

Like potholes strewn across every lane, stories about the country's crumbling infrastructure are hard to miss. Even if you haven't heard about the nationwide need for road repairs, you've likely felt them. One way lawmakers are addressing subpar mass transportation and strengthening local economies is by increasing taxes on gas consumption. Over the past six years, 27 states have raised or reformed their gas tax.<sup>1</sup>



## HOW GAS TAXES HELP DRIVE ROAD REPAIRS

### Overview

In the United States, about 80 percent of federal highway spending and 50 percent of spending on mass transit is provided by the federal budget. The only dedicated source of funding for the Highway Trust Fund is the federal gas tax. However, this national tax has not been raised since 1993. It still stands at 18.4 cents per gallon (24.4 cents for diesel). Unfortunately, there are several problems related to this tax that make it increasingly inadequate:<sup>2</sup>

- It is not indexed for inflation, so revenues generated from the gas tax aren't keeping pace with the country's infrastructure funding needs. If the most recent gas tax increase in 1993 had been indexed for inflation, the current rate would be 31.7 cents a gallon (42.1 cents for diesel).<sup>3</sup>
- The gas tax produces relatively lower revenues today because vehicles have become more fuel efficient. This means they use less gas, need fewer fill-ups and thus drivers pay less in gas taxes.
- The proliferation of new electric and hybrid cars reduce gas tax revenues even further.
- At both the state and federal level, funds fueled by this tax are often reallocated to other initiatives unrelated to road or infrastructure projects.
- Because the gas tax is regressive, it tends to take a larger bite out of low-income household budgets than that of wealthier households.<sup>4</sup>

### State Funding

Unlike at the federal level, it's much easier for state lawmakers to raise the gas tax rate because needs are more evident at the local level. For example, the newly elected governor of Michigan, Democrat Gretchen Whitmer, successfully ran on a platform proposal to raise the state gas tax by 45 cents a gallon in order to "fix the damn roads."<sup>5</sup>

It's important to note individual states own all highways, including interstates, and are responsible for building and maintaining the sections that run through their territory. Since 1993, 39 states have successfully raised gas tax rates.<sup>6</sup>

Also unlike the federal level, 20 states and Washington, D.C., have a structured variable gas tax rate that offers some flexibility to adjust with inflation without legislative action. Combined, the states that have pinned their gas tax to inflation represent the majority of America's population.<sup>7</sup>



**State Gas Tax Rates<sup>8</sup>**  
*as of February 2019*

Alabama	0.18	Alaska	0.08
Arizona	0.18	Arkansas	0.215
California	0.417	Colorado	0.22
Connecticut	0.25	Delaware	0.23
District of Columbia	0.235	Florida	0.04
Georgia	0.275	Hawaii	0.16
Idaho	0.32	Illinois	0.19
Indiana	0.29	Iowa	0.307
Kansas	0.24	Kentucky	0.246
Louisiana	0.2	Maine	0.3
Maryland	0.256	Massachusetts	0.24
Michigan	0.263	Minnesota	0.285
Mississippi	0.18	Missouri	0.17
Montana	0.315	Nebraska	0.296
Nevada	0.23	New Hampshire	0.222
New Jersey	0.105	New Mexico	0.17
New York	0.08	North Carolina	0.362
North Dakota	0.23	Ohio	0.28
Oklahoma	0.19	Oregon[4]	0.34
Pennsylvania	0.576	Rhode Island	0.33
South Carolina	0.2	South Dakota	0.28
Tennessee	0.25	Texas	0.2
Utah	0.3	Vermont	0.121
Virginia	0.162	Washington	0.494
West Virginia	0.205	Wisconsin	0.309
Wyoming	0.23		

## Policy Proposals

The current five-year transportation legislation is set to expire in September 2019, the end of this fiscal year. The Chamber of Commerce endorses increasing the national gas tax by 25 cents per gallon over the next five years, while the American Trucking Association favors a 20 cent increase over four years. In an effort to capture revenues from electric cars, a proposal to switch from a gas tax to a miles-traveled tax has also been put forward.<sup>9</sup>

As part of a budget plan released in March, the Trump administration proposed a \$200 billion allocation as the initial down payment toward \$1.5 trillion in funding to upgrade America's roads, bridges, tunnels, seaports and broadband networks.

However, the funding request offered no details as to prioritized projects or how to fund the proposal. Without further direction, such discussions are likely to lead to gridlock in our divided Congress.<sup>10</sup>



## Ramifications

One reason the gas tax is controversial is because of the significant fluctuation in gas prices due to variables beyond a consumer or investor's control. Prices aren't even primarily influenced by company management or balance sheet fundamentals. While a gas tax remains relatively static for long periods of time, gas prices are influenced in the shorter term by supply and demand dynamics, global trade agreements and even weather impacts.

When gas prices drop, consumers happily accept the savings and may even put them toward other purchases that fuel economic growth. When they rise, however, consumers who drive cars with large tanks and poor gas mileage can find themselves in a financial crunch. They may limit their driving, cancel vacations and, in an effort to afford to fill their gas tank, reduce spending on other household items. Ultimately, the overall economy can take a hit as a result.

When gas is overly expensive, more people may also resort to carpooling or switching to mass transit options. This is an interesting twist, because increased use of public transportation reduces spending on gas, therefore reducing gas tax revenues.

Finally, it's difficult to fund infrastructure projects with variable revenue like the gas tax because the price is so unpredictable. The only thing we can be sure about is that gas costs will both rise and fall. As a result, gas taxes have a greater transformative effect on both investment markets and the overall economy than other types of consumer taxes.<sup>11</sup>

***"With gas taxes, more than most taxes, the impacts can be unpredictable both for consumers and for businesses."<sup>12</sup>***

## Final Thoughts

America has consistently received a D average grade for its current infrastructure in reports compiled by the American Society of Civil Engineers. The most recent report indicated that, "deteriorating infrastructure is impeding our ability to compete in the thriving global economy, and improvements are necessary to ensure our country is built for the future."<sup>13</sup>

Clearly, fixing and upgrading America's infrastructure is a pressing problem overdue for a solution. Taxpayers pay the tab one way or another, whether it's through increased gas taxes, miles-traveled taxes or more prevalent and higher tolls to bolster private-partnership initiatives.

If you're concerned a significant increase in consumption taxes will impact your household expenses, you could work to trim consumption by reducing travel plans, work commutes and/or switching to public transit alternatives. A further-looking strategy that may be less intrusive to your daily routine is to work with a financial advisor to create a budget and income plan that takes into account current and future transportation costs.



- <sup>1</sup> John T. Bennett. Tarrant Regional Transportation Coalition. March 12, 2019. "Trump is leaving infrastructure details to lawmakers. That has stymied them before."  
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- <sup>2</sup> Steve Warmhoff. ITEP. Feb. 14, 2019. "A Gas Tax Hike Is the Obvious Answer to Infrastructure Funding."  
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- <sup>10</sup> John T. Bennett. Tarrant Regional Transportation Coalition. March 12, 2019. "Trump is leaving infrastructure details to lawmakers. That has stymied them before."  
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- <sup>11</sup> Ellen R. Wald. Forbes. Feb. 21, 2018. "What Would A New Federal Gas Tax Do To Markets?"  
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- <sup>13</sup> American Society of Civil Engineers. 2017. "Making the Grade."  
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