

[JOINT COMMITTEE PRINT]

**BACKGROUND AND ALTERNATIVES
RELATING TO THE TAX ON USE OF HEAVY
MOTOR VEHICLES**

**SCHEDULED FOR A HEARING
BEFORE THE
SENATE COMMITTEE ON FINANCE
ON FEBRUARY 9, 1984**

**PREPARED BY THE STAFF
OF THE
JOINT COMMITTEE ON TAXATION**



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INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on February 9, 1984, on alternatives to the use tax on heavy motor vehicles. This pamphlet, prepared in connection with the hearing, provides background on present law and alternatives to the use tax on heavy motor vehicles.

The first part of the pamphlet is a summary. This is followed in the second part with an overview of present law and background relating to the use tax and other Highway Trust Fund taxes. The third part is a discussion of alternatives and modifications to the presently scheduled heavy vehicle use tax, as included in the recent study by the Department of Transportation.

I. SUMMARY

Under present law, excise taxes are imposed on the sale of highway motor fuels (including diesel fuel), heavy highway tires, and heavy trucks and trailers. An excise tax also is imposed annually on the use of heavy vehicles on the public highways. Revenue from these highway excise taxes is dedicated to the Highway Trust Fund. The diesel fuel tax, a retail tax, is 9 cents per gallon. The use tax is currently \$3 per 1,000 pounds for vehicles over 26,000 pounds. On July 1, 1984, a graduated use tax rate is scheduled to replace the current flat rate, generally resulting in a higher use tax for heavier trucks.

Major amendments to the highway excise taxes were last made in the Highway Revenue Act of 1982. In general, the Act restructured these taxes to increase trust fund receipts, eliminate minor sources of revenue, and redistribute the highway excise tax liability among truck users so that their tax payments are more nearly proportionate to public costs allocable to their use of the highway system. The Act also directed the Secretary of Transportation to study alternatives and improvements to the use tax and to report to the tax-writing committees of Congress. The study was delivered in January 1984.

The Department's report does not recommend a specific alternative to the use tax provided under present law. The report evaluates various alternatives, which include weight-distance taxes and diesel differentials, in terms of revenue yield, distribution of highway excise tax liability among highway users, and effects on tax administration and compliance.

II. PRESENT LAW AND BACKGROUND

A. Highway Trust Fund Taxes

Trust fund tax rates

Most Federal spending on highways is financed by excise tax revenues which are dedicated to the Highway Trust Fund, plus interest earned on monies in the fund. These highway excise taxes are imposed on: (1) the sale of highway motor fuels, including gasoline and diesel fuel; (2) the sale of heavy, highway tires; (3) the sale of heavy trucks and trailers; and (4) the use of heavy, highway motor vehicles.

Current tax rates and future tax rates as scheduled under present law are summarized in table 1. The diesel fuel tax and the heavy vehicle use tax are described in the following paragraphs.

TABLE 1.—HIGHWAY TRUST FUND TAXES UNDER PRESENT LAW

Item	Rate of tax ¹
Sale of gasoline, diesel fuel, and special motor fuels	9 cents/gallon.
Sale of trucks over 33,000 lbs., trailers over 26,000 lbs., and highway tractors	12 percent of retail price.
Sale of highway tires over 40 lbs...	40 to 70 lbs.—15 cents/lb. over 40 lbs. 70 to 90 lbs.—\$4.50, plus 30 cents/lb. over 70 lbs. Over 90 lbs.—\$10.50, plus 50 cents/lb. over 90 lbs.
Use of highway vehicle (annual):	
Before July 1, 1984	Not over 26,000 lbs.—no tax. Over 26,000 lbs.—\$3/1000 lbs.
After June 30, 1984	Under 33,000 lbs.—no tax. 33,000 to 55,000 lbs.—\$50, plus \$25/1,000 lbs. over 33,000 lbs. 55,000-80,000 lbs.—\$600, plus \$40 (\$44 on 7/1/86, \$48 on 7/1/87, \$52 on 7/1/88) per 1,000 lbs. over 55,000 lbs. Over 80,000 lbs.—\$1,600 (\$1,700 on 7/1/86, \$1,800 on 7/1/87, \$1,900 on 7/1/88).

¹ The Highway Trust Fund taxes are scheduled to expire on October 1, 1988.

Diesel fuel tax

A tax is imposed on the sale of fuel for use in a diesel-powered highway vehicle. Like the gasoline tax, the diesel fuel tax is 9 cents per gallon and is scheduled to terminate on October 1, 1988. Unlike the gasoline tax, which is imposed at the manufacturing level, the diesel fuel tax is imposed at the retail or use level.

Present law provides a number of exemptions from the entire amount of the diesel fuel tax. Fuel used on farms for farming purposes or in off-highway business uses, school buses, or certain helicopters is exempt. Fuel used by buses that provide public transportation for hire generally is exempt. Fuel sold for export, for the exclusive use of State and local governments, for the exclusive use of nonprofit educational organizations, or for the use of certain aircraft museums also is exempt. A partial exemption of 4 cents per gallon, scheduled to expire on October 1, 1984, is provided for fuel used in certain taxicabs.

