Think Tank: 2017 is shaping up to be a major year for state gas tax reform

David M. Kall | Thursday, January 5, 2017

The Institute on Taxation and Economic Policy (Institute) released a late December article predicting that significant gas tax reforms will occur in numerous states in 2017. As examples, the Institute pointed to Alaska's Gov. Bill Walker, who has proposed tripling his state's gas tax; and Indiana, Louisiana, and Tennessee, where officials are considering their own reforms. "Altogether, it appears that more than a dozen states will seriously debate gas tax changes next year."

Besides these prospective changes, the article highlights several states that have already enacted legislation or other mechanisms that increased their gas taxes as of January 1, 2017, as follows:

Pennsylvania: The final increment contained in legislation enacted in 2013 will raise the gas tax by 7.9 cents per gallon, and the diesel tax by 10.7 cents. Additional increases could occur based on gas price triggers.

Michigan: Legislation enacted in 2015 will raise the gas tax by 7.3 cents per gallon, and the diesel tax by 11.3 cents, which will align both tax rates. In 2022, the gas tax rate will begin rising annually to keep pace with inflation.

Nebraska: Legislation calling for a four-part, six-cent increase enacted in 2015 will cause both the gas and diesel tax rates to increase by 1.5 cents per gallon.

Georgia: Under a new formula linking the fuel tax rates to growth in inflation and vehicle fuel efficiency, Georgia's gas tax will rise by 0.3 cents, and its diesel tax will go up by 0.4 cents in 2017.

North Carolina: Similarly, a new formula that links fuel tax rates to growth in population and energy prices, gas and diesel tax rates will rise by 0.3 cents.

Indiana: The gas tax is scheduled to increase by 0.2 cents, in accordance with monthly variations in gas prices.

Florida: Gas and diesel taxes will grow by 0.1 cents, based on inflation.

New Jersey: In November 2016, lawmakers implemented a 22.6 cent increase in the gas tax. Legislation called for the diesel tax rate to rise by 15.9 cents.

In contrast to all of these upticks, annual adjustments based on the price of gas in New York and West Virginia have created decreases. In the Empire State, the cut in its gas and diesel tax rates amounts to 0.8 cents per gallon, and in the Mountain State, gas and diesel tax rates will drop by 1.0 cents per gallon.

The importance of gas taxes

Gas taxes matter, because they are a significant funding source for infrastructure maintenance. According to a September 2015 Tax Foundation piece, in 2012, motor fuel taxes accounted for just over 50 percent of all state and local expenses on highways, roads, and bridges; tolls, user fees, and user taxes accounted for the remaining 49.9 percent. User fees are amounts that one pays directly for a service that that specific user receives, such as tolls. User taxes are amounts that one pays based on his actual usage, such as fuel and motor vehicle license taxes.

By state, the share of infrastructure expenditures funded by tolls, user fees, and user taxes varies wildly, from 14.2 percent in Alaska, to 86.4 percent in Hawaii. In the continental United States, Florida dedicates the greatest amount of transportation revenue to infrastructure, at 71.7 percent, and Wyoming, the least, at 21 percent.

The think tank takes the position that "[t]he lion's share of transportation funding should come from user fees… and user taxes..." This is because

> "[w]hen road funding comes from a mix of tolls and gasoline taxes, the people that use the roads bear a sizeable portion of the cost. By contrast, funding transportation out of general revenue makes roads "free," and consequently, overused or congested—often the precise problem transportation spending programs are meant to solve."

CBS Money Watch highlighted many of the problems that occur when infrastructure funding comes largely from gas taxes:

- Cars are using less gasoline now, thanks to improved fuel efficiency standards;
- Fuel sales have been hurt by the growing numbers of electric, hybrid and other alternative fuel vehicles;
- Most states do not index their gas taxes to inflation, causing a shortfall in funding for roads, bridges and public transit relative to rising costs for labor, among other things;
- Federal lawmakers have taken virtually no action to increase rates at that level;
- Inaction for years at the state level has allowed problems to flourish, which states can no longer put off; 21 have failed to increase their gas taxes for a decade or more.

According to the Money Watch, this infrastructure problem is not "going away anytime soon…[a]ll these gas tax increases aren't likely to be enough to keep roads funded in the future considering that fuel economy standards are due to hit 54.5 miles per gallon in 2025, which will lead to a further decline in gasoline sales."

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Team member bio