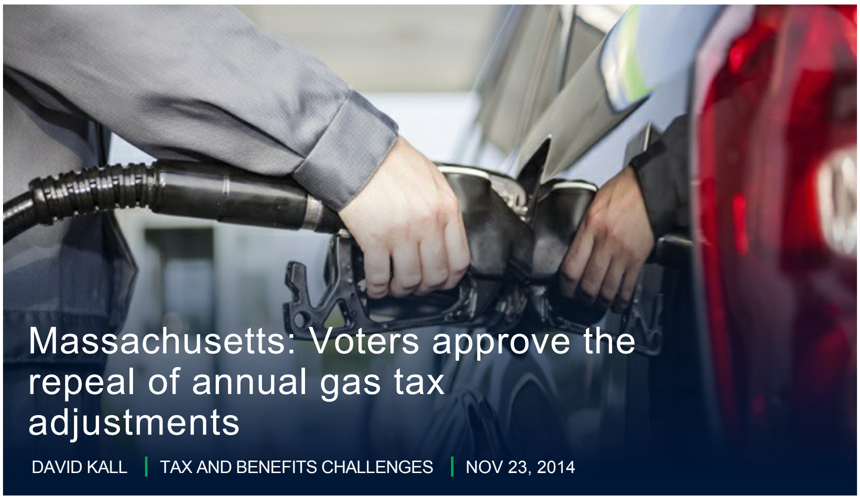

Massachusetts: Voters approve the repeal of annual gas tax adjustments

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On Election Day, voters eliminated the requirement that the state's gasoline tax, which was 24 cents per gallon as of September 2013, (1) be adjusted every year by the percentage change in the Consumer Price Index over the preceding year, but (2) not be adjusted below 21.5 cents per gallon.

gas_tax.jpg

According to a Mass.live article, 53 percent voted to eliminate annual adjustment. The result is an estimated loss of revenue of $1 billion over 10 years, which was used to borrow money for the state.

Differing viewpoints

A WBUR Radio Boston story offered perspectives on both sides of the issue. In the background are the following facts:

- Last year, the Massachusetts legislature raised the gasoline tax to 24 cents per gallon. It was the first increase since 1991, and lawmakers said it was necessary to pay for bridges and roads, as well as public transportation.
- The legislature indexed the tax to inflation: when the value of the dollar increases, the tax would increase along with it.

On the radio show, an opponent of the tax adjustment, Steve Aylward, a representative of the Committee to Tank Automatic Gas Tax Hikes, argued that the group's main concern was that the Legislature would not have to take future votes on the issue. Mr. Aylward reasoned that this amounted to taxation with representation.

Besides this, Mr. Aylward said that Massachusetts has brought in $1.1 billion in unexpected revenue over the last two years. But if the tax's goal is $1 billion, then it is unnecessary because "they already got that in the past two years in excess revenue." He concluded that under this scenario, "your state is wasting money at an enormous rate. So why would you want to raise taxes when you have a surplus?"

In contrast, Michael Widmer, the president of the Massachusetts Taxpayers Foundation, contended that adjusting a tax to inflation is the traditional way of doing things, and that the repeal means the state cannot maintain public transit, or bridges and roads that are in unsafe and poor condition.

Mr. Widmer's conclusion was this: "In the end, we need to maintain our roads and bridges. We do not have the budget surplus that Steve's referring to. We're actually running a deficit this fiscal year. We don't have extra money for transportation. The indexing of the gas tax, the money goes directly to transportation, roads, bridges, public transit like the MBTA…And by the way, the cost of indexing, which is half a penny a year approximately, for the average driver, is $5 a year."

Implications

The repeal of Massachusetts' indexing of the gasoline tax to inflation leaves the state with just the flat rate tax of 24 cents per gallon. According to a 2011 report by the Institute on Taxation and Economic Policy, flat tax schemes are not capable of generating a sustainable revenue stream in the long-term. This is because the tax remains fixed, but the costs to construct and maintain a transportation network, including asphalt, concrete and labor expenses, inevitably increase over time.

How Massachusetts will handle the shortfall remains to be seen.

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