

SUMMARY OF ADMINISTRATION PROPOSAL
FOR EXTENSION OF THE
HIGHWAY TRUST FUND

PREPARED FOR THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
BY THE STAFF OF THE
JOINT COMMITTEE ON TAXATION



FEBRUARY 8, 1978

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1978

JCS-5-78

CONTENTS

	Page
I. Introduction.....	1
II. Financing of the Highway Trust Fund.....	3
A. Present Law.....	3
B. Effect of the Energy Tax Bill Provisions on Highway Trust Fund Taxes.....	4
C. Administration Highway Trust Fund Extension Proposal.....	5
III. Highway Trust Fund Budget Authority.....	7
A. Present Law Level.....	7
B. Administration Proposal.....	7

I. INTRODUCTION

This pamphlet gives a general description of the Highway Trust Fund and its revenues under present law, a brief summary of the energy tax legislation provisions (in H.R. 5263, in conference) repealing certain trust fund taxes, and also a summary of the Administration's proposed trust fund authorization levels for fiscal years 1979-1982. This material has been prepared by the staff of the Joint Committee on Taxation for the public hearing scheduled by the Committee on Ways and Means on February 8, 1977, on the subject of extending the Highway Trust Fund.

The Administration's highway trust fund proposals are contained in H.R. 10578, which was referred jointly to the Committee on Public Works and Transportation and the Committee on Ways and Means. (H.R. 10578 also includes proposed budget authorization for mass transit funding, which is not summarized in this pamphlet.) The Public Works Subcommittee on Surface Transportation held a public hearing on the bill on February 1, 1978, but has not yet completed its consideration of the authorization provisions. The Surface Transportation Subcommittee also held public hearings on highway and mass transit authorization proposals during the 1st session of this Congress.

Title II of H.R. 10578 would extend the Highway Trust Fund, and the present highway user taxes and tax rates, for an additional 4-year period, or from September 30, 1979, through September 30, 1983.

II. FINANCING OF THE HIGHWAY TRUST FUND

A. Present Law

The Highway Trust Fund, which was established in 1956 for a two-year period and extended several times thereafter for limited periods of time,¹ provides a source of Federal revenue for aid to highways. Under present law, the Highway Trust Fund is financed by the proceeds of the following highway user excise taxes: the manufacturers taxes on gasoline for highway use, lubricating oil, trucks and buses, truck and bus parts, and tires, tubes and tread rubber for highway use; the tax on use of heavy highway motor vehicles; and the retailers tax on diesel and special fuels for highway use.² (See Table 1 for the tax rates for these trust fund taxes.) These taxes in the fiscal year 1979 are expected to raise approximately \$7.4 billion in revenue for the trust fund. (In addition, the trust fund accrues interest on its accumulated balance, which is estimated to be \$687 million for fiscal year 1979.)

The trust fund is scheduled to expire after September 30, 1979; that is, tax liabilities arising after that date for the taxes mentioned above are to be paid into the general fund rather than the trust fund. However, taxes collected after September 30, 1979, on account of these pre-October 1979 liabilities will continue to be paid into the fund for 9 months after the basic expiration date; that is, until June 30, 1980. The balance in the fund can continue to be spent for highway trust fund purposes until September 30, 1979.

In addition, as is indicated in Table 1, as of the same date, all of the taxes mentioned above (except the tax on lubricating oil) are scheduled to be reduced or eliminated. The taxes on tread rubber and on the use of heavy highway motor vehicles are to expire on that date; the remaining taxes are to be retained at lower levels which, in the aggregate, are expected to produce about 40 percent as much revenue as the taxes would produce at their present rates.

¹ The Highway Trust Fund (and related highway user taxes) was most recently extended for a two-year period (September 30, 1977 to September 30, 1979) by the Federal-Aid Highway Act of 1976; the extension prior to 1976 was by the Federal-Aid Highway Act of 1970, which extended the trust fund and its taxes for a 5-year period (from September 30, 1972 to September 30, 1977). Both of these extensions were added by the Ways and Means Committee as a separate title to a Public Works Committee highway authorization bill and involved only the extensions of existing highway user excise taxes and tax rates.

