

# Gasoline Excise Taxes, 1933-2000

by Brian Francis

The Federal excise tax on gasoline is currently 18.4 cents per gallon. This excise tax generates over \$20 billion per year in tax revenue. Revenues are currently 170 times the amount generated in 1933, the first year of the Federal gasoline excise tax. Receipts from this tax are the major source of revenue for the Highway Account and the Mass Transit Account, which together make up the Highway Trust Fund. These taxes are used as a type of user fee. However, in recent years, the gasoline excise tax and the tax on other motor fuels have been used for additional purposes, for example, to reduce the Federal Budget deficit.

## Origins

The Federal excise tax on gasoline was first proposed in 1914 when the Ways and Means Committee of the U.S. House of Representatives recommended a 2-cents-per-gallon tax. The bill failed, but President Woodrow Wilson proposed the levy be adopted the following year. Once again, the gasoline tax failed to pass Congress. It was not until 1919, when Oregon became the first State to pass an excise tax on gasoline, that taxes on gasoline became common. Within 10 years, every State in the Union had adopted a gasoline excise tax [1]. Every State currently imposes an excise tax on gasoline, though the rates vary. In 1999, these taxes generated \$29 billion [2].

The Revenue Act of 1932 was passed by Congress to uphold U.S. credit and balance the Federal Budget [3]. The Act instituted a Federal excise tax on gasoline of 1 cent per gallon and reinstated a whole series of excise taxes that had been in effect during World War I, and a few of which are still in effect. The gasoline excise tax was by far the most lucrative, generating \$125 million in its first year. Figure A shows the excise taxes, the amount of revenue raised in 1933, and their current status. These excise taxes comprised over 15 percent of the \$1.6 billion of internal revenue collected for Fiscal Year 1933.

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Figure A

## Federal Excise Taxes, Fiscal Year 1933

[Money amounts are in whole dollars]

Excise tax	Receipts in FY 1933	In effect FY 2001
<b>Total</b> .....	<b>247,751,425</b>	<b>N/A</b>
Gasoline.....	124,929,412	Yes
Electrical energy.....	28,562,739	No
Lubricating oils.....	16,232,925	No
Tires and inner tubes.....	14,980,085	Yes <sup>1</sup>
Other automobiles and motorcycles.....	12,573,922	Yes <sup>2</sup>
Toilet preparations, etc.....	9,602,539	No
Articles made of fur.....	7,546,274	No
Brewers' wort, malt, grape concentrate, etc.....	5,707,905	No
Soft drinks.....	4,186,447	No
Candy and chewing gum.....	4,150,228	No
Parts or accessories for automobiles.....	3,597,276	No
Jewelry.....	3,068,494	No
Matches.....	2,871,992	No
Sporting goods.....	2,701,680	Yes <sup>3</sup>
Radio sets, phonograph records, etc.....	2,206,763	No
Mechanical refrigerators.....	2,111,869	No
Automobile trucks.....	1,654,040	Yes <sup>4</sup>
Firearms, shells and cartridges.....	896,833	Yes
Cameras and lenses.....	170,002	No

<sup>1</sup> Limited to heavy tires.

<sup>2</sup> Limited to luxury cars and "gas guzzlers."

<sup>3</sup> Limited to bows, arrows, and sport fishing equipment.

<sup>4</sup> Limited to heavy trucks and trailers.

At its introduction, the Federal gasoline excise tax was considered temporary. Indeed, the Senate Finance Committee's report of May 10, 1933, stated:

Your committee is of the opinion that the gasoline tax should be reserved for the States after June 30, 1934. It would be entirely appropriate, therefore, for this committee, which originated the Federal gasoline tax as a temporary expedient, to recommend its repeal [4].

In the early 1930's, the gasoline tax was viewed as a revenue source for the States, since it was the States that built and maintained highways at that time. Moreover, the gasoline tax provided a significant portion of State revenues. Sales taxes and lotteries were not in use by States in the early part of the 20<sup>th</sup> century, and income taxes were relatively new. However, the Federal gasoline excise tax was not repealed, and, in fact, the rate has periodically increased throughout the years, as shown in Figure B.

