

# 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 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.

## 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.
- **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 as vehicles become more fuel efficient and alternative fuel vehicles become more common. Creating a new revenue stream will help counter the effects of decreasing fuel tax.
- **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.

## 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

- Moderate cost to implement.
- Legislative action is required to implement this 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.

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