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Expanding User Fees for Transportation: Roads and Beyond

Key Findings

- Thanks to elevated deficits and interest rates, fiscal restraint is back in Washington.
- While substantially reversing America's fiscal situation requires structural reforms to entitlements and taxes broadly, reforming transportation funding would also help.
- The user-pays principle is a sound way to fund major infrastructure projects.
- Unfortunately, the US has moved away from the user-pays model, primarily due to the gas tax declining in real terms, but also due to excise taxes becoming weaker approximations of true user fees.
- By 2034, the gas tax and other car-related excise taxes are projected to raise less than half of the Highway Trust Fund's outlays.
- The ideal solution would be to replace existing excise taxes with true user fees, but raising existing excise taxes would be a better solution than continuing a growing reliance on general revenue.
- Fully paying for federal highway spending with user fees could reduce the federal deficit by over $200 billion over the course of the next decade.

Introduction

The United States faces several fiscal challenges. In 2025, the individual tax cuts passed in the Tax Cuts and Jobs Act are scheduled to expire.[1] Meanwhile, long-run deficits are projected to remain at an elevated level in coming years and decades, even with the tax cuts expiring. The long-term increases in the debt come from growing entitlement obligations to programs such as Social Security and Medicare.[2] To bring deficits under control, policymakers will have to consider substantial reforms to growing entitlement programs, and, likely, broad-based tax increases, ideally focused on consumption.[3]

To actually address long-term deficits, lawmakers will have to make difficult trade-offs. But in addition to structural changes to entitlement spending and major tax reforms, some deficit-reducing reforms can bring efficiency gains as well. One particularly salient example is transportation.

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Tax Foundation

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