² The Airport and Airway Revenue Act of 1970 created the Airport and Airway Trust Fund and covered into it the manufacturers and retailers taxes on aviation gasoline, the manufacturers taxes on tires and tubes of the types used on aircraft, and the retailers taxes on aviation fuel, as well as the taxes on transportation by air and on use of civil aircraft. The Land and Water Conservation Act of 1965 created the Land and Water Conservation Fund and required that the taxes on special fuels and gasoline used as motorboat fuel be transferred to that fund from the Highway Trust Fund.

Table 1.—Excise Taxes Allocated to the Highway Trust Fund

Tax (and section of Internal Revenue Code)	Present tax rate	Tax rates effective Oct. 1, 1979 ^a
Retailers: Diesel and special motor fuels (sec. 4041).	4 cents per gallon.	1½ cents per gallon.
Manufacturers:		
Gasoline (sec. 4081)-----do-----	do-----	Do.
Lubricating oil for highway use (sec. 4091).	6 cents per gallon.	6 cents per gallon.
Trucks, buses, trailers (sec. 4061(a)).	10 percent of manufacturers price.	5 percent of manufacturers price.
Truck parts (sec. 4061(b))----	8 percent of manufacturers price.	Do.
Tires for highway use (sec. 4071(a)(1)) ² .	10 cents per pound.	5 cents per pound.
Tubes (sec. 4071(a)(3))-----do-----	do-----	9 cents per pound.
Tread rubber (sec. 4071(a)(4)).	5 cents per pound.	None.
Other: Use tax on highway vehicles in excess of 26,000 lbs taxable gross weight (sec. 4481).	\$3 per 1,000 lbs per year.	Do.

¹ At that time, revenues are scheduled to go into the general fund.

² Sec. 4071 also imposes a tax of 5 cents per pound for nonhighway tires, except for a tax of a cent per pound on "laminated tires" (not used on highway vehicles). Revenues; from these two taxes go into the trust fund and are not scheduled for a change in rate on Oct. 1, 1979. (Revenues from the 5 cents per pound tax on tires of the type used on aircraft are transferred to the Airport and Airway Trust Fund—through June 30, 1980.)

Under present law, the Highway Trust Fund is required periodically to pay into the Land and Water Conservation Fund (an earmarking of moneys in the general fund) amounts estimated to be equivalent to the taxes on gasoline and special motor fuels used as fuel in motorboats. Also, the Highway Trust Fund is required to reimburse the general fund of the Treasury for refunds, etc., of taxes for gasoline, lubricating oil, and special fuels used on farms, or used for nonhighway purposes, as well as for use by certain local transit.³ Further, the Airport and Airway Revenue Act of 1970 requires the Highway Trust Fund to pay into the Airport and Airway Trust Fund amounts estimated to be equivalent to the taxes on aviation gasoline and special fuels, and the taxes on tires and tubes used on aircraft.

(Table 2 shows the estimated revenues from the existing highway user excise taxes—at present law rates—for fiscal years 1977–1985.)

B. Effect of Energy Tax Bill Provisions on Highway Trust Fund Taxes

The energy tax bills passed by the House (H.R. 8444) and the Senate (H.R. 5263) each contain several provisions which would affect the excise taxes which are currently transferred to the Highway Trust Fund. In general, these provisions (which are substantially identical in both bills) would provide as follows:

³ In addition, the Highway Trust Fund is to reimburse the general fund of the Treasury for floor stocks refunds made on account of the reductions in tax scheduled to become effective on October 1, 1979.

(1) the current 4-cents-a-gallon excise taxes on gasoline, diesel fuel and other motor fuels would be extended for 6 years (that is, from September 30, 1979, until September 30, 1985);⁴

(2) the current 2-cent reduction (or credit or refund) of the Federal excise tax on gasoline or special motor fuels used for nonhighway purposes would not be available if the gasoline or special motor fuel is used in a motorboat;⁵

(3) the 10-percent excise tax on buses would be repealed;

(4) the 8-percent excise tax on bus parts and accessories would be repealed;

(5) the 2-cent-a-gallon refund or credit of the taxes on gasoline, diesel fuel or special motor fuels for fuel used in local transit operations by privately owned firms is replaced by a provision which provides complete exemption (or credit or refund) of the taxes on gasoline, diesel fuel, special motor fuels, highway tires, inner tubes, tread rubber and lubricating oil for private intercity, local and school bus operations.

(Table 2 gives the estimated revenue impact on the Highway Trust Fund of the above highway excise tax changes in the energy bill.)

