

SPECIAL REPORT

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The Price of Mobility: Gasoline Taxes in America

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Overview

In 1992, the federal government raised \$15 billion from the 14.1-cent per gallon federal gasoline tax. Most of this revenue flows into the federal Highway Trust Fund and is sent back to the states in the form of federal aid for highways. (See Figure 1.)

States themselves raised \$20 billion from gasoline excise taxes in 1992. State gas tax rates currently range from 7.5-cents per gallon in Georgia to 26-cents per gallon in Rhode Island. The current average combined federal plus state tax rate is 32.9-cents per gallon.

On average, each American paid \$142 per year in federal and state gasoline excise taxes in 1992. This translates into a per-driver burden of \$212 annually. (See Table 1.) In addition, state general sales taxes and other state and local charges increase the price of gas at the pump.

Higher federal gasoline taxes may be coming down the road as Washington considers its tax increase options. Proposals for a motor fuels tax hike may boost gasoline prices 4.3-cents per gallon at the pump—a 31 percent hike in the federal excise on gasoline.

The Federal Gasoline Tax Labyrinth

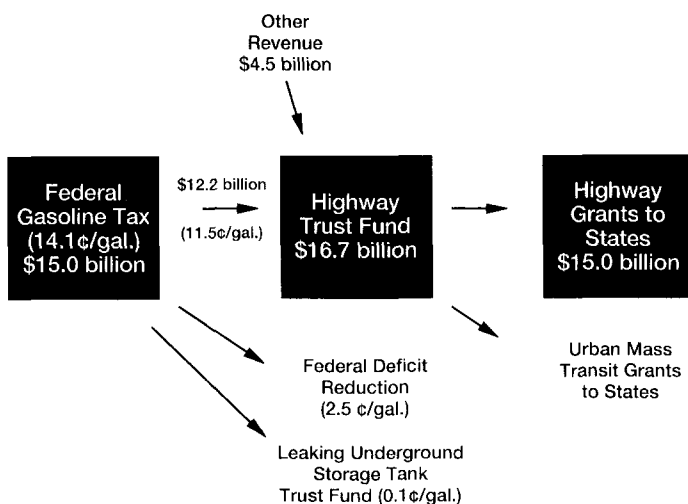
Of the 14.1-cent federal gasoline tax, 11.5 cents from each gallon flows into the federal Highway Trust Fund and from there most flows back to the states as federal aid to states for highway projects. Since the 1990 Budget Agreement, 2.5 cents of the 14.1-cent tax is allocated to the general fund of the federal Treasury for “deficit reduction,” and 0.1 cent goes towards the Leaking Underground Storage Trust Fund. President Clinton’s budget makes these two temporary diversions from the Highway Trust Fund permanent.

In 1992, \$12.2 billion flowed into the Highway Trust Fund from the gasoline tax, along with \$4.5 billion that flowed into the Fund from other sources, including \$3.3 billion raised from the federal diesel fuel excise tax. The current federal diesel fuel excise rate is 20.1-cents per gallon. Of the \$16.7 billion Highway Trust Fund receipts in 1992, \$15 billion was sent back to the states in federal grants for highways.

State Gasoline Taxes

Every state plus the District of Columbia levies a gasoline excise tax on top of the federal tax (in addition to levying excise taxes on diesel

Figure 1
Path of Funds Collected from Federal Gasoline Taxes, 1992



*Table 1
Comparison of State and Federal Gasoline Taxes*

	State Gas Tax Rate as of April, 1993 (cents per gallon) *	Annual per Capita Gas Taxes for 1992			State Tax Ranking	Federal Tax Ranking	Annual Per Driver Gas Taxes '92
		State	Federal	Total			
Alabama	18¢	\$95	\$74	\$169	17	7	\$235
Alaska	8	31	55	86	51	46	\$154
Arizona	18	83	65	149	31	27	\$233
Arkansas	18.7	92	69	161	20	16	\$222
California	17	71	62	133	41	36	\$202
Colorado	22	93	60	153	18	40	\$248
Connecticut	28	117	64	181	2	34	\$269
Delaware	19	95	71	166	16	14	\$228
DC	20	55	39	94	46	51	\$139
Florida	11.6	51	62	113	48	37	\$154
Georgia	7.5	40	75	116	50	2	\$166
Hawaii	24.8	52	46	98	47	49	\$160
Idaho	21	99	66	165	9	25	\$241
Illinois	19	74	55	129	39	45	\$202
Indiana	15	71	67	138	40	22	\$224
Iowa	20	90	63	153	25	35	\$230
Kansas	18	83	65	148	33	29	\$208
Kentucky	15.4	78	71	149	37	12	\$229
Louisiana	20	90	64	154	23	32	\$253
Maine	19	92	68	160	19	18	\$223
Maryland	23.5	100	60	160	8	39	\$241
Massachusetts	21	82	55	137	35	44	\$195
Michigan	15	68	64	131	44	33	\$191
Minnesota	20	91	64	154	22	31	\$269
Mississippi	18.2	91	70	161	21	15	\$218
Missouri	13	69	75	144	43	4	\$199
Montana	21.4	114	75	190	3	3	\$265
Nebraska	23.3	111	67	178	4	20	\$265
Nevada	24	124	73	197	1	9	\$279
New Hampshire	18.6	86	65	152	29	28	\$198
New Jersey	10.5	44	59	104	49	41	\$142
New Mexico	17	90	75	164	24	6	\$235
New York	22.9	70	43	114	42	50	\$200
North Carolina	22.3	106	67	172	6	21	\$255
North Dakota	17	87	72	160	27	11	\$239
Ohio	21	86	58	144	28	42	\$211
Oklahoma	17	88	73	161	26	10	\$224
Oregon	24	101	65	166	7	30	\$204
Pennsylvania	22.4	84	53	138	30	47	\$207
Rhode Island	26	98	53	151	10	48	\$224
South Carolina	16	80	71	151	36	13	\$224
South Dakota	18	96	75	171	12	5	\$240
Tennessee	20	96	67	163	14	19	\$238
Texas	20	97	69	166	11	17	\$255
Utah	19	77	57	134	38	43	\$223
Vermont	16	83	73	156	32	8	\$215
Virginia	17.5	83	67	149	34	23	\$202
Washington	23	107	66	173	5	26	\$248
West Virginia	20.4	96	66	162	13	24	\$227
Wisconsin	23.2	95	61	156	15	38	\$228
Wyoming	9	59	92	150	45	1	\$203
Average	18.8¢	\$80	\$62	\$142			\$212
State Average Rate		18.8 ¢/gallon					
Federal Gas Tax Rate		14.1 ¢/gallon					
Average Total Gas Tax		32.9 ¢/gallon					