# Gasoline Excise Taxes, 1933-2000

Figure B

## Legislative History

- 1932 – Revenue Act of 1932 creates gasoline excise tax at 1 cent per gallon.
- 1940 – Revenue Act of 1940 increases gasoline excise tax to 1.5 cents per gallon.
- 1951 – Revenue Act of 1951 increases gasoline excise tax to 2 cents per gallon.
- 1956 – Highway Revenue Act of 1956 creates the Highway Trust Fund and increases gasoline excise tax from 2 to 3 cents per gallon.
- 1959 – Federal-Aid Highways Act increases gasoline excise tax to 4 cents per gallon.
- 1964 – Urban Mass Transportation Act of 1964 creates Mass Transit Account.
- 1982 – Surface Transportation Assistance Act of 1982 increases gasoline excise tax to 9 cents per gallon.
- 1986 – Congress establishes the Leaky Underground Storage Tank Trust Fund (LUST), equal to 0.1 cent per gallon of gasoline.
- 1990 – LUST expires August 31, 1990.
- 1990 – Omnibus Reconciliation Act of 1990 increases the gasoline excise tax from 9 to 14 cents per gallon and LUST is reinstated.
- 1990 – Revenue Reconciliation Act of 1990 first designates receipts from gasoline excise tax to be used for Federal budget deficit reduction.
- 1991 – Gasoline excise tax increases to 14.1 cents per gallon.
- 1993 – Omnibus Reconciliation Act of 1993 increases amount of gasoline excise tax used for Federal budget deficit reduction.
- 1994 – Gasoline excise tax increases to 18.4 cents per gallon.
- 1996 – LUST expires.
- 1997 – LUST reinstated October 1, 1997.
- 1997 – Taxpayer Relief Act of 1997 transfers 4.3 cents per gallon for deficit reduction to the General Fund.
- 1998 – Transportation Equity Act for the 21st Century regulates the highway trust fund balances.

## The Highway Trust Fund

The Highway Revenue Act of 1956 authorized the creation of the Highway Trust Fund. Revenue allocated to this fund was to be derived from receipts collected under various highway-user excise taxes. Certain percentages of receipts from taxes on gasoline, diesel and special motor fuels, tread rubber, tires and inner tubes, trucks, etc. were transferred from the General Fund of the Treasury to the newly created Highway Trust Fund.

The Mass Transit Account for expenditures was established by the Urban Mass Transportation Act of 1964. The gasoline excise tax was increased from 5 cents to 9 cents per gallon as a result of the Surface Transportation Assistance Act of 1982. The Act provided that 1 cent of the 5-cent increase be allocated for mass-transit purposes. The actual amount for the Highway Trust Fund for FY 1999 and estimates for FY 2000 are shown in Figure C.

## Increasing the Federal Gasoline Excise Tax Rate

Table 1 gives a complete time series of the Federal excise tax on gasoline receipts, as well as the rate of tax as of January 1 of each year. The tax rate has reached the current level of 18.4 cents per gallon through a series of incremental increases. At the end

Figure C

## The Highway Trust Fund <sup>1</sup>

[Money amounts in millions of dollars]

Item	FY 1999 actual	FY 2000 estimate
Balance, start of year.....	-17,529	-11,831
Receipts:		
Highway account.....	33,821	29,638
Mass Transit account.....	5,478	4,673
Balances and collections.....	21,796	22,504
Appropriations.....	-33,627	-36,711
Balance, end of year.....	-11,831	-14,207

<sup>1</sup> Budget of the United States Government FY2001, Appendix, page 761. A description of the Highway Trust Fund taxes can also be found in Francis, Brian, "Excise Taxes 1995-1997," *Statistics of Income Bulletin*, Volume 11, Number 4, Spring 1998.

of 1990, the Omnibus Budget Revenue Reconciliation Act of 1990 (OBRA90) increased gasoline tax by 5 cents from 9.1 cents per gallon to 14.1 cents per gallon. The Act specified that 11.5 cents per gallon go to the Highway Trust Fund and that 2.5 cents per gallon be used for deficit reduction. OBRA90 also reinstated the Leaky Underground Storage Tank Trust Fund (LUST) at 0.1 cent per gallon.

