

Gas Tax Talk Leads Down the Right Road

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In the wake of restructuring proposals made by Governor Corzine, the gasoline tax is starting to be talked about as part of a solution to New Jersey's financial crisis. This is a welcome development. For too long, New Jersey has shied away from greater use of gas taxes and other driving-related fees, to the detriment of the state's infrastructure and the economy it supports.

Today, New Jersey motorists pay 14.5 cents per gallon in taxes on gasoline. This is the third lowest level in the US, but it's a false savings. Why? Because the Transportation Trust Fund the state established in 1984 to assure adequate funding for roads and mass transit is running on empty. The state needs to do more to maintain and improve its transportation system, an imperative made all the more crucial by the role that moving goods and people plays in New Jersey's prosperity.

As New Jersey seeks a solution to fiscal problems left from years of mismanaging state finances, the gas tax and other revenue sources discussed below should be part of a comprehensive plan. Their use would help to provide adequate funding for today's needs and make sure the state invests in its own future. **They would produce about \$2.6 billion a year in new revenue and involve no borrowing by the state.**

New Jersey last increased the state gasoline tax in 1988. Prior to that, the last increase was in 1972. Over the past 20 years almost every state has raised its gas tax. In a 2002 report, *Perspective on the Gas Tax and Car Registration Fees* (http://www.njpp.org/rpt_gastax.html), NJPP called for raising the gas tax to be more in line with neighboring states. The report argued that New Jersey was losing revenue unnecessarily. Six years later, several neighboring states have increased their gas taxes.

GAS TAX RATE CHANGES

| State | Tax per Gallon 2002 | Tax per Gallon 2007 |
|---------------|---------------------|---------------------|
| Connecticut | 25.0 cents | 43.9 cents |
| New York | 32.35 cents | 40.9 cents |
| Pennsylvania | 26.6 cents | 32.3 cents |
| Ohio | 22.0 cents | 28.0 cents |
| Massachusetts | 21.5 cents | 23.5 cents |
| Maryland | 23.5 cents | 23.5 cents |
| Delaware | 23.0 cents | 23.0 cents |
| New Jersey | 14.5 cents | 14.5 cents |

SOURCE: American Petroleum Institute.

MOTOR FUELS TAXES

New Jersey motorists pay two state taxes on gas: a 10.5 cent gas tax and a 4 cent petroleum products gross receipts tax on each gallon of gas they buy, for a total of 14.5 cents per gallon. Each 1-cent per gallon increase in either tax brings in about \$50 million in new revenue to the state. **A 20-cent per gallon increase would generate approximately \$1 billion each year.**

SALES TAX ON GAS

In a 2006 report on the state sales tax, *You're 40; Now Get to Work* (http://www.njpp.org/rpt_salestax.html), NJPP advocated expanding the range of transactions on which the levy is charged to include many things, gasoline among them. Several states—California, Georgia, Illinois, Indiana, Michigan, New York and Virginia—also collect sales tax, in addition to their gas tax, on the cost of a gallon of gas. This makes sense from a revenue standpoint. The regular gas tax produces more revenue only if the tax rate goes up or people consume more gallons of gas. But a sales tax is responsive to changes in the price that oil companies charge for a gallon of gas. When a tank of gas costs \$30 instead of \$20, a 7 percent sales tax generates \$2.10 instead of \$1.40.

States like California that levy a sales tax on gas have benefited from rising gas prices to the tune of between \$300 million and \$400 million annually since 2001. According to the California Board of Equalization, California collected \$2.8 billion in 2005 from its sales tax on gas.

While most of the gas tax in New Jersey is dedicated for transportation funding, the sales tax would generate substantial revenue which could be used more generally. **If a gallon of gas costs \$3, applying the sales tax would raise about \$900 million a year in New Jersey.**

MOTOR VEHICLE REGISTRATION FEES

Motor vehicle fees in New Jersey are based on the age and weight of a vehicle. In Fiscal Year 2005, the state established a four-year registration period for new passenger vehicles but did not increase registration fees. Current annual passenger car

registration fees range from \$35.50 for a 38-year old car weighing less than 2,700 lbs. to \$84.00 for a new car weighing more than 3,500 lbs.

In the 2002 report, NJPP recommended that these fees be increased to more accurately reflect owners' ability to pay, given that newer, more expensive cars are more likely to be owned by higher income persons.

Doubling the fees on newer cars weighing less than 3,500 lbs. and tripling fees on cars weighing more than 3,500 lbs. would increase motor vehicle fee revenue by \$480 million a year. The cost to register a \$15,000 Ford Focus would range from \$93 to \$118 annually depending on age; the cost to register a \$55,000 Cadillac Escalade would range from \$214.50 to \$252.

