diesel fuel, coal, certain vaccines, sport fishing equipment, tackle boxes, and bows and arrows. The total amount of manufacturer excise tax collected in FY 2006, \$37.1 billion, is an increase of 22.1 percent over FY 1996 (Figure F).

When examining total manufacturers' excise tax by component, total excise taxes on gasoline comprise 68.9 percent of total manufacturers' excise taxes in FY 2006 and includes tax on gasoline, gasoline used in gasohol, and aviation-grade gasoline, each at different rates of taxation. Manufacturers' excise tax on diesel fuel, with the exception of the use of diesel fuel in trains and intercity buses (excluded from the excise tax since January 1, 2005), comprises 25.8 percent of total manufacturers' excise tax collection in FY 2006.<sup>2</sup> Finally, kerosene comprises 2.7 percent of total manufacturers' excise tax and includes kerosene, as well as aviation-grade kerosene used in both commercial and noncommercial aviation.<sup>2</sup>

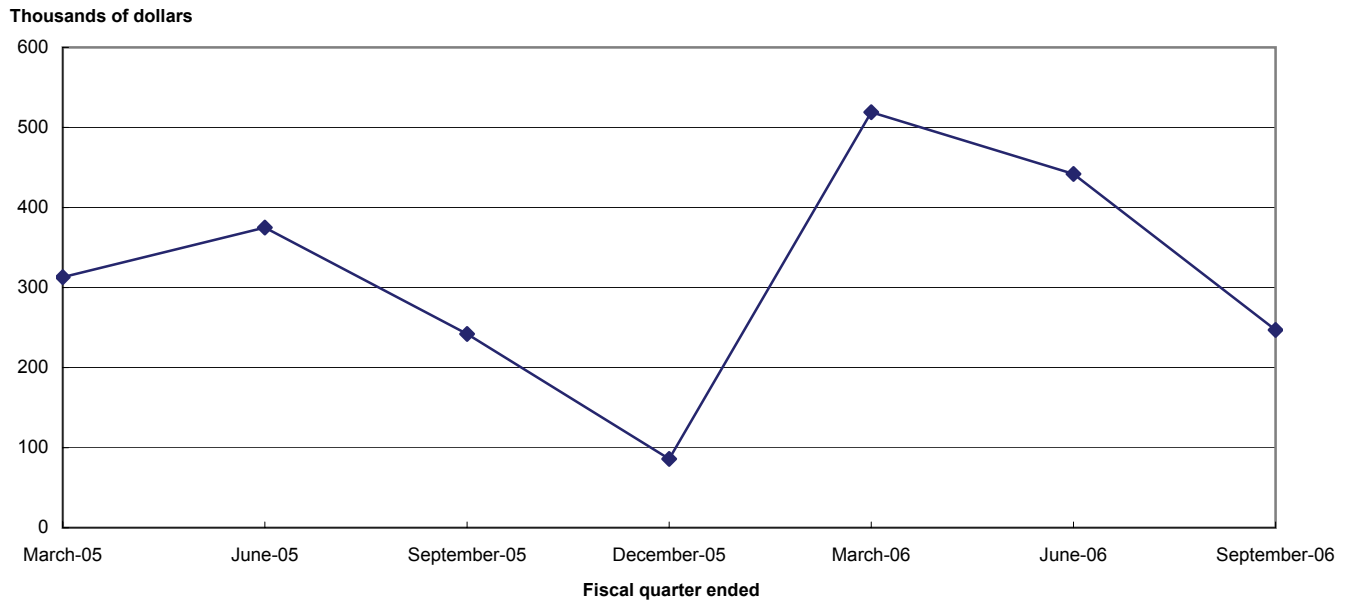
**Manufacturers' Excise Tax Law Change: Fishing Tackle Box Excise Tax**

An excise tax law change that took place recently is the decrease in the tax rate that applied to the manufacturers' excise tax on fishing tackle boxes, effective January 1, 2005. Prior to 2005, sport fishing equipment was taxed at a rate of 10 percent and included the following components: fishing rods and poles, fishing reels, artificial bait, fishing lures, line and hooks, and fishing tackle boxes. Revenues from the excise tax on sport fishing equipment are deposited in the Federal Sport Fishing Account of the Aquatic Resources Trust Fund. Monies in the fund are spent to support Federal-State sport fish enhancement and safety programs.<sup>9</sup>

The excise tax on tackle boxes was decreased from 10 percent to 3 percent on January 1, 2005, by