## Gasoline Excise Taxes, 1933-2000

The Omnibus Reconciliation Act of 1993 (OBRA93) returned the 2.5-cent increase under OBRA90 to the Highway Trust Fund beginning October 1, 1995. OBRA93 also provided for a 4.3-cent permanent increase in the gasoline excise tax to be dedicated to deficit reduction. These 4.3 cents added to the 2.5 cents of OBRA90 meant that 6.8 cents of the gasoline excise tax was dedicated to deficit reduction, between October 1, 1993, and October 1, 1995. In the Taxpayer Relief Act of 1997, Congress decided to be consistent with the user tax principle of highway motor fuel taxes; the existing 4.3-cents-per-gallon General Fund excise tax on highway motor fuels (for deficit reduction) was transferred to the Highway Trust Fund. In FY 2000, the 18.4-cents-per-gallon gasoline tax was allocated as follows: 18.3 cents to the Highway Trust Fund, and 0.1 cent to LUST [5].

Two legislative changes to the Highway Trust Fund resulted from the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21): no interest earnings on fund balances were to accrue beginning in 1999, and \$8.2 billion in highway account cash balances were transferred to the General Fund. TEA-21 also revised the Internal Revenue Code to extend the scheduled expiration of the Highway Trust Fund excise taxes generally, from September 1999 to September 2005.

### State and Local Gasoline Taxes

State and local motor fuel excise taxes generated \$7.5 billion in the 3rd quarter of FY 2000. This amount exceeded taxes and fees raised from tobacco, alcohol, and driver's licenses [6]. State gasoline excise tax rates are listed in Table 2 [7]. Their gasoline excise tax rates (in 2000) ranged from 4 cents per gallon in Florida to 32 cents per gallon in Connecticut. Four States (California, Nevada, Oklahoma, and Tennessee) have provisions in their tax codes to offset any decrease in the Federal gasoline excise tax by a corresponding increase in the State gasoline excise tax, keeping the combined Federal-State gasoline excise tax constant [8].

### Recent Trend of Gasoline Excise Tax Rates and Receipts

In Fiscal Year 2000, the gasoline excise tax provided the Federal Government with over \$20 billion in revenue. Figure D shows receipts since 1960, in current dollars, along with the tax rate per gallon. Figure E shows both gasoline excise tax receipts and

the rate per gallon in 1982-84 dollars. In Figure D, the tax rate coincides closely with the level of receipts. Figure E shows that revenues were \$7 billion or higher in real terms through the 1960's until the late 1970's when they began to decrease, until rate increases starting in 1984 brought revenues up to their current levels.

### Summary

The gasoline excise tax has provided a reliable source of revenue to Federal and State coffers throughout most of the 20<sup>th</sup> century. Federal receipts have reached the level of \$20 billion per year since 1997. Most of these funds are distributed through the Highway Account and the Mass Transit Account of the Highway Trust Fund. State gasoline excise taxes generated \$29 billion in 1999.

### Notes and References

- [1] Crawford, Finla G., *Motor Fuel Taxation in the U.S.*
- [2] See U.S. Census Bureau web site: <http://www.census.gov/govs/statetax/99tax.txt>.
- [3] IRS Historical Fact Book: A Chronology 1646-1992.
- [4] Crawford, *op. cit.*
- [5] The Federal Excise Tax on Gasoline and the Highway Trust Fund: A Short History, Louis Talley, Congressional Research Service, March 29, 2000.
- [6] See State and local finances on the Bureau of the Census web site: <http://www.census.gov/govs/www/qtax.html>. Most of the data were gathered by mail canvass of appropriate State offices. In some instances, data were compiled by trained representatives of the Bureau of the Census from official State records.
- [7] See Federation of Tax Administrators web site: <http://www.fta.org>. The tax rates listed are compiled by FTA from various sources.
- [8] California Revenue and Taxation Code section 7351-7357, Nevada NRS 365.185, Oklahoma §68-500.4A, Tennessee 67-3-1306. Reproduced from Congressional Research Service web site: [www.taxadmin.org/fta/rate/Federal\\_State.html](http://www.taxadmin.org/fta/rate/Federal_State.html).

