
A Federal Gas Tax for the Future

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About ITEP

- Non-profit / non-partisan
- State / federal tax policy
- Research / education

Challenges Confronting the Gas Tax

Tax Rate



Tax Base



Tax Rate has stagnated

October 1, 1993

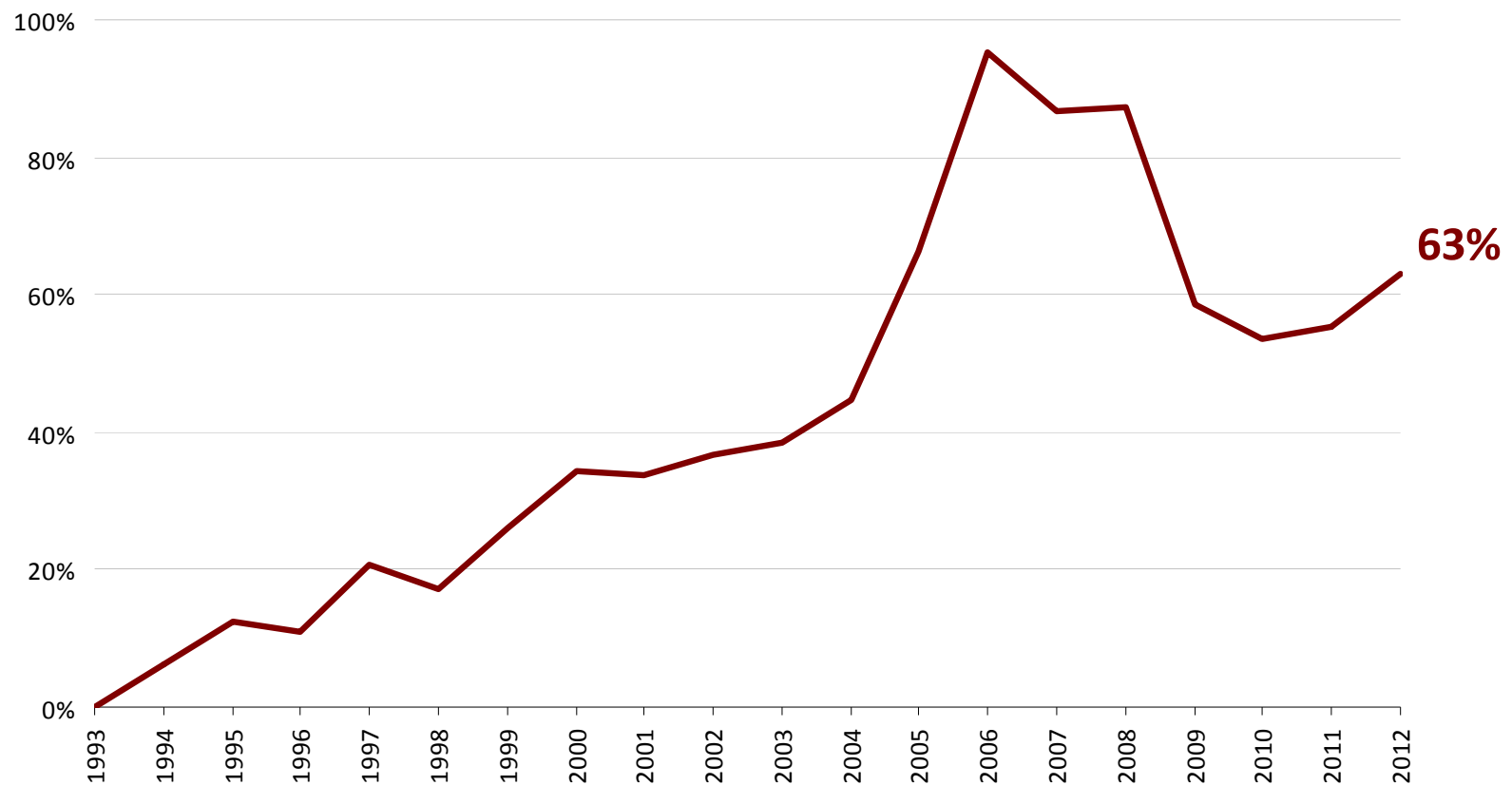


October 1, 2013



