



The Associated General Contractors of America

Oppose the Folly of the “Gas Tax Holiday”

Background:

- The federal motor fuels tax is not a tax in the traditional sense. Since it was established in 1956, it has served as a user fee to generate revenue for the Highway Trust Fund to support federal investments in state and local highways and in public transportation. A pause in the collection of the federal motor fuels tax would do little to help the driving public or stimulate the economy, and nothing to address the root cause of escalating fuel prices.
- Even with the most optimistic scenario showing that a gas tax holiday would save the average motorist less than 30 cents per day, the cost to the Highway Trust Fund is much greater. All revenue collected from these taxes are deposited in the Highway Trust Fund and used solely on transportation improvement projects. A three-month suspension of the federal motor fuels tax would cost the Highway Trust Fund about \$9 billion at a time when the Highway Account of the Highway Trust Fund is expected to be in deficit by as much as \$3.3 billion in fiscal year 2009. If the shortfall is not offset, states would face a 31 percent reduction in their federal highway funding. A “Gas Tax Holiday” would make that trust fund deficit grow to almost \$11 billion in 2009.

AGC Message:

- A **“Gas Tax Holiday” Would Not Help Consumers.** Despite the rhetoric, any temporary suspension of the federal motor fuels tax would not necessarily result in lower prices at the pump. The federal motor fuels tax, last increased in 1993, is not the reason fuel prices continue to escalate. Actions to increase the supply of or the demand for fuel are far more likely to help consumers.
- A **“Gas Tax Holiday” Would Cause Political Pain after Labor Day.** There is no guarantee that any reduction in the tax rate would be passed on to consumers at the pump. Moreover, any political benefit of the reduction would be significantly diminished by the pain of fuel prices escalating when the tax is reinstated after Labor Day, just 2 months from Election Day.
- A **“Gas Tax Holiday” is Bad Transportation Policy.** Any temporary suspension of the federal motor fuels tax would violate the sanctity of the Highway Trust Fund. The federal motor fuels tax is not a tax in the traditional sense. Since it was established in 1956, it has served as a user fee to generate revenue for the Highway Trust Fund to support federal investments in surface transportation. Even if the Highway Trust Fund is compensated for lost revenue with General Fund revenue, it would not only establish a precedent for pauses in collection, but also fundamentally alter the basic user fee principle governing federal surface transportation policy.
- A **“Gas Tax Holiday” is Bad Economic Policy.** Any temporary suspension of the federal motor fuels tax would reduce federal revenue and increase the federal deficit. It could also hurt the economy by putting at risk billions of dollars of public works investment. Reduced investment of this magnitude could potentially threaten 300,000 or more American jobs at a time when unemployment in the highway construction workforce is increasing. Moreover, postponing construction investment will only lead to dramatically increased project costs as construction materials inflation continues to erode the purchasing power of the public works dollar.
- A **“Gas Tax Holiday” is Bad Energy Policy.** A feel-good break in the federal motor fuels tax is no substitute for a comprehensive energy policy that decreases our dependence on foreign oil. The proposal would not do anything to increase our supply or curb demand for fuel. In fact, if successful, it would induce demand for fuel.

Congressional Action Needed:

- Reject any proposal to temporarily suspend the federal motor fuels tax.