



October 26, 2021

WHAT YOU NEED TO KNOW ABOUT The Gas Tax

PRO POINTS

- **Every four to five years, Congress must reauthorize** surface transportation programs along with the mechanism for collecting gasoline taxes at the pump that funds part of the program. Theoretically, this is a chance for Congress to also raise those gas taxes to keep up with spending, but for decades doing such a thing has been considered too politically toxic. So, Congress continues to spend more money on infrastructure, with increases paid for mostly through deficit spending.

- **The bipartisan infrastructure bill, H.R. 3684, is** no different. The bill, which contains \$550 billion in new spending, would increase the deficit by \$256 billion over 10 years, according to Congressional Budget Office estimates. The legislation is only partially funded via a patchwork of pay-fors, some of which amount to budgetary gimmicks, and none of which are a gas tax increase or fee intended to be a replacement for its dwindling revenues.

HOW WE GOT HERE

The first federal gasoline tax went into effect in 1932. The 1-cent-per-gallon tax wasn't dedicated to transportation uses but was used to reduce the deficit during the Great Depression. It wasn't until 1956 that Congress created the Highway Trust Fund and started dedicating all gas tax revenues to pay for building the Interstate Highway System. At the time, the tax was 3 cents a gallon.

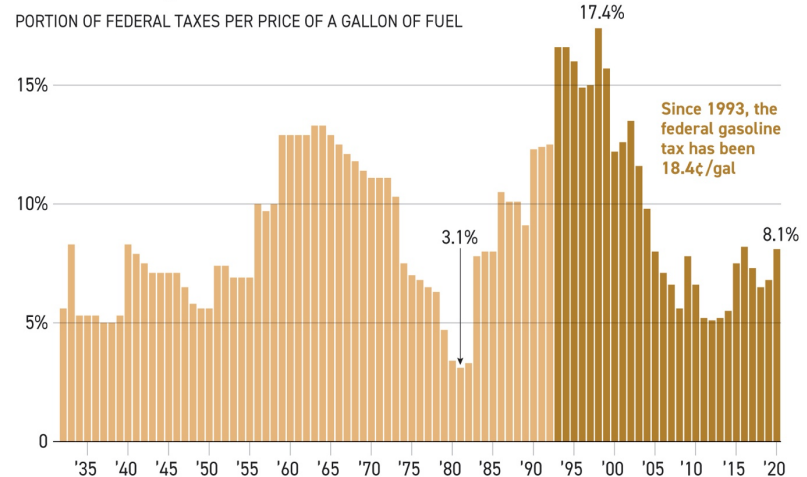
In 1983, Congress more than doubled the gas tax, from 4 cents to 9 cents, and started to dedicate 1 cent per gallon to transit. By 1993, the gas tax had more than doubled again, to 18.4 cents per gallon. It has not been raised since.

Had the gas tax been indexed to inflation when it was last raised, the gasoline tax would now be more than 30 cents a gallon and the 24.4 cent-per-gallon diesel tax would be about 40 cents, according to Congressional Budget Office projections. The American Association of Highway and Transportation Officials estimates that the purchasing power of the gas tax has gone down by 43% since 1993.

Meanwhile, fuel efficiency has increased by about 25%, further lowering fuel tax receipts, though miles driven have risen by 45%. Highway construction costs have nearly tripled since 1993.

What portion of the cost of a gallon of gasoline is federal tax?

The relative cost of federal tax on a gallon of gas has steadily fallen since the 1990s. Federal gas taxes were last raised in 1993.