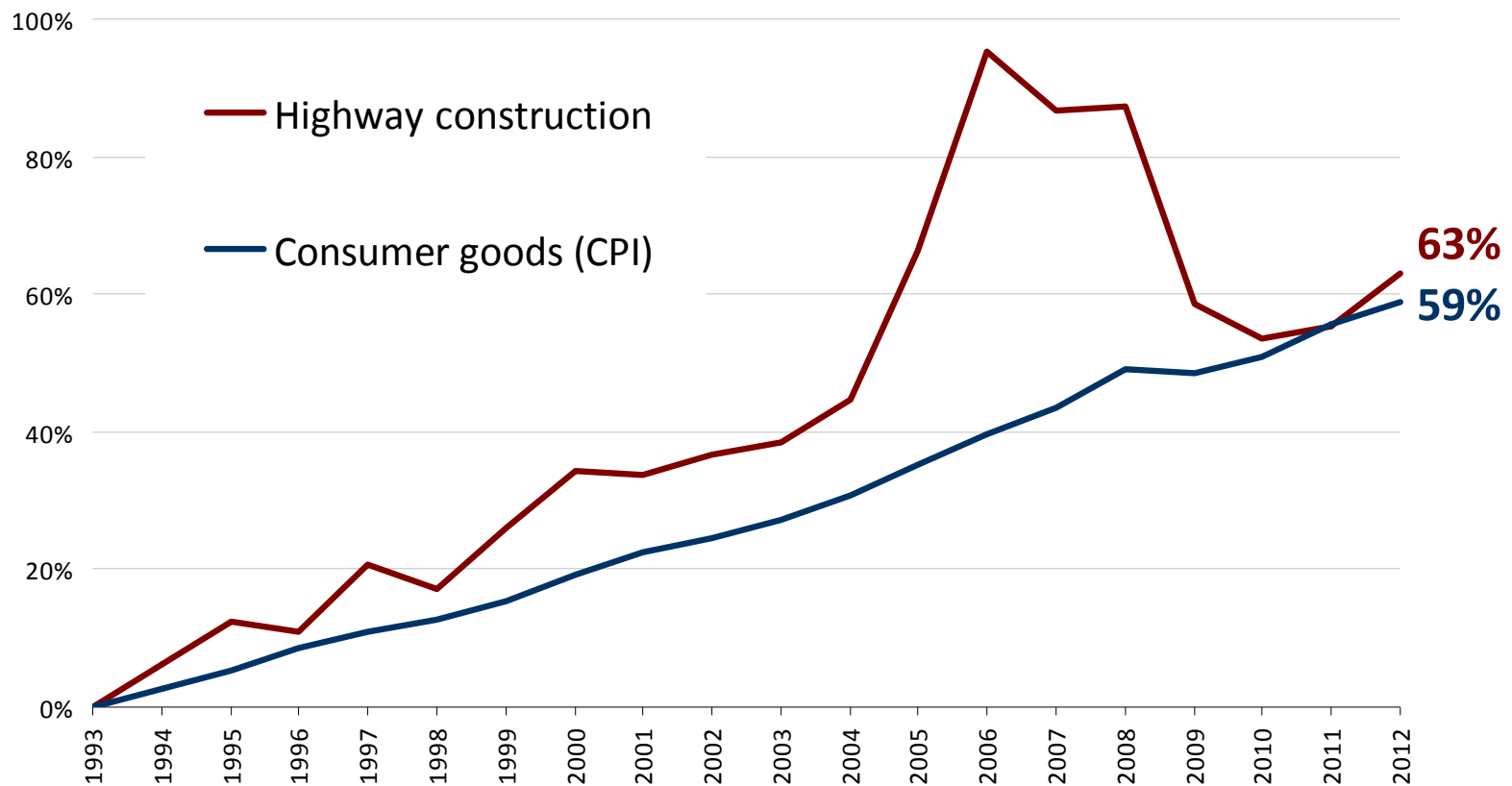
But costs have grown

Highway Construction Cost Growth



And have grown at a reasonable rate

Inflation in...



Tax Rate fix is straightforward

- Look to federal income tax (indexing)
 - Personal exemption
 - Standard deduction
 - Tax brackets
 - Earned Income Tax Credit (EITC)
 - Alternative Minimum Tax (AMT)
 - etc

