

Five States Change their Gas Tax Rates on Friday; Will New Jersey Join Them?

June 28, 2016 01:26 PM

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UPDATE: New Jersey did not increase its gas tax on July 1 because of disagreement over tax cuts that many legislators wanted to tie to the gas tax increase. Lawmakers continue to search for a solution to the state's infrastructure funding shortfall.

Independence Day weekend isn't the only thing arriving this Friday. Most states will be starting new fiscal years on July 1, and a handful of them will be adjusting their gas tax rates to mark the occasion. And depending on [the actions](#) of New Jersey lawmakers over the coming days, it's possible that the Garden State could overshadow the rest by implementing the largest gas tax increase in recent memory—and the state's first in 26 years.

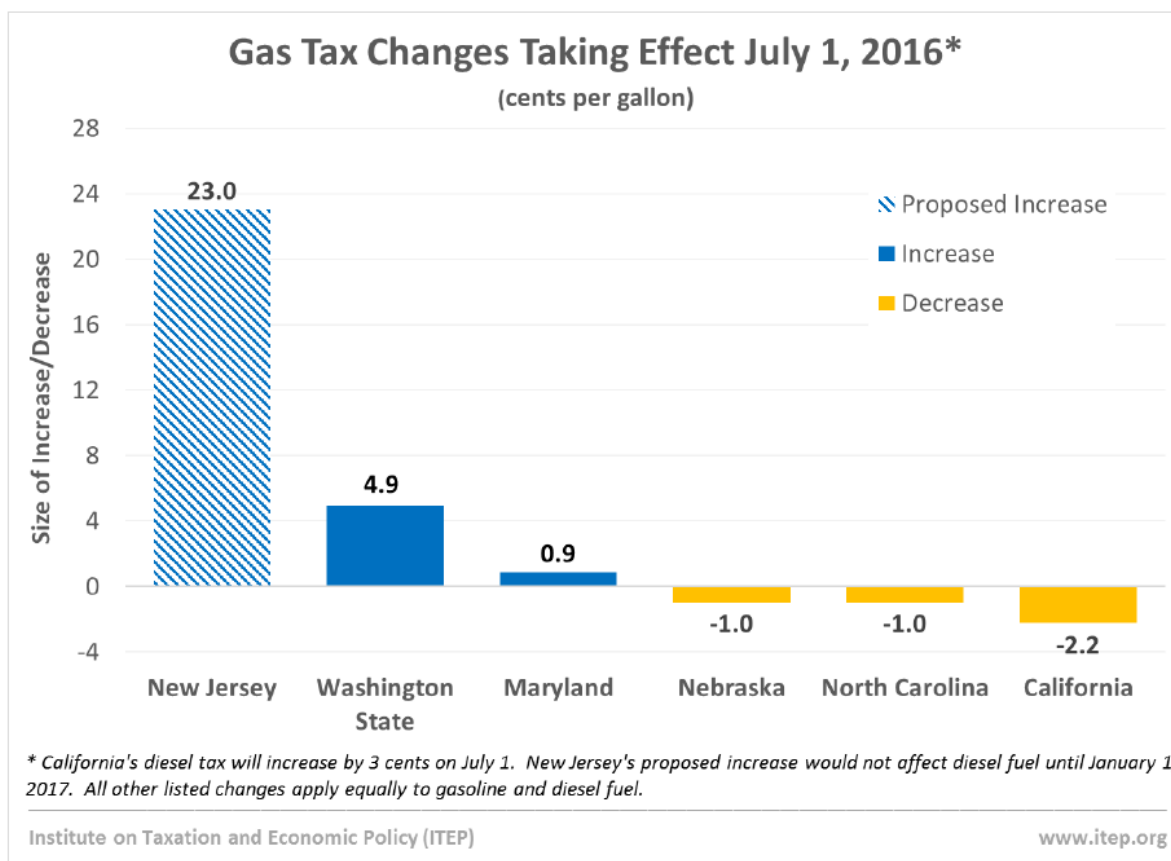
[Aside from New Jersey, the rest of the 21 states that have waited a decade or more](#) since last raising their gas tax rates will continue to hobble along as their transportation revenues stagnate. In total, nineteen states will witness gas tax “anniversaries” on Friday when their gas tax rates will officially become a full year older. Of that group, Tennessee's 27 years of inaction leads the pack. The Volunteer State has been collecting the same 20 cents in tax per gallon of gas since July 1, 1989—a few months prior to the [fall of the Berlin Wall](#).

