

THE SECRETARY OF THE TREASURY
WASHINGTON

APR 3 1959

My dear Mr. President:

In his Budget Message to the Congress on January 19, 1959, the President recommended the following changes in the Federal excise taxes on highway and aviation fuels: 1) an increase from 3 to 4-1/2 cents per gallon in the excises on motor fuels for the period July 1, 1959 through June 30, 1964; 2) an increase from 2 to 4-1/2 cents a gallon in the excise tax on aviation gasoline; 3) the imposition of a tax of 4-1/2 cents a gallon on jet fuels, which are now tax free; and 4) retention of the receipts from the excises on aviation fuels in general budget receipts. The enclosed draft of proposed legislation would implement the President's recommendations.

Under existing law, apportionments of funds among States for interstate highways for fiscal 1961 will be virtually eliminated unless additional revenues are provided for the Highway Trust Fund to offset large deficits now anticipated. The 1-1/2 cents per gallon increase in highway fuel taxes will assure availability of the entire 1961 and 1962 Federal aid highway authorizations which will be spent during the years for which apportioned and two years thereafter. If the proposed increase is not adopted, the highway program, in the absence of further Congressional action, automatically will be curtailed.

The President's proposal is in accordance with the Congressional intent expressed in 1956 that highway users should pay the costs of Federal aid to highways through certain excise taxes related to highway uses, and that the Highway Trust Fund be financed on a self-supporting basis by these taxes.

The enactment of the President's proposal for higher taxes on highway fuels, less the effect of removing receipts from aviation gasoline from the Trust Fund, is estimated to result in a net increase in Trust Fund revenues of \$697,000,000 in fiscal 1960. The increased receipts are estimated at \$848,000,000 for fiscal 1961 and \$881,000,000 for fiscal 1962.

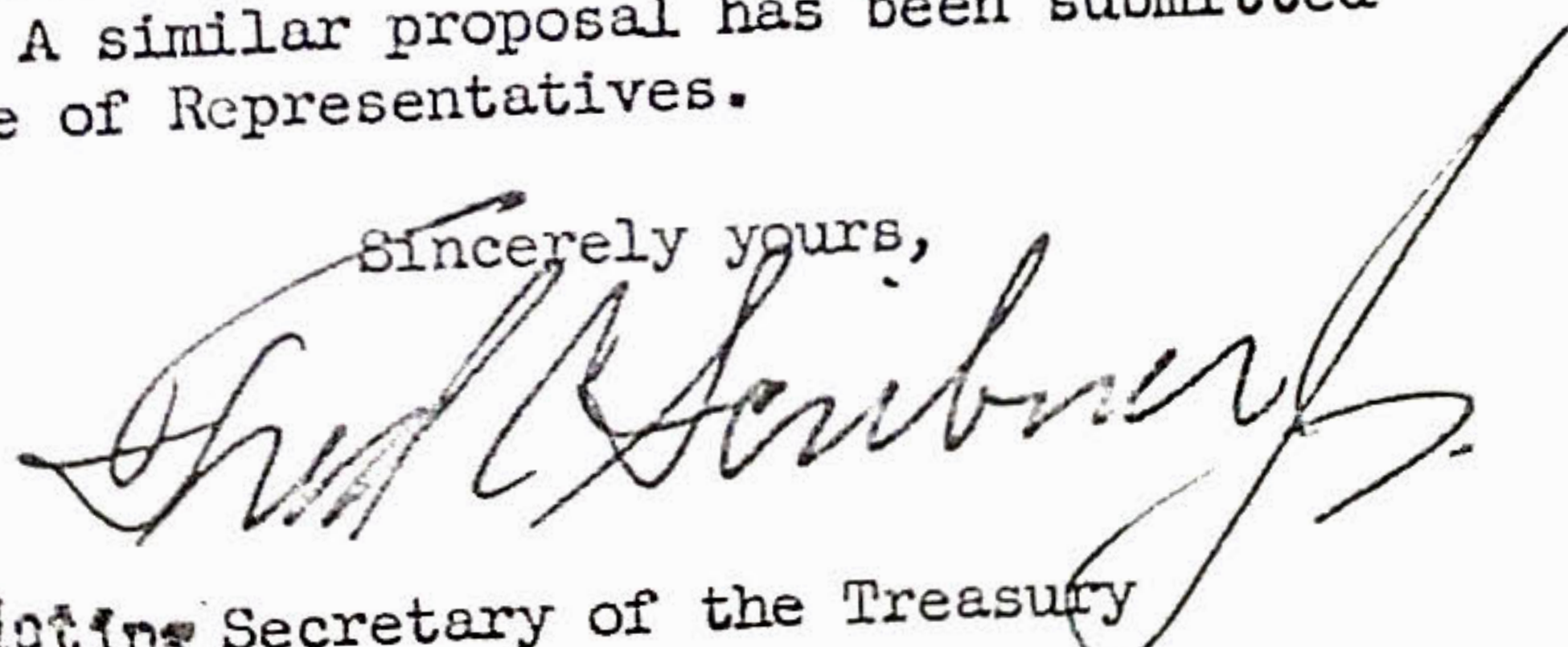
At the present time there is a net tax of 2 cents per gallon on aviation gasoline. There is no tax on kerosene which often is used as a jet fuel. The present revenues from aviation gasoline