# Gasoline Excise Taxes, 1933-2000

Figure D

**Gasoline Excise Tax, Rate of Tax and Receipts, Fiscal Years 1960-1999, Current Dollars**

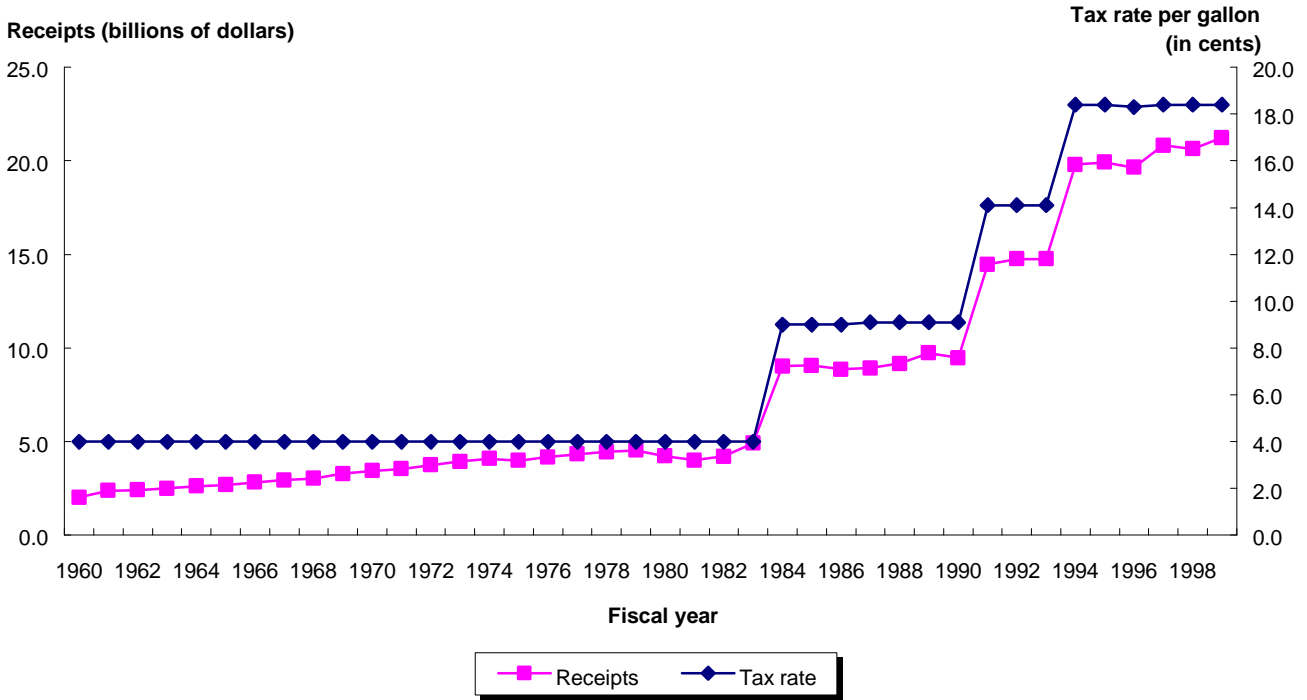


Figure E

**Gasoline Excise Tax, Rate of Tax and Receipts, Fiscal Years 1960-1999, Constant Dollars (1982-84 = 100)**



## Gasoline Excise Taxes, 1933-2000

SOURCE: IRS, Statistics of Income Bulletin,  
Winter 2000-2001, Publication 1136 (Rev. 2-2001).