**Figure G**

**Fishing Tackle Box Excise Taxes, by Fiscal Quarter, March 2005-September 2006**

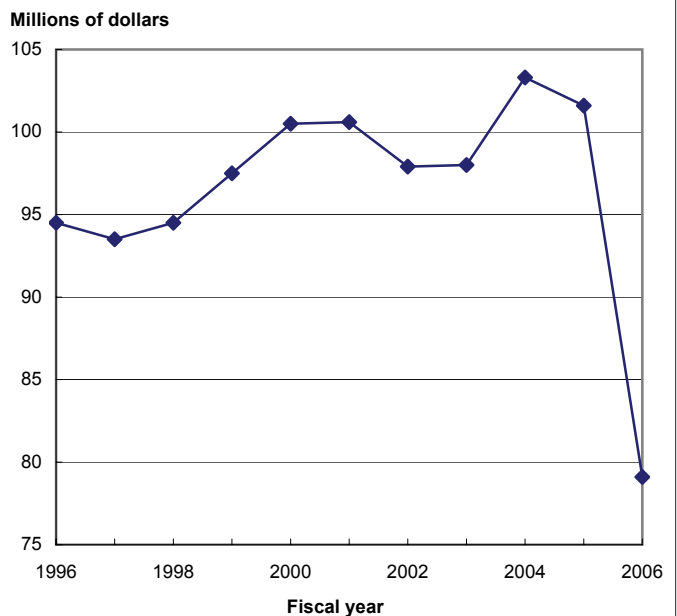


the American Jobs Creation Act of 2004.<sup>9,10</sup> Excise tax on tackle boxes was not reported separately until after the tax law change, and it now has its own line on Form 720, *Quarterly Federal Excise Tax Return*. The tackle box tax was decreased because close substitutes to tackle boxes, such as toolboxes, were nontaxable items.<sup>11</sup> Excise taxes on fishing rods and poles were also reported separately, starting in December 2005.

Fiscal quarters are 3-month periods beginning in October, when the Federal fiscal year begins. The second quarter of FY 2005 (January through March) was the first quarter in which the lower rate on fishing tackle boxes applied, and for which such taxes were reported and tabulated separately from sport fishing equipment. The total excise tax collected on tackle boxes for January-March 2005 was \$313,000 (Figure G). Since the tax rate was reduced, a total of \$2.2 million has been collected from manufacturers of fishing tackle boxes.<sup>12</sup> Collection trends for sport fishing items are shown in Figure H, and reveal a stable rate of collection from FY 1999-FY 2005, before the tackle box tax was reported separately, with a

**Figure H**

**Sport Fishing Excise Taxes, Fiscal Years 1996-2006**



<sup>9</sup> Library of Congress, *American Jobs Creation Act of 2004*, 108<sup>th</sup> Congress, October 7, 2004.

<sup>10</sup> IRS, Publication 510, *Excise Taxes*, 1995-2006.

<sup>11</sup> U.S. Congress, Joint Committee on Taxation, *Options to Improve Tax Compliance and Reform Tax Expenditures*, January 27, 2005.

<sup>12</sup> Library of Congress, *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users*, 109<sup>th</sup> Congress, August 10, 2005.

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collection range between \$97.5 million and \$103.3 million annually over that period. Beginning in FY 2006, a cap was placed on the collection of sport fishing equipment, at 10 percent, but not to exceed \$10, causing a decrease in tax collections to \$79.1 million in FY 2006.

### **Summary**

Federal excise tax receipts for FY 2006 totaled \$76.1 billion, or 3 percent of total receipts. This article summarizes trends in excise tax collection since 1996 and details changes in excise tax law in two areas, retail and manufacturing. The Omnibus Reconciliation Act of 1993 repealed excise

taxes on luxury items, aircraft, boats, furs, and jewelry, leaving just the tax on luxury vehicles whose first retail sale exceeded \$30,000. Funds were actively collected on luxury vehicles from 1991-2002, and the tax expired effective January 1, 2003.

Tax law changes in the past decade have included revisions to excise tax rates on fishing tackle boxes, due to the availability of similar, nontaxable substitutes. Rates on fishing tackle boxes were decreased from 10 percent to 3 percent effective on January 1, 2005, and the tax on tackle box is now reported as a separate item on Form 720. As of September 2006, excise taxes collected on tackle boxes since January 1, 2005, total \$2.2 million.