

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 tax, 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.
- **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 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.

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.

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.

Around the Nation

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