

# Gasoline explained

## *Factors affecting gasoline prices*

### **Gasoline is sold and priced by grade**

Gasoline is sold based on [octane](#) levels in three primary grades of gasoline:

- Regular
- Midgrade
- Premium

The octane level of gasoline indicates its resistance to combustion. Gasoline with a higher octane level is less prone to pre-ignition and detonation, also known as engine knocking. Refiners charge more for higher-octane fuel, and premium-grade gasoline is the most expensive. From 1995 through 2006, the price difference among grades of gasoline was typically about 10 cents per gallon. Since 2006, the price difference among gasoline grades has generally increased. In 2022, the national annual average price of midgrade gasoline was about 49 cents per gallon more than regular-grade gasoline, and the average price for premium-grade gasoline was about 79 cents per gallon more than regular grade.

### **The main components of the retail price of gasoline**

The retail price of gasoline includes four main components:

- The cost of crude oil
- Refining costs and profits
- Distribution and marketing costs and profits
- Taxes

### **The cost of crude oil**

The cost of crude oil is the largest component of the retail price of gasoline, and the cost of crude oil as a share of the retail gasoline price varies over time and across regions of the country. Many factors affect crude oil prices; learn about seven major factors that influence crude oil prices in [What Drives Crude Oil Prices?](#) Increases in U.S. oil production in the past several years have helped reduce upward pressure on oil and gasoline prices.

### **Gasoline taxes**

Federal, state, and local government taxes also contribute to the retail price of gasoline. The federal tax on motor gasoline is 18.40 cents per gallon, which includes an excise tax of 18.30 cents per gallon and the federal Leaking Underground Storage Tank fee of 0.1 cents per gallon. As of July 1, 2022, state taxes and fees on gasoline averaged 31.67 cents per gallon. Sales taxes, along with local and municipal government taxes, can have a significant impact on the price of gasoline in some locations.

## Refining costs and profits

Refining costs and profits vary seasonally and by region in the United States, partly because different gasoline formulations are required to reduce air pollution in different parts of the country. The characteristics of the gasoline produced depend on the type of crude oil that is used and the type of processing technology available at the refinery where it is produced. Gasoline prices are also affected by the cost of other ingredients that may be blended into the gasoline, including fuel ethanol. Gasoline demand usually increases in the summer, which generally results in higher prices.

## Distribution and marketing

Distribution, marketing, and retail dealer costs and profits are also included in the retail price of gasoline. Most gasoline is shipped from refineries by pipeline to terminals near consuming areas, where it may be blended with other products —such as fuel ethanol—to meet local government and market specifications. Tanker trucks deliver gasoline to individual gasoline stations.

Some retail outlets are owned and operated by refiners, and others are independent businesses that purchase gasoline from refiners and marketers for resale to the public. The price at the pump also reflects local market conditions and factors, such as the fueling location and the marketing strategy of the owner.

The cost of doing business by individual gasoline retailers can vary greatly depending on where a gasoline fueling station is located. These costs include wages and salaries, benefits, equipment, lease or rent payments, insurance, overhead, and state and local fees. Even retail stations close to each other can have different traffic patterns, rent, and sources of supply that affect their prices. The number and location of local competitors can also affect prices.

*Last updated: February 22, 2023, with most recent annual data available at the time of update.*