TAX FOUNDATION

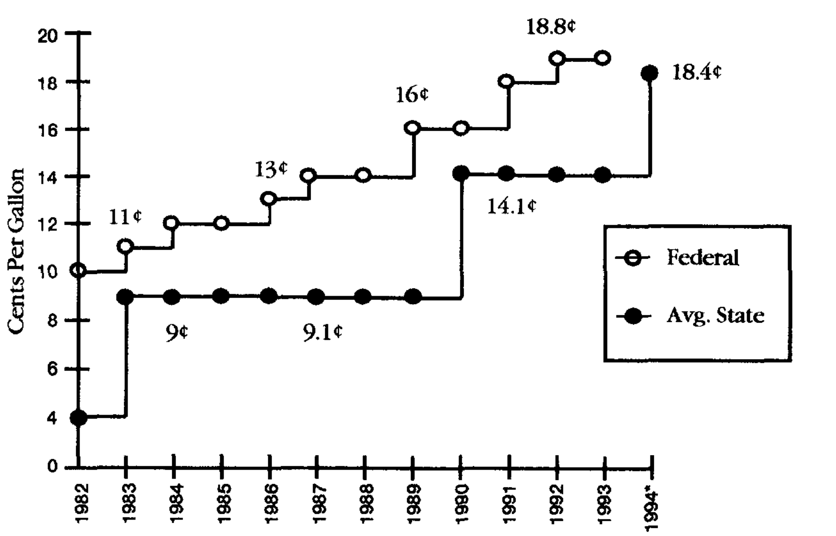
TAX FEATURES

July 1993 Volume 37, Number 6

Gasoline Tax Study Shows Large Jump at Federal, State Levels over Past Decade

On average, each American paid $142 per year in federal and state gasoline excise taxes in 1992, a new Tax Foundation study relates. This translates into a per-driver burden of $212 annually, says author Chris R. Edwards in his *Special Report*, "The Price of Mobility: Gasoline Taxes in America."

Federal and Average State Gas Tax Rate



*Projected rate based on current 4.3¢ proposal in the Senate.
Source: Tax Foundation.

Mr. Edwards calculates that the average federal gasoline tax burden per capita in 1992 was $62 and the average state-level gas tax paid was $80, for a total of $142 per capita annually.

The analysis comes at a time when Congress and the administration are considering raising federal gasoline taxes between 4¢ and 10¢ per gallon, as part of the 1994 federal budget.

The study shows that in 1992, the federal government raised $15 billion from the 14.1-cent per gallon federal gasoline tax. States themselves raised $20 billion from gasoline excise taxes last year. State gas tax rates currently range from 7.5-cents per gallon in Georgia to 26-cents per gallon in Rhode Island. The current average combined federal plus state tax rate is 32.9-cents per gallon.

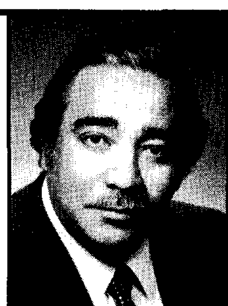
As the table to the left indicates, the average state gasoline excise is 18.8¢ per gallon. It also shows that the federal rate will nearly match the average state rate if the currently proposed Senate measure of 4.3¢ per gallon is enacted.

State Gasoline Taxes

Every state plus the District of Columbia levies a gasoline excise tax on top of the federal tax (in addition to levying excise taxes on diesel and other fuels). The table on page 2 details current gasoline tax rates. From 1982 to 1992 the average state gas tax rate has almost doubled from 10 cents per gallon to 19 cents per gallon.

Gas Tax continued on page 2

FRONT & CENTER



Luring Capital Back to America's Cities

Rep. Charles Rangel
(D-New York)

Gas Tax

Continued from page 1

Further increases in state motor fuel taxes are expected this year following increases of $459 million in fiscal 1992 and $716 million in fiscal 1991. Effective January 1, 1993, California increased its gasoline and diesel tax by 1¢ per gallon, and both rates will rise another cent in January 1994. Oregon increased both these rates by 2¢ in January 1993. Connecticut, which already has the highest gas tax in the nation, began the year with a 2¢ gasoline tax hike, followed by a July 1 additional increase of 1¢. Both Oregon and Connecticut increased the gasoline tax by 2¢ per gallon last year. And, after a 5¢ gas tax increase last year, Maryland will hike its diesel tax 2.5¢ this year.

