



# HOUSE BILL 3: Relief at the Pump.

2025-2026 General Assembly

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|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------------------|
| <b>Committee:</b>     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Date:</b>        | October 7, 2026                 |
| <b>Introduced by:</b> | Reps. D. Hall, Adams, Almond, Arp, Balkcom, Bell, Biggs, Blackwell, Branson, Cairns, Campbell, Chesser, Cotham, Cunningham, Echevarria, Eddins, Ferguson, Gable, Gillespie, Goodwin, Greene, K. Hall, Humphrey, Huneycutt, N. Jackson, Johnson, B. Jones, Lambeth, Loftis, John Lowery, McNeely, Miller, Moss, Paré, Penny, Pless, Potts, Pyrtle, Reeder, Rhyne, Ross, Schietzelt, Scott, Shepard, Strickland, Torbett, Tyson, Ward, Warren, Wheatley, White, Willingham, Willis, Winslow, Zenger, Setzer, Howard, Kiger | <b>Prepared by:</b> | Trina Griffin<br>Staff Attorney |
| <b>Analysis of:</b>   | Filed Edition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                     |                                 |

## **OVERVIEW: House Bill 3 would do the following:**

- *Immediately suspend through November 30, 2026, the motor fuel tax on all motor fuels, including gasoline, diesel, and alternative fuel, effective the day after the bill becomes law. The Department of Revenue and the Department of Agriculture and Consumer Services are directed to notify affected parties as soon as practicable.*
- *Require that the full benefit of the suspension be passed on to the ultimate purchaser of motor fuel. However, no retailer would be required to reduce the price per gallon of motor fuel if the retailer's cost already includes the motor fuel tax because the tax accrued prior to the effective date of the suspension.*
- *Hold harmless the funds and accounts that would otherwise receive the motor fuel tax proceeds by directing the State Controller to transfer, on a monthly basis, those amounts from the Inflation Reserve.*
- *Upon the effective date of the act and through December 31, 2026, waive the enforcement of the civil and criminal penalties applicable to a person who uses dyed diesel fuel in a highway vehicle if the use is for farming or agricultural purposes. This waiver would align with the civil penalty relief that the Governor directed the Department of Revenue to provide.*
- *For the period beginning October 1, 2026, through December 31, 2026, exempt from motor fuel tax the use of dyed diesel used to operate a highway vehicle by farmers, commercial loggers, commercial fishermen, and wildlife managers if those individuals have been issued a sales tax exemption certificate by the Department of Revenue.*

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- *Direct the Secretary of Revenue to disregard the suspension of the motor fuel tax when setting the motor fuel tax rate that will become effective on January 1, 2027, to the extent the rate is an adjustment of the rate from the preceding calendar year.*

## CURRENT LAW:

**Tax at the Rack** – North Carolina has a "tax at the rack" system for the collection of motor fuels tax, which means that the entities legally obligated to collect and remit the tax are typically the bulk suppliers and terminal operators. The terminal loading rack is the point where fuel is pumped into tanker trucks for local distribution. Collecting taxes from a smaller number of more tightly regulated taxpayers is more efficient and less burdensome than imposing the tax on the more numerous retail stations. The cost of the tax is passed down through the supply chain and is ultimately paid by the consumer at the pump.

**Tax Rates** – A tax at the motor fuel rate and an inspection tax applies to gasoline, diesel, blended fuel, and alternative fuel. Every year, the Secretary of Revenue sets the motor fuel rate that goes into effect on January 1. The formula for the rate is the amount for the preceding calendar year, multiplied by a percentage. The percentage is 100% plus or minus the sum of the following:

- (1) The percentage change in population for the prior calendar year, multiplied by 75%.
- (2) The annual percentage change in the Consumer Price Index for All Urban Consumers,<sup>1</sup> multiplied by 25%.

The **State motor fuel tax rate** for the 2026 calendar year is 41 cents per gallon, and **the inspection tax** is .0025 cents per gallon. The current **federal motor fuel excise tax rate** is 18.4 cents per gallon (24.4 cents per gallon for diesel).

