

# **Guidance Document**

## **Vehicle Miles Traveled Tax**

### **Truckload Carriers Association**

- **While the Truckload Carriers Association (“TCA”) supports an increased fuel tax, coupled with indexing the tax to inflation, to increase revenue for the Highway Trust Fund, TCA also recognizes that relying on fuel tax revenue for future infrastructure needs will cause a long-term funding gap with the growing use of electric and other fuel-efficient vehicles.**
- **The vehicle miles traveled tax (“VMT”) has been discussed at the state and federal levels as an alternative taxation method for electric, hybrid, and other fuel-efficient vehicles for their impact on the highways and to recover future revenue shortfalls in the Highway Trust Fund.**
- **For a VMT to be considered a viable alternative, the following issues must be addressed through additional research, studies, and pilot programs:**
  1. **The technological and administrative infrastructure is currently not in place to report and collect this tax or to prevent fraud in any VMT reporting system.**
  2. **The potential for dual taxation is high if the fuel tax is not fully phased out before the VMT goes into effect.**
  3. **The VMT as currently envisioned has a significantly higher administrative cost of collection when compared to the current federal fuel tax system, which has a proven, low-cost administrative and collection infrastructure.**
  4. **Past and present VMT pilot programs, including those in which TCA members have participated, lack adequate data to determine whether this is a reliable alternative on a national scale.**
  5. **While the trucking industry is accustomed to digital tracking through electronic logging devices (“ELDs”) and annual reporting of mileage to the state and federal government, private citizens are much more sensitive to the VMT’s privacy implications.**

- **While TCA supports an increased fuel tax, coupled with indexing the tax to inflation, to increase revenue for the Highway Trust Fund, TCA also recognizes that relying on fuel tax revenue for future infrastructure needs will cause a long-term funding gap with the growing use of electric and other fuel-efficient vehicles.**

Since the Highway Trust Fund was established in 1956, its largest source of annual revenue has come from the federal fuel tax. The federal fuel tax represents the ideal user fee, linking highway use with the associated costs of building and maintaining roads. The federal fuel tax has not been increased since 1993, at which time it was set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Because the federal fuel tax is not indexed to inflation (e.g., the Consumer Price Index (“CPI”)), the real purchasing power of fuel tax revenue has declined by roughly 45% since 1993. TCA supports indexing the federal fuel tax to inflation and using CPI as the measure for increasing the fuel tax on an annual basis.

However, decreasing rates of fuel consumption by newer fuel-efficient and electric powered vehicles will cause Highway Trust Fund revenue to further decrease over time if left unaddressed. Battery-electric vehicles comprise a growing share of the vehicles on the roadways, and this trend will only increase as the network of charging stations extends to remote areas of the country. Truck manufacturing companies will eventually develop new electric tractors, but this does not present an immediate threat to the Highway Trust Fund.

TCA supports current and future technology that reduces greenhouse gas emissions and improves our nation’s air quality. Electric vehicles represent fewer than 2% of the vehicles on U.S. roads, and the current electric grid is not capable of handling widespread use of electric vehicles by motorists and commercial motor vehicles. While these types of vehicles present important infrastructure funding challenges to consider in the coming decades, lawmakers should focus on equivalent revenue that can be collected from these vehicle owners through mechanisms such as additional registration fees or sales taxes, rather than fundamentally changing the current national fuel tax structure.

- **The VMT has been discussed at the state and federal levels as an alternative taxation method for electric, hybrid, and other fuel-efficient vehicles for their impact on the highways and to recover future revenue shortfalls in the Highway Trust Fund.**

TCA recognizes that many lawmakers view VMT as an attractive alternative to provide the Highway Trust Fund with a source of stability as federal fuel tax revenues continue to fall. Hybrid vehicles, electric vehicles, and alternative fuel-powered vehicles, including compressed natural gas and liquefied natural gas, all pay less federal fuel tax than gas or diesel-powered vehicles. While their effect on the Highway Trust Fund today is minimal, a VMT could provide an alternative method for taxing their road use, similar to the current fuel tax for vehicles with combustion engines. Furthermore, a VMT system could allow for

the tax revenue to be collected and distributed at the state level, as with International Fuel Tax Agreement (“IFTA”) tax revenue for commercial vehicles.

