



STATE SALES TAX ON MOTOR FUEL



WHO



COST TO COLLECT



LONGEVITY



RELIABILITY



IMPLEMENTATION



WHO'S DONE IT: VIRGINIA

In 2013, Virginia passed a comprehensive transportation funding package known as **Virginia's Road to the Future**, HB 2313, that would levy an estimated **additional \$800 million** by the year 2018. Previously: \$0.175/gallon tax on fuel.

Now: A variable fuel tax rate:

3.5% of the average price of gasoline.	6% of the average price of diesel.
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- The amount of revenue created depends on the amount of fuel consumers purchase.
- The sales tax is based on the sales price of the fuel, so revenues will vary with the price of fuel.
- If retail gas prices do not significantly increase, fuel tax revenues will likely still decline over time.

More Information: tti.tamu.edu/policy/how-to-fund-transportation

Description

Currently, highway funding comes from a tax on motor fuel based on a flat rate per gallon. In Texas, it's 20 cents per gallon for gasoline and diesel. Some policy makers have proposed moving to a tax on motor fuel **based on a percentage of the total sales price** of the fuel.

This strategy would replace the current state tax on motor fuel (a flat rate, such as 20 cents per gallon of gasoline) with a state *sales* tax on motor fuel (a percentage, such as 5 percent of the average retail price of gasoline).

Additionally, revenue from this sales tax would be dedicated to transportation only. Currently, some funds from the state gasoline tax go to the Available School Fund.

How Will This Help?

- **Provides new, additional funds** for transportation to reduce traffic congestion and help maintain the safety and quality of Texas roads and bridges.
- **Helps transportation funds** keep pace with rising highway construction costs.
- **Helps compensate for reduced fuel tax revenues** from fuel-efficient vehicles. As vehicles become more fuel efficient, they buy less fuel and contribute less to the highway fund, though they are still using the facilities.
- **Reduces the need for borrowing** to finance transportation improvements.

What's the Downside?

- The legislature and the public are generally opposed to tax or fee increases.

ESTIMATED FUND YIELD FROM 2016-2019



5 percent of gas priced

\$3.50/gallon and diesel priced \$3.75/gallon

yields



\$12.4 billion for transportation

6.5 percent of gas priced

\$3.50/gallon and diesel priced \$3.75/gallon

yields



\$15.5 billion for transportation

