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# Exploring Variable-Rate Gas Tax Design Options for Louisiana

Presentation to the Louisiana Governor's Task Force on  
Transportation Infrastructure Investment

October 20, 2016

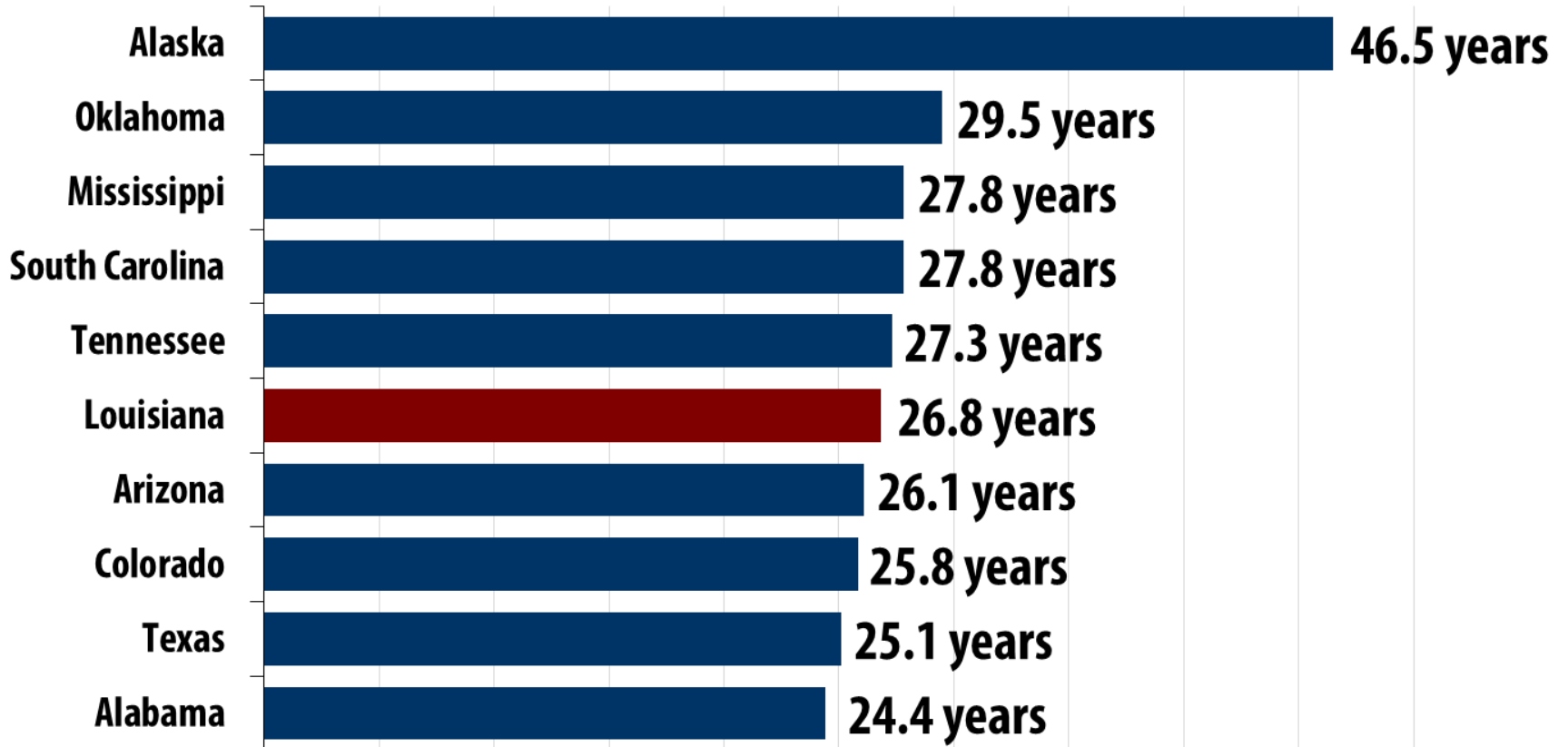
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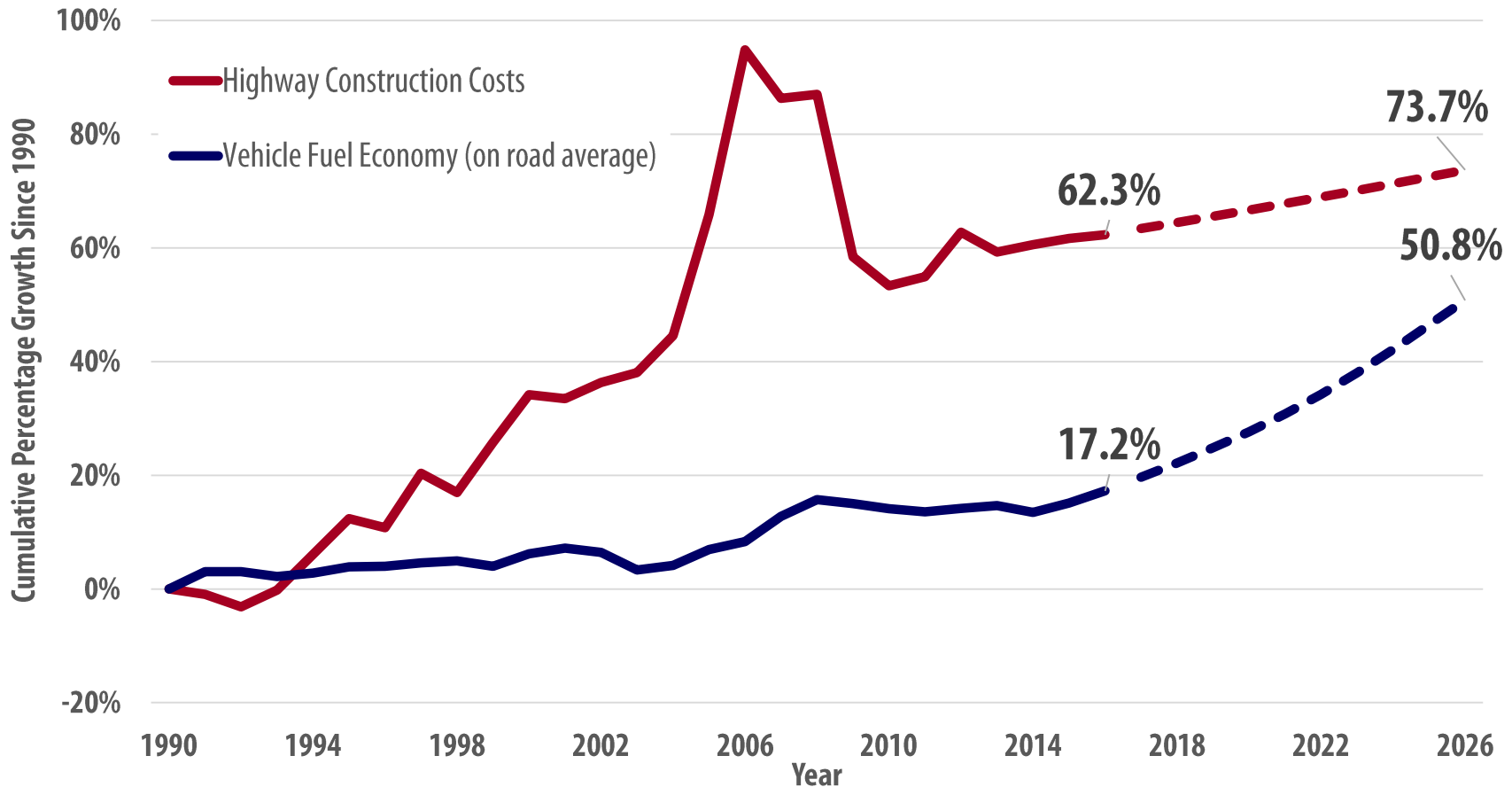
# Only Five States Have Waited Longer Than Louisiana Since Last Updating Their Gas Tax Rates