- Look to the states (17 + DC)
 - A majority of the U.S. population

...and growing in popularity

Enacted in 2013

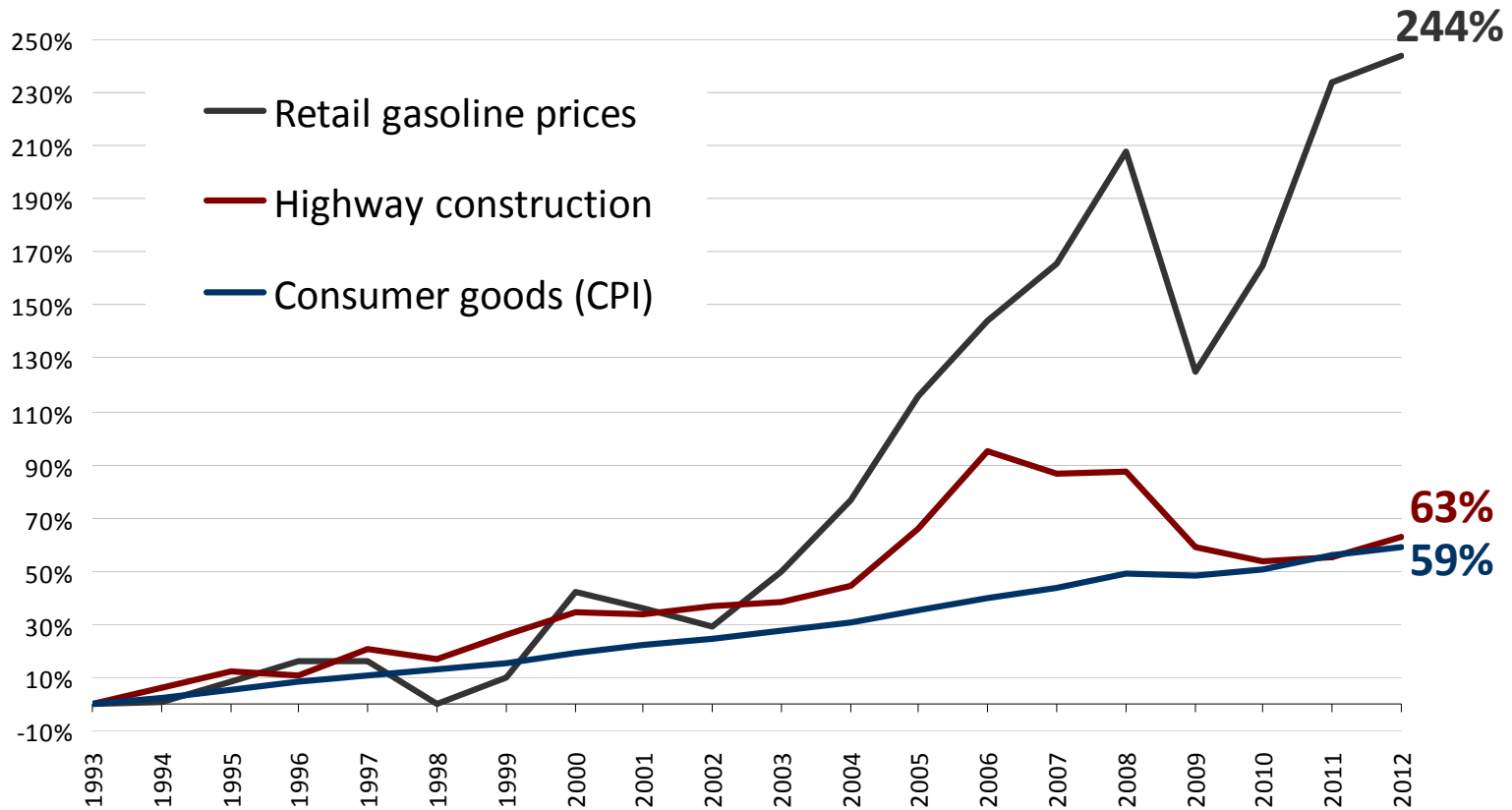
- Maryland
- Massachusetts
- Vermont
- Virginia
- District of Columbia

Governor proposed

- Michigan
- Pennsylvania

3 options for Tax Rate indexing

Inflation in...



Tax Base has shrunk

1993



19.3 mpg

2011



21.4 mpg

Impact of a shrinking Tax Base

- **Long-term:** gas tax becomes obsolete
- **Medium-term:** growing need for gas tax reform
- **Short-term:** limited effect

So, which is the real culprit?

