

Six Reasons Not to Suspend the Motor Fuel Tax

by Alaska Conservation Solutions
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1) The fuel tax suspension may not, and according to economic theory will not, actually result in lowering the price of motor fuel to the full extent of the suspension.

If the State eliminates fuel taxes, will our residents benefit from the entire amount of that tax elimination? In other words, will gasoline prices, for example, decrease by the entire 8 cents of the tax elimination for the duration of the suspension? This is highly unlikely.

Alaska collects motor fuel taxes primarily from wholesalers and distributors that hold "qualified dealer" licenses issued by the Tax Division. What will prevent gasoline and other fuel vendors from increasing the cost of fuel as a result of this program? Our economy is driven by supply, demand, and the ability to pay. If the demand is higher and the ability to pay greater, economic theory and experience demonstrate that prices will increase. How much of the tax suspension will be "consumed" by higher fuel prices? This is a troubling and significant unknown.

This issue was highlighted in numerous analyses concerning the recently-tabled summertime federal gas-tax holiday proposal. The move to suspend federal gas taxes *"had no support in the White House, and virtually none in the Democratic Congress. A hundred economists, including... James Galbraith, Alice Rivlin, and the Nobelist Joseph Stiglitz, denounced it...according to the economists, it would probably do nothing more than just transfer revenue from the government to the oil companies."* (Hendrik Hertzberg, The New Yorker, May 19, 2008)

Professor Michael Dorf of Columbia University likewise noted that *"the gas tax holiday will not even lower prices at the pump by very much: the greater demand stimulated ... because of the temporary elimination of the tax will in turn tighten supplies, leading suppliers to raise prices."* (FindLaw, May 9, 2008)

It does not make sense to suspend fuel taxes in Alaska unless consumers benefit from all or at least most of the suspension – and there is no evidence that they will.

2) Alaska has the lowest motor fuel gasoline tax in the United States, according to The Tax Foundation, but it also suffers from the highest gasoline prices.

On July 15, 2008, the American Automobile Association announced that the average price of regular gas in Alaska is the highest in the nation, topping this month's list at \$4.64 a gallon. Of that, only 8 cents a gallon (a rate that has not changed since 1970) is potentially attributable to the state highway motor fuel tax.

Nationwide, there is no direct, causal relationship between fuel taxes and prices. Consider the following city comparisons, provided by the Department of Energy's Energy Information Administration:

City	State tax/gallon	Average Fuel Price (7/14/08)
Anchorage	8 cents	\$4.39
Seattle	37.5 cents	\$4.33
Miami	33.2 cents	\$4.18
Denver	22 cents	\$4.01
Houston	20.0 cents	\$3.91

In other words, fuel taxes do not "drive" prices.

A better use for some or all of the revenues from Alaskan fuel taxes would be to identify and combat the market factors that, unlike state taxation, are the true causes of soaring fuel costs in this state.

3) Just as is the case with the proposed \$1200 rebate, a fuel tax suspension will be politically difficult, if not impossible, to end so long as energy prices remain high.

We need only look at the Alaska Permanent Fund dividend program and entitlement programs to recognize how difficult it is to discontinue or reduce them. With fossil fuel prices projected to continue to increase to \$150 to \$200 per barrel, and with conservation and energy efficiency measures made to seem less urgent due to the proposed ARRP program and fuel tax suspension, our state will be in a worse position a year from now if we adopt this approach. It is very unlikely that the legislature would be able to discontinue or significantly reduce either the fuel tax suspension or the rebate program twelve months from now.

4) All vehicles impose wear and tear on Alaska's infrastructure. In keeping with cost-causer/cost-payer principles, consumers of motor fuels ought to contribute to the maintenance costs of the highways and other forms of infrastructure their vehicles use.

Maintenance costs for state-operated roads and airports are funded through the Department of Transportation. A ballpark figure for the DOT statewide road maintenance budget for FY09 is \$77 million, and for aviation maintenance another \$26 million. It only makes sense for the users of Alaska's resources, especially those who are not state residents, to contribute to the upkeep of our roads, bridges and airports.

Even though suspending the gasoline tax would have a nearly insignificant impact on the average Alaskan's household budget, it would result in a significant loss of state revenue: nearly \$30 million from highway gasoline taxes, according to The Tax Foundation and prior Alaska Tax Division Annual Reports. Moreover, Alaskans already rank 48th in the nation in terms of the amount of motor fuel taxes they pay per capita: just \$62.81 annually in FY 2006, according to The Tax Foundation. This is a negligible amount for Alaskans to be asked to contribute towards vital infrastructure upkeep.

5) Motor Fuel taxes are collected, in part, from visitors to the state. If we suspend these taxes, we lose this non-resident revenue.

Visitors to Alaska, either driving here from other states or renting cars, pay motor fuel taxes. If we eliminate this tax, we will be losing revenue from non-residents who use our roads and other infrastructure.

6) The approximately \$40 million that Alaska would forfeit by suspending all forms of motor fuel tax could be invested in public transit or other programs that would proactively reduce energy costs and greenhouse gas emissions.

Instead of suspending motor fuel taxes, the approximately \$40 million at stake could be invested in strategies that will reduce transportation costs to Alaskans in the short-, mid-, and long-term. For example, this money could be invested in expanding public transit, car pooling, and van pooling; providing loans for marine engine efficiency conversion; and expanding the use of biofuels, especially from fish waste. All of these efforts would have both immediate and far-reaching benefits, unlike the tax suspension.

BACKGROUND:

Alaska Tax Division 2007 Annual Report
State taxes on motor fuels: Total was approx. \$40m in FY2007

Highway	8 cents a gallon	\$29.4m
Marine fuel	5 cents a gallon	5.6m
Jet fuel	3.2 cents a gallon	4.1m
Aviation gasoline	4.7 cents a gallon	0.7m