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Governments Increasingly Tax Uber and Lyft for Transit Revenue.

Ride-hailing services are crying foul. But cities and states say they're merely taxing services.

New York joined a growing number of governments this week when it placed a fee on ride-hailing services such as Uber and Lyft. The state-imposed surcharge, which is part of New York's 2019 budget, is intended to raise money for mass transit.

The move comes on the heels of a similar one in Chicago, where late last year the city council slapped a 15-cent increase to its existing 52-cent fee for every ride-sharing trip. Mayor Rahm Emanuel pushed for the fee amid a growing body of evidence that the popular ride-sharing industry is worsening congestion in cities and taking potential customers away from public transit.

Last year, transportation researchers from the University of California, Davis, published a working paper that found that ride-sharing services in seven major urban areas were adding car trips to city and suburban streets, often at the expense of public transportation.

And a study released this year by Boston's Metropolitan Area Planning Council found that most ride-sharing passengers used the service in place of public transit, biking or walking.

In addition to New York and Chicago, cities in Massachusetts have also implemented or raised existing fees and taxes on ride-sharing services for transit funding. Washington, D.C., and Oakland, Calif., are considering doing the same; while an effort in Georgia to enact a statewide fee has recently been revived.

Unsurprisingly, the new taxes aren't popular with the ride-sharing industry. These services argue they're being unfairly targeted and that such charges would not only hurt consumers but also slow services. What's more, ride-sharing companies say they're developing new products that are specifically aimed at reducing congestion. In 2014, Uber launched a carpooling feature as part of CEO Travis Kalanick's goal to eventually make every ride shared. Now available in 32 cities, uberPOOL accounts for about 20 percent of Uber trips in those jurisdictions.

But from a tax policy point of view, these types of taxes and fees aren't new and shouldn't come as a surprise. The Urban Institute's Richard Auxier says that if a city has a track record of expanding its sales tax to services, ride-sharing is a natural target. "This is just taxing something that should have been previously taxed," he says.

For instance, the nation's capital already imposes sales taxes on services such as landscaping and gym memberships. A proposal in next year's budget would simply increase the tax rate paid by ride-hailing services from 1 percent to 4.75 percent. The proposal also calls for a sales tax hike from 5.75 to 6 percent. The $18 million in new revenue that ride-sharing would contribute is part of a larger effort to step up funding for the region's aging rail system.

Conversely, New York's new fee charges $2.75 per ride-sharing trip and an extra $2.50 on taxi rides in the same zone. "That would be an example of a punitive tax on a disfavored entity," says Joseph Henchman, executive vice president of the conservative-leaning Tax Foundation. He questions how much the state has done previously to discourage driving and encourage mass transit, adding that "if they're not serious about tackling some of those things, it seems like a way to grab revenue."

Still, despite Uber and Lyft's popularity, taxing the services won't result in a very large revenue boost for mass transit. Put in perspective, the $18 million D.C. hopes to raise from its tax hike would represent just 10 percent of the city's annual payment into the region's metro rail and bus system. That's pocket change compared to the $500 million the system hopes to receive annually from the District and surrounding states. Metro's annual budget for operating costs and capital improvements is about $3 billion.

"Will it help fund Metro and does the state want that money? Absolutely," says Auxier. "But this is not going to solve any budget problems."

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