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Report: Unadjusted Gas Taxes Costing State DOTs \$10 Billion Each Year

A 50-state analysis from the Institute on Taxation and Economic Policy determined that state governments forego more than \$10 billion in transportation revenue each year because lawmakers have been reluctant to require that gas taxes keep pace with inflation. States, on average, are losing \$201 million annually.

These losses are exacerbated by the fact that the federal gas tax, which also supports state transportation projects, has lost 41% of its value since it was last raised in 1993, notes the report from ITEP, a Washington-based research organization that focuses on federal and state tax policy.

"Building a Better Gas Tax: How to Fix One of State Government's Least Sustainable Revenue Sources" documents state-by-state figures including the costs and benefits of proposed remedies.

"Unfortunately, many politicians won't consider touching the gas tax," Carl Davis, senior analyst at ITEP and study author, said in a statement. "They are raising sales taxes, fees on vehicles, tolls on roads, even looting education funds -- all to make up for the stagnant gas tax. But they can't bring themselves to modernize the biggest source of transportation revenue that's actually under their control."

The report documents that the average state has not increased its gas-tax rate in more than a decade -- and 14 states have gone 20 years or longer without an increase.

But while state gas taxes remain flat, the cost of paving roads and building bridges inevitably rises almost every year, often at a rate higher than general inflation. After adjusting for construction cost growth, the average state's gasoline tax rate has effectively fallen 20% since the last time it was raised. Diesel taxes have fallen 18%.

Today's state gas taxes make up a smaller portion of family budgets than at any time since the tax was first widely instituted in the 1920s, according to the report. A 10-cent-per-gallon increase would cost today's typical driver only \$4.31 per month.

ITEP offers three specific policy recommendations for modernizing state gas taxes:

1. Increase gas tax rates to (at least) reverse their long-term declines. The appropriate contemporary rate for each state will depend on transportation funding needs as determined by lawmakers and the public.
2. Restructure state gas taxes so that their rates rise automatically alongside the inevitable growth in the cost of transportation construction projects. If every state had restructured the last time it raised its gas tax, total state gas tax revenues would be over \$10 billion higher per year.
3. Create or enhance targeted tax credits for low income families to offset the impact of gas-tax reform.

The 24-page report, which includes 50-state data in the appendix, is available at www.itepnet.org/bettergastax.

Questions regarding this article may be directed to editor@ashtojournal.org.