Impact on the Economy

In his study, Mr. Edwards points out that gasoline taxation is generally regressive. Americans with lower incomes clearly pay a higher percentage of their incomes in gas taxes than wealthier Americans. In 1992 Americans earning under $10,000 per year paid an estimated 3.2 percent of their income in gas taxes whereas Americans earning over $200,000 per year pay only about 0.2 percent of their incomes in gas taxes.

Estimates of the economic impact of increasing the gas tax generally indicate a tax increase will have a substantial negative effect on the economy. In a 1991 study, the U.S. Department of Energy estimated that a 50¢ per gallon increase in the gasoline tax would reduce gross national product (GNP) by $57 billion per year while only increasing government revenues by $34 billion. In another study, the Institute for Research on the Economics of Taxation found that a 10-cent gas tax hike would reduce GNP by $26 billion per year while only raising $7.5 billion per year for the Treasury.

In general, an increase in the federal gasoline tax will affect rural states more than highly urbanized states. For example, in 1992 Wyoming residents paid about $92 annually per capita in federal gas taxes compared to just $39 paid annually by residents of the District of Columbia, because Wyoming has both a high driver/population ratio and a high annual mileage per driver.

Gas Tax continued on page 3

Comparison of State and Federal Gasoline Taxes

	State Gas Tax Rate as of April '93 (cents/gal.)*	Annual per Capita Gas Taxes			State Tax Ranking	Federal Tax Ranking	Annual Per Driver Gas Taxes†
		State	Federal	Total			
Alabama	18¢	$95	$74	$169	17	7	$235
Alaska	8	31	55	86	51	46	$154
Arizona	18	83	65	149	31	27	$233
Arkansas	18.7	92	69	161	20	16	$222
California	17	71	62	133	41	36	$202
Colorado	22	93	60	153	18	40	$248
Connecticut	28	117	64	181	2	34	$269
Delaware	19	95	71	166	16	14	$228
Dist. of Columbia	20	55	39	94	46	51	$139
Florida	11.6	51	62	113	48	37	$154
Georgia	7.5	40	75	116	50	2	$166
Hawaii	24.8	52	46	98	47	49	$160
Idaho	21	99	66	165	9	25	$241
Illinois	19	74	55	129	39	45	$202
Indiana	15	71	67	138	40	22	$224
Iowa	20	90	63	153	25	35	$230
Kansas	18	83	65	148	33	29	$208
Kentucky	15.4	78	71	149	37	12	$229
Louisiana	20	90	64	154	23	32	$253
Maine	19	92	68	160	19	18	$223
Maryland	23.5	100	60	160	8	39	$241
Massachusetts	21	82	55	137	35	44	$195
Michigan	15	68	64	131	44	33	$191
Minnesota	20	91	64	154	22	31	$269
Mississippi	18.2	91	70	161	21	15	$218
Missouri	13	69	75	144	43	4	$199
Montana	21.4	114	75	190	3	3	$265
Nebraska	23.3	111	67	178	4	20	$265
Nevada	24	124	73	197	1	9	$279
New Hampshire	18.6	86	65	152	29	28	$198
New Jersey	10.5	44	59	104	49	41	$142
New Mexico	17	90	75	164	24	6	$235
New York	22.9	70	43	114	42	50	$200
North Carolina	22.3	106	67	172	6	21	$255
North Dakota	17	87	72	160	27	11	$239
Ohio	21	86	58	144	28	42	$211
Oklahoma	17	88	73	161	26	10	$224
Oregon	24	101	65	166	7	30	$204
Pennsylvania	22.4	84	53	138	30	47	$207
Rhode Island	26	98	53	151	10	48	$224
South Carolina	16	80	71	151	36	13	$224
South Dakota	18	96	75	171	12	5	$240
Tennessee	20	96	67	163	14	19	$238
Texas	20	97	69	166	11	17	$255
Utah	19	77	57	134	38	43	$223
Vermont	16	83	73	156	32	8	$215
Virginia	17.5	83	67	149	34	23	$202
Washington	23	107	66	173	5	26	$248
West Virginia	20.4	96	66	162	13	24	$227
Wisconsin	23.2	95	61	156	15	38	$228
Wyoming	9	59	92	150	45	1	$203
Average	18.8¢	$80	$62	$142			$212