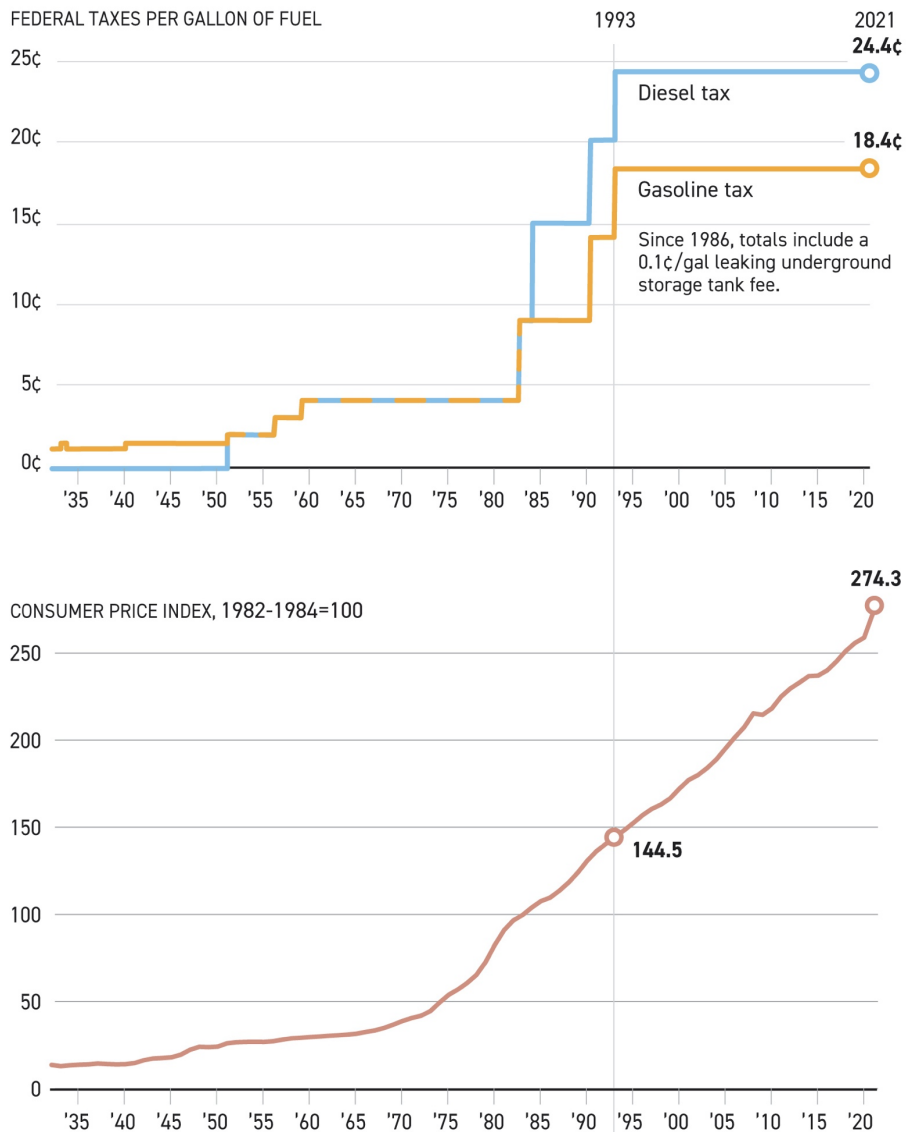


The Highway Trust Fund has been flirting with insolvency since 2008. Since then, Congress has struggled to pass even routine surface transportation bills, since the gas tax was insufficient and lawmakers were unwilling to raise it.

Congress has since supplemented gas and diesel tax revenues with gimmicky pay-fors, ranging from pension “smoothing” to leaking underground petroleum storage tanks, and with straight transfers from the general fund totaling more than \$140 billion since 2008.

Federal motor fuel taxes haven't changed since 1993

Inflation has risen 89 percent since the last time federal fuel taxes were increased.



Sources: Federal Highway Administration, Bureau of Labor Statistics



DOES IT NEED TO BE A GAS TAX?

Policymakers have for years entertained the idea of switching to a vehicle miles traveled fee. Some experts feel it's a better proxy than the gas tax for capturing the wear and tear vehicles inflict on roads. It also would capture electric vehicles and others that don't use gasoline, and it would de-link the federal transportation system from a reliance on the fossil fuels whose use Democrats are trying to reduce.

But a vehicle miles traveled (VMT) fee would also be difficult to implement and cost more to collect. An annual odometer reading at inspection time is one way of collecting it, but it's clunky and vulnerable to tampering. It would be more efficient to equip vehicles with a transponder measuring not just the amount of driving but where the driving happens, so that the taxes can accrue to the correct jurisdictions. They could even collect data on the time of day, allowing cities to charge more to drive at rush hour. But the idea of a device in a car telling the government where a driver goes and when raises serious privacy concerns. Despite years of pilot programs and studies, the VMT idea has yet to become reality.

