

Transportation Plan Proposes Business Tax but Secretary Floats Possibility of Tolls

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Key Findings

- Rising transportation expenses consistently outpace dedicated transportation revenues, with the 18.6 cent per gallon tax on gasoline stagnating as American driving plateaus and fuel economy improves.
- Currently, federal gas and diesel taxes raise about \$30 billion per year, and the federal government spend about \$70 billion on surface transportation. The Highway Trust Fund will run out of money in August of this year.
- The GROW AMERICA Act would boost highway and road spending by about 22 percent to \$199 billion, boosts transit spending to \$72 billion, and spends \$19 billion on rail programs, for a total of \$302 billion over four years. This will be enough to satisfy all the relevant transportation interests but still leaves funding unaddressed
- The key proposed funding mechanism is an unspecified \$150 billion one-time business tax. Because it is only one-time revenue, it does not address the fact that transportation spending is annual, large, and growing.
- Additionally, the bill would remove the federal ban which prevents state from tolling interstate highways.
- Relying more on tolls and less on general revenues means those who benefit from good transportation pay directly for it, like any other service.
- The option to fund transportation with tolls would also reduce pressure to boost sales taxes, income taxes, and business taxes (including the Administration's problematic proposed changes to international business taxation).

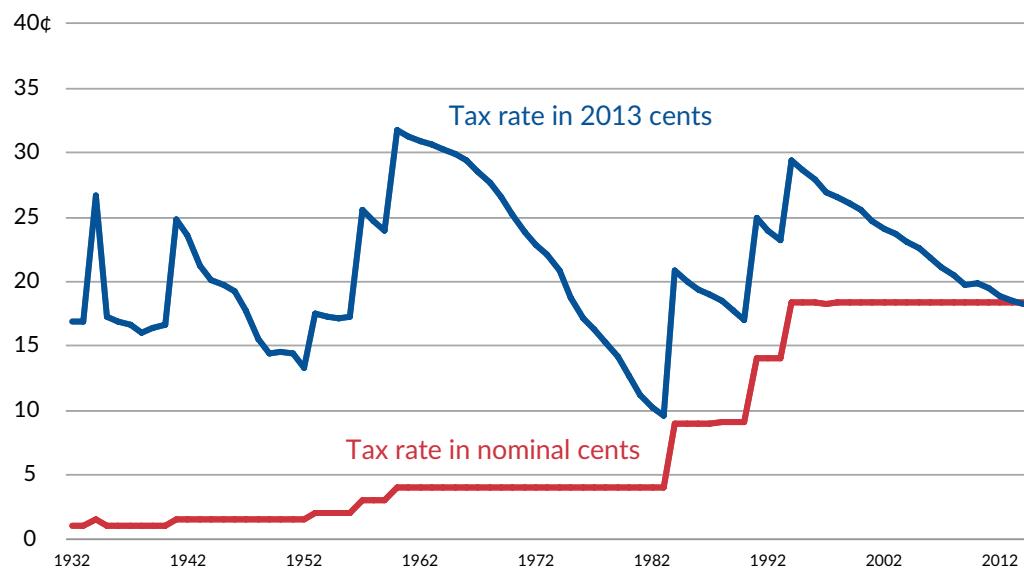
The U.S. Department of Transportation last week proposed the GROW AMERICA Act, a four-year \$302 billion surface transportation bill.¹ The bill boosts highway and road spending by about 22 percent to \$199 billion, boosts transit spending to \$72 billion, and spends \$19 billion on rail programs, all over four years.

While the Administration remains focused on paying for it with a one-time business tax, they have also expressed a willingness to ease the current federal ban on states tolling roads. If the choice is between transportation paid for by users or paid for by higher income and sales taxes, the former is better.

Why is Transportation Funding Nearing a Crisis?

The federal gas and diesel taxes raise about \$30 billion per year, and the federal government spends about \$70 billion on surface transportation (mostly in money sent to states so they can spend it on transportation).² These numbers were more in balance when the overly-acronymed last major transportation authorization, SAFETEA-LU, was enacted in 2005.³ Before its expiration in 2009, rising transportation expenses began consistently outpacing dedicated transportation revenues, with the 18.6 cent per gallon tax on gasoline stagnating (see Figure 1) as American driving plateaus (see Figure 2) and fuel economy improves (see Figure 3).⁴

Figure 1. Federal Gasoline Tax Rate Per Gallon,
1932-Present



Source: Tax Foundation compilation of Congressional Research Service and Bureau of Labor Statistics data

1 U.S. Department of Transportation, *The Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America (GROW AMERICA) Act*, Apr. 30, 2014, <http://www.dot.gov/grow-america>.