2% ENERGY CONSERVATION FUEL FEE

In Fiscal Year 2006, New Jersey enacted a law that levies a one-time supplemental titling fee of four-tenths of a percent on new luxury (\$35,000 or more) and fuel inefficient (average fuel efficiency rating of less than 19 miles per gallon) passenger vehicles. This tax resulted in a \$180 fee per vehicle, which was expected to yield about \$25 million in revenues annually for the state.

This does not go as far as NJPP has recommended in the past. Large, expensive, fuel-inefficient cars tend to be owned by higher-income taxpayers; these vehicles disproportionately cause wear-and-tear to highways, increase pollution and deplete energy supplies. **Increasing the energy conservation fuel fee to 2 percent on cars costing \$35,000 and up would generate about \$145 million a year.**

DRIVERS' LICENSE FEES

It now costs \$24 for a 4-year drivers' license in New Jersey. There are more than 5.6 million licensed drivers in the state, approximately one-fourth of whom renew their licenses in a given year. Each year the state should collect nearly \$34 million in fees for this service. **Doubling these fees to \$48 for a 4-year license will raise an additional \$34 million a year.**

IMPACT ON LOW-INCOME DRIVERS

The obvious point of this analysis is to suggest that New Jersey would benefit from increasing both the motor fuels excise tax and the fees it charges to license and register vehicles. Clearly, taking these steps would help the state out of its current financial mess and would not put New Jersey at a competitive disadvantage with other states. Plus, basing registration fees on a wider set of factors would help bring charges more into line with a vehicle's impact on the transportation infrastructure and reflect owners' ability to pay.

An argument sometimes raised against such policy is that it would place a disproportionate burden on lower-income persons. Sales and excise taxes are often termed "regressive," meaning that they take a larger percentage of the income of low-income people than of high-income people. But there are reasons to believe that the dynamics of how people get from place to place make such an analysis less apt in the case of a gas tax.

For one thing, not everyone consumes at the same level. In fact, car ownership correlates to income to the extent that, according to studies, between one quarter and one third of households with income below \$15,000 do not own a car. A 1997 analysis by Elaine Murakami and Jennifer Young inquired into travel patterns of low-income people in order to help them move from welfare into the labor force. Using data from the US Department of Transportation's 1995 Nationwide Personal Transportation Survey (NPTS) they estimated that about a quarter (26 percent) of low income households do not have a car compared to only 4 percent of other households.

Their study also showed that:

- The average car owned by a low-income household is 11 years old, compared to 8 years for other households.
- People from low-income households are more likely to walk to work and are more likely to use public transit—buses rather than trains—to get to work.
- People in low-income households are nearly twice as likely to walk for other than work activities as well. Because so many trips are made by walking, the space in which people in low-income households travel is more constricted than

for others. For low-income single parent households, about 66 percent of trips are three miles or less.

- Despite having fewer vehicles, people in low-income households still make most of their motorized trips in private vehicles. But these trips are more likely to be made in a vehicle owned by someone else, like a friend or relative.

John Pucher, a professor of transportation planning at Rutgers University, used the same NPTS data to show that 80 percent of households with annual incomes of less than \$15,000 either own no car (32 percent) or own only one car (48 percent). In contrast, only 1 percent of households with annual incomes over \$80,000 are without a car. And nearly 90 percent of households with income above \$80,000 own two cars or more.

The car preferences of higher income households also are well documented, with such factors as median household income, age, gender and marital status tracked for people buying new cars. Increasingly, people are buying vehicles in the category that includes SUVs, pickup trucks and minivans. In 1998, this class of vehicles accounted for half of all new-car sales nationally. Most of these vehicles are purchased by mid- to high-income households. AutoPacific, a forecasting firm based in California, estimated that the median household income of the typical purchaser of a Lexus LX 470 is \$250,000. The fuel usage of the LX 470, one of the heavier luxury sport utility vehicles, is less than 13 miles per gallon. And the federal Environmental Protection Agency has found that SUVs and other light duty vehicles burn 66 percent more fuel annually than passenger cars.

In other words, personal vehicles that cost the most and, arguably, take the heaviest toll on the roads upon which they are driven, are owned by the people best able to pay higher taxes and fees.

Further, the significant increase in revenues from raising gas taxes and car-related fees would mean specific steps could be taken to lessen the burden of these expenses on low-income households. MIT economist James Poterba in 1991 argued, "Many policies could be combined with a gasoline tax to alter the net distributional burden of a fiscal reform." These could include tax credits targeted to low-income drivers as well as mass transit improvements that would reduce the need for owning a car.