In 2018, revenue from the federal fuel tax equaled \$25.7 billion for gasoline and \$9.9 billion for diesel fuel, accounting for 87% of the total Highway Trust Fund revenue. Until the funding shortfall in the Highway Trust Fund is addressed, individual states will continue to increase their fuel taxes to provide the revenue necessary for state-level infrastructure projects. Thirty-seven states have raised their fuel taxes since 2010. Ninety-eight percent of local infrastructure ballot initiatives passed in November 2020, and election results have shown that 93% of state lawmakers who supported a state-level fuel tax increase between 2015 and 2018 were reelected. If the federal government does not address necessary changes to the Highway Trust Fund, states and even local-level governments will continue to raise their fuel taxes. It is with these statistics in mind that TCA encourages our federal lawmakers to vote in favor of a federal fuel tax increase, knowing that the general public supports this effort.

- **For a VMT to be considered a viable alternative, the following issues must be addressed through additional research, studies, and pilot programs:**

- 1. The technological and administrative infrastructure is currently not in place to report and collect this tax or to prevent fraud in any VMT reporting system.**

Determining how each vehicle’s mileage will be collected by the federal government under a VMT system presents several key challenges as new reporting and collection methods will be required. While options for passenger vehicles include annual reporting during inspections or registrations or digital reporting through onboard devices, neither of these options are currently in use or being developed. Additionally, once the government has captured the mileage and determined the fees from all vehicles, the question remains of how the government will collect the funds from each individual, business, or registered owner. Unlike today’s fuel tax system, where the tax is included in the price paid at the pump per gallon of gasoline or diesel, there is no proven, low-cost means of collecting a VMT. Additionally, payment of a VMT collected on a lump sum, annual basis could prove to be a hardship for individuals and small businesses. This will ultimately contribute to credit and financial risks, resulting in the government’s inability to collect VMT tax revenue.

The current pay-at-the-pump federal fuel tax system has a near-zero evasion rate because it is impossible to segment out the price of the fuel from the price of the tax when filling up a tank, and because the tax is collected and paid by companies receiving payment for the fuel purchases. Any taxation method that does not assess and collect the tax similar to the current fuel tax system will leave open the window for those who wish to avoid paying the tax. Potential evasion methods include odometer fraud, tampering with location tracking devices, or failure to accurately or voluntarily report miles driven. Any VMT system adopted must eliminate these evasion methods; otherwise, lawmakers must consider the loss in tax

revenue from these evasion tactics to determine the true VMT revenue collection that would come from this change and accurately conduct a cost-benefit analysis between the different methods.

While most American drivers support contributing more toward funding infrastructure improvements, it is highly unlikely that they would support paying more in taxes if those fees were paid in an annual lump sum. The average personal vehicle driver currently pays around \$200-\$300 per year on both federal and state fuel taxes, which is a significant amount for many Americans. Undoubtedly, this would incentivize some individuals to try and avoid paying the tax if they were forced to pay that at one time per year.

Concerns also exist as to the enforcement mechanism for collecting a VMT. Under the current fuel tax system, enforcement is virtually unnecessary as only a few large companies collect and remit the tax payment to the government. It is conceivable that a VMT system could require the U.S. Department of Transportation to establish an enforcement division to track those not complying with the program, which could prove difficult with its already extensive workload.

**2. The potential for dual taxation is high if the fuel tax is not fully phased out before the VMT goes into effect.**

TCA strongly opposes any taxation system in which truckload carriers would be required to pay both the fuel tax and the new VMT for the same vehicle. Because the pilot programs carried out by several states have issued rebates to participants instead of eliminating the tax at the pump, it is likely that a phased-in approach to VMT implementation on a national scale would force carriers to pay the tax twice and then, at best, wait to be repaid by the government for the overpayment, which results in an unnecessary and damaging dual-taxation system.

TCA also believes that tolling of existing highways and bridges represents a dual-taxation system. If the government adopts a VMT system that imposes a tax on vehicles for miles driven, the existing tolls must be eliminated, especially on the many bridges and tunnels for which the toll is charged per transit and not per mile.

While a weight-distance tax could be incorporated into the VMT, widescale implementation could have the unintended effect of disincentivizing innovation regarding vehicle fuel efficiency. Nearly half of U.S. states tried a version of the weight-distance tax on trucks and more than 20 states repealed it, proving the need for additional research on this option before moving forward at the federal level.

Based on these considerations, TCA believes the current federal fuel tax system provides the only taxation method that equitably charges users based on the use, weight, and associated

fuel efficiency of their vehicle, and provides the most reliable method for collecting the tax revenue necessary for continuation of the Highway Trust Fund.