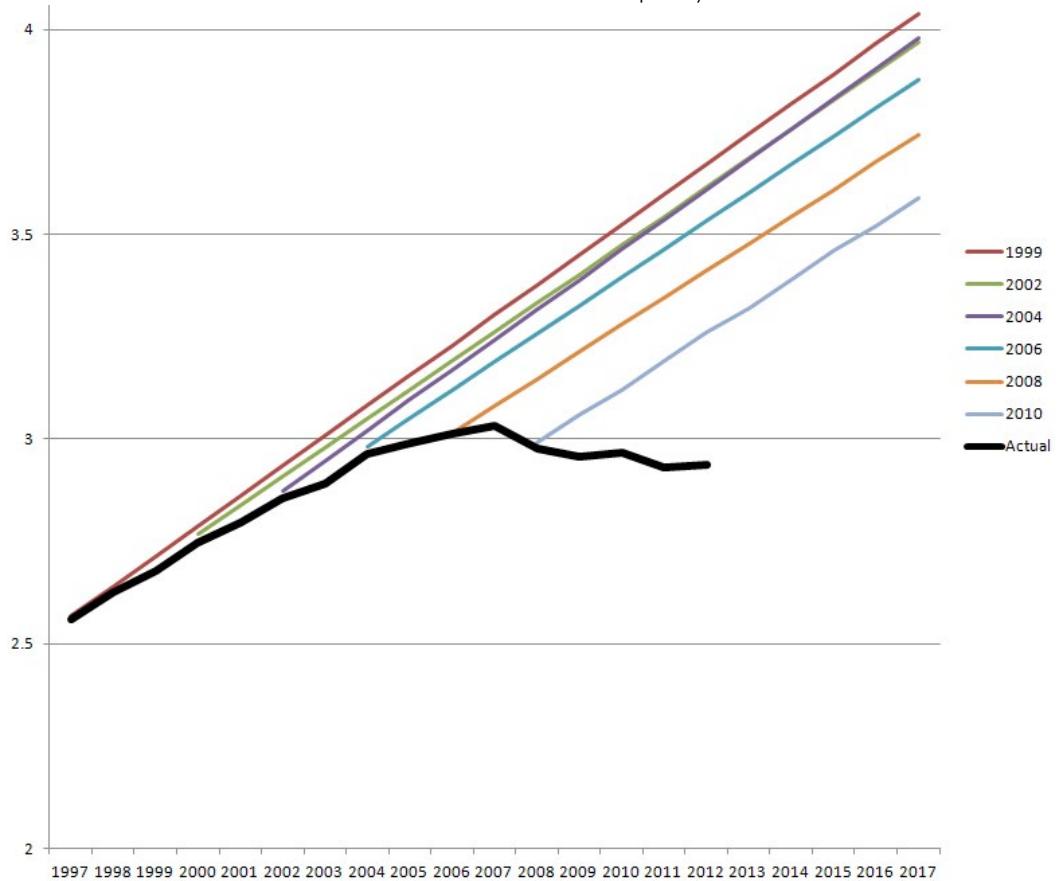
2 This report does not address air transportation revenues or expenses.

3 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), P.L. 109-59 (2005).

4 See, e.g., Brad Plumer, *The U.S. government keeps predicting we'll drive more than we actually do*, WASHINGTON POST, JAN. 22, 2014, <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/01/22/the-u-s-government-keeps-predicting-well-drive-more-than-we-do-thats-a-problem/>; Eric Sundquist, *New travel demand projections are due from U.S. DOT; will they be accurate this time?*, STATE SMART TRANSPORTATION INITIATIVE, DEC. 16, 2013, <http://www.ssti.us/2013/12/new-travel-demand-projections-are-due-from-u-s-dot-will-they-be-accurate-this-time/>.

