STATE SALES TAX ON MOTOR FUEL

Description

Texas has a state sales tax rate of 6.25 percent. Additionally, local entities (e.g., counties, cities) can impose a local sales tax of up to two percent. Gas and diesel fuel are not currently subjected to the sales tax. The current state sales tax rate of 6.25 percent could be applied to gas and diesel purchases and dedicated to transportation purposes. The average cost of motor fuel in August of 2011 was $3.64 per gallon of gasoline and $3.86 per gallon of diesel. Included in that fuel price were taxes (federal and state), distribution and marketing costs, the cost of refining, and the cost of the original crude oil.

How Will This Help?

Provide additional funds for transportation – Applying the statewide sales tax rate to fuel would provide funds to reduce traffic congestion and help maintain the safety and quality of Texas roads and bridges.

Who: State
Cost to Collect: Low
Sustainability: ●●●●○
Reliability: ●●●○○
Implementation: Simple

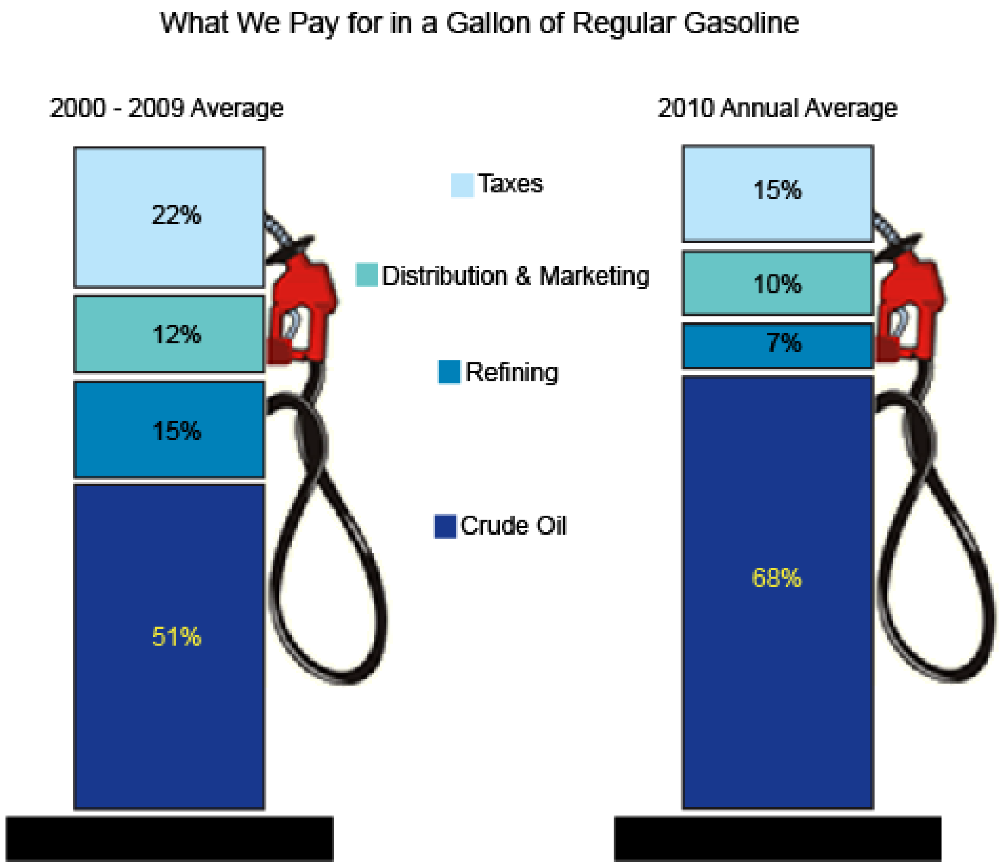
Help funds keep pace with rising highway construction costs – Since 1991, roadway construction costs have almost doubled. Applying the statewide sales tax to gas and diesel fuel purchases would help transportation revenues keep pace with rising construction costs.

Fuel tax revenues are eroded by increased fuel efficiency – Fuel tax revenues will likely decrease over time. The expected growth in future population means more people traveling on the roadways and consuming more fuel. However, today's more fuel efficient cars and trucks pay lower fuel tax per mile than when the tax rates were last set twenty years ago. As vehicles become more fuel efficient and alternative fuel vehicles become more common, the number of gallons needed to go the same distance will decrease. While benefits such as a smaller carbon footprint and the ability to travel further per gallon are gained, the resulting decrease in fuel consumption means less gas and diesel tax revenue raised to tackle the rising transportation needs. Increasing the current revenue stream will help slow the effects of decreasing fuel tax revenues.

Reduce need for borrowing – Texas has increasingly turned to debt mechanisms such as bonds as a way to finance transportation improvements. Texas could help slow a growing trend of using the "credit card" to pay for roadway projects by adding a driver license surcharge.

What's the Down-Side?

- **General opposition to fee increases –** The Legislature and the public have recently been opposed to tax or fee increases.
- **Revenues are economically driven –** The amount of revenue created is dependent upon the amount of fuel purchased by consumers.
- **Revenues vary with the price of gas –** The sales tax is based on the sales price of the fuel. Revenues will vary with the price of fuel.



U.S. Energy Information Administration

Estimated Funding Yield

5 percent of gas priced $3.50/gallon and diesel priced $3.75/gallon: $12.7 billion for transportation from 2014 to 2017.

6.25 percent of gas priced $3.50/gallon and diesel priced $3.75/gallon: $15.8 billion for transportation from 2014 to 2017.

Implementation Issues

- Easy to implement.
- Legislative action is required to implement this funding change.
- Voters/users would need to be educated regarding the costs and benefits.

Around the Nation

California drivers pay a six percent state sales tax. All funds go directly toward maintaining state highways.

Indiana, in 2008, raised the retail sales and use tax on gasoline from six percent to seven percent.

Kentucky drivers pay a nine percent motor fuel vehicle tax to fund bridge and roadway construction.

North Carolina Set a gasoline tax floor at $0.124 cents per gallon, or seven percent of the average wholesale price of motor fuel for the applicable base period, whichever was greater.