State Average Rate	18.8¢/gallon
Federal Gas Tax Rate	14.1¢/gallon
Average Total Gas Tax	32.9¢/gallon

* Includes only charges that are uniform statewide; does not include sales taxes or extra fees.
† For 1992.
Source: Tax Foundation computations based on Federal Highway Administration data.

Administration's Tax Proposal Ranks at the Top

In the current debate over the Clinton administration's fiscal 1994 budget, charges and counter-charges have been made over which tax bill is the "largest in history." The answer, of course, depends in part on how you count—in current dollars, real dollars, as a percent of Gross Domestic Product, etc. It also depends on how many years are included in the survey. The table below shows the five-year impact of the major tax bills of the past decade. While the annual numbers are given in current dollars, the five-year totals are given in current and real (constant) dollars. ●

Fiscal Year	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	5-Yr. Total*	5-Yr. Total†
Economic Recovery Tax Act of 1981																			
In current $	-35.6	-91.1	-136.8	-170.3	-209.8													-643.6	-880.0
As % of GDP	-1.1	-2.7	-3.6	-4.2	-4.9														
Tax Equity and Fiscal Responsibility Act of 1982																			
In current $		16.6	36.0	39.2	46.7	56.5												195.0	260.0
As % of GDP		0.5	1.0	1.0	1.1	1.2													
Tax Reform Act of 1986																			
In current $						18.6	-8.9	-24.4	-20.3	-16.4								-8.1	-55.5
As % of GDP						0.4	-0.2	-0.5	-0.4	-0.3									
Omnibus Budget Reconciliation Act of 1990																			
In current $										22.5	35.2	32.7	37.5	38.6				166.5	164.0
As % of GDP										0.4	0.6	0.5	0.6	0.5					
Clinton 1994 Budget Plan																			
In current $													35.8	43.4	62.2	78.0	76.5	295.9	265.6
As % of GDP													0.5	0.6	0.8	1.0	0.9		

* In current dollars.
† In constant (1993) dollars.
Source: Tax Foundation.

International Comparison of Gas Tax Burden

	Gas Tax as of April '93* (U.S. cents/gallon)	Per-Capita Annual Consumption (gal.)	Miles of Freeway per Capita	Persons per Car	Per Capita Annual Cost of 10¢ Gas Tax Hike**
Italy	237¢	87	0.065	2.4	$8.70
Netherlands	260	83	0.086	2.8	8.30
France	241	127	0.073	2.5	12.70
Germany (Western)	232	159	0.087	2.1	15.90
Belgium	229	99	0.098	3.8	9.90
United Kingdom	176	152	0.032	2.9	15.20
Japan	187	94	0.022	4.0	9.40
United States	33	432	0.209	1.8	43.20

* Federal and average state tax combined for the United States.
** Extra costs assuming no behavior response.
Sources: Tax Foundation computations based on data from Department of Commerce and Department of Transportation.

Gas Tax

Continued from page 2

U.S. versus Other Countries

The tax rate per gallon of gas is lower in the U.S. than in most other large industrialized nations (see table below.) But a gas tax increase hits Americans far harder than citizens of other countries because of higher U.S. gasoline consumption. Higher consumption can be attributed, among other things, to low energy costs and the great distances between population centers in United States. This means, for example, that while a 4.3-cent per gallon gas tax increase (as proposed recently by the administration) might cost the average Japanese citizen about $9.40 per year, a similiar gas tax incresae could cost the average American up to $43.20 per year. ●

Luring Capital Back to America's Cities

Rep. Charles Rangel (D-New York)

A short time ago, I walked into a Whip's meeting where the discussion was about a community's economy that is in shambles, where too many people are jobless, homelessness is a growing crisis, families are breaking up, health care is inadequate, and veterans are returning home without jobs or apartments. The discussion went on to note that the people in this community are becoming desperate and that homeless-ness is growing along with crime, alcohol, and drug abuse. The agreement among those participating in the discussion was clear — if we do not do something quickly to deal with this crisis it is going to cost us so much more in the future. If we do something now, these people will become productive and everyone will be better off economically.