Figure 2: National Vehicle Miles Traveled (VMT) with Federal Government Projections of Future Trend

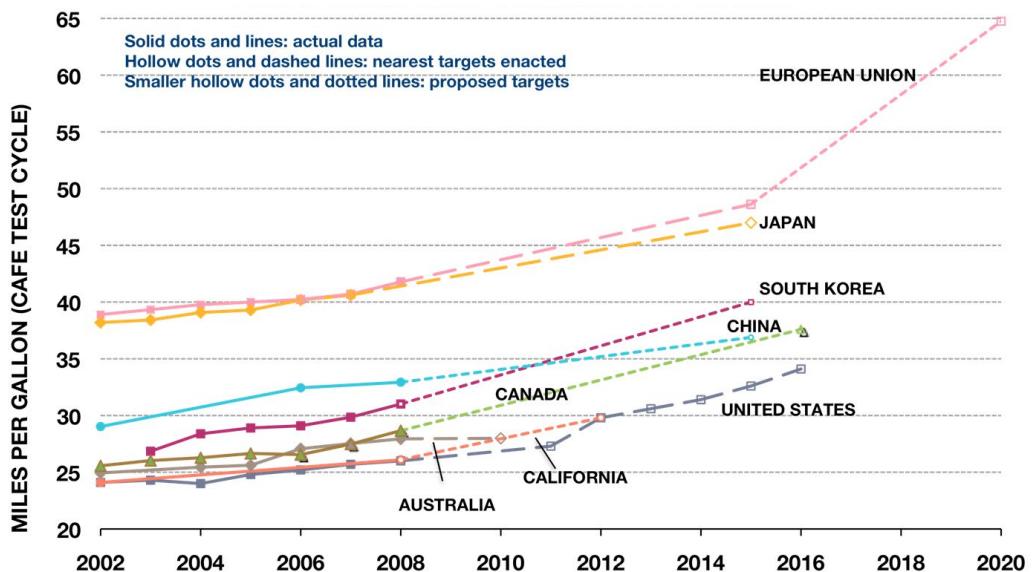
trillions of miles driven per year



Source: State Smart Transportation Initiative compilation of U.S. Department of Transportation data

Figure 3: Historical and Projected Changes in Fuel Economy

trillions of miles driven per year

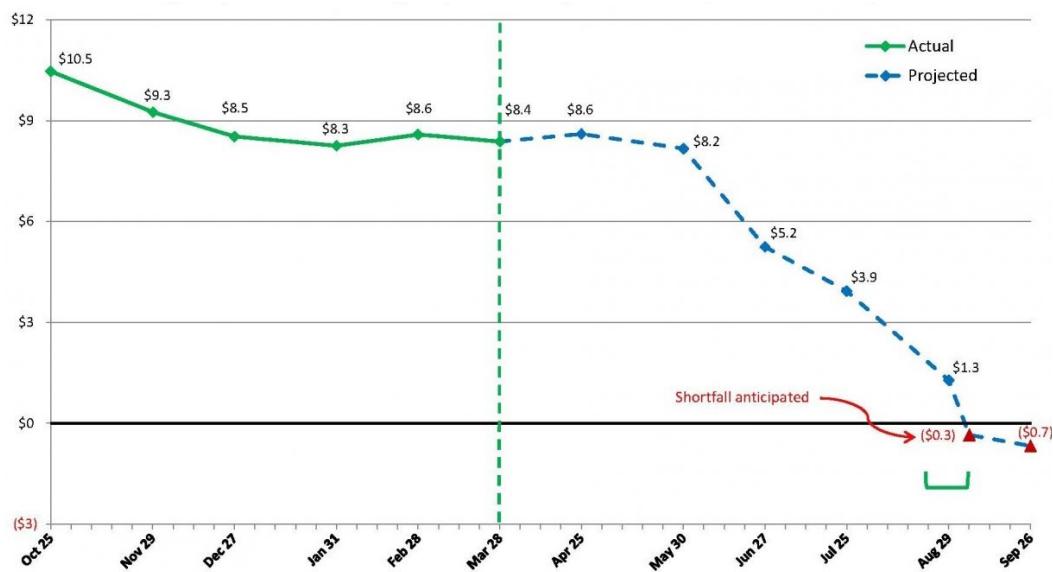


Source: International Council on Clean Transportation

Resistance to either raising the gas tax or reducing spending has meant a series of short-term, patched-together transportation bills funded by general tax revenue transfers, the latest one of which expires September 30 of this year.⁵ Also, earmarks were banned in 2011; this reduces wasteful pork but also makes it less easy to pass transportation bills.⁶

Even after all the short-term extensions and general fund bailouts, the Highway Trust Fund will run out of money in August of this year (see Figure 4).⁷ At that point, to balance spending with revenue, highway spending would have to be cut by 35 percent while transit spending would be zeroed out.⁸ Since that money is primarily spent by states on local projects, it could have big impacts on state revenue and spending.