are deposited in the Highway Trust Fund to be used for Federal aid to highways. Under the President's proposal, all fuel used in airplanes would be taxed at 4-1/2 cents a gallon and the revenues therefrom would go into general budget receipts. The proposed change is estimated to increase general fund receipts by \$85 million in the fiscal year 1960 and somewhat more in later years.

Rising Federal expenditures for airways make it essential that users of the facilities pay a greater share of the cost. The cost of equipping and operating the air traffic control system is estimated to increase from \$385 million in fiscal 1959 to \$436 million in fiscal 1960. The \$85 million or so of revenues proposed by the President to be raised from the taxation of aviation fuels is only a small part of these costs, but it would somewhat more than cover the expected increase in costs between fiscal 1959 and fiscal 1960.

It would be appreciated if you would lay the proposed legislation before the Senate. A similar proposal has been submitted to the Speaker of the House of Representatives.

Sincerely yours,


Acting Secretary of the Treasury

Honorable Richard M. Nixon
President of the Senate
Washington 25, D. C.

Enclosure

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A BILL

To amend the Internal Revenue Code by increasing the taxes on motor and aviation fuel, and for other purposes.

Be it enacted by the Senate and the House of Representatives
of the United States of America in Congress assembled, That sub-
sections (a), (b), and (c) of section 4041 of the Internal Revenue
Code are amended to read as follows:

"(a) Diesel Fuel.--There is hereby imposed a tax at the rate
applicable under subsection (c) (1) upon any liquid (other than any
product taxable under section 4081 or 4081A)--

"(1) sold by any person to an owner, lessee, or
other operator of a diesel-powered highway vehicle, for
use as a fuel in such vehicle; or

"(2) used by any person as a fuel in a diesel-powered
highway vehicle unless there was a taxable sale of such
liquid under paragraph (1).

In the case of a liquid taxable under this subsection sold for
use or used as a fuel in a diesel-powered highway vehicle (A)
which (at the time of such sale or use) is not registered, and
is not required to be registered, for highway use under the
laws of any State or foreign country, or (B) which, in the case
of a diesel-powered highway vehicle owned by the United States,
is not used on the highway, the tax imposed by paragraph (1) or
by paragraph (2) shall be 2 cents a gallon in lieu of the rate

applicable under subsection (c) (1). If a liquid on which tax was imposed by paragraph (1) at the rate of 2 cents a gallon by reason of the preceding sentence is used as a fuel in a diesel-powered highway vehicle (A) which (at the time of such use) is registered, or is required to be registered, for highway use under the laws of any State or foreign country, or (B) which, in the case of a diesel-powered highway vehicle owned by the United States, is used on the highway, a tax at the rate applicable under subsection (c) (2) shall be imposed under paragraph (2).

