



Guidance Document Vehicle Miles Traveled (VMT) Tax

- **TCA supports an increased fuel tax, coupled with indexing the tax to inflation, as a way to increase revenue for the Highway Trust Fund.**
- **TCA also recognizes that relying on fuel tax revenue for future infrastructure needs likely will cause a long-term funding gap with the increased use of electric and other fuel-efficient vehicles.**
- **The vehicle miles traveled tax (VMT) has been discussed at the state and federal level as an alternative taxation method for electric, hybrid, and other fuel-efficient vehicles for their impact on the highways and to recover future revenue shortfalls in the Highway Trust Fund.**
- **In order for a VMT to be considered, the following issues must be addressed:**
 1. **The technological and administrative infrastructure is not currently in place to report and collect this tax.**
 2. **The potential for dual taxation is high if the fuel tax is not fully phased out before the VMT goes into effect.**
 3. **While the trucking industry is accustomed to digital tracking through electronic logging devices (ELDs) and annual reporting of mileage to the state and federal government, private citizens are much more sensitive to the VMT's privacy implications.**
 4. **Efforts must be made to ensure the potential for fraud is minimized in any VMT reporting system.**
 5. **The VMT as currently envisioned has a significantly higher administrative cost of collection when compared to the current federal fuel tax system, which has a proven reporting and collection infrastructure.**
 6. **Past and present state VMT pilot programs lack adequate data to determine whether this is a reliable alternative on a national scale.**

- **TCA supports an increased fuel tax, coupled with indexing the tax to inflation, as a way to increase revenue for the Highway Trust Fund.**

Since the Highway Trust Fund was established in 1956, its largest source of annual revenue has come from the federal fuel tax. The federal fuel tax represents the ideal user fee, linking highway use with the associated costs of building and maintaining roads. The federal fuel tax has not been increased since 1993, at which time it was set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Because the federal fuel tax is not indexed to inflation (e.g., the Consumer Price Index (“CPI”)), the real purchasing power of the fuel tax revenue has declined by roughly 40% since 1993. TCA supports indexing the federal fuel tax to inflation and using CPI as the measure for increasing the fuel tax on an annual basis.

In 2018, revenue from the federal fuel tax equaled \$25.7 billion for gasoline and \$9.9 billion for diesel fuel, accounting for 87% of the total Highway Trust Fund revenue. Until the funding shortfall in the Highway Trust Fund is addressed, individual states will continue to increase their fuel taxes to provide the revenue necessary for state-level infrastructure projects. Over half of U.S. states have enacted legislation to increase fuel taxes in the last five years, and election results have shown that 93% of state lawmakers who supported a state-level fuel tax increase between 2015 and 2018 were reelected. If the federal government does not address necessary changes to the Highway Trust Fund, states and even local-level governments will continue to raise their fuel taxes. It is with these statistics in mind that TCA encourages our federal lawmakers to vote in favor of a federal fuel tax increase, knowing that the general public supports this effort.

- **TCA also recognizes that relying on fuel tax revenue for future infrastructure needs likely will cause a long-term funding gap with the increased use of electric and other fuel-efficient vehicles.**

Decreasing rates of fuel consumption by newer fuel-efficient vehicles will cause Highway Trust Fund revenue to decrease over time if left unaddressed. With over 1 million electric vehicles on U.S. roadways today, this trend will likely increase as the network of charging stations extends to more remote areas of the country. Furthermore, as truck manufacturing companies develop new electric tractors, the possibility exists for decreases in fuel tax revenue from diesel consumption; however, this does not present an immediate threat to the Highway Trust Fund.

TCA supports current and future technology that reduces greenhouse gas emissions and improves our nation’s air quality. Currently, electric and other alternative-powered vehicles represent fewer than 5% of the vehicles on U.S. roads. While these types of vehicles present important infrastructure funding challenges to consider in the coming decades, lawmakers should focus on equivalent revenue that can be collected from these vehicle owners through mechanisms such as additional registration fees or sales taxes, rather than fundamentally changing the current national fuel tax structure.

- **The vehicle miles traveled tax (VMT) has been discussed at the state and federal level as an alternative taxation method for electric, hybrid, and other fuel-efficient vehicles for their impact on the highways and to recover future revenue shortfalls in the Highway Trust Fund.**

The VMT may provide the Highway Trust Fund an alternative source of revenue as federal fuel tax revenues continue to fall. Hybrid vehicles, electric vehicles, and alternative fuel-powered vehicles, including compressed natural gas (CNG) and liquefied natural gas (LNG), all pay less federal fuel tax than gas or diesel-powered vehicles. While their effect on the Highway Trust Fund today is minimal, a VMT could provide an alternative method for taxing their road use, similar to the current fuel tax for vehicles with combustion engines. Furthermore, a VMT system could allow for the tax revenue to be collected and distributed at the state level, similar to International Fuel Tax Agreement (IFTA) tax revenue for commercial vehicles.