Figure 4: Highway Trust Fund Monthly Cash Balances, 2013-2014
billions of dollars



1/ Graph reflects actual data through 3/28/14 and end-of-month projections for the remainder of the fiscal year.

2/ Total receipt and outlay projections are based on FY 2015 President's Budget Baseline assumptions. Projected monthly receipt and outlay rates are based on historic averages.

3/ Range of anticipated shortfall: Green brackets denote the estimated window of when the anticipated shortfall will occur.

Source: FHWA

Source: International Council on Clean Transportation

5 See, e.g., Center for Climate and Energy Solutions, Nick Nigro & Cindy Burbank, *A Primer on Federal Surface Transportation Reauthorization and the Highway Trust Fund* (Jan. 2014), <http://www.c2es.org/docUploads/a-primer-on-federal-surface-transportation-reauthorization.pdf>.

6 See, e.g., Brendan Greeley, *Earmarks: The Reluctant Case for Ending the Ban*, BLOOMBERG BUSINESSWEEK, JAN. 10, 2013, <http://www.businessweek.com/articles/2013-01-10/earmarks-the-reluctant-case-for-ending-the-ban>; Press Release, Council for Citizens Against Government Waste, CCAGW to House on Earmark Ban: Hang Tough!, Mar. 15, 2011, <http://ccagw.org/media/press-releases/ccagw-house-earmark-ban-%E2%80%9Chang-tough%E2%80%9D>.

7 U.S. Department of Transportation, *Highway Trust Fund Ticker*, <http://www.dot.gov/highway-trust-fund-ticker>.

8 See, e.g., Bipartisan Policy Center, *The Consequences of Reduced Federal Transportation Investment* (Sep. 2012) at 5, <http://bipartisanpolicy.org/sites/default/files/BPC-Eno%20Transportation%20Report.pdf>.

States have also had transportation funding issues for the same reasons, with user taxes and fees covering barely half of state road spending.⁹ A number of states have increased gas taxes in recent years or linked them to gas prices so that they grow with demand. There has also been greater willingness to lease road projects to private firms to build and maintain in return for collecting tolls. Oregon is experimenting with a tax on vehicle miles driven, and last year, Virginia controversially boosted the sales tax, hotel tax, and taxes on home and car sales for transportation.¹⁰

What is the Corporate Tax Reform Mentioned as a Funding Source?

For the most part, the Administration's proposal boosts spending enough to satisfy all the relevant transportation interests but still leaves funding unaddressed. The key proposed funding mechanism is a \$150 billion one-time business tax, misleadingly labeled a corporate tax cut. President Obama has mentioned this idea a few times, such as last December:

[W]e've got to keep working to make America a magnet for good, middle-class jobs to replace the ones that we've lost in recent decades—jobs in manufacturing and energy and infrastructure and technology.

And that means simplifying our corporate tax code in a way that closes wasteful loopholes and ends incentives to ship jobs overseas. (Applause.) And by broadening the base, we can actually lower rates to encourage more companies to hire here and use some of the money we save to create good jobs rebuilding our roads and our bridges and our airports, and all the infrastructure our businesses need.¹¹

The U.S. currently has a worldwide tax system in which we tax U.S. companies wherever they earn income. The rest of the world for the most part has territorial tax systems, where they tax only income earned within their borders.¹² So U.S. companies operating overseas are double taxed while their foreign competitors are taxed only once. Because such a system would destroy the U.S. companies' ability to reach the global market, a compromise was worked out fifty years ago: U.S.

