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The Heritage Foundation

F.Y.I.

No. 100
May 7, 1996

WHAT THE GAS TAX COSTS STATE ECONOMIES

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Congress is now considering repealing the 4.3 cent federal tax imposed under the 1993 budget plan championed by the Clinton Administration. Gasoline prices at service stations across the country have risen sharply over the last few months, raising concerns over the impact of these rising prices on already strained family budgets. Nationally, since the beginning of the year, gas prices have risen approximately 16 cents. In California, where prices have risen even more dramatically, gasoline now costs more than $2 a gallon in some areas.

While recent gas price hikes are an unwelcome added cost to family budgets, they actually are far exceeded by the total gas taxes paid by Americans. Combined federal and state gas taxes per gallon of gasoline now average 37.7 cents, more than twice the recent short-term spike caused by market conditions. These taxes raise the cost of driving a car an average of $310 per year. In response to the growing public concern over prices and the economic impact of the tax burden, Senator Phil Gramm (R-TX) introduced a bill on May 2 which would repeal the 1993 federal fuel tax of 4.3 cents applying to gasoline and diesel. Senate Majority Leader Robert Dole (R-KS) also is expected soon to offer a bill that will repeal the gas and diesel tax and possibly may roll back the 4.3 cent tax on jet fuel as well.

Eliminating the 1993 gas tax is a good start. While gasoline would still be subject to a 14 cent federal tax, as well as substantial state taxes, repealing the 4.3 cent tax would benefit the economy by reducing transportation costs. It also would help family budgets.

Unlike the rest of the federal gasoline tax, the 4.3 cent levy is not earmarked for transportation costs. It flows instead into general revenues. As Senator Dole has said, at least the previous gasoline taxes "helped build highways and bridges, but this tax was just for deficit reduction. It doesn't do a thing for highways or bridges....If we repeal this tax, it'll be 4 cents cheaper at the pump. If we can find an offset, then we should repeal this tax." Melvin Sherbert, Chairman of the Legislative Committee of the National Service Station Dealers and owner of two service stations himself, confirmed that tax savings would be passed on directly to consumers. Sherbert testified on May 3 before the

Senate Finance Committee that "We would pass the savings on because we are just waiting to lower prices [because] that helps us sell more gas while still making the same profit [per gallon]."[1]

The poor and lower middle class would be the biggest beneficiaries of this repeal. Susan Perry, Senior Vice President of the American Bus Association, testified on May 3 before the Senate Finance Committee that as the result of higher fuel costs since the imposition of the fuel tax, "there are fewer bus stops [and] the very poor, very elderly and very rural are mostly affected" because they disproportionately ride buses and fuel costs are passed on to passengers.[2] Moreover, since the fuel tax is a flat 4.3 cents per gallon, it is regressive. Because three-quarters of those Americans earning less than $10,000 per year commute to work in privately owned autos, a flat tax rate falls disproportionately on these poor as a percent of their income.[3] Indeed, 1987 Bureau of Labor statistics data show that the poorest 20 percent of Americans devote 8.8 percent of their expenditures to gasoline and motor oil while the wealthiest 20 percent devote only 3.1 percent of their expenditures to gasoline and motor oil.[4]

The benefit to the economy of repealing the fuel tax would be significant. Carol Hallett, President and Chief Executive Officer of the Air Transport Association of America, testified that the airline "industry estimates that passing on this [4.3 cents per gallon tax] cost results in five million fewer passengers a year [due to higher ticket prices. This] correlates to a loss of 1 passenger per flight. This statistic alone is enough to drop many flights into the loss column, and will surely result in airlines cutting back."[5] And according to the trucking industry, the 4.3 cent tax adds about $600 per truck annually to the cost of operations.[6] These costs in turn are largely passed on to consumers in the form of higher priced products.

The burden of this tax for 1996 is $5.3 billion for gasoline alone and $7.4 billion total, based on Department of Energy daily use estimates.[7] Too often ignored, however, is the regional and state disparity in the impact of this tax. To assess the state-by-state impact of the 4.3 cent tax on motor, distillate, and jet fuel, we calculated the tax for each state based on Department of Energy state summaries of usage patterns for 1993, the most recent year for which complete data are available.[8] While the pattern among states may have changed slightly between 1993 and today, the estimates of the tax burden in general would be higher than our state-by-state figures because of increases in consumption.[9] According to this calculation, the drain on California alone is $772 million based on 1993 usage, while New York and Pennsylvania combined, with about the same number of people, have a cost of $586 million.

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1 Testimony before Senate Finance Committee, May 3, 1996.

2 Testimony before Senate Finance Committee, May 3, 1996.

3 John Shanahan, "Why a Gas Tax Is No Better Than the BTU Tax," Heritage Foundation *Backgrounder Update* No. 195, June 18, 1993, p. 3.

4 U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Interview Survey: Quarterly Data, 1984-87*, August 1989.

5 Testimony before Senate Finance Committee, May 3, 1996.

6 Testimony of Thomas Donahue, President, American Trucking Association, before Senate Finance Committee, May 3, 1996.

7 Note that this figure reflects 1996 consumption estimates; the data in the accompanying table reflect unadjusted 1993 data, the most current complete data available from the Department of Energy. This calculation includes only taxable motor fuel, jet fuel, and distillable fuel used for highway-use diesel trucks and automobiles. Distillate fuel is a general classification for a type of petroleum fuel used mainly for space heating, on - and off-highway diesel fuel, and electric power generation. The Department of Energy estimates that, at the national level, 50.4 percent of all distillate fuel is consumed for "on-highway" trucking and would thus be subject to taxation. State level percentages are not available.

