

TESTIMONY OF
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BEFORE THE
SENATE COMMITTEE ON FINANCE
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Mr. Chairman, thank you for this opportunity to testify before the Senate Finance Committee on the subject of truck taxes. I consider the question of appropriate highway user charges to be an essential component, not only of our highway program, but of the Administration's approach to transportation policy. The principle that underpins our approach to highway user charges -- that to the maximum extent possible the recipient of services provided by the government should pay the cost of providing those services -- is basic to our entire transportation policy.

Study of Alternative Taxes

I have submitted, approximately one year before the date required by statute, the report to Congress on alternatives to the tax on the use of heavy trucks required by section 513(g) of the Surface Transportation Assistance Act of 1982 (STAA). In undertaking the analysis that is documented in the report, the Department focused on three major criteria as the basis for measuring the suitability of the various tax alternatives. These are:

- to maintain revenue levels, in total and by vehicle class, as enacted in the STAA,
- to improve the ease of payment and equity within classes of users by shifting from lump-sum to use-based taxes to the extent feasible, and

to maintain the maximum level of simplicity in administrative and enforcement requirements.

We deliberately avoided making recommendations in the report. Instead, we chose to provide the results of the analysis so that Congress, the highway user community and the Department could more freely consider and discuss the information. Now that the discussion is well under way, I believe it is appropriate for me to offer some observations on both the history and the current debate so that we can focus directly on the results before us.

The Surface Transportation Assistance Act of 1982 accomplished two things. First, it provided an infusion of funds to rehabilitate our highway system that was badly in need of additional work. We must not reduce this flow of funds with any change we make now. Second, the STAA substantially improved the fairness of the tax structure among the major classes of users of the highways. We must preserve this advance in equity.

Level of Funds

No one is disputing the merits of the substantial increase in the funding and program levels provided by the STAA. In general, all of the users agree that increased investment was needed and is justified by the contribution which the highways of the nation make to our economic well being.

It should also be pointed out, that over the next five years, the cash balances for the highway account of the Highway Trust Fund will decline precipitously. Current Administration projections are that the cash balance

will decline from \$9.4 billion at the end of fiscal year 1984 to \$3.8 billion at the end of fiscal year 1989. Obviously, the Highway Trust Fund can ill afford reductions in trust fund receipts lest they not be adequate to cover future needs. This is among the reasons that I feel so strongly about the criterion of "revenue neutrality". The Administration would oppose any loss of receipts to the trust fund.

However, it has been suggested by some segments of the trucking industry that recent Treasury projections which show that automobile and light truck users will pay more money into the Highway Trust Fund than was originally projected should be the basis for a decrease in the tax level for heavy trucks. This decrease for heavy trucks is not justified. In fact, the new projections indicate that trucks will contribute about one billion dollars less to the total trust fund revenues than was expected at the time of the passage of the STAA.

The facts, then, would better support a tax increase for heavy trucks rather than a reduction. However, we are not seeking changes based on the earlier revenue projections but only seeking to maintain the heavy truck share based on the taxes enacted in the STAA.

User Charge Structure

It is principally on the second accomplishment of the STAA -- the improvement in fairness or equity of the user charge structure -- that the debate has centered. In our Highway Cost Allocation Study and in our initial

1982 highway bill proposal, the Department recommended to Congress user charges that would come closer to collecting from the various classes of vehicles amounts equal to the costs which they each impose upon the highway system. Congress enacted a tax structure that was a compromise -- less than the fairer share recommendations which we had made, but an improvement over the user equity of the pre-STAA tax structure. The proposals which much of the trucking industry have been recommending would be a step backwards from the compromise equity improvements which Congress adopted in the STAA.

I will oppose alternatives which reduce the fairness or equity of the highway use tax structure below that enacted by the STAA. I believe that to do otherwise would be unfair to the users of the highways who now pay, or overpay, their legitimate share of the system costs for which they are responsible. It would further distort the market for transportation services in which, as in any market, prices must accurately reflect the costs of these services if the market is to be efficient.

Workable Alternative

As I noted earlier, the Department is concerned with (1) revenue neutrality and equity, (2) improving ease of payments and equity within the various classes of users, and (3) keeping an administratively feasible tax structure. I have consulted with Members of Congress, officials within the Administration, trucking representatives and other affected parties. Our analysis indicates that alternatives 4, 5, 6 and 7 of our study meet the criteria discussed earlier. Any of these options would be acceptable to the

Administration. From our communications with the trucking industry, I know how important it is to them that the lump-sum use tax be reduced as much as possible. Thus, I believe that DOT 4 is an alternative which meets the Administration's objectives while at the same time producing substantial relief for the trucking industry.

DOT 4 combines a 6 cent increase in the diesel fuel tax with a substantially reduced heavy vehicle use tax. The reduced use tax is graduated for trucks beginning at 55,000 pounds up to 80,000 pounds gross vehicle weight, with a maximum of \$650 at the highest weight. This is a dramatic decrease from the current maximum use tax in the STAA of \$1900. Moreover, by raising the lower limit of the use tax to 55,000 pounds, this alternative would remove 700,000 trucks from the requirement to file and pay this tax. Like a number of other options, this alternative meets the three major goals that we have set out. What sets it apart from the others that meet those goals is that it transfers the maximum tax burden to a pay-as-you-go tax instrument without compromising our equity objective.

While I believe that DOT 4 is a workable and desirable option, it also represents the limit on the reduction in the heavy vehicle use tax that we could accept. Any further reduction in the amount of the heavy vehicle use tax will result in an unacceptable shift of the tax burden away from those users who should be paying to those who are already paying their share. Should this occur, or should net revenues to the Highway Trust Fund be reduced, I would not be able to recommend to the President that he sign the resulting legislation.

With respect to administrative issues generally, I don't believe that DOT 4 presents any significant problem. However, we will be working closely with the Treasury Department to monitor the administrative and compliance issues closely since any diversion or loss comes out of the Highway Trust Fund and reduces our ability to respond to program needs.

Closing

Mr. Chairman, let me thank you and the members of your Committee for your contributions to our efforts toward a fair and equitable resolution of this matter. I look forward to working with you and the other Members of Congress as you consider any changes to the highway use tax structure.

I would be pleased to answer any questions you or other members of the Committee might have.