



October 29, 2003

Eliminate the Deficit Reduction Fuel Tax

Let's repeal the failed attempt to close the deficit with increased fuel taxes.

By: Jared Pincin

Former President Ronald Reagan said in an address to the National Association of Realtors in 1982, "We don't have a trillion dollar debt because we haven't taxed enough; we have a trillion dollar debt because we spend too much." Today, Americans are paying the highest taxes in the nation's history and yet the government is also running the largest budget deficit American has ever seen. Time and time again, politicians have failed to enact fiscal discipline and reign in reckless and wasteful spending and have instead opted for higher taxes to support an ever growing government that is expanding in both size and scope. In a constant search for higher revenues, the government has created a complicated tax code that is distorted and full of loop holes. This complicated tax code costs Americans an estimated \$183 billion to follow the rules and fill out tax forms as well as creates an uneven playing field among American businesses. The federal deficit fuel tax is a perfect example of a tax code that needs to be reformed.

With the Transportation Equity Act for the 21st Century (TEA-21), a bill that authorized federal surface transportation spending from 1998 to 2003, expiring at the end of 2003, lawmakers must now pass a new federal surface transportation bill. On September 30, 2003 President Bush signed a temporary five month extension that allows for TEA-21

to continue operation for federal surface transportation until the end of February. At the end of February, the bill either must be reauthorized, be extended temporarily again, or a new federal surface transportation bill must be written and passed. This temporary extension allows Congress to gather more information on TEA-21 but it also allows Congress the chance to do business as usual instead of reforming the law by delaying real debate on reform. One adjustment that should be made immediately is the repeal of the deficit reduction fuel tax. The deficit fuel tax is an unfair tax that has distorted transportation markets while unnecessarily increasing the operating costs of railroads and barges over the last decade.

Background of the tax: With the government budget deficits reaching all-time highs in the early 1990s, federal lawmakers looked for ways to close the budget deficit.¹ One solution came in the form of higher taxes on the transportation sector of the economy. In December 1990, Congress passed a federal fuel tax on railroads and trucks. This tax was extended to barges in October of 1993 and to commercial airlines in October of 1995. An amendment to the tax in October of 1997 redirected the taxes paid by commercial airlines and trucks to a federal trust fund that is used for infrastructure construction and maintenance. The tax has ranged anywhere between 2.5 cents a gallon and 6.9 cents a gallon with the current level of the tax set at the arbitrary rate of 4.3 cents a gallon, the same rate it has been since November of 1998. ²

Effects on Railroads and Barges: Railroads and barges have been hit particularly hard by the deficit reduction fuel tax, with the proceeds going to general revenues rather than a trust fund designed to improve infrastructure. The railroad industry has paid more than \$1.9 billion in fuel taxes since 1990. Since 1997 when trucks and commercial airlines had their tax redirected to a federal trust fund used for infrastructure construction and maintenance, railroads have paid \$780 million into general revenues, including \$170 million in 2001 alone. Barges, while not hit as hard as railroads, pay around \$20 million a year for the federal deficit fuel tax. Since 1997, they have paid more than \$85 million in general revenues.³

Railroads and barges not only have to pay this 4.3 cents a gallon of fuel tax, they also have to pay for the cost of improving infrastructure.

For railroads, that means laying down new rail and improving on old rails to meet the needs of the newer and heavier rail trains. For barges, this tax is preventing money from being invested in new and more efficient infrastructure and transportation techniques.

Economic Reasons for Change: The federal deficit fuel tax distorts the transportation market by placing an additional operating cost on both railroads and barges. Instead of allowing the free market to determine the most efficient way to transport goods, the tax has undermined efficient traffic distribution based upon competition factors such as price and service. A report from the U.S. Department of Transportation on national transportation policy stated, "It is imperative Congress continues to seek the most productive return for our transportation infrastructure dollars in alignment with national transportation needs and based on objective standards..." 4 The federal deficit fuel tax gives an unfair economic advantage to commercial airlines and trucks while handicapping railroads and barges. 5

The elimination of the federal deficit fuel tax would help railroads and barges lower costs and become more competitive. More goods could be moved by rail and barge instead of trucks, which could alleviate some congestion on highways and reduce the amount needed for highway maintenance.

Environmental Reasons for Change: Both railroads and barges are more environmentally friendlier than trucks when transporting of goods. The U.S. Environmental Protection Agency reports that "heavy-duty motor vehicles contribute a large portion of...NOx emissions primary because diesel vehicles emit a much more of these pollutants than gasoline vehicles" .6 Nitrogen oxides are a critical component of smog, which is generated when nitrogen oxides are mixed with volatile organic compounds and sunlight. 7

Railroads and barges are very efficient carriers of bulk goods. In the year 2002, a ton of freight could be moved on average 404 miles for every gallon of fuel used. This is a 72 percent increase since 1980.8 Currently the average heavy commercial truck gets between 6.8 to 7 miles per gallon. 9

Energy Reasons for Change: 52 percent of the United State's electricity comes from coal, making coal the most widely used energy resource. Railroads and barges ship 79 percent of coal in the United States, with railroads alone shipping 65 percent. Trucks only ship 11 percent. The health of railroads and barges is important to the overall health of the energy market in the United States. 10

A More Sensible Approach to Deficits: The railroad and barge companies did not created the federal deficit, Washington lawmakers did. Instead of taking responsibility for spending too much, eliminating wasteful governmental spending, and reducing the size of government, lawmakers simply added a tax to the transportation industry. Instead of solving the problem of overspending tax dollars, Congress created another problem by distorting the market for transportation and forcing businesses to compete on unequal footing, hurting both producers with higher costs and consumers with higher shipping rates. At a time where government deficits are once again skyrocketing, even with the federal deficit fuel tax in place, Congress should look to their own spending habits instead of to higher taxes. Not only should Congress not be looking for ways to increase the gas tax, they should also be looking for ways to eliminate the deficit reduction tax.

The federal deficit fuel tax also brings to light the antiquated U.S. tax code; a tax code that is over 45,000 pages long and is in desperate need of reform. Instead of a tax code that has tax breaks and loopholes for special interests, treats people differently, and treats businesses differently, the tax code should be simple, fair, and flat. The tax code should be based on the principles of public finance; not spending that is influenced by special interests and political games. Former President Ronald Reagan may have summed the U.S. tax code best, "Our federal tax system is, in short, utterly impossible, utterly unjust and completely counterproductive, reeks with injustice and is fundamentally un-American... it has earned a rebellion and it's time we rebelled."

End Notes

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Phone: (202) 783-3870 Fax: (202) 232-8356 Toll Free: 1-888-564-6273

www.freedomworks.org E-mail: cse@cse.org

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