⁹ See Joseph Henchman, *Gasoline Taxes and User Fees Pay for Only Half of State & Local Road Spending*, TAX FOUNDATION FISCAL FACT No. 410 (JAN. 3, 2014), <http://taxfoundation.org/article/gasoline-taxes-and-user-fees-pay-only-half-state-local-road-spending>.

¹⁰ See, e.g., Joseph Henchman, *Virginia Legislators Approve Increases in Sales Tax, Car Tax, Regional Taxes*, Tax Foundation Tax Policy Blog, Feb. 25, 2013, <http://bit.ly/1d6FynV>; Joseph Henchman, *Massachusetts to Have Second Highest Cigarette Tax, Rare Tax on Computer Services, Higher Gas Tax*, Tax Foundation Tax Policy Blog, Jul. 26, 2013, <http://bit.ly/1hCHo0L>; Tanya Snyder, *Ten Questions (and Answers) About Oregon's New VMT Charge*, DC Streets Blog, Sep. 24, 2013, <http://bit.ly/K0HDag>; U.S. Government Accountability Office, *Highway Trust Fund: Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles*, No. GAO-13-77, <http://www.gao.gov/assets/660/650863.pdf>; Michelle Boudin, *Controversial toll road planned to widen I-77*, NBC Charlotte, Jan. 14, 2013, <http://bit.ly/WOpEDs>; Lawmakers Criticize Kasich's Turnpike Plan, WKBN, Dec. 18, 2012, <http://bit.ly/W77duH>. For state level gasoline taxes in recent years, see <http://bit.ly/1F9eYZ>.

¹¹ White House, *Remarks by the President on Economic Mobility*, Dec. 4, 2013, <http://www.whitehouse.gov/the-press-office/2013/12/04/remarks-president-economic-mobility>.

¹² See, e.g., Tax Foundation, *Corporate Taxes: Advantages of a Territorial System*, Jan. 3, 2012, <https://www.youtube.com/watch?v=19dg7L5Zdsg>.

tax is deferred on corporate profits earned overseas so long as they stay overseas.¹³ Once they come back, though, they are hit with our hefty 35 percent tax.¹⁴

Unsurprisingly, the profits don't come back but sit overseas—by one recent estimate, \$2 trillion worth.¹⁵ A couple years ago, a one-time holiday allowed these earnings to be repatriated in return for paying a much lower 5.25 percent tax. Another repatriation holiday was floated last year but the focus seems more on a permanent fix to the tax system: lowering the rate and/or moving to a territorial system. The Obama Administration has in the past toyed with eliminating deferral without moving to a territorial system, which would probably result in a one-time boost in revenue but then a wave of offshoring and inverting as every U.S. corporation would be forced to choose between the domestic market and their (more populous and often more lucrative) international markets.

To paraphrase Milton Friedman, a tax cut that raises revenue isn't a tax cut.¹⁶ The GROW AMERICA Act is actually unspecific about what type of corporate tax reform is required, so long as it raises \$150 billion in one-time revenue. But even if all that happens, the \$150 billion business tax is still one-time revenue, and transportation spending is annual, large, and growing.

Tolling: Pros and Cons

The GROW AMERICA Act would remove the federal ban which prevents states from tolling interstate highways. Tolling was already in the news because of one sentence in the Administration's initial proposal ("The Administration is putting forward this pro-growth financing plan [the business tax] to encourage bipartisan efforts to support a visionary infrastructure plan, but is open to all ideas for how to achieve this important objective...") coupled with comments by Transportation Secretary Anthony Foxx yesterday:

"We want to open the aperture, if you will, to allow more states to choose to make broader use of tolling, to have that option available."¹⁷

This is big. Some interstates have grandfathered tolls (the New Jersey and Pennsylvania Turnpikes, for instance) but for the most part, interstates built with federal dollars cannot be tolled. If a state wants the option, they have to get a federal bill passed, and reportedly, Congress will not consider such bills unless a state's congressional delegation is unanimously behind it. In other words, it's impossible.

13 See, e.g., Tax Foundation, *What is Tax Deferral?*, May 11, 2009, <https://www.youtube.com/watch?v=hapfcIt6mFY>.

14 See, e.g., Tax Foundation, *Corporate Taxes: Falling Behind by Standing Still*, Nov. 17, 2011, <https://www.youtube.com/watch?v=kly8pjEU2g0>.