8 U.S. Department of Energy, Energy Information Agency, *1995 State Energy Usage Report*, July 1995.

9 Reflected in the Department of Energy's higher estimate for consumption in 1996.

Table 1

Estimated Revenue Raised By 4.3¢ per Gallon Federal Gas Tax, 1996 (Based on 1993 Usage Patterns)

	Motor Fuel	Highway Diesel	Jet Fuel	Total
Alabama	$93,700,000	$20,900,000	$3,600,000	$118,300,000
Alaska	$10,800,000	$8,600,000	$26,500,000	$45,900,000
Arizona	$77,700,000	$12,300,000	$14,300,000	$104,200,000
Arkansas	$55,100,000	$14,300,000	$1,800,000	$71,200,000
California	$557,300,000	$53,800,000	$161,100,000	$772,200,000
Colorado	$68,400,000	$11,700,000	$16,300,000	$96,400,000
Connecticut	$59,800,000	$20,100,000	$4,200,000	$84,000,000
Delaware	$15,000,000	$3,300,000	$2,500,000	$20,800,000
District of Columbia	$7,600,000	$1,500,000	$200,000	$9,200,000
Florida	$271,300,000	$21,500,000	$48,000,000	$340,800,000
Georgia	$168,000,000	$28,500,000	$27,500,000	$223,900,000
Hawaii	$16,400,000	$4,400,000	$16,100,000	$36,900,000
Idaho	$23,100,000	$7,000,000	$2,000,000	$32,100,000
Illinois	$197,900,000	$35,000,000	$16,600,000	$249,500,000
Indiana	$118,300,000	$30,100,000	$29,600,000	$178,000,000
Iowa	$59,100,000	$15,500,000	$1,300,000	$75,800,000
Kansas	$51,500,000	$14,800,000	$6,500,000	$72,800,000
Kentucky	$82,500,000	$25,500,000	$10,300,000	$118,300,000
Louisiana	$83,300,000	$32,000,000	$45,300,000	$160,600,000
Maine	$26,000,000	$11,700,000	$2,700,000	$40,400,000
Maryland	$89,600,000	$17,900,000	$5,400,000	$112,900,000
Massachusetts	$101,100,000	$33,300,000	$13,900,000	$148,400,000
Michigan	$191,100,000	$26,100,000	$18,600,000	$235,800,000
Minnesota	$92,600,000	$19,200,000	$17,000,000	$128,800,000
Mississippi	$57,600,000	$13,400,000	$15,000,000	$86,000,000
Missouri	$119,400,000	$20,800,000	$16,300,000	$156,400,000
Montana	$19,900,000	$7,300,000	$1,600,000	$28,800,000
Nebraska	$32,500,000	$12,700,000	$2,200,000	$47,400,000
Nevada	$29,300,000	$6,900,000	$11,700,000	$47,900,000
New Hampshire	$22,600,000	$6,100,000	$700,000	$29,400,000
New Jersey	$127,100,000	$31,000,000	$87,000,000	$245,200,000
New Mexico	$36,800,000	$7,500,000	$6,000,000	$50,300,000
New York	$237,900,000	$63,800,000	$9,200,000	$310,900,000
North Carolina	$147,000,000	$24,100,000	$8,800,000	$180,000,000
North Dakota	$15,400,000	$6,700,000	$2,300,000	$24,400,000
Ohio	$207,100,000	$36,000,000	$19,100,000	$262,300,000
Oklahoma	$73,700,000	$14,900,000	$16,300,000	$104,900,000
Oregon	$60,500,000	$12,800,000	$7,800,000	$81,100,000
Pennsylvania	$198,500,000	$55,700,000	$21,300,000	$275,500,000
Rhode Island	$16,100,000	$5,000,000	$900,000	$22,000,000
South Carolina	$81,500,000	$12,500,000	$3,600,000	$97,500,000
South Dakota	$17,300,000	$5,600,000	$2,200,000	$25,100,000
Tennessee	$110,500,000	$21,800,000	$11,900,000	$144,300,000
Texas	$374,600,000	$83,600,000	$157,100,000	$615,200,000
Utah	$34,000,000	$7,300,000	$9,900,000	$51,200,000
Vermont	$12,800,000	$4,900,000	$200,000	$17,900,000
Virginia	$133,300,000	$25,700,000	$21,500,000	$180,400,000
Washington	$103,700,000	$14,100,000	$40,100,000	$157,900,000
West Virginia	$35,400,000	$9,800,000	$500,000	$45,800,000
Wisconsin	$93,200,000	$22,300,000	$3,400,000	$118,900,000
Wyoming	$13,700,000	$9,200,000	$200,000	$23,100,000
U.S.	**$4,928,400,000**	**$940,400,000**	**$968,200,000**	**$6,837,000,000**

Source: Based on DOE Energy Information Agency's 1995 *State Energy Data Report*, citing 1993 state consumption patterns.