

The Uses of Gasoline Taxes

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Gasoline taxes paid by road users of the 48 States and the District of Columbia in 1929 reached the largest total in the 10-year history of this remarkable taxing measure. After deduction of refunds allowed by the State laws the tax netted in this tenth year of its existence \$431,636,454 from levies on more than 13,400,000,000 gallons of motor fuel.

Until 1919 there was no tax on gasoline in the United States. On February 25 of that year the State of Oregon set in motion the small snow ball which since has rolled through all the States and, swelling in size, has finally rolled up one of the largest of all revenues available for highway construction and maintenance.

Oregon's initial levy was the modest one of one cent per gallon. In the same year three other States tried the same experiment, and one of them - New Mexico - ventured a two-cent rate. Colorado matched Oregon's one cent; but North Dakota decided to be content with a fourth of a cent per gallon. This was the beginning. By 1923 the four pioneers had been joined by 31 other States, and a three-cent rate appeared in seven of them, with Oregon again in the van. In 1925 the 35 States were joined by the District of Columbia, and Arkansas celebrated the New Year by imposing a four-cent rate; and a year later, with 44 States and the District of Columbia in the procession, South Carolina came out for a five-cent tax. Then, for three years it appeared that the limit had been reached; but South Carolina again proved that appearances may be deceptive by laying down a six-cent tax in March, 1929; its example quickly followed by the sister States of Florida and Georgia. And, finally, in the same year, Massachusetts and New York, which had previously held aloof, joined with the rest of the nation, each levying a two-cent tax.

Regarded by tax experts as one of the most remarkable revenue producers ever devised, this tax is also one of the most cheaply collected of all imposts. In 34 States for which the costs of collection in 1929 are known, the net revenue produced, after deduction of all costs of administration was 99-3/4 cents for every dollar of tax collected.

It has also been one of the most willingly paid of all taxes. Devoted mainly to the work of road improvement, the road using public by which it is paid in proportion to the use of the highways, has in no case seriously opposed the imposition of the tax. Even at the six-cent maximum rate now charged in three States there is still no definite indication of a diminishing return which would indicate approach to the limit of public tolerance.

How greatly the road improvement activity of recent years has depended upon this single source of revenue, and to what extent the rapid progress of the latter years has been made possible by the direct contributions of the road user in this form and in motor vehicle license fees can be shown by a few figures.

In 1919 - the year the gasoline tax was adopted by the first four States - the whole expenditure on rural highways in the United States, by all agencies of government, Federal, State, and local, was \$389,465,932. The total of gasoline taxes collected in that year was only \$1,022,514. Motor vehicle license fees produced an additional \$64,697,255; so that the total contribution of the road user was \$65,719,769, which was about 17 per cent of the comparatively small expenditure.

By 1929 - just 10 years later - the total rural road expenditure had grown to an annual outlay of \$1,444,668,985; and in support of this enormously increased expenditure the operators of motor vehicles contributed \$729,791,055, or more than 50 per cent. Of their total contribution the road users paid \$406,452,249 in the form of gasoline taxes and the balance in motor vehicle license fees, permits, etc. In both instances these amounts are exclusive of the portions of the total contributions which were used to defray collection costs or diverted to other than rural highway uses.

Between the two years above mentioned the yearly rural road expenditure increased slightly more than a billion dollars, and of this increase just about two-thirds was met by the increased contributions of the road user, made up in larger part of gasoline taxes. The remainder was met by increased revenue from real property taxation and bond issues.

Of the \$431,636,454 of gasoline taxes collected in 1939, \$297,967,756 or 69 per cent was allotted for expenditure in the construction and maintenance of the main roads comprising the State highway systems. For the construction and maintenance of local roads of the counties and townships the allotment was \$86,113,708 or nearly 20 per cent of the total. To meet necessary payments on State and county road bonds there was an allotment of \$23,371,785, approximately 5 per cent of the total and the remainder of \$24,405,037, or approximately 6 per cent was devoted to purposes other than the improvement of rural roads.

Of the amount thus diverted to other than rural road purposes, the greatest fraction, amounting in 8 States and the District of Columbia to \$14,548,106, was allotted to the improvement of streets in cities and towns; a further sum was diverted to the construction of schools and public buildings in 3 States in the amount of \$9,270,562; one State allotted \$90,000 to its Department of Commerce and Navigation; five States held \$282,346 as a reserve for payment of tax refunds; one State devoted \$210,093 raised by a special gasoline tax to the construction of a seawall for road protection; and the small balance of \$3,920 was paid by one State into its general funds.

It will thus be seen that of the total amount of these taxes collected in 1929, nearly 98 per cent was devoted directly or indirectly to the construction and maintenance of rural roads and city streets. The diversions to other purposes, such as schools and public buildings, are as yet unimportant from the point of view of the country as a whole, though they represent very substantial sums in the few States involved.

This does not mean, however, that there have not been many efforts to appropriate the returns of the tax to other than the purpose for which it was originally designed. On the contrary there is scarcely a legislative session in any State at which there is not some effort, more or less strongly supported, to reap the benefits of the tax for other purposes.

Such attempts are stoutly and quite properly resisted by motorists as inconsistent with the character of the impost. They contend that, as a special levy on road users, the tax should be exclusively devoted to the benefit of the special class upon which it falls; and as a matter of equity, and public policy as well, their contention is fully justified.

Whether the apportionment of the return on the present basis to State and county roads and city streets is entirely reasonable is a more debatable question. As originally levied in practically all States the tax was intended for the support of the State road program. Since the expensive investment in the main roads is necessitated by the heavy accumulation of motor vehicle traffic which they must accommodate, there is peculiar fitness in this use of the tax.

In recognition of this fact property taxes for main road purposes have been greatly reduced or abandoned in all States, and now constitute less than 9 per cent of the total State highway revenue. The user taxes, including motor vehicle license fees and gasoline taxes, constituting the bulk of the 91 per cent remaining, have thus become the main support of the important work of State road improvement; and the amount allotted to this purpose from the two special taxes can not be reduced without jeopardizing the continuance of this work which has made so great a change in the condition of the most important rural roads.

If, therefore, additional sums for county roads and city streets are to be raised by taxation of vehicle owners it is practically imperative that they be provided by increasing the tax rate; and proposals to that end affecting gasoline taxes should be very carefully considered. It is well to remember that additions have thus far been made to a falling price of gasoline and have thus been so absorbed that they have not been felt by the consumer. If the price of the fuel turns upward, as it doubtless will eventually, the higher tax rates already levied may become actually burdensome.