

The Gas Tax: What it is and Who Pays

Good roads, safe bridges, effective local and regional transit – these are public investments that connect us to work and family, strengthen our economy, and improve our quality of life. Taxes are the primary way we pay for publicly owned transportation assets and operations, and gas taxes are dedicated to supporting these investments.

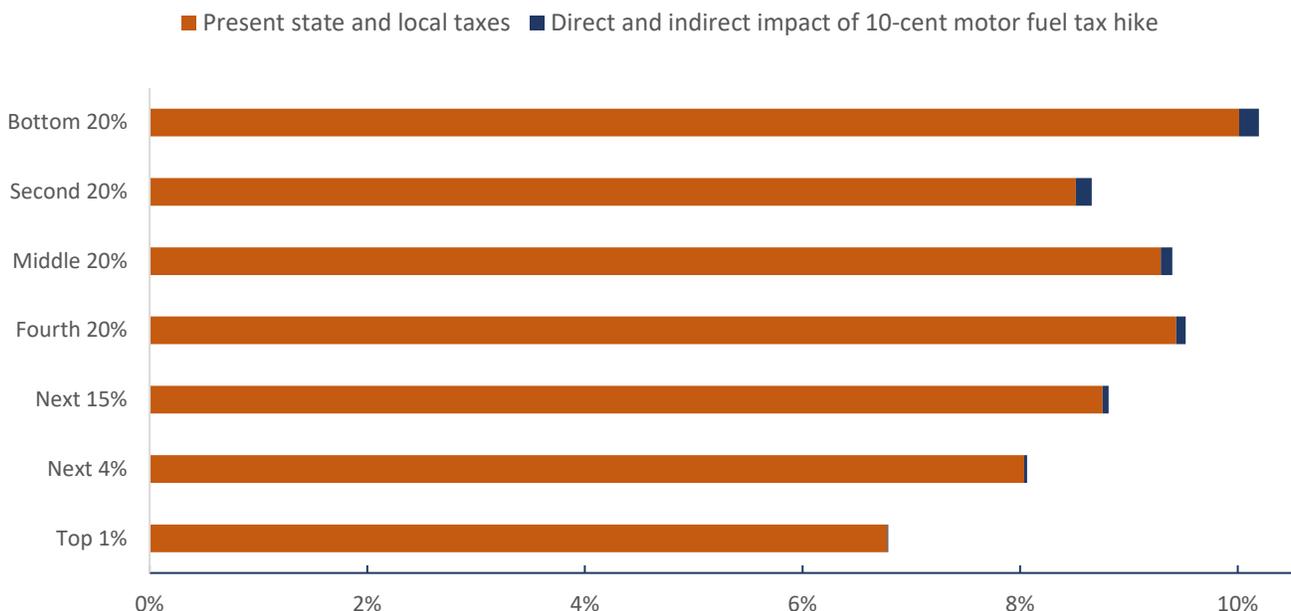
The state motor fuels excise, or “gas tax,” is 24 cents per gallon, collected by wholesalers, and added to the price at the pump. The Massachusetts Motor Fuels Tax generated \$769.1 million in Fiscal Year 2018 -- about \$32 million per penny charged at the pump on each gallon. The tax accounts for roughly 11 percent of total transportation operating and capital revenues raised by the Commonwealth.

The federal government levies a separate, 18.4-cent gas tax on top of the state gas tax. Combined, state and federal gas taxes in Massachusetts are 44.94 cents per gallon, including an Underground Storage Tank fee.

People with lower incomes tend to spend a greater share of their income on selective sales taxes, like gas taxes, even when consuming the same amount or less than a high-income person. If a low- and a high-income person each purchase 12 gallons of gasoline, the taxes on this purchase will consume a larger portion of the low-income person’s earnings than that of the high-income person. Taxes that hit those with lower incomes harder this way are “regressive.”

Low and Middle Income Households Pay a Larger Share of Income in Taxes. Higher Gas Taxes Would Increase this Gap

Percent of state and local taxes paid by Massachusetts income group



Data from the Institute on Taxation and Economic Policy (ITEP) detail how the current system of state and local taxes in Massachusetts is regressive, largely because the state uses a flat income tax rate and relies heavily on sales taxes.

The chart above shows how an increase in the gas tax would make Massachusetts taxes more regressive. If a 10-cent increase to the state gas tax was in place in 2019, it would have raised approximately \$328 million in additional revenue. Households with low and moderate incomes would have paid significantly larger shares of their income toward this increase than the highest-income households would have. The additional tax would have represented almost 0.20 percent of income for the lowest-income households; about 0.10 percent of income for middle-income households; and about 0.01 percent for the highest 1 percent of income earners (who on average purchase more gas than other income groups).

This means the top 1 percent would need to consume almost 50 times more gas than the middle-income households and nearly 200 times more gas than the lowest-income households in order to pay a similar share of their income toward the gas tax increase.

High-income households tend to drive somewhat more miles, but not nearly in proportion to their much higher incomes, according to research from the Departments of Revenue in Minnesota and Texas. One recent academic study finds also that poor households are less able to adapt to higher prices by reducing their fuel consumption (even though they have a greater incentive to do so). The study suggests that higher-income households may have an easier time reducing their fuel consumption because they are more likely to own multiple vehicles and can more readily consolidate trips with one vehicle or shift trips to their more fuel-efficient vehicle. Low-income households are also less likely than high-income households to drive electric vehicles that don't consume gas.

Higher gas taxes also tend to have a greater impact on rural households. People living in rural areas tend to have few other travel options besides automobiles and they typically drive more. Rural households tend to reduce their driving miles more in response to higher gas taxes, but nonetheless bear a disproportionately greater financial burden. Evidence suggests rural households with one vehicle reduce their gas consumption the least in response to the price of gasoline, presumably because there are fewer options to do so.

The impact of higher gas taxes is more complex when viewed by race. Historic and modern-day systemic barriers to opportunity have prevented Black and Latinx people in Massachusetts from equitable access to high-paying jobs, education, and other avenues leading to higher household income. As a result, Black and Latinx workers are over-represented among low-income households and underrepresented among higher-income households. Black and Latinx households are therefore likely to shoulder disproportionate responsibility for paying higher gas taxes – both as drivers who directly pay the tax and as consumers who pay slightly higher prices on goods as a result of businesses and truckers paying the tax. On the other hand, this racially disproportionate impact is muted somewhat because Blacks, Latinx, and Asian commuters are less likely to drive to work than Whites.

Increasing gas tax rates would encourage people to drive and pollute less, but it would worsen tax fairness, making our upside-down tax system even more lopsided.

Read the full version of this study with citations on our website [“The Pros and Cons of Higher Gas Taxes, and How They Could be Offset for Lower-Income Families”](#)