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INSIGHT

Potential Impacts of a Federal Gasoline Tax Moratorium

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Gasoline price increases have generated interest in legislation suspending the 18.4 cents-per-gallon federal gasoline tax. On June 22, 2022, President Biden requested that Congress suspend the gasoline tax for three months, from July to September 2022. No corresponding legislation has been introduced, but other bills pending in the 117th Congress, including S. 3609, H.R. 6787, H.R. 7751, and H.R. 7926, would suspend the tax on gasoline for various periods of time. None of the pending bills would suspend the 24.4 cents-per-gallon tax on diesel fuel used on highways.

Recent Gasoline Price Trends and Components

According to the U.S. Energy Information Administration (EIA), the national average price for a gallon of regular gasoline was $5.006 on June 13, 2022. That was about $1.937 higher than one year earlier. The June 13 price was the highest price since at least 1990. All figures are unadjusted for inflation.

The EIA makes monthly estimates of the components of the retail price of gasoline. In May 2022, 59% was attributable to crude oil, 26% was related to refining, and 5% was related to distribution and marketing. Federal, state, and local taxes comprised 11% 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 3.7% 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.

S. 3609 and H.R. 6787 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

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time, other factors, such as changes in the price 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 (slightly higher than the effect of the proposed federal gasoline tax suspension) 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.

Owners of vehicles powered by diesel fuel would generally not benefit from a gasoline tax suspension. 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. Owners of electric vehicles and households that do not own vehicles also would not benefit.

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 takes effect on July 1, 2022, and the tax is reimposed on January 1, 2023, the excise tax revenue forgone over this six-month period would be about $13 billion, based on Congressional Budget Office excise tax revenue projections. If the collection of both the gasoline and diesel taxes were suspended for three months through September 30, 2022, the revenue forgone would be about $11 billion. However, all proposals now pending in Congress would transfer from the general fund to the HTF amounts equal to the excise tax revenue forgone, so there should be no impact on the funding available under the IIJA for highways and public transportation.

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