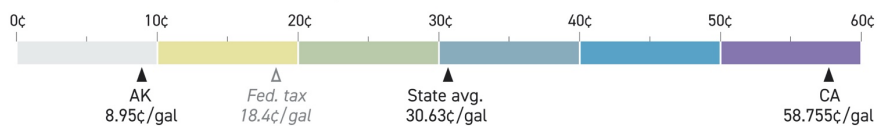
Other suggestions over the years have included taxing oil upstream, by the barrel, or charging for commercial activity on the principle that the beneficiary, not the user, should pay. Others have suggested abandoning the idea of a dedicated trust fund and simply funding the transportation system through the normal appropriations process.

Meanwhile, state governments have filled the vacuum left by federal inaction, with 33 states and the District of Columbia raising their gas taxes since 2013.

State gasoline taxes trend higher and more flexible than federal gas tax

Since 2015, the average state gasoline tax (with additional fees) has risen from 26.5 cents per gallon to 30.6 cents per gallon, a 15 percent increase – on pace with inflation.

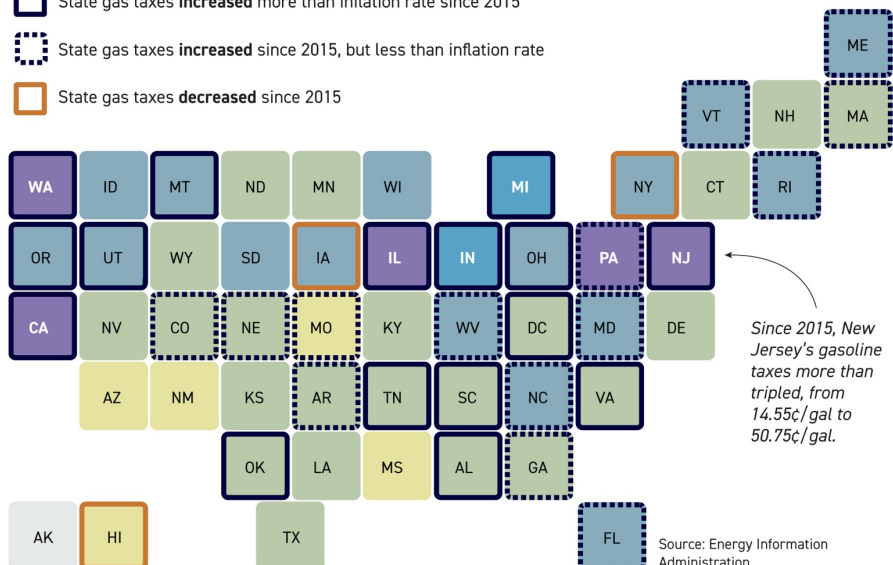
STATE GASOLINE TAXES AND FEES (not including local taxes/fees), AS OF AUGUST 2021



State gas taxes **increased** more than inflation rate since 2015

State gas taxes **increased** since 2015, but less than inflation rate

State gas taxes **decreased** since 2015



Source: Energy Information Administration



WHAT'S NEXT

Congress is poised to pass the biggest infrastructure spending bill in history, including a five-year surface transportation reauthorization and much more, with \$550 billion in new spending. Proposals to pay for it range from repurposing Covid relief funds to spectrum auctions to delaying the Medicare Part D rebate rule.

Budget watchdogs both in and out of government have been skeptical that these sources will pay for the full cost of the bill. Debate over the specifics of the infrastructure bill faded quickly, though, and became subsumed with debate over a separate, but interlinked, reconciliation bill. Both were expected to be enacted in fall 2021.

POWER PLAYERS

- **President Joe Biden:** His promise not to raise taxes on people making less than \$400,000 a year effectively eliminates the option of a gas tax or a VMT fee.
- **Senate Finance Chair Ron Wyden:** He thinks the gas tax is regressive and refuses to raise taxes on the middle class as long as the 2017 Republican tax cuts are in place.
- **House Transportation Committee ranking member Sam Graves:** He's a leading Republican proponent of a switch to a VMT fee.
- **Governors:** While Congress been paralyzed on transportation revenues, 33 states and the District of Columbia have increased gas taxes since 2013.