* Includes only charges that are uniform statewide; does not include sales taxes or extra fees.

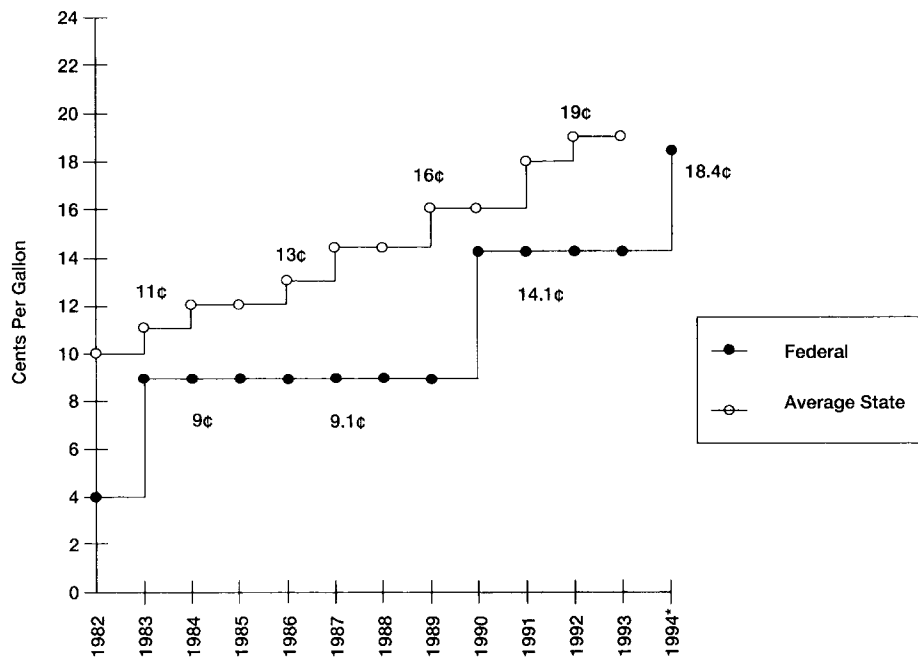
and other fuels). *Table 1* details current gasoline tax rates. From 1982 to 1992 the average state gas tax rate has almost doubled from 10 cents per gallon to 19 cents per gallon. (See *Figure 2*.)

Further increases in state motor fuel taxes are expected this year following increases of \$459 million in fiscal 1992 and \$716 million in fiscal 1991. Effective January 1, 1993, California increased its gasoline and diesel tax by 1-cent per gallon, and both rates will rise another cent in January 1994. Oregon increased both these rates by 2 cents in January 1993. Connecticut,

which already has the highest gas tax in the nation, began the year with a 2-cent gasoline tax hike, followed by a July 1 additional increase of 1 cent. Both Oregon and Connecticut increased the gasoline tax by 2-cents per gallon last year. And after a 5-cent gas tax increase last year, Maryland will hike its diesel tax 2.5 cents this year.

In addition to these legislated changes, 11 states can now increase motor fuel taxes on a variable basis without legislation. For example, the Nebraska Department of Revenue increased that state's gasoline tax from 24- to 24.6-cents per gallon for the first quarter of 1993.

Figure 2
Federal and Average State Gas Tax Rate



* Projected rate based on current 4.3¢ proposal in Congress.

Source: Tax Foundation.

