Allocating fuel tax revenues to mobility

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The early 20th century was marked by a more widespread use of cars. The release of Ford's T model, the first mass-produced model at an affordable price, "put America on wheels" and on a road network unsuited to the automotive revolution, which raised the issue of how its upgrading was to be financed.

Traditionally, US States used vehicle registration fees, firstly as a one-off payment and then as an annual tax; from 1919 and the introduction of a fuel tax, infrastructure construction became financed through an indirect tax collected on the fuel sales price [156].

→ **INTERNALISING SOME OF THE EXTERNALITIES RELATED TO INFRASTRUCTURE USE...**

The primary goal of this tax was to make drivers pay for infrastructure use by insisting on the correlation between fuel consumption and the number of miles travelled. The revenues of this new tax resource were a way to ensure that the cost of funding road construction and maintenance was borne by road network users. The solution was appropriate for several reasons: first of all, unlike an infrastructure toll system, it does not require any additional developments to collect the tax. Secondly, this tax has a very low unit cost (a few cents) for the user. Lastly, it does not apply solely to residents but also to foreign users who buy fuel in the area.

→ **... WHILE REDUCING FUEL CONSUMPTION**

Tax increases have a causal effect on the reduction of fuel consumption. By acting on the tax, it is therefore possible to directly influence fuel consumption and indirectly act on CO_2 emissions.

However, as stated in its name, this tax only applies to vehicles which consume fuel, resulting in a de facto increase in running costs. Conversely, more fuel-efficient vehicles, such as hybrid and even electric vehicles are either partially or completely exempt from this type of tax. They do use the infrastructure network to the same degree, but their contribution falls short of their use of it.

→ **A CHALLENGING FOOTHOLD IN THE REALITY OF THE MOBILITY SECTOR**

Improvements to combustion engines and the development of hybrid and electric vehicles have established a decorrelation between road use and fuel consumption. The latter no longer reflects the former. [157]

This downward trend in long-term fuel tax revenues is heightened by the fact that the level of taxation is not automatically indexed on inflation. In other words, increases to roadworks and maintenance costs will not necessarily result in a similar increase in total revenue from the fuel tax. This shift sparks concerns of a decline in resources to fund roads, the corollary of which could be a deterioration in infrastructure networks. Nevertheless, States have options to respond to this issue. They may decide to increase the tax level to offset the drop in revenue. However, the unpopular reaction to this lever may encourage them to maintain the status quo, even if that poses a threat to mobility funding.
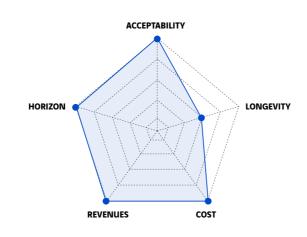
→ **A PAST RESOURCE TO BE RECONSIDERED**

Revenue from this tax remains a solid and significant resource... provided that it is used to fund mobility. In France, the State pays half of the domestic consumption tax on energy products (TICPE) to the general budget without revenues from this tax being allocated to mobility [158]. While the TICPE is the fourth form of tax revenue for the French State (€30 billion in revenue in 2017), only €1.5 billion are allocated to the budget of the AFITF, the funding agency for French transport infrastructure, the purpose of which is to finance transport infrastructure projects in urban areas, waterways, railways or road networks. One third of the TICPE's revenues is allocated to local and regional authorities and 19% to funding the environmental transition, while the remainder (45%) goes to the general State budget. In other words, fuel taxes can be powerful levers to finance mobility, provided that revenues are allocated to just this.

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ACCEPTABILITY

LONGEVITY

COST

REVENUES

HORIZON

◎ | Who pays?

STATE — COMPANIES — **TAXPAYER**

◎ | What scale of implementation?

LOCAL — **NATIONAL**