15 See, e.g., Marty Sullivan, *The Quirky Economics of \$2 Trillion in Offshore Cash*, FORBES, Nov. 18, 2013, <http://www.forbes.com/sites/taxanalysts/2013/11/18/the-quirky-economics-of-2-trillion-in-offshore-cash/>.

16 Mark Skousen, *Milton Friedman's Last Lunch*, FORBES, Nov. 24, 2006 ("If a tax cut increases government revenues, you haven't cut taxes enough.").

17 Ashley Halsey III, *White House opens door to tolls on interstate highways, removing long-standing prohibition*, WASHINGTON POST, APR. 29, 2014, http://www.washingtonpost.com/local/trafficandcommuting/white-house-opens-door-to-tolls-on-interstate-highways-removing-long-standing-prohibition/2014/04/29/5d2b9f30-cfac-11e3-b812-0c92213941f4_story.html.

Modern tolling technology is unlike the creaky tolling of yesteryear, with drivers hunting for change as they sit in traffic backups to toll booths. Drivers on San Diego's I-15 Express Lanes don't even slow down as the transponder registers their toll payment, which varies from 50 cents if the parallel road is free-flow, to \$8.00 if the parallel road is jammed.¹⁸ Carpools drive for free, and the surplus revenue pays for road improvements and mass transit in the corridor.

When asked, Americans generally oppose all revenue increases for transportation, depending on how the revenue would be used (specifics and oversight are reassuring) or how the question is worded ("maintain roads and bridges" is far more popular than "pay for transportation," and mentioning reducing global warming and dependence on foreign oil are also winners).¹⁹ But when forced to pick between new tolls or a higher gas tax, tolling wins.²⁰

Americans drive 3 trillion miles per year, and paying for current transportation spending means finding some way to collect the equivalent of an average 6 cents per mile.²¹ That would price the 240-mile trip from DC to New York City at \$14.40, compared to actual tolls now of \$38.55.²² Currently, the mix for road funding is 0.9 cents per mile in federal fuel taxes, 1.4 cents per mile in state fuel taxes, 0.8 cents in vehicle license taxes, 0.4 cents per mile in tolls and user fees, 0.6 cents in federal general revenues, and 1.0 cent in general state and local revenues, with transit spending separately paid by fares and general revenues.²³

Conclusion

Relying more on tolls and less on general revenues means those who benefit from good transportation pay directly for it, like any other service. Such a funding option would also reduce pressure to boost sales taxes, income taxes, and business taxes (including the Administration's problematic proposed changes to international business taxation).

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18 See San Diego Association of Governments, *I-15 Express Lanes*, <http://fastrak.511sd.com/san-diego-toll-roads/i-15-express-lanes>.

19 See, e.g., Mineta Transportation Institute, *What do Americans Think About Federal Tax Options to Support Public Transit, Highways, and Local Streets and Roads? Results from Year 3 of a National Survey* (Jun. 2012) at 64, <http://transweb.sjsu.edu/PDFs/research/1128-american-survey-federal-taxes-public-transit-highways-streets-roads.pdf>.

20 See, e.g., Emily Ekins, *77 Percent of Americans Oppose Gas Tax Increase, 58 Percent Favor Tolls Instead*, REASON, JAN. 6, 2012, [HTTP://REASON.COM/POLL/2012/01/06/77-PERCENT-OF-AMERICAN-OPPOSE-GAS-TAX-IN](http://REASON.COM/POLL/2012/01/06/77-PERCENT-OF-AMERICAN-OPPOSE-GAS-TAX-IN); HNTB, AMERICA THINKS 2013 TOLLING SURVEY, JAN. 24-30, 2013, [HTTP://NEWS.HNTB.COM/IMAGES/9055/AMERICATHINKS/ATHINKS_TOLLING_FACTSHEET_041813.PDF](http://NEWS.HNTB.COM/IMAGES/9055/AMERICATHINKS/ATHINKS_TOLLING_FACTSHEET_041813.PDF).

21 See Henchman, *supra* note 9.

22 See e.g., Financial Nerd, *Cost Analysis of Traveling from DC to NYC*, Jun. 3, 2013, <http://financialnerd.com/cost-analysis-of-traveling-from-dc-to-nyc/>.

23 See Henchman, *supra* note 9.