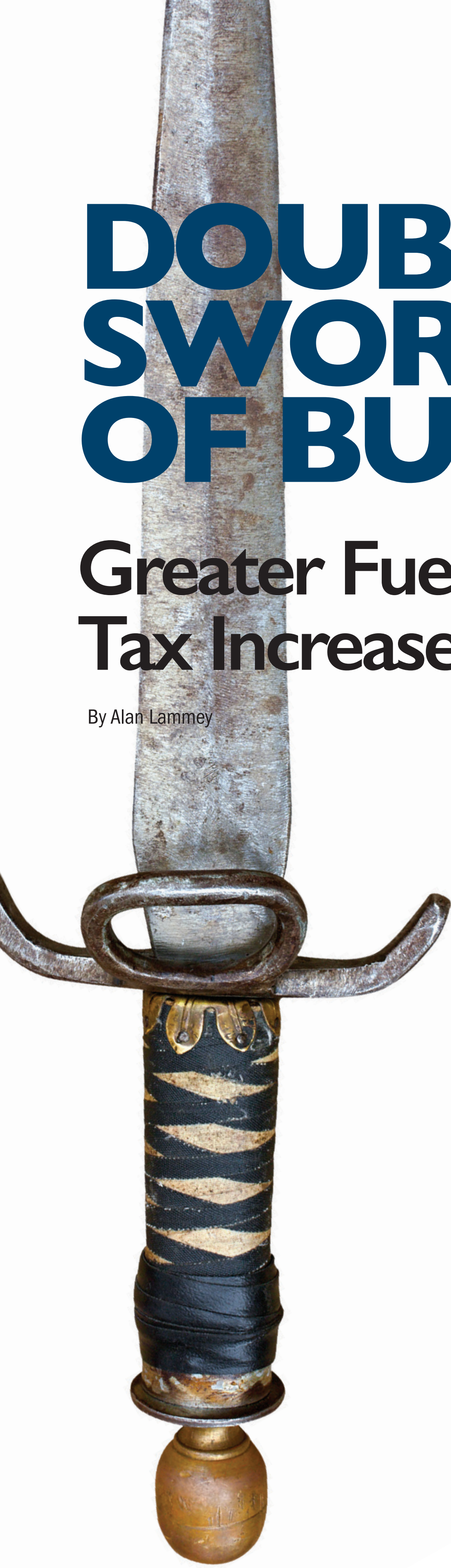

DOUBLE-EDGED SWORD OF BUSINESS

Greater Fuel Efficiency Threatens Tax Increases

By Alan Lammey

Let's face it, lots and lots of Texas businesses rely on vehicles in some capacity or another. Whether it's for the delivery of goods or services or for transportation, one only needs to take a short drive around the community to observe just how many business or commercial vehicles are on the streets in order to clearly understand just how much businesses utilize various automobiles. The reason this is significant is because Texas business owners may soon be forced to absorb a new expense: a looming increase in fuel taxes.

There's no doubt that one of the biggest mantras the U.S. public has been inundated with in the last decade is the "green energy" campaign, which has been largely championed by local and federal governments to advocate the idea of reducing fuel usage, especially fossil fuels. A majority of this crusade is based on fighting so-called climate change or global warming. No matter what a person's stance on this topic may be, the reality is that the impacts of this movement have taken hold in very real ways over the last several years.

Interestingly enough, the enormous campaigns aimed at reducing fuel usage of vehicles has resulted in millions of notably more fuel efficient and alternative fuel vehicles hitting the roads in recent years with millions more coming in the years ahead. Here lies the double-edged sword for the consumer, which will soon be hitting the pocket books of individuals and business alike.

LESS FUEL CONSUMED = LESS REVENUE FOR TAX MAN

As more and more fuel efficient vehicles replace gas guzzlers, its common sense that less fuel is being consumed. However, the less fuel that is consumed also means less fuel taxes are being collected by the local and federal governments. So, of course, in order to avoid a reduction in fuel tax revenue, the federal government is now in the process of proposing higher fuel taxes to make up for the losses in tax revenue. However, the fuel efficiency issue is just getting started as the Obama Administration, during its first term, mandated standards on the U.S. automobile manufacturing industry that will increase fuel economy to the equivalent of 54.5 mpg for a majority of cars and light-duty trucks by Model Year 2025. When combined with previous standards set by this administration, this move will nearly double the fuel efficiency of those vehicles compared to new vehicles currently on U.S. roadways. In total, the administration's national program to improve fuel economy and reduce greenhouse gas emissions is estimated to reduce U.S. oil consumption by 12 billion barrels.

Meanwhile, there's another big trend emerging in the auto industry: the adoption of Alternative Fuel Technology that could affect long-term fuel tax revenues in the state of Texas with Alternative Fuel Vehicles (AFVs). AFV's are projected to account for 13 percent of the domestic passenger fleet and 11 percent of the commercial fleet by 2040, according to recent studies.

ELECTRIC VEHICLES OPERATE ESSENTIALLY TAX-FREE

Alternative Fuel Technology development trends involve five fuel sources: electricity, natural gas, ethanol, propane, and hydrogen fuel cells. Ethanol and compressed natural gas (CNG) are both taxed by the state at a per-gallon rate but can be more fuel efficient, producing less revenue on a per-vehicle basis compared to their petroleum fuel-based counterparts. Electric vehicles basically operate for free on Texas roadways after sales and registration fees, meaning the state is unable to collect a gas tax from electric vehicle roadway consumers.

The primary barriers to AFV adoption are refueling infrastructure and cost to consumers. However, there are numerous state and federal incentives aimed at addressing these issues, particularly in the commercial sector. Most of these programs are oriented around reducing emissions and improving air quality by replacing older, more-polluting vehicles with more fuel-efficient, less-polluting ones. Alternative fuel vehicles tend to emit fewer pollutants than vehicles that run on traditional fuels while also tending to be more fuel efficient.

In assessing the implications of AFV forecasts on Texas's fuel tax revenues, recent findings suggest that, starting in 2015, Texas could be missing out on $24 million a year in fuel tax revenue due to the consumption of fuels other than gasoline and diesel fuel. By 2035, revenue lost from vehicle owners not paying any fuel tax was estimated to approach $200 million a year.

UNCLE SAM MAKING AGGRESSIVE PLAY FOR HIGHER FUEL TAXES, TEXAS FENDS OFF HIKES

While the U.S. government may be able to wriggle its way into the pockets of Texas citizens via a federal increase in fuel taxes, Texas politicians have been fending off fuel tax increases for many years despite the fact that the Lone Star State is looking for more money for road development and maintenance. In 2014, motor fuels tax revenue was $3.3 billion, or 6.5 percent of all state tax collections. This substantial amount of money results from the state's 20-cents per gallon motor fuels tax on gasoline and diesel, a rate that hasn't changed since 1991. Thus, as greater fuel efficiency ramps even notably higher in the months and years to come, it's nearly a given that the reduction in fuel tax revenue will cause the tax man to make changes, which will ultimately take more money from Texas businesses' bottom line. **N**

Alan Lammey has 18 years' experience as an energy markets analyst and journalist. He's also hosted the Energy Week *radio program for nine years, where he educates Houston area consumers on energy-themed topics as well as how to notably improve their bottom line concerning energy expenditures. See his website at www.TesxasEnergyAnalyst.com, or reach him at alammey@TesxasEnergyAnalyst.com.*