It is ironic that the same arguments about doing something now to save money and reduce everyone's frustration apply both to Russia and the inner city communities of the United States.

I thought the discussion was about my community, Harlem, or one of so many depressed inner city communities. I was wrong. The discussion was about Russia and the decision to provide foreign assistance now so that we can reduce the military risk for the future.

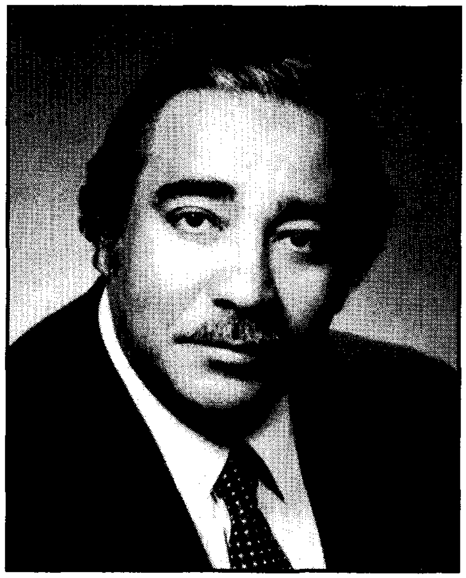
It is ironic that the same arguments about doing something now to save money and reduce everyone's frustration apply both to Russia and the inner city communities of the United States. It just seems to me that it should make sense to anyone involved in business and economic analysis to make the investments now in our inner cities, just as in Russia, to stop the economic hemorrhage.

When I was the Chairman of the Select Committee on Narcotics Abuse and Control, I had a running discussion with the Reagan and Bush administrations about the so-called war against drugs. I wanted to know what the enemy—frustration, crime, and drugs—was costing us and on what fronts each of the federal agencies was fighting. In my discussions with former Budget Director Richard Darman, I asked the question we are asking ourselves about Russia. What will it cost us not to make this effort to deal with the problem now?

Reverend Jesse Jackson has illustrated a side of the waste that few outside the urban cities know as reality. The fear of going to jail does not really exist for a kid. To them it means that you are taken off the streets, and you have less danger of being mowed down by automatic weapons. It means that you will be provided what is so needed, what is absent in the community, adult supervision, the opportunity for a kid to talk to an adult, and to find out, without humbling his or herself, what they know. You get climate control, well balanced meals, health care, cable TV, movies, and recreation. But the most important is that you get some kind of prestige and respect by your peers.

Our economy is losing billions of dollars in so many ways because we do not want to face these problems. We are spending money on prisons instead of schools. We spend up to $60,000 per year to keep a kid in jail and then see 70 percent return within three to five years of their release. We spend billions on fighting drug-related AIDS and TB. It costs about $5,000 a day to keep a new-born addicted to crack cocaine in neo-natal intensive care. We never see the tax revenues from youth who have given up on the system by the time they should have been entering the work place.

Dick Darman, after putting his economists to work, finally came up with an estimate of the loss from drugs and crime. He testified at a Committee



on Ways and Means hearing that it was costing over $300 billion per year.

He also agreed with me that the only way this number could be turned around would be through a comprehensive long-term strategy of public and private investment to rebuild, from the ground up, local infrastructures necessary to sustain a viable local economy.

One in five American workers was out of a job at some point during the last year, one in ten Americans is living on food stamps, one in seven children in the U.S. is living on welfare, one-fourth of all high school students do not graduate with their peers, only 70 percent of American children are immunized against basic childhood diseases. In some communities, that number is below 50 percent; three million Americans are homeless, while another 14 million are living on the knife's edge of homeless-ness, doubled up and tripled up in shelters, public housing, and the homes of friends and relatives.