Tax Rate

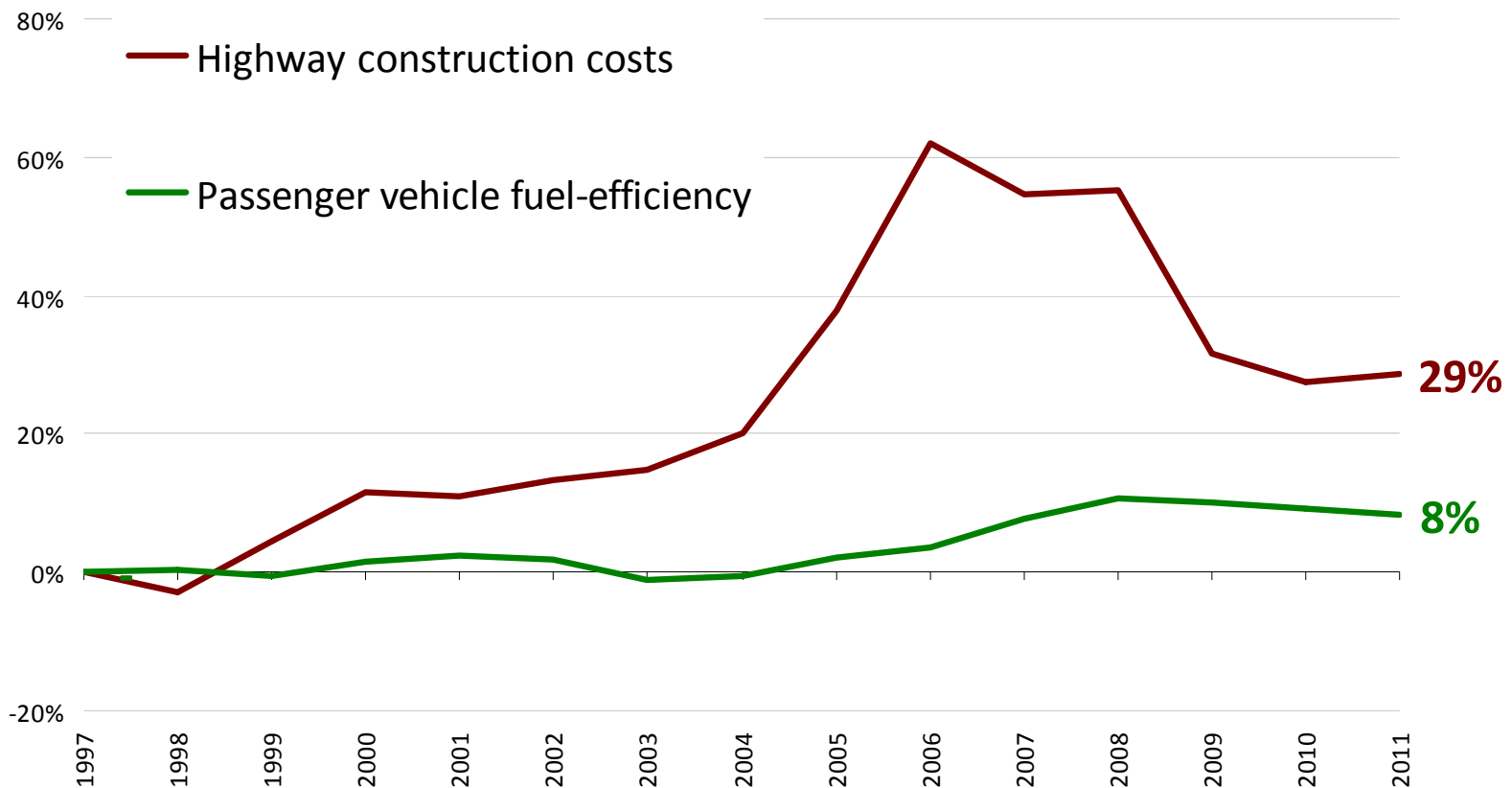


Tax Base



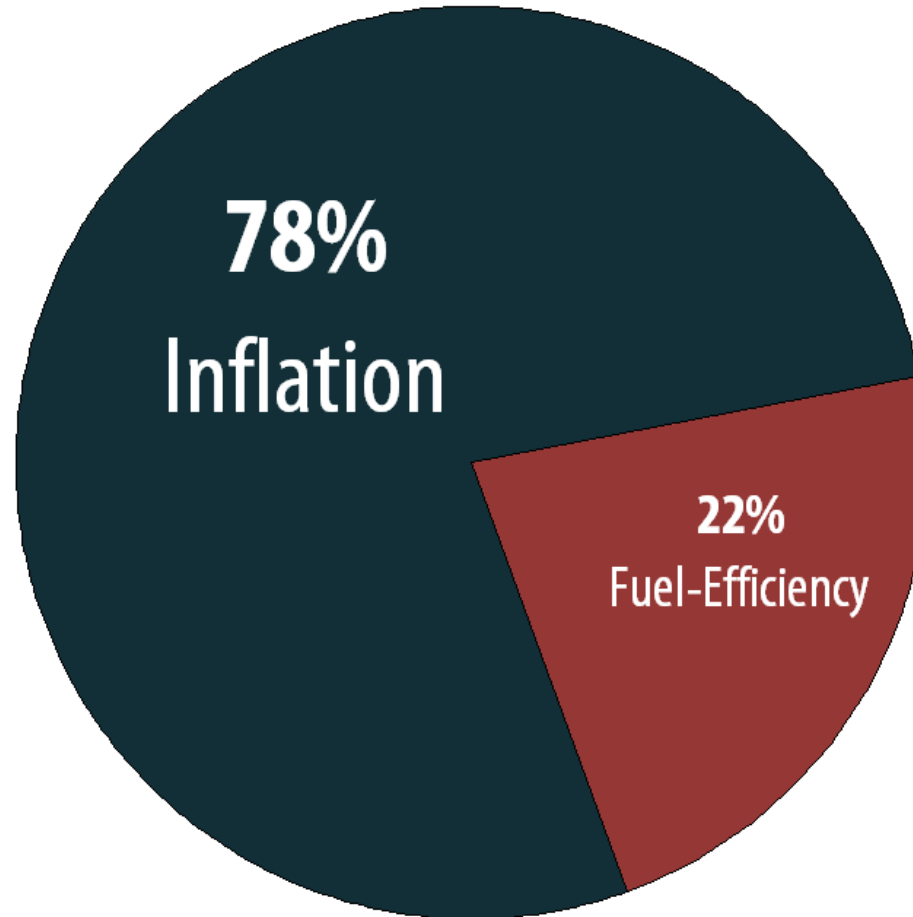
So far, it's still mainly inflation

Growth since 1997 in...