**Distribution of Tax Revenue** – The revenue derived from the excise tax of one-half cent (1/2¢) per gallon is distributed to the following funds and accounts in the percentages indicated:

| <u>Fund or Account</u>                | <u>Amount</u> |
|---------------------------------------|---------------|
| Commercial Leaking Petroleum          |               |
| Underground Storage Tank Cleanup Fund | 62.5%         |
| Water and Air Quality Account         | 28.1%         |

The remaining excise tax revenue is distributed as follows:

|                    |     |
|--------------------|-----|
| Highway Fund       | 75% |
| Highway Trust Fund | 25% |

Of the amount allocated to the Highway Fund, the following amounts are distributed to the following funds:

|                                  |           |
|----------------------------------|-----------|
| Wildlife Resources Fund          | 1/6 of 1% |
| Shallow Draft Navigation Channel |           |
| Dredging and Aquatic Weed Fund   | 1%        |

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<sup>1</sup> The United States city average for energy index contained in the detailed report released in the November prior to the applicable calendar year by the Bureau of Labor Statistics of the United States Department of Labor, or data determined by the Secretary to be equivalent.

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**History** – North Carolina has not previously suspended the motor fuels tax. However, in 2006, [Sec. 24.3 of S.L. 2006-66](#) placed a ceiling on the variable wholesale component of the state motor fuel excise tax rate.

**Dyed Diesel** – Dyed diesel is standard diesel fuel that has been chemically altered with a red dye to indicate it is exempt from federal and state motor fuel taxes. Because it is untaxed, it is strictly reserved for specific off-highway, agricultural, and industrial uses. Using dyed diesel in a registered vehicle on the highway is subject to the both federal and State civil penalties and is a Class 1 misdemeanor. The IRS imposes a [minimum penalty of \\$1,000 or \\$10 per gallon of fuel](#) involved, whichever is greater, for the first offense. The State civil penalty is the greater of \$1,000 or 5 times the amount of motor fuel tax payable on the fuel in the supply tank, plus, once the fuel is used to operate a highway vehicle, the motor fuel tax attaches and may be assessed.

On October 1, 2026, the Department of Revenue issued a [notice](#) in response to a [letter](#) from the Governor stating that through December 31, 2026, it will not impose a civil penalty when dyed diesel fuel is sold or used from bulk storage for highway use associated with farming and agricultural purposes. However, this relief is available only if the operator or person selling the fuel pays the excise tax as is required under [G.S. 105-449.87](#).

On October 6, 2026, the President issued an [Executive Order](#) that would direct the Internal Revenue Service not to impose penalties for highway use of dyed diesel through December 31, 2026, and the Secretary of Treasury to make a determination whether taxes otherwise due may be deferred or forgiven.

**BILL ANALYSIS:** House Bill 3 would do the following:

- Immediately suspend through November 30, 2026, the motor fuel tax on all motor fuels, including gasoline, diesel, and alternative fuel, effective the day after the bill becomes law. The Department of Revenue and the Department of Agriculture and Consumer Services are directed to notify affected parties as soon as practicable.
- Require that the full benefit of the suspension be passed on to the ultimate purchaser of motor fuel. However, no retailer would be required to reduce the price if the cost includes the motor fuel tax because the tax accrued prior to the effective date of the suspension.
- Hold harmless the funds and accounts that would otherwise receive the motor fuel tax proceeds by directing the State Controller to transfer, on a monthly basis, those amounts from the Inflation Reserve.
- Upon the effective date of the act and through December 31, 2026, waive the enforcement of the civil and criminal penalties applicable to a person who uses dyed diesel fuel in a highway vehicle if the use is for farming or agricultural purposes. This waiver would align with the civil penalty relief that the Governor directed the Department of Revenue to provide.
- For the period beginning October 1, 2026, through December 31, 2026, exempt from motor fuel tax the use of dyed diesel used to operate a highway vehicle by farmers, commercial loggers, commercial fishermen, and wildlife managers if those individuals have been issued a sales tax exemption certificate by the Department of Revenue.
- Direct the Secretary of Revenue to disregard the suspension of the motor fuel tax when setting the motor fuel tax rate that will become effective on January 1, 2027, to the extent the rate is an adjustment of the rate from the preceding calendar year.

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**EFFECTIVE DATE:** Except as otherwise provided, this act is effective when it becomes law.