C. Administration Highway Trust Fund Extension Proposal

Proposal

The Administration proposal (in H.R. 10578) would provide a 4-year extension of the Highway Trust Fund and the trust fund taxes, or from September 30, 1979, through September 30, 1983. Also, the scheduled rate reductions of the highway excise taxes which are allocated to the trust fund (and which are presently scheduled to be reduced as of October 1, 1979) are postponed for four years until October 1, 1983.

Revenue Effect

Table 2 shows the estimated Highway Trust Fund revenues under present law highway user excise taxes and at the existing law tax rates for fiscal years 1978-1985, as well as the actual amounts for fiscal year 1977 (net of transfers and refunds). The table also shows the estimated revenue impact of the highway excise tax repeal provisions in the energy tax bills.

The Highway Trust Fund taxes are estimated to produce a total of \$7.1 billion revenue for fiscal year 1978, \$7.4 billion in fiscal year 1979, and rising to almost \$9 billion in fiscal year 1983 (the last year in the Administration's proposed 4-year trust fund extension). This compares to \$6.7 billion received in tax revenues in fiscal year 1977. The largest source of trust fund revenue is the excise tax on gasoline, which is projected to increase from \$4.5 billion in fiscal year 1978 to \$5.1 billion in fiscal year 1983. The excise taxes on trucks and trailers and on tires and tubes are the next largest sources of trust fund revenues: the truck tax is estimated at \$1.2 billion for fiscal year 1983, while the tax on tires and tubes is projected at \$1 billion for fiscal year 1983.

⁴ However, the energy bills do not specify the use (or fund) to which the revenues are to be designated for the 6-year extension period. (Absent a specific earmarking of the tax revenues would mean, however, that revenues would go into the General Fund.)

⁵ The Senate-passed bill would also repeal the refund or credit of the 6-cents-a-gallon tax on lubricating oil for nonbusiness, offhighway purposes or in motorboats, and would limit the 2-cent-a-gallon reduction of the taxes on gasoline or special motor fuels to business, offhighway purposes (other than in motorboats).

Table 2.—Estimated Highway Trust Fund Tax Revenues Under Present Law Taxes and Rates, Fiscal Years 1977–1985*

[Millions of dollars]

Tax Source	1977 (actual)	1978	1979	1980	1981	1982	1983	1984	1985
Gasoline, net ¹ -----	4, 254	4, 419	4, 562	4, 691	4, 824	4, 961	5, 102	5, 246	5, 395
Diesel fuel-----	454	516	593	676	764	836	950	1, 045	1, 139
Trucks, buses and trailers-----	708	745	790	869	956	1, 051	1, 157	1, 272	1, 400
Truck parts and accessories-----	165	200	221	243	266	292	321	352	388
Tires, tubes and tread rubber-----	813	851	897	925	955	985	1, 017	1, 051	1, 085
Use tax on heavy vehicles-----	240	281	277	292	308	325	342	361	379
Lubricating oil, net ² -----	76	87	87	88	88	89	89	90	90
Net tax receipts, total-----	6, 709	7, 099	7, 427	7, 784	8, 161	8, 539	8, 978	9, 417	9, 876
Less energy bill highway tax repeal provisions (H.R. 5263, in conference):									
Repeal of excise tax on buses-----		-13	-9	-9	-9	-9	-9	-9	-9
Repeal of excise tax on bus parts-----		-3	-3	-3	-3	-3	-3	-3	-3
Repeal of other excise taxes on intercity, local, and school buses-----		-13	-9	-9	-9	-9	-9	-9	-9
Net trust fund receipts after energy tax repeal provisions--	6, 709	7, 070	7, 406	7, 763	8, 140	8, 518	8, 957	9, 396	9, 855

Details may not add to totals due to rounding.

*Assumes extension of current tax rates.

¹ Net of transfers to Land and Water Conservation Fund (motor-boat fuels taxes) and refunds (primarily farming use).

² Net of refunds.

NOTE.—Both the House and Senate energy tax bills extend the 4-cents-a-gallon taxes on gasoline and on diesel and other special motor fuels for 6 years, or from September 30, 1979, until September 30, 1985—but with no specific designation of the use of the revenues for that period.