"(b) Special Motor Fuels.--There is hereby imposed a tax at the rate applicable under subsection (c) (1) upon benzol, benezene, naphtha, liquified petroleum gas, or any other liquid (other than kerosene, gas oil, or fuel oil, or any product taxable under section 4081 or 4081A, or subsection (a) of this section) --

"(1) sold by any person to an owner, lessee, or other operator of a motor vehicle or motorboat for use as a fuel for the propulsion of such motor vehicle or motorboat; or

"(2) used by any person as a fuel for the propulsion of a motor vehicle or motorboat unless there was a taxable sale of such liquid under paragraph (1).

In the case of a liquid taxable under this subsection sold for use or used otherwise than as a fuel for the propulsion of a highway

vehicle (A) which (at the time of such sale or use) is registered, or is required to be registered, for highway use under the laws of any State or foreign country, or (B) which, in the case of a highway vehicle owned by the United States, is used on the highway, the tax imposed by paragraph (1) or by paragraph (2) shall be 2 cents a gallon in lieu of the rate applicable under subsection (c) (1). If a liquid on which tax was imposed by paragraph (1) at the rate of 2 cents a gallon by reason of the preceding sentence is used as a fuel for the propulsion of a highway vehicle (A) which (at the time of such use) is registered, or is required to be registered, for highway use under the laws of any State or foreign country, or (B) which, in the case of a highway vehicle owned by the United States, is used on the highway, a tax at the rate applicable under subsection (c)(2) shall be imposed under paragraph (2).

"(c) Rate of Tax.

"(1) The rate of tax for the period --

"(A) ending June 30, 1959, is 3 cents a gallon;

"(B) beginning July 1, 1959, and ending June 30, 1964, is 4-1/2 cents a gallon;

"(C) beginning July 1, 1964, and ending June 30, 1972, is 3 cents a gallon; and

"(D) on and after July 1, 1972, is 1-1/2 cents a gallon.

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"(2) The rate of tax referred to in the third sentence of subsections (a) and (b) for the period --

"(A) ending June 30, 1959, is 1 cent a gallon;

"(B) beginning July 1, 1959, and ending June 30, 1964, is 2-1/2 cents a gallon; and

"(C) beginning July 1, 1964, and ending June 30, 1972, is 1 cent a gallon.

"(3) On and after July 1, 1972, the second and third sentences of subsections (a) and (b) shall not apply."

Sec. 2. Subpart A of part III of subchapter A of chapter 32 of the Internal Revenue Code is amended to read as follows:

"SUBPART A--GASOLINE AND AVIATION FUELS

Sec. 4081.	Imposition of tax on gasoline.
Sec. 4081A.	Imposition of tax on aviation fuels.
Sec. 4082.	Definitions.
Sec. 4083.	Exemption of sales to producer.
Sec. 4084.	Cross references.

"Sec. 4081. Imposition of Tax on Gasoline.

There is hereby imposed on gasoline (other than gasoline taxed under section 4081A) sold by the producer or importer thereof, or by any producer of gasoline, a tax at the rates indicated below --

- "(1) for the period ending June 30, 1959..... 3 cents a gallon
- "(2) for the period beginning July 1, 1959 and ending June 30, 1964.. 4-1/2 cents a gallon
- "(3) for the period beginning July 1, 1954 and ending June 30, 1972.. 3 cents a gallon
- "(4) on and after July 1, 1972..... 1-1/2 cents a gallon

"Sec. 4081A. Imposition of Tax on Aviation Fuels.

There is hereby imposed a tax of 4-1/2 cents a gallon on any aviation fuel --

"(1) sold by the producer or importer thereof, or by any producer of such fuels, for use as a fuel for the propulsion of aircraft; or

"(2) used by any person as a fuel for the propulsion of aircraft unless there was a taxable sale of such fuel under paragraph (1).

"Sec. 4082. Definitions.

"(a) Producer.--As used in this subpart, the term 'producer' includes a refiner, compounder, or blender, and a dealer selling gasoline or aviation fuel exclusively to producers of gasoline or aviation fuel, as well as a producer. Any person to whom gasoline or aviation fuel is sold tax-free under this subpart shall be considered the producer of such gasoline or aviation fuel.