The exemptions from the diesel fuel tax are accomplished by tax-free sale or allowance of a refund (or credit) for the tax paid when the fuel is purchased. In the case of farm uses, the exemption is generally accomplished by means of a credit available only to the farm operator, tenant or owner. However, applicators of fertilizer or other substances may claim the exemption for fuel they use for farming purposes if the farm owner, tenant or operator waives his claim to the exemption for that fuel.

Heavy vehicle use tax

In general

An annual excise tax is imposed on the use on the public highways of any highway motor vehicle whose taxable gross weight exceeds a prescribed minimum weight. The term "taxable gross weight" means the sum of (1) the unloaded weight of the vehicle when fully equipped for service, (2) the unloaded weight of semitrailers and trailers, when fully equipped for service, which are customarily used in connection with vehicles of the same type, and (3) the weight of the maximum load customarily carried on vehicles, semitrailers and trailers of the same type.

Exemptions are provided for uses by State and local governments and the United States. In addition, the use of private transit buses for which certain fare requirements are met is exempt.

The taxable period for the highway use tax is generally the one-year period beginning on July 1. The amount of tax is prorated when the first use of the vehicle during the taxable period occurs later than the first month of the period. Payment in quarterly installments is permitted. The tax is paid by the person in whose name the vehicle is registered. Beginning in fiscal year 1985, up to 25 percent of Federal Interstate highway funds could be withheld from a State which fails to require proof of use tax filing before registering vehicles.

The use tax is scheduled to expire on October 1, 1988.

Tax rate before July 1, 1984

For uses occurring before July 1, 1984, the annual rate of tax is \$3 per 1,000 pounds of taxable gross weight or fraction thereof.

However, the use of vehicles whose taxable gross weight is 26,000 pounds or less is exempt.

Tax rate and additional rules after June 30, 1984

A graduated tax rate and additional rules and exemptions apply for taxable periods beginning after June 30, 1984.

First, the minimum weight of vehicles to which the use tax applies is raised from 26,000 pounds to 33,000 pounds. Second, the tax rate for vehicles between 33,000 and 55,000 pounds is scheduled to change to \$50, plus \$25 for each 1,000 pounds or fraction thereof in excess of 33,000 pounds. Thus, the use tax for most vehicles in this weight class will be higher than it is under the tax as in effect before July 1, 1984. Third, on July 1, 1984, the use tax for vehicles having taxable gross weights over 55,000 pounds is scheduled to change to \$600, plus an additional \$40 for each 1,000 pounds or fraction thereof in excess of 55,000 pounds, except no additional tax is imposed after taxable gross weight reaches 80,000 pounds. Beginning on July 1, 1986, the additional tax of \$40 per 1,000 pounds is increased by \$4 every year until it reaches \$52 on July 1, 1988. Consequently, the maximum amount of use tax, which applies to vehicles over 80,000 pounds, rises annually in \$100 increments from \$1,600 on July 1, 1984, and July 1, 1985, to \$1,900 on July 1, 1988. Thus, the use tax for vehicles over 55,000 pounds will be higher than it is under the tax as in effect before July 1, 1984.

Table 2 shows the use tax in different years for vehicles of selected weights.

TABLE 2.—HIGHWAY USE TAX, SELECTED WEIGHTS AND YEARS

(Dollars per full taxable period beginning July 1)¹

Taxable gross weight (1,000 lbs.)	1983	1984	1986	1988
Under 26	0	0	0	0
30	90	0	0	0
50	150	475	475	475
70	210	1,200	1,260	1,380
Over 80	240	1,600	1,700	1,900

¹ After 1983, assumes that vehicle does not belong to a small owner-operator.

Additional rules and exemptions are effective as of July 1, 1984. First, the graduated rate schedule applies with a one-year delay in the case of a person who owns and operates no more than 5 taxable vehicles during a taxable period. For example, small owner-operators will continue to pay the current flat tax until the taxable period beginning July 1, 1985. Second, a vehicle that travels fewer than 5,000 miles on the public highways during a taxable period is exempt from the use tax, regardless of its taxable gross weight. Third, a credit or refund is allowed on a pro rata basis, if a vehicle on which the use tax has been paid is retired from service because of theft, accident or other casualty.

B. Highway Revenue Act of 1982

Major amendments to the highway excise taxes were last made in the Highway Revenue Act of 1982 (Title V of the Surface Transportation Assistance Act of 1982; P.L. 97-424). In general, the Act restructured these taxes to increase trust fund receipts, eliminate taxes that were minor or difficult to administer, and redistribute the highway excise tax liability among users of different types of vehicles.

