

GEORGIA'S FUEL TAX

In 2006, the Fiscal Research Center published *Gasoline Taxes in Georgia*, which provided an extensive discussion of the tax on gasoline.¹ While much of what is contained in that report is still relevant, this Policy Memorandum provides an update of that report. The report considered the tax on gasoline and diesel fuel, but did not discuss the tax on other fuels. The tax revenue on other fuels accounted for less than 5 percent of total fuel tax revenue in FY 2009.

A Comparison of Current Tax Rates²

Georgia currently imposes an excise tax of 7.5 cents per gallon of gasoline and diesel, a rate imposed in 1971. In 1979, the state removed fuel from 3 of the 4 percent sales tax and created a second motor fuel tax of 3 percent. The revenue from the second motor fuel tax essentially replaced the appropriation for transportation that was being made beyond the fuel tax revenue. Each 6 months the state converts the 3 percent fuel tax into a tax per gallon based on retail fuel prices. In January 2010 the second fuel tax was set at 7.0 cents per gallon of gasoline, for a total tax of 14.5 cents per gallon, and 7.5 cents per gallon of diesel fuel, for a total of 15.0 cents per gallon of diesel fuel.

State tax rates on gasoline (including any special taxes or fees) range from a low of 8 cents per gallon in Alaska to 37.5 cents per gallon in Washington state.

The average excise tax across states is 20.4 cents per gallon, while the average total tax is 22.3 cents per gallon.

The total gasoline tax rates per gallon in states that border Georgia are:

Alabama	\$0.215
Florida	\$0.16
Georgia	\$0.145
North Carolina	\$0.3055
South Carolina	\$0.16
Tennessee	\$0.214

All of the border states have tax rates that are greater than Georgia's.

A major concern with the 7.5 cent excise tax is that it is not indexed for inflation and has not been increased in nearly 40 years. In 1990, the annual revenue from the 7.5 cent tax on gasoline and diesel fuel was \$51.3 per capita. By 2009, annual revenue had fallen to \$27.9 per capita in inflation adjusted terms.

Part of this decline in per capita revenue over this period is due to an increase in fuel efficiency. According to the U.S. DOT, fuel efficiency increased from 16.4 MPG in 1990 to 17.4 MPG in 2008, an increase of 6 percent. Thus, the revenue per mile driven has also fallen, which is important since maintenance costs are related to the use of the roads.

One option for increasing revenue for transportation is to increase the 7.5 cent excise tax by 1 cent each year for six years, at which point Georgia's total fuel tax would be at approximately the current national average of total fuel excise tax of 20.4 cents per gallon. Given a price of gas of \$2.70 per gallon, a 1 cent increase is a 0.37 percent increase in total price.

In FY 2009, total gallons of gasoline and diesel fuel sold were 6.3 billion gallons. We assume that fuel consumption did not increase this year, but will increase by 4 percent in FY 2011 due to population growth and a stronger economy. Assuming a price elasticity of -0.4, a 1 cent increase in the 7.5 cents per gallon tax for both gasoline and diesel would generate an estimated \$67.7 million in additional revenue in FY 2012.

In FY 2010, total fuel tax revenue, from both the excise fuel tax and second motor fuel tax and all fuels, was \$828.6 million. Assuming 4 percent growth in this amount each of the next two years, the percentage increase in FY 2012 revenue from a 1 cent per gallon increase would be 7.5 percent.

Because of fluctuations in the price of fuel, the revenue from the motor fuel taxes also fluctuates. One approach that would reduce this fluctuation is to convert the 3 percent fuel tax to a per gallon tax, which would be 7.0 cents per gallon tax at 2010 market prices, and then index the total fuel tax for inflation.³

The fuel tax is based on the premise that users of the road system should pay for the cost of building and maintaining it. If these costs are associated with miles driven, but cars have very different levels of fuel economy, then the burden of the cost is not fairly allocated to drivers. An alternative, discussed in the previously mentioned FRC report, is to switch to a tax based on vehicle miles traveled.

Notes:

1. Robert J. Eger III and William J. Smith (2006). "Gasoline Taxes in Georgia." FRC Report #26.
2. Fuel tax rates as of January 2010 are as reported by the Federation of Tax Administrators, available at <http://www.taxadmin.org/fta/rate/mf.pdf> (accessed September 20, 2010).
3. As of January 1, 2011 the 3 percent rate is set at 7.6 cents per gallon.

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