"(b) Gasoline.--As used in this subpart, the term 'gasoline' means all products commonly or commercially known or sold as gasoline (including casinghead and natural gasoline).

"(c) Certain Uses Defined as Sales.--If a producer or importer uses (otherwise than in the production of gasoline, aviation fuel, or special motor fuels referred to in section 4041 (b)) gasoline or aviation fuel sold to him free of tax, or produced or imported by him, such use shall for purposes of this chapter be considered a sale.

"(d) Aviation Fuel.--As used in this subpart, the term 'aviation fuel' means all fuels (including gasoline) used or sold for use for the propulsion of aircraft.

"Sec. 4083. Exemption of Sales to Producer.

Under regulations prescribed by the Secretary or his delegate, the tax imposed by section 4081 or section 4081A shall not apply in the case of sales of gasoline or aviation fuel to a producer of gasoline or aviation fuel.

"Sec. 4084. Cross References.

"(1) For provisions to relieve farmers from excise tax in the case of gasoline used on the farm for farming purposes, see section 6420.

"(2) For provisions to relieve purchasers of gasoline from excise tax in the case of gasoline used for certain nonhighway purposes or by local transit systems, see section 6421."

Sec. 3. Section 4101 of the Internal Revenue Code is amended by inserting ", section 4081A" after "4081".

Sec. 4. Section 6416 of the Internal Revenue Code is amended --

(a) by striking ", and" in subsection (a) (2) (A) and inserting in lieu thereof "or by section 4081A (2) (use of aviation fuel), and";

(b) by striking in subsection (b) (2) (G) the words "vehicle, motorboat, or airplane" each time they appear and inserting in lieu thereof "vehicle or motorboat";

(c) by striking in subsection (b) (2) (H) "at the rate of 3 cents a gallon" and "1 cent for" and inserting after "used" in clause (ii) "by the excess over 2 cents per gallon of the tax paid per gallon and";

(d) by striking in subsection (b) (2) (I) "at the rate of 3 cents a gallon" and "at the rate of 1 cent a gallon" and inserting "by multiplying the number of gallons by a rate representing the excess of the tax paid per gallon over 2 cents per gallon" after "computed";

(e) by striking in subsection (b) (2) (J) "at the rate of 3 cents a gallon" and "at the rate of 1 cent a gallon" and inserting "by multiplying the number of gallons by a rate representing the excess of the tax paid per gallon over 2 cents per gallon" after "computed";

(f) by striking subsection (b) (2) (M) and inserting the following in lieu thereof:

"(M) in the case of gasoline or aviation fuel, used or sold for use in the production of special motor fuels referred to in section 4041 (b)";

(g) by striking the period at the end of subsection (b) (2) (Q) and inserting a semicolon in lieu thereof; and

(h) by adding the following after subsection (b) (2) (Q):

"(R) in the case of aviation fuel taxable under section 4081A (except gasoline or any liquid which would be taxable under section 4041) used otherwise than as fuel for the propulsion of aircraft."

Sec. 5. Section 6420 (a) of the Internal Revenue Code is amended by inserting "(other than for the propulsion of aircraft)" after the word "purposes".

Sec. 6. Section 6421 (a) of the Internal Revenue Code is amended --

(a) by inserting "as a fuel for the propulsion of an aircraft of" after "than", and

(b) by striking "equal to 1 cent for each gallon of gasoline so used" and inserting in lieu thereof "computed by multiplying the number of gallons so used by a rate representing the excess of the tax paid per gallon over 2 cents per gallon".

Sec. 7. Section 6421 (b) of the Internal Revenue Code is amended by striking "(A) 1 cent for each gallon of gasoline so used, by" and inserting in lieu thereof "(A) with respect to each gallon so used, a rate representing the excess of the tax paid per gallon over 2 cents per gallon, by".

Sec. 8. The table of subparts for part III of subchapter A of chapter 32 of the Internal Revenue Code is amended by striking out "Subpart A. Gasoline." and inserting in lieu thereof "Subpart A. Gasoline and aviation fuels."

Sec. 9. The amendments made by this Act shall be effective on and after July 1, 1959.