Congress decided to redistribute excise tax liability, because evidence developed by the Department of Transportation indicated significant disparities in highway excise tax payments among truck users, relative to costs allocable to their respective use of the highway system. As shown in table 3, the Department of Transportation has estimated that the 1982 Act will reduce the overpayment by users of the lighter trucks (other than pickups and vans) from 95 percent to 14 percent and reduce the underpayment by users of the heaviest combination trucks from 40 percent to 34 percent. A 14-percent overpayment, for example, means that the aggregate of highway excise taxes paid by all users of a certain class of vehicles is estimated to exceed the highway costs allocable to their use by 14 percent. Even so, any one user's relative tax payments could differ from the average for the class, depending on the circumstances.

TABLE 3.—DEPARTMENT OF TRANSPORTATION ESTIMATES OF HIGHWAY EXCISE TAX PAYMENTS RELATIVE TO ALLOCABLE HIGHWAY COSTS

(At 1985 levels)

Vehicle class	Prior law	Present law
Autos and motorcycles.....	5 percent underpayment.	6 percent overpayment.
Pickups and vans.....	13 percent overpayment.	18 percent overpayment.
Other single unit trucks.....	95 percent overpayment.	14 percent overpayment.
Combination trucks:		
Under 70,000 lbs.....	24 percent overpayment.	9 percent overpayment.
70,000–75,000 lbs	21 percent underpayment.	16 percent underpayment.
Over 75,000 lbs	40 percent underpayment.	34 percent underpayment.

Source: Department of Transportation, "Alternatives to Tax on Use of Heavy Trucks," January 1984.

III. DEPARTMENTAL STUDY OF ALTERNATIVES TO HEAVY VEHICLE USE TAX

A. Study Requirement

The Highway Revenue Act of 1982 directed the Secretary of Transportation, in consultation with the Secretary of the Treasury, State officials, motor carriers, and other affected parties, to study plans for improving the heavy vehicle use tax and alternatives to the tax. Findings and recommendations were to be reported to the tax-writing committees of Congress before January 2, 1985. The report, "Alternatives to Tax on Use of Heavy Trucks," was delivered on January 25, 1984.

B. Study Findings

The Department of Transportation's report does not recommend a specific alternative to the heavy vehicle use tax imposed under present law, but does discuss several possible alternatives to the present use tax.

Weight-distance tax

The report describes a tax that would increase with both vehicle weight and miles traveled (a weight-distance tax) as a promising means of levying more equitable highway user charges. In contrast, the present heavy vehicle use tax generally does not vary with distance traveled (except for the 5,000-mile exemption), although it does increase with vehicle weight between 33,000 and 80,000 pounds.

The Department's report considered two types of weight-distance taxes. Under one formulation, the tax would be based on the actual weight and mileage of each trip. Under a second formulation, the tax would be based on registered vehicle weight and actual mileage. In either case, mileage would have to be determined and verified. The report finds that this aspect of implementing a weight-distance tax makes it an impractical alternative in the short run.

Diesel differential options

The report considers variations of a proposal, sometimes called a "diesel differential," according to which a higher excise tax rate would apply to diesel fuel than to other motor fuels. Under this alternative, the diesel fuel tax would be increased for vehicles over 10,000 pounds (to which the diesel fuel tax currently applies) and the heavy vehicle use tax would be reduced or repealed.

The general objective of diesel differential options is to reduce the significance of a lump-sum tax and correspondingly increase the significance of a pay-as-you-go tax. A precise trade-off may not be attainable in every case. For example, users of vehicles that

weigh more than 10,000 pounds and are exempt from the heavy vehicle use tax under present law would face a higher diesel fuel tax but no abatement in the use tax. It can be argued that this shift in the highway excise tax burden would be outweighed by the greater sensitivity of a diesel differential to actual highway usage on the part of other highway users. The Department's report concludes that a diesel differential could be structured "to achieve revenue neutrality, maintain the current distribution of the tax burden across vehicle weight classes, and improve the equity of the user fees within weight classes of vehicles" (p. VIII-2).

However, certain administrative difficulties are noted in connection with the diesel differential options. An increased diesel fuel tax would involve a significant number of taxpayers (because the tax is imposed at the retail level), although these persons are currently responsible for paying the existing diesel fuel tax. A higher diesel fuel tax could lead to attempts to evade the tax either through the substitution of untaxed home heating oil for diesel fuel or the resale of diesel fuel originally purchased for an exempt use. Also, the exemption from a diesel differential of fuel used by automobile and light truck owners would require additional recordkeeping or tax filing requirements for a large number of persons, in order that they might save approximately \$15-\$25 per vehicle per year (depending on the size of the diesel differential). For example, exemption could be accomplished by allowing a self-reported income tax credit for the additional diesel fuel tax actually paid. Alternatively, a prescribed amount of diesel fuel credit per vehicle could be provided, equal to an administratively-determined estimate of the average excess diesel fuel tax paid annually by an owner of a light vehicle.