Years Since Last Gasoline Tax Increase as of November 1, 2016



Source: Institute on Taxation and Economic Policy (ITEP)

# Trends in Construction Cost Growth and Vehicle Fuel Economy Since 1990



Institute on Taxation and Economic Policy, August 2016

# Variable-Rate Fuel Tax Reforms Since 2013

## Implemented New Variable-Rate Tax

1. Maryland (2013)
2. Pennsylvania (2013)
3. Rhode Island (2014)
4. Utah (2015)
5. Virginia (2013)
6. District of Columbia (2013)

## Reformed Existing Variable-Rate Tax

1. Georgia (2015)
2. Michigan (2015)
3. North Carolina (2015)
4. Vermont (2013)

**Source:** Institute on Taxation and Economic Policy (ITEP), October 2016

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# Designing Variable-Rate Gas Taxes: 3 Key Decisions

1. What **economic factors** should be used to adjust the tax rate?
2. **When / how often** should the rate be adjusted?
3. How should potential **volatility** in the tax rate be managed?



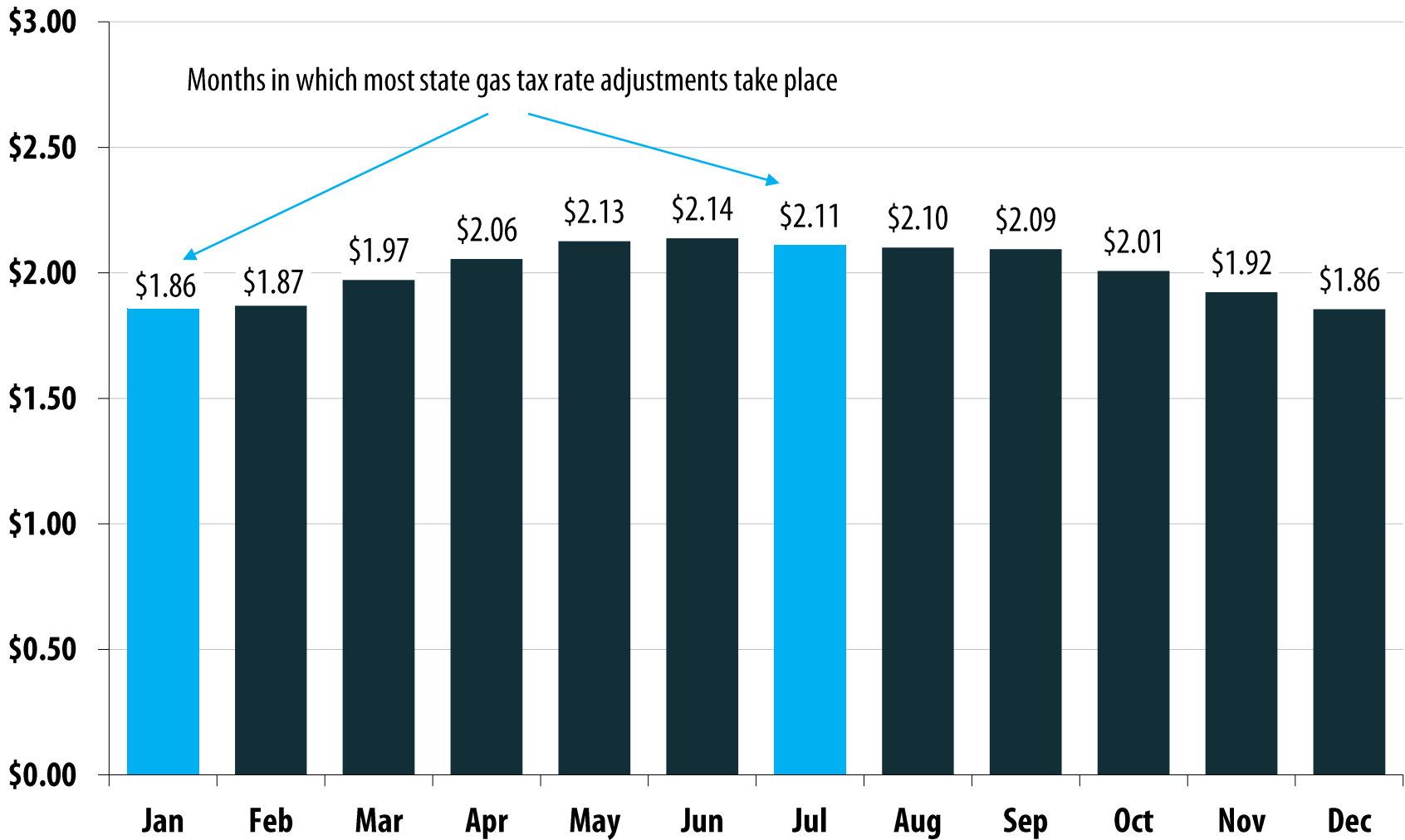
# Frequency of Gasoline Tax Rate Adjustments

