

SOY TRANSPORTATION COALITION STUDY

“Alternative, Sustainable Approach to Fuel Tax”

Federal Impact



PROJECT DESCRIPTION:

Many interest groups, including soybean farmer organizations, have proposed raising the tax on gasoline and diesel fuel in order to pay for needed repairs to our surface transportation system. Despite the aversion of many to higher taxes, many believe doing so would be reasonable and would provide sizable enhancement to the economies of individual states and the nation. However, many continue to agree that increasing the federal or state gasoline and diesel tax remains a challenging prospect.

The research project examines the impact of a proposed legislative concept introduced on a federal and individual state level that would primarily make the following adjustments: 1.) Immediately reduce the gasoline and diesel tax by one cent and 2.) Immediately index the gasoline and diesel tax to inflation.

The Soy Transportation Coalition has contracted with the Indiana University's School of Public and Environmental Affairs to conduct the research.

It is no accident that the nation and individual states have increasing funding gaps between the needs of our surface transportation system and the amount of money generated by the gasoline and diesel tax. Even the most fiscally conservative will concede that the costs of steel, concrete, labor, machinery, etc. escalate, and that there should be some relationship between those costs and the revenue stream to address them.

Upon initial examination, the prospect of reducing our gasoline and diesel tax by any amount appears misguided given the dilapidated condition of our surface transportation system. Many believe we need more funding, not less. However, the proposal approaches this issue from a perspective of what is possible, not what is ideal. Many transportation stakeholders have concluded that the ideal has proven to be elusive up to this point and that this will likely continue.

One of the widely expressed concerns with our nation's tax on gasoline and diesel fuel is that it is not sustainable due to not being indexed to inflation. While many policymakers acknowledge the need to remedy this problem, many also desire to provide some sort of concession, albeit modest, to the taxpayer when addressing the fiscal challenges confronting the surface transportation system. The one cent reduction in the fuel tax is an example of such a concession to the taxpayer. The proposal is not an attempt to rectify all the nation's transportation challenges. Rather, the proposal was developed to present a more realistic chance to introduce some sustainability to our transportation financing. If achieved, many would regard this as a significant step forward.

KEY QUESTIONS:

In performing the analysis, the researchers examined three key questions:

1. What would be the effect on the federal revenue of a one cent reduction in gasoline and diesel taxes?
2. What would be the effect on the federal revenue of linking the gasoline and diesel tax to inflation in 2014 in terms of annual tax revenue through 2025?
3. How much additional revenue could have been generated from linking the gasoline and diesel tax to inflation in 1997 – the last time the federal government adjusted fuel taxes?

ANALYSIS METHODOLOGY AND ASSUMPTIONS:

In evaluating the above questions, the researchers at Indiana University developed a baseline that projects state revenue assuming the status quo (no increase in fuel taxes and no link to inflation) through 2025, using fuel prices as forecasted by the U.S. Energy Information Administration (EIA). The model projects gasoline and diesel consumption as a trend based on historic information and assumes that 10 percent of the diesel consumption is not taxed (based on historic averages). Inflation is based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI) and projected into the future based on data from the U.S. Department of Agriculture.

KEY FINDINGS:

1. A reduction in gasoline and diesel taxes by one cent per gallon without indexing to inflation would reduce revenue to the federal government by a total of \$1.737 billion in 2014.

Projections indicate that the 2014 consumption of gasoline and diesel nationally will be 133.800 billion and 39.890 billion gallons, respectively. Given a one cent reduction in the gasoline and diesel tax, the immediate reduction of federal revenue would amount to a total of \$1.737 billion.

2. Indexing the fuel tax rate to inflation in 2014 would result in an average additional revenue per year of \$1.143 billion between 2014 and 2025. If fuel taxes are indexed to inflation in 2014, additional real state revenue of \$6.177 billion per year would be generated by 2025.

3. If the federal government had indexed the diesel tax and the gasoline tax to inflation in 1997 – the year in which they were most recently increased – an additional \$133.305 billion would have been generated for the state's surface transportation system.

4. After the one cent reduction and indexing the fuel tax to inflation, the annual fuel tax revenue would match the status quo (no decrease, no indexing to inflation) in 2017. Cumulative losses to the fuel tax (due to the one cent reduction) would be recovered in 2019. In 2019 and in subsequent years, the one cent reduction and indexing approach would result in net positive revenue vs. the status quo approach.

5. A one cent reduction in the fuel tax would result in the average motorist paying \$8 less in fuel taxes after the first year of enactment. After the one cent reduction and indexing the fuel tax to inflation, the average motorist would pay \$25 more in fuel taxes in the year 2025.



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The below table summarizes the differences in fuel tax revenue (in million 2013 dollars rounded) between the baseline (no adjustments/status quo) and the proposed scenario (indexed to inflation & one cent reduction) along with the cumulative changes:

Year	Tax Revenue (No Adjustments)	Tax Revenue (2014 CPI Indexed & 1 Cent Reduction)	Additional (2014 CPI Indexed & 1 Cent Reduction)	Cumulative Change
2014	34,352	32,615	-1,737	-1,737
2015	33,894	33,239	-655	-2,392
2016	33,905	33,864	-41	-2,433
2017	33,970	34,514	544	-1,888
2018	34,026	35,182	1,156	-733
2019	34,078	35,871	1,793	1,060
2020	34,089	36,569	2,481	3,541
2021	34,104	37,294	3,190	6,731
2022	34,133	38,037	3,904	10,635
2023	34,141	38,780	4,638	15,273
2024	34,143	39,541	5,398	20,671
2025	34,143	40,320	6,177	26,848

The below table summarizes the differences in fuel tax expenditures (in 2013 dollars rounded) for the average driver between the baseline (no adjustments/status quo) and the proposed scenario (indexed to inflation & one cent reduction) along with the cumulative changes:

Year	Average Cost to Driver (No Adjustments)	Average Cost to Driver (2014 CPI Indexed and 1 Cent Reduction)	Additional Cost to Driver (2014 CPI Indexed & 1 Cent Reduction)	Cumulative Change
2014	157	149	-8	-8
2015	153	150	-3	-11
2016	152	152	0	-11
2017	151	153	2	-9
2018	150	155	5	-4
2019	148	156	8	4
2020	147	158	11	15
2021	146	159	14	29
2022	144	161	17	45
2023	143	162	19	64
2024	142	164	22	87
2025	140	166	25	112

The full results of the study can be accessed at www.soytransportation.org.

Funded by the soybean checkoff



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