MOTOR VEHICLE SALES TAX

Description

Texas has a state motor vehicle sales tax rate of 6.25 percent of the sales price (minus any trade-in allowance). Of this tax, a small portion is allocated to the Property Tax Relief Fund and the Emissions Reduction Plan Account. The remaining portion is deposited in the General Revenue Fund. The entire motor vehicle sales tax or an increase to the current tax rate could be dedicated to the Highway Fund.

How Will This Help?

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

Help funds keep pace with rising highway construction costs – Since 1991, roadway construction costs have almost doubled. Increasing the statewide sales tax rate for motor vehicle sales would help transportation revenues keep pace with rising construction costs.

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

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 with new funds will help slow the effects of decreasing fuel tax revenue.

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 increasing the sales tax for motor vehicle sales.

What's the Down-Side?

- **General opposition to fee increases –** The Legislature and the public have recently been opposed to tax increases.
- **Revenues are economically driven –** The amount of revenue created is dependent upon the number and value of vehicles purchased by consumers and can fluctuate with economic cycles.

- **Loss of general revenue –** Shifting the entire motor vehicle sales tax to the Highway Fund does not create "new" revenues but shifts current monies from one account to another. The Highway Fund gain would result in a General Revenue loss.
- **Reduced tax capacity –** Raising the motor vehicle sales tax and dedicating the increase to transportation lowers the likelihood of the public accepting an additional motor vehicle sales tax increase for General Revenue funding.

Canada auto sales boosted by fuel-efficient shift. http://www.auto-worldwide.com/

Estimated Funding Yield

2013 Collection: $3.5 billion in vehicle sales and use tax was deposited in the General Revenue Fund.
One Percentage Point Increase in 2013: $558 million more for transportation.

Around the Nation

Washington increased its vehicle sales tax by 0.3 percent in 2003 to raise additional funds for state highway repairs.

Implementation Issues

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