- **Ongoing (5 states):** CA\*, CT, HI, IL, MI\*
- **Monthly (1 state):** IN
- **Quarterly (1 states):** VT
- **Twice Per Year (2 states + DC):** NE, VA, DC
- **Yearly (11 states):** CA\*, FL, GA, KY, MD, MI\*, NY, NC, PA, UT, WV
- **Every Two Years (1 state):** RI

\*California and Michigan each levy an annually-adjusted excise tax *and* a general sales tax linked to each gallon's actual purchase price.

**Source:** Institute on Taxation and Economic Policy (ITEP), October 2016

# Average Retail Price of Regular Gasoline, 1991-2016



Source: Analysis of data from the U.S. Energy Information Administration (EIA) by the Institute on Taxation and Economic Policy (ITEP), October 2016



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# 10 States (and DC) Have Minimum Rates, or “Floors,” Built Into their Variable-Rate Taxes

## Floors Tied to the Price of Fuel

1. **Vermont** (tax due @ \$1.98/gallon | tax due @ \$3.35/gallon)
2. **Kentucky** (tax due @ \$2.177/gallon)
3. **West Virginia** (tax due @ \$2.34/gallon)
4. **Utah** (tax due @ \$2.45/gallon, indexed to inflation)
5. **District of Columbia** (tax due @ \$2.94/gallon)
6. **Pennsylvania** (tax due @ \$2.99/gallon)
7. **Virginia** (tax due @ \$3.17/gallon)

## Other Floors

1. **Florida** (6.9 cent tax rate for one component of tax)
2. **Maryland** (no reduction allowed in portion of tax linked to inflation)
3. **Michigan** (no reduction allowed in portion of tax linked to inflation)
4. **Rhode Island** (32 cent tax rate for entire tax)

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# 7 States (and DC) Limit Year-to-Year Changes in their Variable-Rate Taxes

## Percentage Limits

1. **Kentucky** (increase/decrease limited to 10% per year)
2. **Maryland** (increase limited to 8% per year for CPI component of tax)
3. **Michigan** (increase limited to 5% per year for CPI component of tax)
4. **New York** (increase/decrease limited to 5% per year)
5. **West Virginia** (increase/decrease limited to 10% per year)
6. **District of Columbia** (increase/decrease limited to 10% per year)

## Other limits

1. **Nebraska** (increase limited to one cent per gallon every six months)
2. **Utah** (calculation relies on a 3-year average of fuel prices rather than a single year average, which tends to be more volatile)

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## 3 Recommendations for Variable-Rate Gas Tax Design

1. **Inflation and fuel economy** improvements are the two major causes of lost purchasing power. Indexing the tax rate to both of these factors (as Georgia does) can prevent future erosion of this tax.
2. **January** is a better month than July for tax rate adjustments to take place.
3. **Volatility** should be managed with a tax rate floor and a limit on year-over-year changes in the tax rate.

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