CONCLUSION

New Jersey's tax on gasoline is lower than that of neighboring states and below the national average. With or without a financial crisis, the time is overdue for the state to bring the gas tax and related fees more in line with the needs this revenue is supposed to meet. At the same time, the fee and tax system should do better than it does today at taking into account the impact that heavier, less fuel efficient vehicles have on the transportation infrastructure and also the income level of the people who own those vehicles.

Gas these days is not cheap. But the price in New Jersey has been kept artificially low by the unwillingness over the years of elected officials to face up to the needs of the state. Waiting

doesn't make this any easier. As it turns out, it would have been less risky, politically, to raise the gas tax in the 1990s when prices were lower than today and the economy was in better shape. But now the state is, indeed, in a financial crisis. No reasonable revenue options can be overlooked.

As the reaction to proposed highway toll increases is showing, no solutions will be universally applauded. But, employing gas taxes and car-related fees as part of an overall solution would produce significant revenue while also calling upon a majority of New Jersey residents, regardless of where in the state they live, to have a role in repairing the state's finances. And, it allows for some mechanisms to base each person's contributions on his or her ability to pay.

PER GALLON GAS TAXES

| | State Excise (cents) | Other Gas Taxes (cents) | Total Gas Taxes (cents) | | State Excise (cents) | Other Gas Taxes (cents) | Total Gas Taxes (cents) |
|----------------|-------------------------|----------------------------|----------------------------|-------------------|-------------------------|----------------------------|----------------------------|
| California | 18.0 | 26.4 | 44.4 | Massachusetts | 21.0 | 2.5 | 23.5 |
| Connecticut | 25.0 | 18.9 | 43.9 | Delaware | 23.0 | 0.0 | 23.0 |
| New York | 8.0 | 32.9 | 40.9 | North Dakota | 23.0 | 0.0 | 23.0 |
| Illinois | 19.0 | 21.6 | 40.6 | Colorado | 22.0 | 0.0 | 22.0 |
| Michigan | 19.0 | 17.2 | 36.2 | Arkansas | 21.5 | 0.3 | 21.8 |
| Washington | 36.0 | 0.0 | 36.0 | Iowa | 20.7 | 1.0 | 21.7 |
| Wisconsin | 30.9 | 2.0 | 32.9 | Tennessee | 20.0 | 1.4 | 21.4 |
| Florida | 4.0 | 28.6 | 32.6 | Alabama | 16.0 | 4.2 | 20.2 |
| Hawaii | 16.0 | 16.6 | 32.6 | D.C. | 20.0 | 0.0 | 20.0 |
| Nevada | 23.0 | 9.5 | 32.5 | Louisiana | 20.0 | 0.0 | 20.0 |
| Pennsylvania | 12.0 | 20.3 | 32.3 | Minnesota | 20.0 | 0.0 | 20.0 |
| Indiana | 18.0 | 13.6 | 31.6 | Texas | 20.0 | 0.0 | 20.0 |
| West Virginia | 20.5 | 11.0 | 31.5 | Vermont | 19.0 | 1.0 | 20.0 |
| Rhode Island | 27.0 | 4.0 | 31.0 | New Hampshire | 18.0 | 1.6 | 19.6 |
| North Carolina | 29.7 | 0.3 | 30.0 | Virginia | 17.5 | 2.1 | 19.6 |
| Maine | 27.6 | 1.5 | 29.1 | Arizona | 18.0 | 1.0 | 19.0 |
| Ohio | 28.0 | 0.0 | 28.0 | Mississippi | 18.0 | 0.8 | 18.8 |
| Nebraska | 27.0 | 0.9 | 27.9 | Kentucky | 17.1 | 1.4 | 18.5 |
| Montana | 27.0 | 0.8 | 27.8 | New Mexico | 17.0 | 1.0 | 18.0 |
| Georgia | 7.5 | 19.0 | 26.5 | Missouri | 17.0 | 0.6 | 17.6 |
| Idaho | 25.0 | 0.0 | 25.0 | Oklahoma | 16.0 | 1.0 | 17.0 |
| Kansas | 24.0 | 1.0 | 25.0 | South Carolina | 16.0 | 0.8 | 16.8 |
| Oregon | 24.0 | 1.0 | 25.0 | New Jersey | 10.5 | 4.0 | 14.5 |
| Utah | 24.5 | 0.0 | 24.5 | Wyoming | 13.0 | 1.0 | 14.0 |
| South Dakota | 22.0 | 2.0 | 24.0 | Alaska | 8.0 | 0.0 | 8.0 |
| Maryland | 23.5 | 0.0 | 23.5 | US Average | 18.2 | 10.2 | 28.4 |

NOTE: Other gas taxes include sales taxes, gross receipts taxes, oil inspection fees, underground storage tank fees and other miscellaneous environmental fees.

SOURCE: American Petroleum Institute, August 13, 2007.

New Jersey Policy Perspective

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