

## The Gas Tax

Massachusetts has a fuel tax of 23.5 cents. The tax was last raised in 1991. As of FY 2006, Massachusetts ranked 47<sup>th</sup> in the nation in terms of percent of personal income devoted to the gas tax.

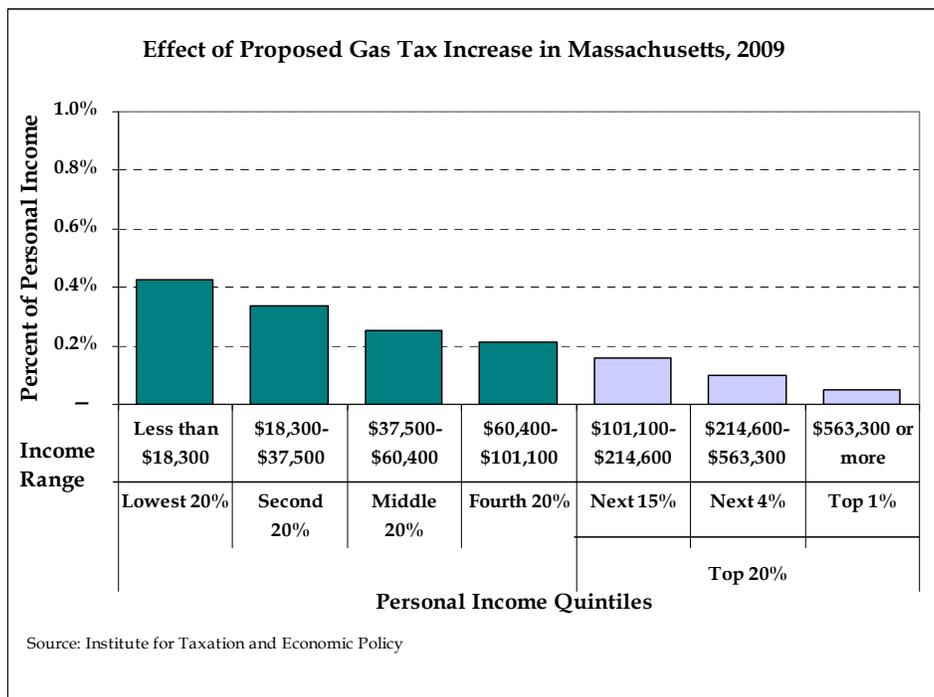
### WHAT WOULD BE THE REVENUE EFFECT OF A GAS TAX CHANGE?

Based on recent collections, a one penny change in the gas tax is associated with a \$27 million change in revenue. This means that a 19-cent increase would generate approximately \$500 million in revenue, assuming that the tax increase does not lead to a reduction in purchases of gas.

### IS THE GAS TAX REGRESSIVE OR PROGRESSIVE?

Like other flat sales taxes, the gas tax is regressive. The reason for this is that if two people spend the same amount on gas, that amount is a larger share of the income of a lower income person than of a higher income person. As the chart below indicates, those in the lowest income quintile would devote the largest share of their income to a gas tax increase.

The gas tax also has the largest effect on those without other transportation options. In the Boston area and in communities along commuter rail lines, people have multiple transportation options. In other areas of the state, where driving is the only reasonable option for getting to work or picking up children from school, potential drivers have fewer options for avoiding higher gas prices.



## ADDRESSING THE REGRESSIVITY OF THE GAS TAX

When a state increases the gas tax, it can also take steps to mitigate the regressive nature of the tax. For example, if Massachusetts were to raise the gas tax by \$500 million, it would cost the state \$35.4 million, or approximately 6 percent of the total revenue generated from the tax increase, to protect the lowest income quintile from the effects of the proposed tax increase.

In adopting such a strategy, the state should also weigh other policy goals – such as reducing the consumption of fuel, raising needed revenue, and keeping the tax code as simple as possible. Keeping these concerns in mind, there are a number of policies the state could implement with a gas tax increase to offset the disproportionate impact of an increased gas tax on lower income people:

**Expand the EITC:** The state could expand its Earned Income Tax Credit (EITC) program, which encourages work for low-income earners. The EITC, which currently provides 15 percent of the federal benefit,<sup>1</sup> could be increased to 20 percent; the maximum credit would provide \$960 to eligible low-income workers. Increasing the EITC would affect more than 300,000 Massachusetts residents and would cost \$31.4 million. This would offset the average effect of the gas tax increase for parents eligible for the maximum EITC. For those without children who are eligible for the maximum EITC, this increase would offset half the of the average gas tax increase. The benefits of expanding the EITC are providing relief to some low-income families through an existing tax program so attendant administrative costs would be minor. The downside to expanding the EITC to mitigate the effects of the gas tax is that it would not help those low-income residents, such as the elderly or unemployed, who do not meet the earned income requirement.

**Create a Low-Income Tax Credit:** Provide a new \$50 tax credit for those with incomes under \$20,000. Such a policy would offset the entire effect of the gas tax for the average driver in the lowest income quintile, and would cost \$57 million (assuming 100 percent participation).

**Expand the Property Tax Circuit Breaker:** The state could expand the property tax circuit breaker to all residents (not just those over 65) whose property tax bill exceeds 10 percent of their income. Such a tax credit would affect approximately 125,000 residents. The cost of this policy would depend on the amount of the tax credit, but a tax credit of a maximum of \$350 would cost an estimated \$45 million.<sup>2</sup>

**Enhance Supplemental Nutritional Assistance Program (SNAP – formerly food stamps):** The state could very efficiently offset the effects of the gas tax increase on low-income families by increasing SNAP benefits using the existing Electronic Benefit Transfer system. Alternatively, the state could use a small portion of the gas tax revenue to increase SNAP enrollment of eligible residents. Many Massachusetts families who could receive SNAP benefits funded by the federal government do not, due to limited state enrollment capacity. By increasing the state's administrative capacity to verify eligibility and deliver these benefits to eligible families, the state could increase federal benefits flowing to Massachusetts families.

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<sup>1</sup> For more information on the state's Earned Income Credit see MassBudget's report: "Following Through on Welfare Reform: How Savings Could Support Lower-Income Working Families" available online at: [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=584](http://www.massbudget.org/documentsearch/findDocument?doc_id=584)

<sup>2</sup> For more information on the state's Property Tax Circuit Breaker see MassBudget's report: "Property Taxes: Helping Those Who Need it Most," available online at: [http://www.massbudget.org/documentsearch/findDocument?doc\\_id=596](http://www.massbudget.org/documentsearch/findDocument?doc_id=596)