Inflation has been 3.5x more important

Causes of Gas Tax Erosion Since 1997

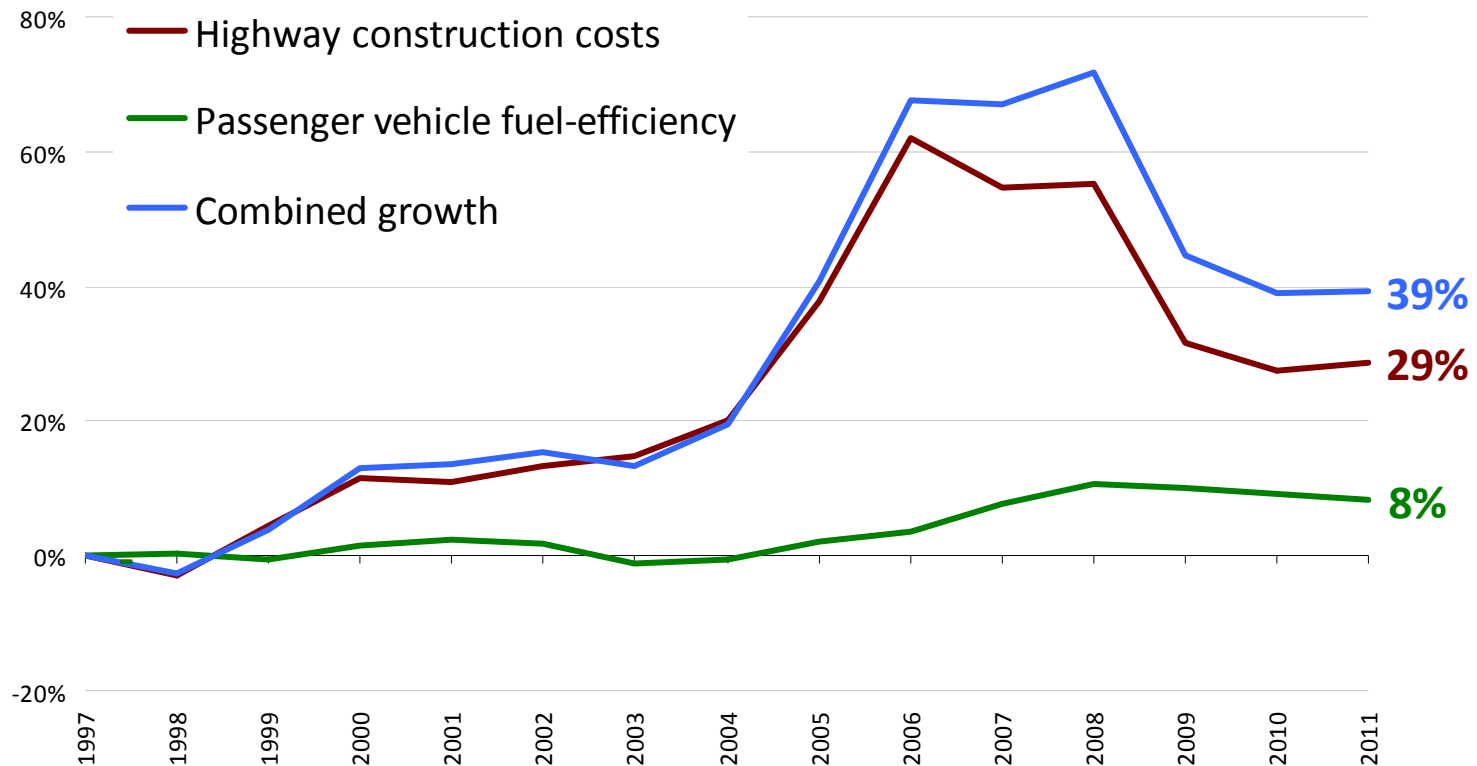


What lessons for today?

- Badly designed tax rate is the main problem
- Emphasis on VMT Tax is misplaced
 - Especially non-indexed VMT Taxes
- Issue can be fixed in the short- and medium-term with dual-indexing