**3. The VMT as currently envisioned has a significantly higher administrative cost of collection when compared to the current federal fuel tax system, which has a proven, low-cost administrative and collection infrastructure.**

Research shows that the administrative cost associated with the collection of the current federal fuel tax is around 1%, representing a laudable return on investment for the revenue collected. In contrast, the administrative costs associated with the VMT remain high. An analysis from the American Transportation Research Institute found that the cost to administer a VMT could be as much as 40% of the gross revenue collected.

The administrative burden would be even more pronounced for state and local governments that would have to transition their fuel taxes to VMT programs. While the federal government could shoulder the load of having to stand up a new regime to implement and enforce the VMT, many state and local governments likely would not have the resources to do so.

**4. Past and present VMT pilot programs, including those in which TCA members have participated, lack adequate data to determine whether this is a reliable alternative on a national scale.**

To date, there have been a very limited number of state-level pilot programs to study implementing a VMT system, and the data that has been collected is not extensive enough to generalize for the federal level. While a nationwide VMT pilot program would settle debate over whether this tax collection method is feasible at the federal level, this type of study would be very expensive and administratively burdensome to carry out. Furthermore, states that have conducted a VMT pilot program have collected little to no tax revenue, leaving more doubt as to the feasibility of this system on a national scale. Results of a national VMT pilot program will likely be dramatically different with substantive outlays of taxpayer dollars. Before Congress moves forward with steps to create a federal VMT tax collection regime, additional data must be collected to have a true understanding of its potential for success and the possible repercussions any movement away from the current federal fuel tax may have.

TCA members have actively participated in pilot programs conducted by the Eastern Transportation Coalition (“the Coalition”). In 2018-2019, the Coalition conducted the nation’s first multi-state truck VMT, also termed a mileage-based user fee (“MBUF”), pilot program to explore how this concept could be applied to heavy trucks and the feasibility of using existing regulations, administrative processes, and technology as a potential framework. The results of this pilot showed: 1) bringing the trucking industry’s voice to the

table is essential, 2) trucks cannot simply be treated as big cars in an MBUF system, 3) existing regulations provide guidance for MBUF implementation, 4) one rate for all trucks will not work, and 5) the further need for education and outreach.

This last consideration was emphasized by the Coalition's decision to move forward with a larger nationwide truck pilot program to closely analyze rate-setting for a potential MBUF. TCA members who are participating in this current, ongoing study have noted that setting fair rates in the trucking industry continues to pose a significant challenge. As Dr. Patricia Hendren, Executive Director of the Coalition, noted in testimony before the Senate Environment and Public Works Committee, "...using the same per-mile rate-setting approach for cars and trucks – or even the same approach for all trucks – can end up penalizing fuel-efficient trucks or lead to other unintentional effects. Any rate-setting method should reflect the complexity of the trucking industry and understand that trucks are not big cars." Clearly, there is still much work to be done, but the pilots conducted by the Coalition represent a good first step.

**5. While the trucking industry is accustomed to digital tracking through electronic logging devices ("ELDs") and annual reporting of mileage to the state and federal government, private citizens are much more sensitive to the VMT's privacy implications.**

Because the VMT collection and reporting infrastructure has not yet been established, privacy concerns for drivers of passenger vehicles exist. In the trucking industry, ELDs currently track vehicle mileage and communicate information about vehicle location and performance. Trucking companies also annually report mileage to the government through IFTA, and these figures could serve as the basis for a federal VMT collection effort. As motor carriers already collect and report vehicle mileage, they likely would not object to using this reporting mechanism for a VMT.

However, most passenger vehicle drivers do not track mileage and are not aware of devices in their vehicles that collect or transmit this data. If drivers of all vehicles are required to install a device that records and transmits miles driven, this policy will likely meet staunch resistance from the public as evidenced by the current global debate regarding data privacy. These devices would represent a "big brother" overstep to many. Fears of cyber-attacks, the threat of which increase with every additional connection to the internet, are significant and must be addressed. While other VMT reporting options could be explored for passenger vehicles, TCA strongly opposes any taxation system which would establish separate reporting regimes for passenger vehicles and commercial motor vehicles.

This concern also applies to state and local tax collection through a federal VMT system. Motorists should not be required to pay the federal tax through one collection method and state or local fuel taxes through another. However, if all levels of the fuel tax shift to a VMT

system, the motoring public may be even more concerned about the breadth of data being collected and sent to officials at all levels of government and to private industry.

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