III. HIGHWAY TRUST FUND BUDGET AUTHORITY

A. Present Law Level

Under present law (The Federal-Aid Highway Act of 1976), the total Highway Trust Fund authorization level for fiscal year 1978 is \$7.3 billion. As indicated in Table 3, the largest portion of this is \$3,516 million for funding the Interstate Highway System (construction plus a new program of resurfacing, restoration and rehabilitation added for fiscal years 1977 and 1978 by the 1976 Act). In addition, the fiscal 1978 authorization includes \$1,493 million for the Federal-Aid Primary System; \$703 million for the Urban System; \$694 million for the Small Urban and Rural System; \$500 million for highway safety improvements; \$180 million for bridge replacement and rehabilitation; and \$189 million for other highway-related items. (See Table 3 for the footnotes regarding further explanation of some of these programs.)

The fiscal 1978 trust fund authorization level of almost \$7.3 billion is slightly more than the estimated \$7.1 billion in trust fund tax revenues. (However, the trust fund had an accumulated balance of \$10.2 billion as of the beginning of fiscal year 1978, on which the fund is estimated to earn \$644 million in interest for that year.)

B. Administration Proposal

As shown in Table 3, the Administration is proposing (in H.R. 10578) an overall increase in the Highway Trust Fund authorization level to \$7.8 billion for fiscal year 1979, and to \$8.2 billion for fiscal years 1981 and 1982—the last two years of its proposed 4-year trust fund authorization extension. The annual funding of the Interstate System construction would be reduced from \$3,625 million to \$3,500 million under the bill. The amount for Interstate resurfacing, restoration and rehabilitation would increase from \$175 million in fiscal years 1978, 1979 and 1980 to \$275 million in fiscal years 1981 and 1982.

The funding for the Primary System would increase to \$1,500 million in fiscal years 1979 and 1980 to \$1,625 million in fiscal years 1981 and 1982, while the Urban System authorization would rise from \$700 million in fiscal years 1979 and 1980 to \$750 million in fiscal years 1981 and 1982. The bridge replacement and rehabilitation program would be scheduled for the largest (absolute and relative) increase in budget authority from \$180 million now scheduled for fiscal year 1978 to \$450 million for fiscal years 1979 and 1980 and \$500 million for fiscal years 1981 and 1982. Further, the bill would consolidate the Small Urban and Rural System programs (highway and mass transit) into one formula assistance program, beginning in fiscal year 1979. This program would include funding of eligible transit operating costs as well as capital costs. However, the Highway Trust Fund would be reimbursed out of the General Fund for any amounts used for transit operating expenses.

In addition, the bill would change the Federal share of non-Interstate system funding from the varying percentages (generally 70 percent) to a uniform 80 percent, except that projects substituted for an Interstate project would be eligible for 90 percent funding. Further, the Administration proposal would consolidate certain categorical grant programs within the major categories and provide greater flexibility for transferral of Federal funds between the various categories by State and local governments.

Table 3.—Comparison of Highway-Related Budget Authority for Fiscal Year 1978—and Proposed Authorization Levels Under H.R. 10578 for Fiscal Years 1979–1982

[Millions of dollars]

Highway Program	1978 (actual)	1979	1980	1981	1982
Interstate System:					
Construction.....	3, 341	3, 500	3, 500	3, 500	3, 500
Resurfacing, restoration and rehabilitation ¹	175	175	175	275	275
Subtotal, interstate....	3, 516	3, 675	3, 675	3, 775	3, 775
Primary System.....	1, 493	1, 500	1, 500	1, 625	1, 625
Urban System.....	703	700	700	750	750
Small Urban and Rural System ²	694	786	796	856	866
Highway Safety Improvements ³	500	500	500	525	525
Bridge Replacement and Rehabilitation.....	180	450	450	500	500
Miscellaneous ⁴	189	189	189	189	189
Total Funding.....	7, 275	7, 800	7, 810	8, 220	8, 230

¹ This program was added by the Federal-Aid Highway Act of 1976, for fiscal years 1977 and 1978; the bill would extend this program through fiscal year 1982.

² The bill would consolidate into one formula assistance program for existing highway programs in small urban areas (5,000 to 50,000 population) and rural areas (less than 5,000 population) and public transit programs for these areas (including eligible operating costs as well as capital costs). However, the Highway Trust Fund would be reimbursed out of the General Fund for any amounts used for transit operating expenses.

³ The highway safety program includes rail highway crossing improvements, removal of high hazard areas and roadside obstacles, improvements to off-system roads, pavement marking, and highway-related safety grants by FHWA.

⁴ These include forest highways, public lands highways, emergency relief, and advertising (bill board) and junkyard control programs.

SOURCE.—Department of Transportation.



