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Focus on Tax Policy

Increasing the Gasoline Excise Tax

By SJSU Tax Research Students (Bus 223A)

Fall 2010

Introduction

The Highway Trust Fund, primarily funded by the gasoline excise tax, has had shortfalls in recent years and an \$8 billion transfer from the General Fund was required in 2008.¹ The shortfall stems from people buying less gasoline either due to its high price or because they now drive an alternative fuel vehicle. One solution to the funding shortfall would be to increase the gasoline excise tax, such as from the current 18.4 cents per gallon² to double that or more.

Evaluation of an increased federal gasoline excise tax

Principle	Application	+/-
Equity and Fairness – Are similarly situated taxpayers taxed similarly? Also consider any different effects based on an individual's income level and where they live.	While all taxpayers pay the same amount of excise tax for every gallon of gasoline they purchase, the effect in terms of income vary among taxpayers. The gasoline excise tax is a regressive tax in that it represents a greater portion of the income of a low-income taxpayer relative to a higher income taxpayer. For example, assume two individuals each purchase the same number of gallons of gasoline and each pay gasoline excise tax of \$200 during the year. If one individual has \$20,000 of income and the other has \$200,000 of income, the tax represents 1% of the income of the low-income taxpayer and 0.1% of the income of the high income individual.	—
Certainty – Does the rule clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined?	An increase in the tax rate does not change the certainty level for the tax.	n/a
Convenience of payment – Is tax due at a time that is convenient for the payor?	Increasing the tax rate will not affect convenience of payment as taxpayers will know the cost of a gallon of gasoline before purchasing it.	n/a
Economy in collection – Are the costs to collect the tax at a	Given that the tax is collected from the producer or refiner, rather than the final consumer, economy in collection will not be affected by the increase in the tax rate.	n/a

¹ See Department of Transportation timeline at <http://www.dot.gov/affairs/highwaytrustfund/timeline.htm>.

² See Department of Transportation, Highway History at <http://www.fhwa.dot.gov/infrastructure/gastax.cfm>.

minimum level for both the government and taxpayers? Also consider the time needed to implement this tax.		
Simplicity - Can taxpayers understand the rules and comply with them correctly and in a cost-efficient manner?	The gasoline tax will not be simpler or more complex with a rate change. Since the tax base and all definitions and rules remain the same, there will be no change in this principle.	n/a
Neutrality - The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.	A higher gasoline excise tax will lead many taxpayers to purchase less gasoline because the price is likely to be higher (producers are likely to pass the higher tax along to consumers).	—
Economic growth and efficiency – Will the tax unduly impede or reduce the productive capacity of the economy?	A higher gasoline excise tax is likely to have adverse effects on the economy. Higher gasoline prices will adversely affect the transportation and travel industries. Higher gasoline excise taxes will better fund the Highway Trust Fund such that funds will not need to be taken from the General Fund. Thus, other taxes do not have to be increased or spending decreased, including spending on highway maintenance and construction.	+ / --
Transparency and Visibility – Will taxpayers know that the tax exists and how and when it is imposed upon them and others?	Like many excise taxes, the gasoline excise tax is not visible to the final consumer even though the payor (often the producer or distributor) likely passes its cost along to the consumer. For example, a consumer's receipt from filling up their car tank with gasoline will not list the amount paid that represents their share of the gasoline excise tax. Thus, an increase in the gasoline excise tax will not be obvious as a tax increase. It is likely that many buyers will just view it as a regular price increase.	—
Minimum tax gap – Is the likelihood of intentional and unintentional non-compliance likely	Because the gasoline excise tax is paid by the manufacturer or refiner rather than the final consumer, compliance rates are high. This will not change with a higher rate.	n/a

to be low?		
Appropriate government revenues – Will the government be able to determine how much tax revenue will likely be collected and when?	There should be little challenge in determining how much tax will be generated from a higher gasoline excise tax. Data exists on price elasticity of gasoline will help determine how much tax is likely to be generated from a higher gasoline excise tax.	+

Tax Analysis Summary

An increased gasoline excise tax does not meet three principles of good tax, meets one, is mixed on two and a few of the principles are not helpful in analyzing this type of tax change. Thus, it is mixed as to whether the proposal meets the principles of good tax. Consideration should be given as to whether any changes can be made to the proposal to better enable it to meet more of the principles of good tax policy.

Possible Improvements

To address the equity issue, a credit could be added to the income tax to provide relief to low-income individuals. To address the transparency issue, sellers could be required to note the excise tax amount on receipts given to final consumers. The neutrality issue may be one that cannot be addressed. Higher gasoline prices will result in people buying less gasoline. While that may also mean that individuals are driving less and causing less wear and tear on the roads, this is not necessarily true. That is, individuals may be driving more fuel efficient cars and actually driving more. Congress should consider other ways to impose a gasoline excise tax rather than a fixed amount per gallon of gasoline. Alternative approaches include imposing a tax based on miles driven. Such a proposal should also be evaluated against the principles of good tax policy.