

Balanced Approach: Raise the Gas Tax — Raise the Wage Minimum Wage Boost Would Offset Higher Cost of Gas Tax to Working Poor

Raising Iowa’s tax on gasoline and diesel fuel by 10 cents per gallon would go a long way toward financing needed street and highway repairs and improvements. Critical needs most recently were estimated at \$215 million annually, and the 10 cents is projected to raise that amount by fiscal year 2018.

Since the last gas tax increase, in 1989, the overall cost of living has risen 91 percent, while the tax has remained the same.¹ The tax on gasoline would have to be 40 cents per gallon now to have kept pace with inflation. Over that same period, the state’s cost of highway construction rose 400 percent.² Even taking into account the greater miles driven now than 25 years ago, and hence the greater total revenue, today’s motor fuel tax funds only about half of the construction activity that it provided in 1989 because of rising costs.³

Looking at it another way, Iowans paid about \$85 per capita per year for gas taxes in 1989. By 2013, that figure had risen to about \$111 per capita, but Iowa incomes had risen much faster, from \$16,784 to \$44,763 per capita. As a percent of income, the gas tax by 2013 was just half what it was in 1989.⁴ Compared to 25 years ago, Iowans are paying half as much of their income, and getting half as much road construction. These numbers are likely to fall further because Iowans are driving less; vehicle miles traveled per capita have been on the decline since 2004, a trend that is expected to continue.⁵ The state’s ability to maintain and improve roads will continue to shrink.

The gas tax is often called a “benefit tax” or “user fee” — it is paid by those who use our roads, including residents of other states who pass through Iowa and contribute about a fifth of total revenue. And the more you drive, the more you pay. The heavier the vehicle, the lower the mileage, and the more you pay per mile, helping to offset the greater damage caused by heavier vehicles. Those who choose to walk or ride a bike, or take public transit, are spared the cost. The gas tax raises the cost of driving, and is an incentive to make fewer trips, and to buy a more fuel efficient and environmentally friendly vehicle.

Still, it is what is known as a “regressive” tax: It takes a larger percentage of the income of lower income families than of higher income families. Table 1 shows the annual cost of the 10-cent increase as a percent of household income; the percentage for the bottom 40 percent of households is four times what it would be for those at the top (0.25 percent vs. 0.06 percent).

Table 1. Effect of Raising Iowa’s Gas Tax by 10 Cents per Gallon, by Household Income

Income Range	2014 Income Group					
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Top 5%
	Less Than \$24,000	\$24,000 – \$44,000	\$44,000 – \$67,000	\$67,000 – \$100,000	\$100,000 – \$171,000	\$171,000 – Or More
Average Annual Dollar Cost	+32	+83	+107	+130	+151	+182
Tax Change as % of Income	+0.25%	+0.24%	+0.20%	+0.16%	+0.12%	+0.06%

Source: Institute on Taxation and Economic Policy, Washington, D.C., calculations for Iowa based on the ITEP tax model.

Alternatives to offset costs to low-income Iowans

So what is fair? Inflation has also eroded the wages of all workers, and this is particularly true for those making at or near the minimum wage. Real wages have stagnated. So to reap the benefits of raising the gas tax while avoiding an undue burden on those with the least ability to pay, Iowa could raise the minimum wage or increase the state's Earned Income Tax Credit.

Minimum Wage

Most of those who would benefit from the higher minimum fall into the lower 40 percent of Iowa households by income, and they are the folks paying the highest percent of their income in gas taxes. Raising their pay can offset the higher cost of driving to work — at no cost to the state and at a benefit to the local and state economy.

As we have pointed out elsewhere, 306,000 Iowans would get a raise if the minimum wage were increased to \$10.10.⁶ The average person benefiting provides 46 percent of the family income from that minimum wage. And Iowa has fallen behind its neighbors and the majority of other states: Five of the six adjoining states have a minimum wage above the federal, as do 29 states all told.

Income Tax Adjustments

The Iowa Earned Income Tax Credit (EITC) benefits working families at low and moderate incomes — about 15 percent of Iowa's federal tax filers.⁷ To compensate for the increased cost of the gas tax, a proportionately greater share of income for many of these taxpayers than higher-income people, lawmakers could raise the EITC rate — now 15 percent of the federal credit — or eliminate Iowa's bottom tax brackets.

The Iowa Fiscal Partnership is a joint public policy analysis initiative of two nonpartisan, nonprofit Iowa-based organizations, the Iowa Policy Project and the Child & Family Policy Center. Reports are at www.iowafiscal.org.

¹ CPI-U was 124.0 in 1989, 236.7 in 2014.

² Iowa Department of Transportation, 4th Quarter 2014 Report, Price Trend Index for Iowa Highway Construction.

³ See Iowa Legislative Services Agency, Fiscal Services Division, *Issue Review*, December 8, 2014, Chart 3. Fuel tax revenue provided about \$305 million in 1989 but had fallen to \$160 million by 2013, when corrected for the rising cost of highway construction by converting to 1986 dollars. The motor fuel tax provided about 36 percent of total state transportation funding in fiscal year 2011, the rest coming from annual vehicle registration fees, new vehicle registrations (formerly the 5 percent use tax), and other sources (http://www.iowadot.gov/pdf_files/RUTFStudy2011.pdf).

⁴ These figures were calculated by multiplying total motor fuel tax revenue in actual current dollars by 78 percent (the share estimated to be paid by Iowa residents) and dividing by Iowa population. Per capita personal income is from the U.S. Bureau of Economic Analysis. The estimate of 78 percent is from the Iowa Dept. of Transportation, communication from Stuart Anderson. The gas tax amounted to about 5 tenths of a percent of income in 1989, about 2.5 tenths of a percent in 2013.

⁵ Per capita vehicle miles traveled in Iowa rose from 8,124 in 1989 to 10,869 in 2004, then fell to 10,270 by 2012. See Iowa Legislative Services Agency, Fiscal Services Division, *Issue Review*, December 8, 2014, for projections of future VMT and revenues.

⁶ "Iowa Once a Leader, Now a Laggard on the Minimum Wage." The Iowa Policy Project, February 2015.

<http://www.iowapolicyproject.org/2015docs/150209-minwage-FS.pdf>

⁷ "How the EITC Hits Home." Iowa Fiscal Partnership, April 30, 2014. <http://www.iowafiscal.org/how-the-eitc-hits-home-2/>