# Gasoline Excise Taxes, 1933-2000

**Table 1.--Gasoline Excise Tax Receipts, Fiscal Years 1933-1999**

Fiscal year	Receipts (thousands of dollars)	Tax rate per gallon (in cents)	Year	Receipts (thousands of dollars)	Tax rate per gallon (in cents)
	(1)	(2)		(3)	(4)
1933.....	124,929	1.0	1967.....	2,932,894	4.0
1934.....	202,575	1.0	1968.....	3,030,792	4.0
1935.....	161,532	1.0	1969.....	3,283,715	4.0
1936.....	177,340	1.0	1970.....	3,430,076	4.0
1937.....	196,533	1.0	1971.....	3,547,678	4.0
1938.....	203,648	1.0	1972.....	3,741,160	4.0
1939.....	207,019	1.0	1973.....	3,927,535	4.0
1940.....	226,187	1.0	1974.....	4,087,669	4.0
1941.....	343,021	1.5	1975.....	3,980,412	4.0
1942.....	369,587	1.5	1976.....	4,180,860	4.0
1943.....	288,786	1.5	1977.....	4,322,077	4.0
1944.....	271,217	1.5	1978.....	4,444,484	4.0
1945.....	405,563	1.5	1979.....	4,525,065	4.0
1946.....	405,695	1.5	1980.....	4,218,147	4.0
1947.....	433,676	1.5	1981.....	4,007,956	4.0
1948.....	478,638	1.5	1982.....	4,214,373	4.0
1949.....	503,647	1.5	1983.....	4,904,580	4.0
1950.....	526,732	1.5	1984.....	9,021,518	9.0
1951.....	569,048	1.5	1985.....	9,062,387	9.0
1952.....	713,174	2.0	1986.....	8,854,674	9.0
1953.....	890,675	2.0	1987.....	8,925,028	9.0
1954.....	835,610	2.0	1988.....	9,167,139	9.1
1955.....	953,201	2.0	1989.....	9,725,089	9.1
1956.....	1,030,397	2.0	1990.....	9,465,647	9.1
1957.....	1,458,217	3.0	1991.....	14,468,500	14.1
1958.....	1,636,629	3.0	1992.....	14,759,324	14.1
1959.....	1,700,253	3.0	1993.....	14,753,020	14.1
1960.....	2,015,863	4.0	1994.....	19,794,300	18.4
1961.....	2,370,303	4.0	1995.....	19,918,500	18.4
1962.....	2,406,001	4.0	1996.....	19,653,800	18.3
1963.....	2,497,316	4.0	1997.....	20,836,000	18.4
1964.....	2,618,370	4.0	1998.....	20,644,998	18.4
1965.....	2,687,135	4.0	1999.....	21,236,659	18.4
1966.....	2,824,189	4.0	2000.....	n.a.	18.4

