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Expert to North Carolina: Don't Cap the Gas Tax **Statement from the Institute on Taxation and Economic Policy (ITEP)**

Washington, DC – With the state's gas tax pegged to the price of gasoline, North Carolina is scheduled to raise its gas tax rate on July 1. This increase was entirely predictable, but is understandably controversial. Unfortunately, the debate surrounding what to do in the wake of this increase has been far too narrow, focusing on just two options: capping the maximum tax rate, or doing nothing at all.

Carl Davis, Senior Analyst at the Institute on Taxation and Economic Policy (ITEP) and author of a major 50-state gas tax report due out late this summer, issued the following statement in response to the controversy:

“North Carolina's gas tax is clearly in need of reform, but a simple gas tax cap is a blunt instrument that can do more harm than good. The neighboring states of Kentucky and West Virginia have gas taxes similar to North Carolina's, and both have wisely chosen to address the problem of price-related volatility by limiting changes in their tax rates to no more than 10%. They don't cap the tax, but they do cap the volatility.

“A cap on the variable portion of North Carolina's gas tax, similar to the type used in Kentucky and West Virginia, would have resulted in the state's gas tax rate rising just 1.5 cents this July 1, rather than the full 2.5 cents currently scheduled to occur. A cap above or below 10% could have resulted in a slightly larger, or smaller, increase.

“A limit of this type would produce a more stable and predictable gas tax, and one that results in fewer surprises for taxpayers, transportation officials, and state lawmakers.

“Such a limit would also allow the state's gas tax to retain its character as a tax on the actual price of gas, while smoothing some of the jarring ups and downs seen in recent years. Gas tax caps, by contrast, run the risk of transforming North Carolina's extremely sensible price-based tax into a stagnant, flat levy that can never keep up with the state's transportation needs. In Pennsylvania, for example, a gas tax cap has left state's tax rate unchanged since 2006, resulting in flatlining revenues while transportation funding needs continue to climb. Pennsylvania is the poster child for bad gas tax policy.

“The problem facing North Carolina lawmakers is not new, and not unique to North Carolina. The Tar Heel State's neighbors to the north have already dealt with this issue, and North Carolina should learn from their experiences by implementing a similar reform.”

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Founded in 1980, the Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC, that focuses on federal and state tax policy. ITEP's mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. ITEP's full body of research is available at www.itepnet.org.