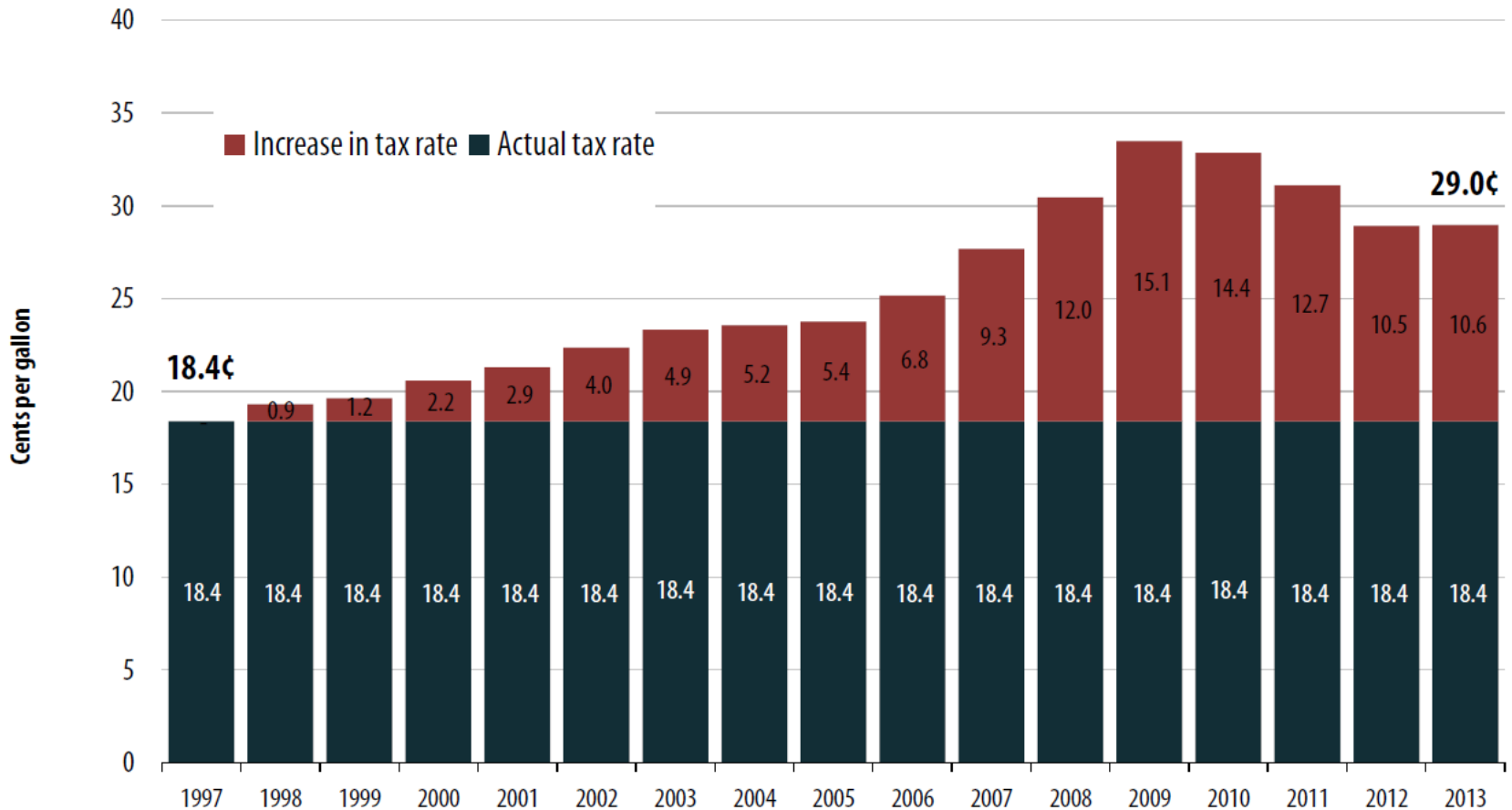
Dual-indexing ties Tax Rate to combined growth in two measures

Growth since 1997 in...



