Potential Impacts of a Federal Gasoline Tax Moratorium

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Even before the invasion of Ukraine by Russia, a major oil producer, the rise in the average nationwide price at the pump for gasoline from its pandemic low had led to interest in legislation that would suspend the 18.4 cents per-gallon federal gasoline tax through the end of 2022.

Two identical bills introduced in the 117th Congress, S. 3609 and H.R. 6787, would suspend the gasoline tax through December 31, 2022, and transfer from the Treasury general fund amounts equal to any revenues forgone to the Highway Trust Fund (HTF) and the Leaking Underground Storage Tank (LUST) Trust Fund. Currently, 18.3 cents of the federal tax is dedicated to the HTF and 0.1 cent is dedicated to the LUST fund. The bills would encourage the Secretary of the Treasury to ensure that the benefit of the tax holiday is received by consumers. The bills would not suspend the tax on diesel fuel.

Recent Gasoline Price Trends and Components

According to the American Automobile Association (AAA), the national average price for a gallon of regular gasoline was $4.173 on March 8, 2022. That was about $1.40 higher than one year earlier. The current price exceeds the previous modern high of $4.114 per gallon in early July 2008, according to the U.S. Energy Information Administration (EIA). All figures are unadjusted for inflation.

The EIA makes monthly estimates of the components of the retail price of gasoline. In January 2022, 56% was attributable to crude oil, 14% was related to refining, and 16% was related to distribution and marketing. Federal, state, and local taxes comprised 15% of the average retail price of gasoline, but with considerable variation across the country. Total state taxes added 31.0 cents to the price of a gallon of gasoline, on average, compared with the federal excise tax of 18.4 cents. At current price levels, the federal tax comprises about 4.4% of the retail price.

Potential Effects on Retail Gasoline Prices

The federal gasoline tax is levied when gasoline is removed from a refinery or terminal, or when gasoline is imported into the United States (26 U.S.C. §4081). Unlike a retail sales tax, the gas tax is not levied at the time of a retail purchase at a gasoline station.

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Both bills would encourage the Secretary of the Treasury to "use all applicable authorities" to ensure that the tax reduction is received by consumers. However, this provision may be difficult for the federal government to enforce. Enforcement may require estimating what the price of gasoline in each locality would have been in the absence of a federal gasoline tax suspension. Over an extended period of time, other factors, such as changes in the prices of crude oil and other inputs, would be likely to affect the hypothetical price of gasoline without a federal gasoline tax holiday. It is not clear what authorities belonging to the Secretary of the Treasury are intended to be deployed under the bills to ensure that consumers receive the benefit of the tax reduction.

A reduction in the gasoline price from a federal gasoline tax suspension could result in a greater volume of gasoline sales. However, economic research suggests that quantity demanded may not significantly change in response to a relatively small price decline. Modern estimates suggest that a 5% reduction in price (similar to the effect of the proposed changes in S. 3609 and H.R. 6787) would be expected to increase the quantity demanded by 1.35% to 1.85%.

Savings for households would depend upon how many gallons of gasoline a household purchases and the extent to which the tax savings are passed through to consumers. Based on data from the Federal Highway Administration, the average household, which owns slightly fewer than two light-duty vehicles, would have saved roughly $163, or $13.58 per month, had no federal gasoline tax been reflected in the price in 2020. However, gasoline consumption, and therefore gas tax payments, vary significantly by vehicle size: the average vehicle with a wheelbase longer than 10 feet, such as most pickup trucks and sport-utility vehicles (SUVs), was responsible for $115 in federal gasoline tax in 2020 ($9.58 per month), while the amount paid for smaller vehicles averaged $71 ($5.92 per month). Savings also would vary by geography. Households in suburban and rural areas are more likely to own a light vehicle than those in cities, and drivers in rural areas drive farther each day, on average.

S. 3609 and H.R. 6787 would suspend only the federal gasoline tax. Owners of vehicles powered by diesel fuel would generally not benefit. Most diesel fuel vehicles are likely to be commercial vehicles, such as semitrailer trucks or delivery vehicles. Recent estimates suggest that 5% or less of new retail cars and light trucks are powered by diesel fuel. However, residents of rural areas may be more likely to own a diesel fuel-powered vehicle.

Surface Transportation Program Impacts

Highway and public transportation funding is linked to highway excise taxes, including the gasoline and diesel taxes. These tax revenues are credited to the Highway Trust Fund (HTF). Beginning in September 2008, HTF revenues and balances have been insufficient to fund authorized spending and Congress has repeatedly transferred money from the Treasury general fund to the HTF to make up the shortfalls. Under the Infrastructure Investment and Jobs Act (IIJA; P.L. 117-58), a transfer of $118 billion was made in December 2021. Assuming a gasoline tax suspension is not extended and the gasoline tax is reduced to zero on March 15, 2022, and reimposed on January 1, 2023, the excise tax revenue forgone would be roughly $20 billion, based on Congressional Budget Office excise tax revenue projections. However, because S. 3609 and H.R. 6787 would transfer from the general fund to the HTF amounts equal to the excise tax revenue forgone, there should be no impact on the funding available under the IIJA for highways and public transportation. It would decrease overall net revenues by about $15.7 billion after accounting for the 21.6% offset due to increased payroll and income taxes.

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