Table 2
International Comparison of Gas Tax Burden

	Gas Tax as of April '93* (U.S. cents/gallon)	Per-Capita Annual Consumption (gal.)	Miles of Freeway per Capita	Persons per Car	Per Capita Annual Cost of 4.3¢ Gas Tax Hike**
Italy	237¢	87	0.065	2.4	\$3.74
Netherlands	260	83	0.086	2.8	3.57
France	241	127	0.073	2.5	5.46
Germany (Western)	232	159	0.087	2.1	6.84
Belgium	229	99	0.098	3.8	4.26
United Kingdom	176	152	0.032	2.9	6.54
Japan	187	94	0.022	4.0	4.04
United States	33	432	0.209	1.8	18.58

* Federal and average state tax combined for the United States.

** Extra costs assuming no behavior response.

Sources: Tax Foundation computations based on data from Department of Commerce and Department of Transportation.

Impact of Gasoline Taxes

Gasoline taxation is regressive. That is, Americans with lower incomes pay a higher percentage of their incomes in gas taxes than wealthier Americans. The gas tax burden on families earning less than \$10,000 is more than seven times higher as a percent of income than families earning over \$100,000 per year. *Figure 3* shows that in 1992 Americans earning under \$10,000 per year paid an estimated 3.2 percent of their income in gas taxes whereas Americans earning over \$200,000 per year pay only about 0.2 percent of their incomes in gas taxes.

Impact on the Economy

Overall estimates of the economic impact of increasing the gas tax vary widely, but results generally indicate a tax increase will have a substantial negative effect on the economy. In a 1991 study, the U.S. Department of Energy estimated that a 50-cent per gallon increase in the gasoline tax would reduce gross national product (GNP) by \$57 billion per year while only increasing government revenues by \$34 billion. In another study, the Institute for Research on the Economics of Taxation found that a 10-cent gas tax hike would reduce GNP by \$26 billion per year while only raising \$7.5 billion per year for the Treasury.

In general, an increase in the federal gasoline tax will affect rural states more than highly

urbanized states. For example, in 1992 Wyoming residents paid about \$92 annually per capita in federal gas taxes compared to just \$39 paid annually by residents of the District of Columbia, because Wyoming has both a high driver/population ratio and has a high annual mileage per driver. Therefore, a federal gasoline tax increase would burden Wyoming residents more than twice as much as it would residents of the District.

The average federal gasoline tax burden per capita in 1992 was \$62 and the average state-level gas tax paid was \$80 for a total of \$142 per capita annually. Per driver, the combined state plus federal burden was \$212 for 1992.

U.S. versus Other Countries

The tax rate per gallon of gas is lower in the U.S. than in most other large industrialized nations (see *Table 2*.) But a gas tax increase hits Americans far harder than citizens of other countries because of higher U.S. gasoline consumption. Higher consumption is attributed to low energy costs, the general American love for automobiles, and the great distances between population centers in United States. This means, for example, that while a 4.3-cent per gallon gas tax increase might cost the average Japanese citizen about \$9 per year, a similar gas tax increase could cost the average American up to \$43 per year.

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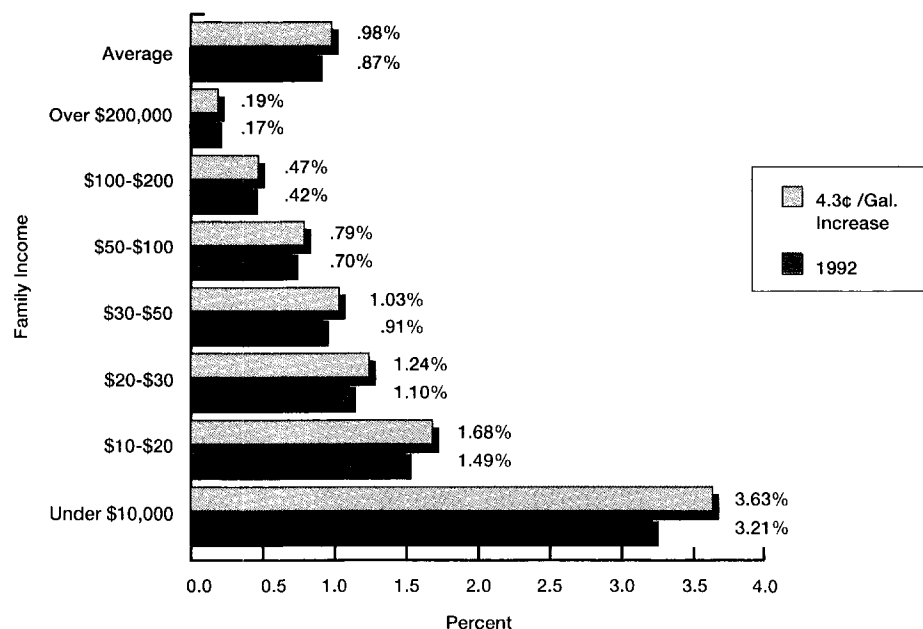
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Figure 3
Federal and State Gasoline Taxes as a Percent of Income by Income Class, 1992 & 1994*



* Projected rate based on current 4.3¢ proposal in Congress.

Source: Tax Foundation.