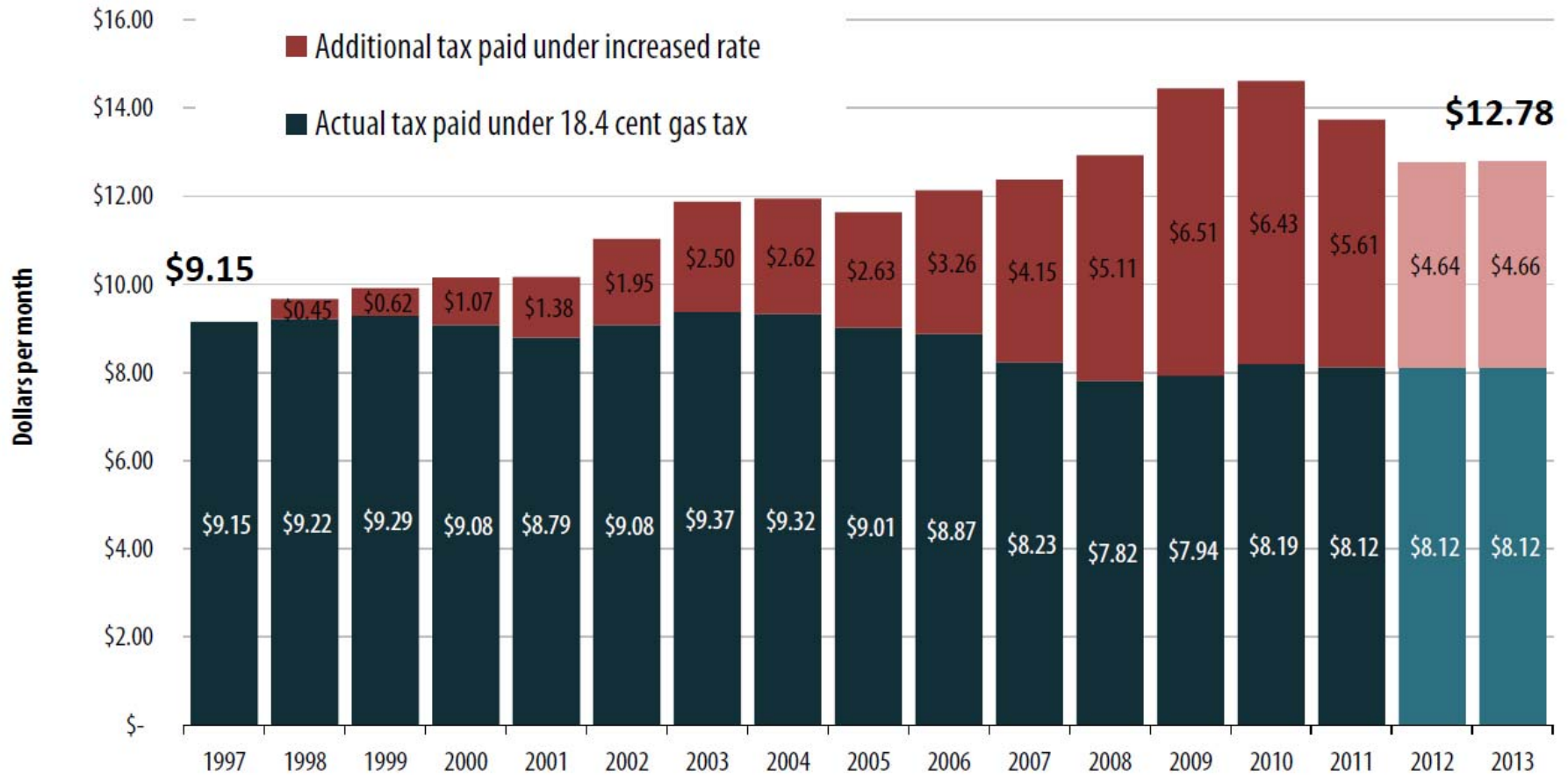
Tax Rate under dual-indexing

Federal Gas Tax Rate Would be 10.6 Cents Higher Today if Reformed in 1997

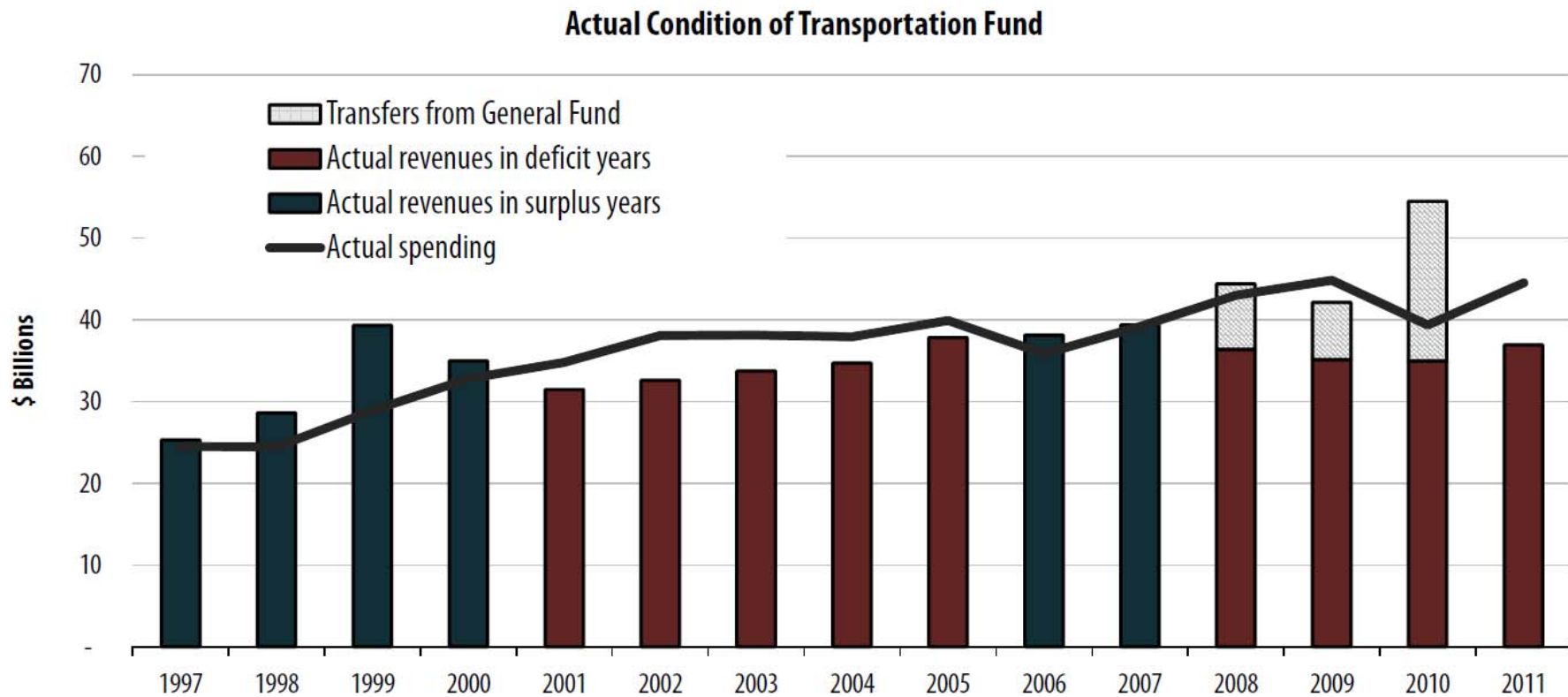


Tax payments under dual-indexing

Average Driver Would Pay \$4.66 in Additional Gas Taxes Each Month Under Reform

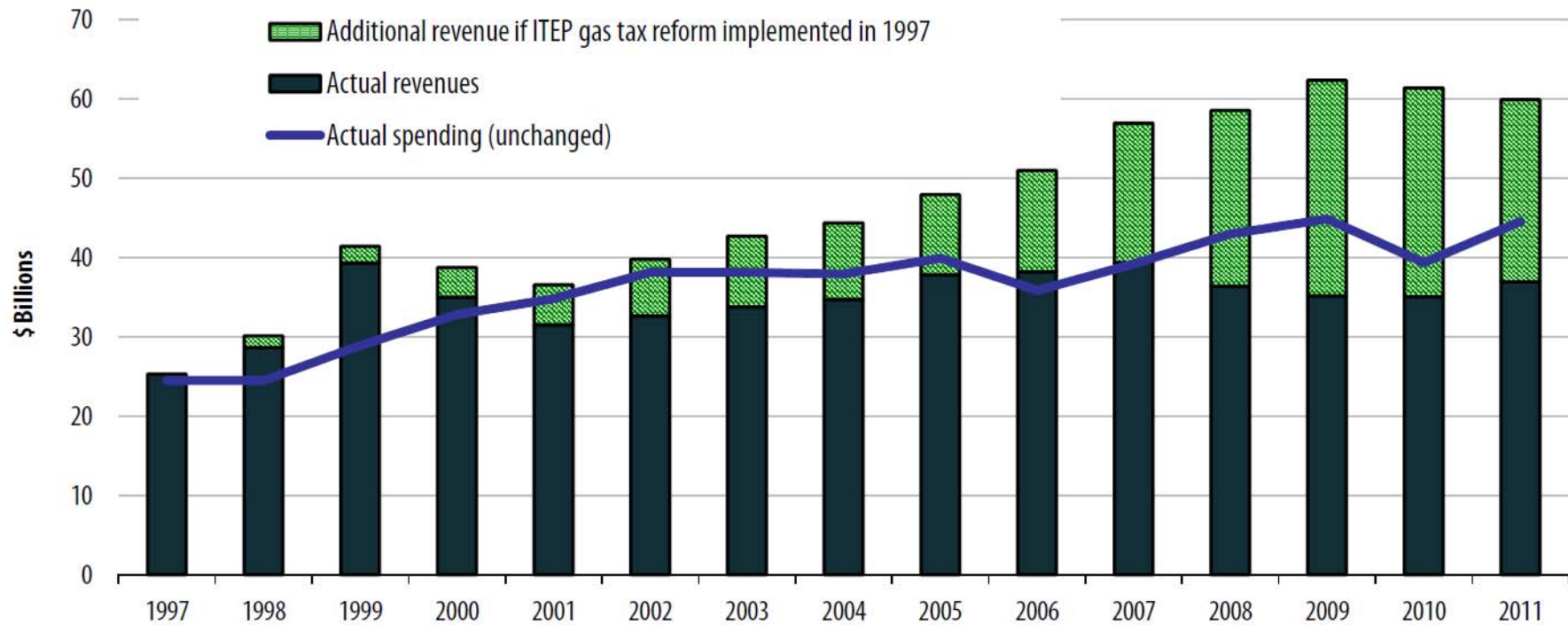


HTF under dual-indexing



HTF under dual-indexing

Transportation Fund Under Proposed Gas Tax Reform



ITEP reports

- **A Federal Gas Tax for the Future**
September 2013
- **Don't Blame the Gas Tax for High Gas Prices**
May 2013
- **Policy Brief: State Gasoline Taxes: Built to Fail, but Fixable**
July 2013
- **Policy Brief: The Federal Gas Tax: Long Overdue for Reform**
May 2012
- **Building a Better Gas Tax**
December 2011
- **More to come...**

Update to 2011 findings coming soon

26

states went decade or more without increase

20%

cut in average state gas tax since last increase

\$ 10 billion

Annual state revenue loss



Informing the debate over
tax policy nationwide

Building a Better Gas Tax:

How to Fix One of State Government's Least Sustainable Revenue Sources

December 2011

About ITEP

Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. Among its many publications on state and local tax policy are *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* and *The ITEP Guide to Fair State and Local Taxes*. ITEP's full body of research is available at www.itepnet.org.

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