- **In order for a VMT to be considered, the following issues must be addressed.**

- 1. The technological and administrative infrastructure is not currently in place to report and collect this tax.**

Determining how each vehicle's mileage will be reported to the federal government under a VMT system presents several key challenges. Lawmakers must determine how the VMT will be reported and collected as new methods will be required. While options for passenger vehicles include annual reporting during inspections or registrations or digital reporting through onboard devices, neither of these options are currently in use or being developed. Additionally, once drivers of passenger vehicles report the annual mileage, the question remains of how the government will collect the funds. Unlike today's fuel tax system, where the tax is included in the price paid per gallon of gasoline or diesel, individual road users paying through a VMT would have to pay the tax in one lump sum each year.

- 2. The potential for dual taxation is high if the fuel tax is not fully phased out before the VMT goes into effect.**

TCA strongly opposes any taxation system in which truckload carriers would be required to pay both the federal fuel tax and the new VMT for the same vehicle. Because the pilot programs carried out by several states have issued rebates to participants instead of eliminating the tax at the pump, it is likely that a phased-in approach to VMT implementation on a national scale would force carriers to pay the tax twice and then, at best, wait to be repaid by the government for the overpayment, which results in an unnecessary and damaging dual-taxation system.

TCA also believes that tolling of existing highways and bridges represents a dual-taxation system. If the government adopts a VMT system that imposes a tax on vehicles for miles driven, the existing tolls must be eliminated, especially on the many bridges and tunnels for which the toll is charged per transit and not per mile.

While a weight-distance tax could be incorporated into the VMT, widescale implementation could have the unintended effect of disincentivizing innovation regarding vehicle fuel efficiency. Nearly half of U.S. states tried a version of the weight-distance tax on trucks and more than 20 states repealed it, proving the need for additional research on this option before moving forward at the federal level.

Based on these considerations, TCA believes the current federal fuel tax system provides the only taxation method that equitably charges users based on the use, weight, and associated fuel efficiency of their vehicle, and provides the most reliable method for collecting the tax revenue necessary for continuation of the Highway Trust Fund.

- 3. While the trucking industry is accustomed to digital tracking through electronic logging devices (ELDs) and annual reporting of mileage to the state and federal government, private citizens are much more sensitive to the VMT's privacy implications.**

Because the VMT collection and reporting infrastructure has not yet been established, privacy concerns for drivers of passenger vehicles exist. In the trucking industry, ELDs currently track vehicle mileage and communicate information about vehicle location and performance. Trucking companies also annually report mileage to the government through IFTA, and these figures could serve as the basis for a federal VMT collection effort. As motor carriers already collect and report vehicle mileage, they likely would not object to using this reporting mechanism for a VMT.

However, most passenger vehicle drivers do not track mileage and are not aware of devices in their vehicles that collect or transmit this data. If drivers of all vehicles are required to install a device that records and transmits miles driven, this policy will likely meet staunch resistance from the public as evidenced by the current global debate regarding data privacy. These devices would represent a “big brother” overstep to many. While other VMT reporting options exist for passenger vehicles, TCA strongly opposes any taxation system which would establish separate reporting regimes for passenger vehicles and commercial motor vehicles.

This concern also applies to state and local tax collection through a federal VMT system. Motorists should not be required to pay the federal tax through one collection method and state or local fuel taxes through another. However, if all levels of the fuel tax shift to a VMT system, the motoring public may be even more concerned about the breadth of data being collected and sent to officials at all levels of government and to private industry.

4. Efforts must be made to ensure the potential for fraud is minimized in any VMT reporting system.

The current pay-at-the-pump federal fuel tax system has a near-zero evasion rate because it is impossible to segment out the price of the fuel from the price of the tax when filling up a tank, and because the tax is collected and paid by companies receiving payment for the fuel purchases. Any taxation method that does not assess and collect the tax similar to the current fuel tax system will leave open the window for those who wish to avoid paying the tax. The evasions methods include odometer fraud, tampering with location tracking devices, or failure to accurately or voluntarily report miles driven. Any VMT system adopted must eliminate these evasion methods; otherwise, lawmakers must take into account the loss in tax revenue from these evasion tactics to determine the true VMT revenue collection that would come from this change and accurately conduct a cost-benefit analysis between the different methods.

