

THE GAS TAX

THEMES

- Californians currently pay the highest [gas prices](#) and [gas taxes](#) in the nation. California gas prices are more than \$1/gallon higher than the national average.
- The Legislature is responsible for California's high gas taxes, and these taxes contribute to the high cost of living. Californians [spend](#) more on transportation costs than any other household expense except housing. In addition to increasing the gas tax, the Legislature has caused the [average cost](#) of registering a vehicle to increase by more than 75% over the past six years (currently \$307).
- California fails to deliver on promises that gas tax revenues will be used to improve roads. According to *U.S. News & World Report*, California [ranks](#) 46th in the nation for road quality and 47th for average commute time.
- Republicans believe that California's high gas taxes and gas prices are a regressive burden on low-income and middle class families. As the cost of living continues to rise due to inflation, the Legislature must do everything in its power to reduce pain at the pump.

SUMMARY

- The "gas tax" typically refers to California's state excise tax on gasoline, which is [currently 53.9 cents/gallon](#). The gas tax is estimated to [generate](#) approximately \$8.2 billion in revenue this year, and predominantly funds transportation improvements for the 400,000 lane-miles of state highways and local roads, as well as over 25,000 bridges.
- Gas tax revenues are [distributed](#) according to a complex set of formulas, but overall the split is roughly 58% for state highways and 42% to cities and counties for local streets and roads.
- In addition to the state gas tax, motorists also pay a federal excise tax of **18.4 cent/gallon** (with roughly 85% of revenues provided to states for highways and 15% for transit), a **2.25% sales tax** (revenues not used for transportation purposes), and a **2 cent/gallon** Underground Storage Tank (UST) fee (funds repair of leaking or abandoned petroleum storage tanks).
- The Legislative Analyst's Office (LAO) [estimates](#) that the average driver pays roughly \$530/year in gas taxes.
- All of the above charges are direct taxes. There are also increases in the price of a gallon of gas that result from fuel producers passing the cost of regulatory compliance on to the consumer. The most significant "indirect taxes" result from two programs designed to help the state achieve its climate goals. [According](#) to the LAO, the low carbon fuel standard (LCFS) currently adds **~12 cents/gallon** and the state's cap-and-trade program adds **~21 cents/gallon** to the price of gasoline.
- The Legislature last increased the gas tax in 2017 when it passed SB 1 (Beall) (Chapter 5, Statutes of 2017). SB 1 increased a number of vehicle and fuel taxes by approximately \$5.2 billion annually to primarily fund road maintenance and transit. In addition to increasing the gas tax in 2017, SB 1 also imposed an annual inflation increase that takes effect each year on July 1st.
- **Of the total 53.9 cent/gallon state gas tax, 24.2 cents/gallon (45%) is due to SB 1 tax increases.**

ISSUES

- **GAS TAX INFLATION ADJUSTMENT WILL BE LARGE.** Inflation is currently at a 40-year high. Due to the annual gas tax inflation adjustment required by SB 1, gas taxes increased by 5.6% on July 1, 2022. This translates to 3 cents/gallon. The 2023 adjustment will be even higher. The Governor [proposed](#) suspending last year's adjustment in order to "lower the price of gasoline" and "provide some relief to consumers," but the Legislature rejected this proposal.
- **NEW TAXES ON THE WAY.** The Legislature recently passed SB 339 (Wiener) (Chapter 308, Statutes of 2021) to pilot a new tax on drivers for every mile traveled. This "road charge" will likely become another costly transportation expense on top of already record high gas prices and gas taxes.
- **NOT ALL GAS TAX USED FOR ROADS.** While gas tax revenues are generally restricted by Article XIX of the California Constitution to be used for transportation purposes, there is substantial flexibility. Democrats have proposed bills that would shift gas tax revenues from road projects to instead fund pedestrian, bicycle, and transit infrastructure [e.g. SB 127 (Wiener) of 2019, AB 1147 (Friedman) of 2021, AB 2438 (Friedman) of 2022]. Governor Newsom has issued an executive order ([EO N-19-19](#)) to promote these funding shifts. Other bills have been proposed to ban freeway expansion projects throughout much of the state [AB 1778 (C. Garcia) of 2022, AB 7 (Friedman) of 2023].
- **SOME GAS TAX DIVERTED.** The Legislature used a creative maneuver in 2011 to bypass the constitutional protections for gas tax revenues, and shift \$1 billion/year to backfill the General Fund. This diversion continues every year.

SOLUTIONS

Assembly Republicans should relieve the burden caused by skyrocketing gas prices and vehicle registration fees on struggling families. Specific policies include:

- Allowing the Governor to suspend the annual gas tax increase due to hardship on low-income and middle class families. This would provide an escape hatch to prevent gas taxes from automatically increasing as Californians struggle with record high gas prices and 40-year high inflation [AB 16 (Dixon)].
 - SB 5 (Nguyen) would cap the annual gas tax increase at 2%.
 - Suspending the state's gas tax for one year to reduce gas prices by ~50 cents/gallon. This would enact a "gas tax holiday" to provide immediate relief at the pump, and backfill lost transportation revenues from the state's General Fund [ABX1-2 (V. Fong), AB 53 (V. Fong)].
 - Providing transparency on California's high gas prices with a new online dashboard showing the real-time breakdown of how much taxes, fees, regulations, and policies contribute to the difference between California's gas prices and the national average. This would present a clear and transparent picture of how Sacramento policies are responsible for the inflated prices California motorists pay at the pump [AB 1591 (Wallis)].
 - Exempting transportation fuels from the state's cap-and-trade program and allowing the importation of gasoline from out-of-state and an early transition to cheaper winter-blend gasoline. This would provide relief at the pump by repealing a hidden gas tax and stabilizing gas prices when supply is interrupted [AB 1265 (Gallagher)].
 - Providing a grace period to pay vehicle registrations before being issued a traffic ticket or parking ticket. This would allow flexibility to make registration payments before adding on additional ticket costs [AB 256 (Dixon)].
 - Prohibiting new "road charges" on top of the gas tax. This will prevent double taxing commuters with a new per-mile travel tax in addition to the existing gas tax.
 - Repealing and replacing SB 1 with a better proposal that provides more revenue for roads, focuses on traffic reduction, and does not increase gas taxes. Assembly Republicans have previously introduced this alternative, known as the Traffic Relief and Road Improvement Program (TRRIP) [AB 496 (Fong) of 2017, AB 1866 (Fong) of 2018, and AB 1243 (Fong) of 2019].
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