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SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER
Executive Director

September 9, 2014

The Honorable Nikki Haley, Governor
State of South Carolina
State House, 1st Floor
Columbia, SC 29211

Dear Governor Haley,

This letter is in response to a request made on your behalf by staff for the revenue impact of reducing the current fixed rate tax per gallon (16-cents) of gasoline to eight cents per gallon, and introducing an *ad valorem* tax rate (percentage of value) based on the consumption of gasoline that is revenue neutral in the first year.

Based upon data received from the S.C. Department of Transportation on current motor fuel user fee tax collections, the U.S. Department of Energy, Energy Information Administration on motor gasoline and distillate fuel demand projections by calendar year, and the Revenue and Fiscal Affairs Office's price elasticity of demand estimate for motor fuels, the reduction of the current excise tax rate on gasoline from 16-cents per gallon to 8-cents per gallon, and introducing an *ad valorem* tax rate based on the consumption of gasoline of an estimated 2.34% would be revenue neutral in FY2015-16. Please note that this estimate is based on a particular set of assumptions and estimates in the future may vary significantly as economic conditions change.

If we may be of any further assistance, please advise.

Sincerely,

A handwritten signature in blue ink that reads "Frank A. Rainwater".

Frank A. Rainwater
Executive Director

FAR/rwm

cc: Christian Soura, Deputy Chief of Staff
Joshua Baker, Budget Director