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New Report: Stagnant State Gas Taxes Costing States $10 Billion Each Year, Undermining Commerce and Forcing Raids on General Funds

Tax, Now at Eighty Year Low, Can Be Shored Up for $2.93 Per Average Driver Per Month

Washington, DC – A first of its kind, 50-state analysis from the Institute on Taxation and Economic Policy (ITEP) reveals that state governments are losing out on over $10 billion in transportation revenue each year, contributing to an estimated $130 billion drain on the economy resulting from higher vehicle repair costs and travel time delays. State lawmakers reluctant to update gas taxes have cost their states, on average, $201 million in annual revenues. These losses are exacerbated by the fact that the federal gas tax, which also supports state transportation projects, has lost 41 percent of its value since it was last raised in 1993. "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. The report is available at www.itepnet.org/bettergastax.

"Unfortunately, many politicians won't consider touching the gas tax," said Carl Davis, senior analyst at ITEP and author of the study. "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. It makes no sense."

Some examples of the annual revenues states stand to recoup by updating their gas tax rates to match current transportation construction costs: Virginia – $578 million; Maryland – $509 million; New Jersey – $505 million; Massachusetts – $451 million; Iowa – $337 million; Oklahoma – $338 million; South Carolina – $407 million; Arizona – $435 million.

"Building a Better Gas Tax" shows that the average state has not increased its gas tax rate in over 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. "It's basic math," said Davis. "The road repairs you could buy in 1990 with 20 cents, for example, are going to cost 34 cents today. But we still see some states collecting the same flat 20 cent tax that they did back in 1990. That's the definition of unsustainable."

According to the report, after adjusting for construction cost growth, the average state's gasoline tax rate has effectively fallen by 20 percent, or 6.8 cents per gallon, since the last time it was raised. Diesel taxes have fallen by a similar 18 percent, or 6.0 cents per gallon.

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 1920's. A ten cent per gallon increase, as explained in the report, would cost today's average driver $4.31 per month, and the 6.8 cent per gallon increase needed in the average state would cost the average driver $2.93 per month.

Davis points out, however, that because these amounts are not negligible to consumers, one of the report's three recommendations is to institute a targeted tax credit to offset the disproportionate effects of a higher gas tax on low-income families' budgets.

Seven states already offer low-income tax credits designed to mitigate the effect that consumption taxes (like the gas tax) have on the poor, and a majority of states offer similar credits that accomplish broadly the same goal.

"Building a Better Gas Tax" 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 report indicates the extent to which states have already implemented some of these recommendations. "Building a Better Gas Tax," which includes 50-state data in the appendix, is available online at: www.itepnet.org/bettergastax.

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. ITEP's full body of research is available at www.itepnet.org