Gas Tax Increases

For the moment, Washington State has the largest gas tax change scheduled for this Friday. There, the tax rate on gasoline and diesel fuel will rise by 4.9 cents per gallon, bringing the state's overall rate to 49.4 cents. This is the second and final stage of an 11.9 cent increase [enacted last year](#) to fund improvements to the state's transportation network.

Meanwhile, Maryland's gas tax rate will rise by just under a penny per gallon (0.9 cents). This represents the final stage of a reform [signed](#) by then-Gov. Martin O'Malley in 2013, though the state's tax rate will continue to vary in the years ahead alongside [both inflation and fuel prices](#).

Given the enormous economic importance of our transportation network, both of these increases are steps forward for these states. But both would also pale in comparison to the 23 cent increase [under consideration](#) in New Jersey. For years, lawmakers in the Garden State have struggled to fund their state's infrastructure with a meager 14.5 cent per gallon gas tax, ranked [second lowest in the nation](#) behind only Alaska. Boosting that rate to 37.5 cents per gallon would allow for enormous improvements to the state's infrastructure while still leaving its rate below that of its two largest neighbors—New York and Pennsylvania. But the cuts to general fund taxes (including income, sales, and estate taxes) that key lawmakers are insisting must accompany a gas tax hike would result in a [major erosion of funding](#) for education, health care, and the state's notoriously underfunded pension system.



Gas Tax Cuts

Three states will see their transportation funding situations deteriorate later this week when gas tax rate cuts take effect.

In California, the 2.2 cent per gallon cut taking effect on Friday represents the [third cut in as many years](#). Altogether, this series of reductions has pushed the Golden State's gas tax rate 11.7 cents lower than where it stood in the summer of 2013.

In Nebraska, the situation is somewhat better as the state's more modest 1 cent per gallon cut is bookended by an increase that took effect in January and another increase [expected to take effect](#) next January. But even so, the state's gas tax rate is still lower than it was [a decade ago](#).

And finally, the 1 cent per gallon gas tax cut taking place in North Carolina actually [represents a smaller decline](#) than was originally scheduled. Last year, lawmakers intervened to curb reductions in the gas tax rate triggered by low gas prices. At the same time, they also implemented a new formula that will allow the state's tax rate to grow [alongside its population](#) starting this January.

Given how gas prices have declined as of late, it is remarkable that more states aren't cutting gas tax rates on Friday. Kentucky, Vermont, and Virginia all have gas tax rates linked to fuel prices that often undergo automatic adjustments on July 1, but the tax rates in each of these states have already fallen so low that they've reached the minimum, or "floor," level specified in law. Similarly, had Georgia not [reformed its gas tax](#) last year, it's possible that a gas tax cut would have taken effect there as well.

Decades of Procrastination

Sometimes, inaction can be just as significant as actual changes in policy. In total, nineteen states will see gas tax “anniversaries” arrive on Friday. Unless New Jersey lawmakers act, for example, the state’s 14.5 cent per gallon fuel tax rate will have [been frozen in time](#) for exactly 26 years come Friday. The last time the state’s tax rate on fuel went up was on July 1, 1990 when the four cent Petroleum Products Gross Receipts Tax took effect.

Other states where gas tax rates officially become one year older on Friday include Tennessee (27 years), New Mexico (23 years), Montana (22 years), Arkansas (15 years), Kansas (13 years), North Dakota (11 years), and Ohio (11 years). At the other end of the spectrum, states such as Idaho and Rhode Island saw their gas tax rates increase exactly one year ago under reforms recently enacted by those states’ lawmakers.

As we explain in a [newly updated brief](#) identifying the number of years that have elapsed since each state last raised its gas tax rate:

If the gas tax is going to provide an adequate amount of revenue to fund transportation in the medium- and long-term, the tax rate needs to be periodically adjusted to at least keep pace with the rate of growth in the cost of infrastructure maintenance and construction. State gas tax rates that have gone ten to twenty years, or more, without an increase clearly do not live up to this bare minimum test of sustainability.