n.a.--not available

# Gasoline Excise Taxes, 1933-2000

**Table 2.--State and Federal Gasoline Excise Tax Rates for Fiscal Year 2000**

State	Total tax (in cents)	Excise tax (in cents)	Additional tax (in cents)	Notes
	(1)	(2)	(3)	(4)
Alabama <sup>1</sup> .....	18.0	16.0	2.0	Inspection fee
Alaska.....	8.0	8.0		
Arizona.....	18.0	18.0		( <sup>2</sup> )
Arkansas <sup>3</sup> .....	19.7	19.5	0.2	Environmental surcharge
California.....	18.0	18.0		Sales tax applicable
Colorado.....	22.0	22.0		
Connecticut.....	32.0	32.0		
Delaware.....	23.0	23.0		Plus 0.5 percent gross receipts tax <sup>4</sup>
District of Columbia.....	20.0	20.0		
Florida <sup>5</sup> .....	13.3	4.0	9.3	Sales tax added to excise <sup>4</sup>
Georgia.....	7.5	7.5		Sales tax applicable (3 percent)
Hawaii <sup>1</sup> .....	16.0	16.0		Sales tax applicable
Idaho.....	26.0	25.0	1.0	Clean water tax <sup>6</sup>
Illinois <sup>1</sup> .....	19.3	19.0	0.3	Sales tax applicable, environmental fee <sup>2</sup>
Indiana.....	15.0	15.0		Sales tax applicable <sup>2</sup>
Iowa.....	20.0	20.0		
Kansas.....	20.0	20.0		( <sup>3</sup> )
Kentucky.....	16.4	15.0	1.4	( <sup>2,7</sup> )
Louisiana.....	20.0	20.0		
Maine.....	22.0	22.0		
Maryland.....	23.5	23.5		
Massachusetts.....	21.0	21.0		( <sup>7</sup> )
Michigan.....	19.0	19.0		Sales tax applicable
Minnesota.....	20.0	20.0		
Mississippi.....	18.4	18.0	0.4	Environmental fee
Missouri.....	17.1	17.0	0.1	Inspection fee
Montana.....	27.0	27.0		
Nebraska.....	24.8	23.9	0.9	Petroleum fee <sup>4</sup>
Nevada <sup>5</sup> .....	24.0	24.0		
New Hampshire.....	18.7	18.0	0.7	Oil discharge cleanup fee
New Jersey.....	10.5	10.5		Plus a 2.75-percent gross receipts tax
New Mexico.....	18.0	17.0	1.0	Petroleum loading fee
New York.....	8.0	8.0		Sales tax applicable <sup>2</sup>
North Carolina.....	22.3	22.0	0.3	Inspection tax <sup>7</sup>
North Dakota.....	21.0	21.0		
Ohio.....	22.0	22.0		Plus 3 cents commercial
Oklahoma.....	17.0	16.0	1.0	Environmental fee
Oregon <sup>5</sup> .....	24.0	24.0		
Pennsylvania.....	25.9	12.0	13.9	Oil franchise tax
Rhode Island.....	29.0	28.0	1.0	LUST tax
South Carolina.....	16.0	16.0		
South Dakota <sup>5</sup> .....	22.0	22.0		
Tennessee <sup>5</sup> .....	21.4	20.0	1.4	Petroleum tax and environmental fee
Texas.....	20.0	20.0		
Utah.....	24.8	24.5	0.3	
Vermont.....	20.0	19.0	1.0	Petroleum cleanup fee <sup>8</sup>
Virginia <sup>5</sup> .....	17.5	17.5		( <sup>5</sup> )
Washington.....	23.0	23.0		0.5-percent privilege tax
West Virginia.....	25.4	20.5	4.9	Sales tax added to excise
Wisconsin <sup>4</sup> .....	25.8	25.8		( <sup>4</sup> )
Wyoming.....	14.0	13.0	1.0	LUST tax
Federal.....	18.4	18.3	0.1	LUST tax <sup>6</sup>

<sup>1</sup> Tax rates do not include local option taxes. In AL, 1 to 3 cents; HI, 8 to 11.5 cents; IL, 5 cents in Chicago and 6 cents in Cook County (gasoline only).

<sup>2</sup> Carriers pay an additional surcharge equal to AZ, 8 cents; IL, 6.3 cents (gasoline), 6.0 cents (diesel); IN, 11 cents; KY, 2 percent (gasoline), 4.7 percent (diesel); and NY, 22.21 cents (gasoline), 23.21 cents (diesel).

<sup>3</sup> The Arkansas gasoline and gasohol tax rate increased to 20.5 cents on July 1, 2000, and the diesel tax rate increased to 22.5 cents on April 1, 2000. The Kansas tax increased by 1 cent on July 1, 2000.

<sup>4</sup> Portion of the rate is adjustable based on maintenance costs, sales volume, or cost of fuel to State government.

<sup>5</sup> Local taxes for gasoline and gasohol vary from 5.5 cents to 17 cents. Plus a 2.07-cent-per-gallon pollution tax. NV, 1.75 to 7.75 cents; OR, 1 to 2 cents; SD and TN, 1 cent; and VA, 2 percent.

<sup>6</sup> Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the maximum 10-percent ethanol).

<sup>7</sup> Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9 percent; MA, 19.1 percent; and NC, 17.5 cents plus 7 percent.

<sup>8</sup> Large trucks pay a higher tax, VT-total 25 cents per gallon, VA-additional 3.5 cents.

SOURCE: Compiled by Federation of Tax Administrators from various sources.