The provisions dealing with empowerment zones and enterprise communities, which were included in the House-passed version of the budget reconciliation bill, will not solve all of the problems that I have enumerated, but they will get us started down the right path. The empowerment zone and enterprise community initiative will focus special attention upon the problems of distressed urban and rural areas. These provisions are a recognition that federal tax incentives can play a role in revitalizing distressed areas. The revitalization of economically distressed areas through expanded business and employment opportunities will help alleviate both economic and social problems, including distress from narcotics and crime.

The House bill would create a total of ten empowerment zones and 100 enterprise communities during 1994 and 1995. Empowerment zones would be eligible for additional tax incentives beyond those provided in the areas designated as enterprise communities.

The tax incentives for empowerment zones include an employer wage credit, expansion of the targeted jobs tax credit, an empowerment savings credit, increased expensing for small businesses, accelerated depreciation, and a new category of tax-exempt financing. In general, new tax-exempt financing benefits and an enhanced low-income housing tax credit would be available in both empowerment zones and enterprise communities.

There would be a maximum wage credit of $5,000 per year (25 percent of the first $20,000 of wages) for wages paid to employees who are zone residents and who perform substantially all employment services within the zone. Moreover, the current targeted jobs tax credit would be expanded so that an economically disadvantaged person who resides in an empowerment zone but is employed outside of an empowerment zone will be treated as a member of a targeted group for purposes of the credit. Thus, employers located outside of empowerment zones could claim up to $2,400 of credit on first-year wages paid to economically disadvantaged employees who reside within an empowerment zone. In addition, a tax credit would be available to employers for certain contributions made to a tax-qualified defined contribution plan on behalf of employees with respect to whom the wage credit could be claimed. This credit would be equal to 50 percent of contributions up to two percent of compensation not in excess of $35,000.

The current law provision allowing small businesses to expense the cost of certain property placed into service in a particular year would be expanded greatly. The dollar amount would be increased to $75,000, and the type of property eligible for expensing would be expanded to include buildings used in an enterprise zone business.

The depreciation provisions would be enhanced such that shorter recovery periods would be allowed for qualified zone property of enterprise zone businesses, both for purposes of the regular tax and the alternative minimum tax. The recovery period for non-residential real property, for example, would be 22 years, while the recovery period for five-year property would be shortened to three years.

Finally, the bill would create a new category of exempt facility private activity bond, a qualified enterprise zone facility bond, for use in empowerment zones. In general, 95 percent or more of the net proceeds of these bonds would be used to finance qualified zone property for an enterprise zone business and land located in the empowerment zone that is functionally related, and subordinate, to the zone property.

These incentives do not come without a price tag. They would cost roughly $5.3 billion over the next five years. This, however, is a small price to pay to start us down the road to solving the problems of our inner cities and distressed areas. ●

Foundation Announces 1993 Ernst & Young, Arthur Andersen Visiting Professors

In a continuing effort to build bridges between the academic community and policy makers, the Tax Foundation has formally announced its Ernst & Young and Arthur Andersen Visiting Professors for 1993, made possible through generous gifts from the accounting firms of Ernst & Young and Arthur Andersen & Company.

The Tax Foundation's Visiting Professors program was launched in 1992. This year seven professors from around the country are participating in the program.

Ernst & Young Visiting Professors

Deborah W. Thomas and Keith Sellers of the University of Arkansas at Fayetteville will team up to work on a study titled "Effects of Tax Policy on Corporate Financing Decisions: Integration of the Corporate and Personal Income Tax." The paper will examine the experiences of three countries (Canada, New Zealand, and Australia) which have adopted an integrated tax system that eliminates the double taxation of corporate profits. Dr. Sellers is an Assistant Professor at the College of Business Administration, and received his doctorate in business administration from Memphis State University. Ms. Thomas, an Assistant Professor in accounting at the College of Business Administration, has a law degree from Vanderbilt University.

John R. McGowan of St. Louis University and Tracy A. Kaye of Seton Hall University will focus on "An Analysis of Tax Harmonization in the European Community and its Implications for U.S. Tax Policy." The paper will examine the status of tax harmonization in the EC and assess how this action could affect U.S. tax policy. Dr. McGowan, who received his doctorate from Southern Illinois University, is an Assistant Professor of accounting. Ms. Kaye is an Assistant Professor at the School of Law, and holds a juris doctor from Georgetown University.