While most American drivers support contributing more toward funding infrastructure improvements, it is highly unlikely that they would support paying more in taxes if those fees were paid in an annual lump sum. The average personal vehicle driver currently pays around \$200-\$300 per year on both federal and state fuel taxes, which is a significant amount for many Americans. Undoubtedly, this would incentivize some individuals to try and avoid paying the tax.

Concerns also exist as to the enforcement mechanism for collecting a VMT. Under the current fuel tax system, enforcement is virtually unnecessary as only a few large companies collect and remit the tax payment to the government. It is conceivable that a VMT system could require the U.S. Department of Transportation (DOT) to establish an enforcement division to keep track of those who are not complying with the program, which could prove difficult with its already extensive workload.

5. The VMT as currently envisioned has a significantly higher administrative cost of collection when compared to the current federal fuel tax system, which has a proven reporting and collection infrastructure.

Research shows that the administrative cost associated with the collection of the federal fuel tax is around one percent, representing a laudable return on investment for the revenue collected. In contrast, the administrative costs associated with the VMT remain high. Estimates suggest any alternative to the fuel tax would experience a significantly higher administrative burden to initiate the new system and to maintain it moving forward.

The administrative burden would be even more pronounced for state and local governments that would have to transition their fuel taxes to VMT programs. While the federal government could shoulder the load of having to stand up a new regime to implement and enforce the VMT, many state and local governments likely would not have the resources to do so.

6. Past and present state VMT pilot programs lack adequate data to determine whether this is a reliable alternative on a national scale.

To date, fewer than ten states have initiated pilot programs to study implementing a VMT system. The data collected from the completed state-level pilots is not extensive enough to be generalizable for the federal level. While a nationwide VMT pilot program would settle debate on whether this tax collection method is feasible at the federal level, this type of study would be very expensive and administratively burdensome to carry out. Furthermore, states that have conducted a VMT pilot program have collected little to no tax revenue, leaving more doubt as to the feasibility of this system on a national scale. Results of a national VMT pilot program will likely be dramatically different with substantive outlays of taxpayer dollars. Before Congress or DOT moves forward with steps to create a federal VMT tax collection regime, additional data must be collected to have a true understanding of its potential for success and the possible repercussions any movement away from the current federal fuel tax may have.

Sources

- American Road & Transportation Builders Association, "Voters Re-elect State Lawmakers Who Supported Gas Tax Increases, New ARTBA Analysis Finds," November 9, 2018. <https://www.artba.org/2018/11/09/voters-re-elect-state-lawmakers-supported-gas-tax-increases-new-artba-analysis-finds/>.
- David Schaper, "It's Been 25 Years Since The Federal Gas Tax Went Up." *NPR*, October 5, 2018. <https://www.npr.org/2018/10/05/654670146/its-been-25-years-since-the-federal-gas-tax-went-up>.
- HNTB, "HNTB survey: Frustration with increasing congestion has Americans willing to pay higher tolls and taxes for infrastructure improvements," October 15, 2018, <https://www.hntb.com/Newsroom/News-Releases/HNTB-survey-Frustration-with-increasing-congestion>.
- National Conference of State Legislatures, "Road User Charges (RUC): News From the States," April 24, 2018, <http://www.ncsl.org/research/transportation/road-use-charges.aspx>.
- Office of Energy Efficiency & Renewable Energy, U.S. Department of Energy, "How Much Does an Average Vehicle Owner Pay in Fuel Taxes Each Year?" August 26, 2013, <https://www.energy.gov/eere/vehicles/fact-794-august-26-2013-how-much-does-average-vehicle-owner-pay-fuel-taxes-each-year>.
- Peter G. Peterson Foundation, "The Highway Trust Fund Explained," <https://www.pgpf.org/budget-basics/budget-explainer-highway-trust-fund>.
- Robert D. Atkinson, "A Policymaker's Guide to Road User Charges," *Information Technology & Innovation Foundation*, April 22, 2019, <https://itif.org/publications/2019/04/22/policymakers-guide-road-user-charges>.
- Robert C. Pitcher, "An Assessment of the Vehicle Miles Tax," *State Tax Notes*, May 12, 2014, <https://www.trucking.org/ATA%20Docs/What%20We%20Do/Trucking%20Issues/Documents/Tax/Pitcher0512.pdf>.
- United States Government Accountability Office, "Highway Trust Fund: Pilot Program Could Help Determine the Viability of Mileage Fees for Certain Vehicles," December 2012, <https://www.gao.gov/assets/660/650863.pdf>.
- The Urban-Brookings Tax Policy Center, "Tax Policy Center Briefing Book: Key Elements of the U.S. Tax System," <https://www.taxpolicycenter.org/briefing-book/what-highway-trust-fund-and-how-it-financed>.