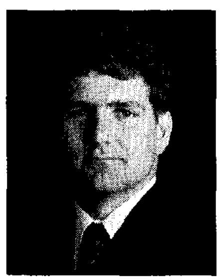
Julie H. Collins and Douglas A. Shackelford of the University of North Carolina will join forces to produce a paper on "Taxes and Foreign Acquisitions in the United States," which will examine the theory that the Tax Reform Act of 1986 induced foreign acquisitions in the U.S. Dr. Collins is an Assistant Professor at the Kenan-Flagler Business School, and received her Ph.D. from the University of Florida. Dr. Shackleford, who received his doctorate from the University of Michigan, is also an Assistant Professor at the Kenan-Flagler Business School.

Arthur Andersen Visiting Professor

Joosung Jun, an Assistant Professor of economics at Yale University, will produce a study on the "Tax Effects on the Methods of International Investment." The paper will examine the complicated effects that taxes have on the relative attractiveness of foreign direct investments by multinational corporations versus international portfolio investments by individuals investors.

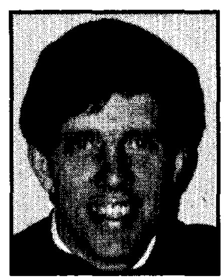
Dr. Jun earned his doctorate in economics from Harvard University and his undergraduate degree from Seoul National University in South Korea. Before assuming his present position, he was a faculty research fellow at the National Bureau of Economic Research, a teaching fellow at Harvard University, and a research assistant to Professor Martin Feldstein.

Dr. Jun's research interests include the effects of taxation on capital formation, international aspects of taxation, the real and financial behavior of multinationals, and East Asian economics. ●



Keith Sellers

Deborah Thomas



John McGowan

Tracy Kaye

Julie Collins

Doug Shackelford

Joosung Jun

UPDATE

Tax Foundation printing presses have worked overtime this year, putting out an assortment of publications dealing with federal, state and local, and international taxation. Following is a list of *Special Reports*, *Special Briefs*, and *Background Papers* published since January. (All are $8 plus $2 postage and handling, with a 50 percent discount for Foundation members.)

Special Report No. 17: "Washington's Largest Monument: The National Debt," March 1993, by Chris R. Edwards

Special Report No. 18: "The Corporate Tax Burden," March 1993, by Chris R. Edwards

Special Report No. 19: "The President's 1994 Federal Budget," April 1993, by Chris R. Edwards

Special Report No. 20: "Tax Freedom Day 1993," April 1993, by Chris R. Edwards and J.D. Foster

Special Report No. 21: "Federal Tax Burden by State," May 1993, by Chris R. Edwards

Special Report No. 22: "The Price of Mobility: Gas Prices in America," July 1993, by Chris R. Edwards

Special Brief No. 1: "Tax Apsects of Improving the Investment Climate in the Republic of Kazakhstan," May 1993, by Bill Frenzel and Charles. E. McLure, Jr.

Special Brief No. 2: "Tax Aspects of Improving the Investment Climate in Rus-sia," May 1993, by Charles E. McLure, Jr.

Special Brief No. 3: "Public Investment and Deficit Reduction: House Ways & Means Committee Hearing," June 1993, by J.D. Foster.

Special Brief No. 4: "Public Investment and Deficit Reduction: Senate Finance Committee Hearing," June 1993, by J.D. Foster.

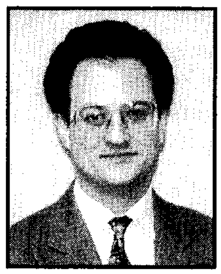
Background Paper #3: "Effects of Cross-Border Sales on Economic Activity and State Revenues: A Case Study of Tobacco Excise Taxes in Massachusetts, New York City, and Surrounding Areas," January 1993, by KPMG Peat Marwick

Background Paper #4: "Value-Added Taxes and Other Consumption-Based Taxes: An Annotated Bibliography," April 1993, by Bruce Bartlett. ●

FOUNDATION MESSAGE

Problems with the Latest Budget Deal

This year's tax increase exercise is just about over. Right now it is still not possible to see how it will all come out. While the future of this bill remains hazy, the past is clear enough.



J.D. Foster
Chief Economist

The 1993 tax bill bears a remarkable resemblance to the last great "serious downpayment on the deficit", the Omnibus Budget Reconciliation Act of 1990. Both bills include a gas tax hike of almost identical proportions. Both bills include a smattering of isolated tax increases. Both bills include a temporary extension of a group of popular tax provisions known as "extenders". Both bills leave appropriated spending unchecked and put so-called mandatory spending on autopilot. And both bills are bereft of real incentives to increase economic growth.

Both bills are also driven in large part by an anti-growth, soak-the-rich mentality which is manifested through higher tax rates. In the 1990 Budget, the Congress demanded a series of special taxes on luxury items which devastated the industries concerned. The 1993 tax bill will likely repeal almost all of these luxury taxes. Amazingly, the champions for repeal of these taxes are the same people who advocated them in the first place, and many are the same people who advocate higher income taxes on the rich in 1993. Will they never learn?

While the future of this bill remains hazy, the past is clear enough.

Tax increases can close the deficit, at a cost to economic growth, if spending is checked at the same time. Historically, budget deals have not checked spending just as the current budget deal does not check spending. Nevertheless, previous tax increase bills did allow government forecasters to project a balanced budget towards the end of the five-year budget window. In the 1990 budget deal, for example, the Office of Management and Budget (OMB) projected an $17 billion surplus in fiscal year 1994.

That previous outyear forecasts have turned out to be hopelessly optimistic should cause one to look at this year's forecast with a great deal of suspicion, all the more so since what little spending reduction is requested occurs in these outyears. Even so, accepting the forecasts at face value, the OMB is forecasting a $200 billion plus deficit by 1998—and growing thereafter—due almost exclusively to entitlement spending!

Some have put their hopes on health care reform to solve the problem. But as the Director of the Congressional Budget Office has repeatedly pointed out, and as common sense should make clear, there is no salvation from our budget woes in health care reform. The types of reform currently under discussion will provide no significant cost savings anytime this century.

If we do not clamp down on entitlement spending immediately, within a year or two all consideration of tax policies for economic growth will be out the window because the only policy option left will be to raise taxes over and over again—or learn to live with the deficits. ●

Hoover's McLure Joins Tax Foundation Staff

TAX FEATURES

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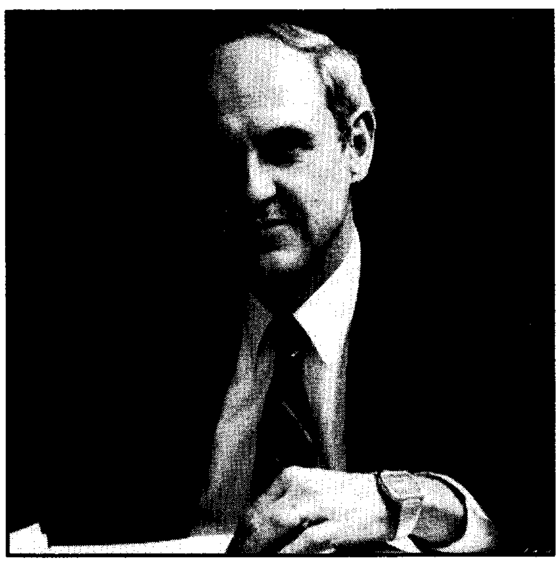
The Tax Foundation recently announced that Charles E. McLure, Jr., senior economist at the Hoover Institution at Stanford University, has agreed to join the staff as Adjunct Fellow.

Dr. McLure, who received his doctorate in economics from Princeton University, is currently focusing his research at the Hoover Institution on tax policy in countries in transition from socialism, and on international aspects of taxation. With this background, Dr. McLure has been able to lend his expertise to the Tax Foundation on two of its trips to the former Soviet Union, serving as the official economist to the delegation.

Prior to joining the Hoover Institution, Dr. McLure served as Vice President of the National Bureau of Economic Research, then as Deputy Assistant Secretary of the U.S. Treasury for Tax Analysis. ●



Charles E. McLure, Jr.

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and
Conference

November 17, 1993
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