



## Gas taxes are on the way out. Pay-as-you-go user fees may be just around the corner

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To everyone who despises the gas tax — take heart. Its days are numbered.

But are you ready for what will come next?

While fuel taxes get little love from drivers, governments have long relied on them as a convenient source of infrastructure funding. Ottawa uses its ample gas tax revenue to shell out \$2.2 billion a year to the provinces on a per-capita basis for roads and bridges, as well as a wide variety of other nontransportation purposes such as sports facilities and broadband connectivity. Ontario hands out 2 cents per litre from its gas tax fund to municipalities for public transit.

But this deal that sees drivers foot the bill for infrastructure improvements across the country isn't going to last forever. As a [recent report from the Residential and Civil Construction Alliance of Ontario \(RCCAO\)](#) explains, demand for gasoline has been trending downwards for several years due to vast improvements in vehicle fuel efficiency. If the transition to electric vehicles occurs as expected in coming decades, this drop-off will become much sharper, with a correspondingly precipitous decline in gas tax revenue. By 2040, provincial per capita gas tax revenue is predicted to fall by nearly half.

Such a shakeup in the tax ecosystem creates several problems. Governments will need a new way to replenish their infrastructure funds, plus they'll have to figure out how to ensure virtuous electric car owners aren't getting a free ride on taxes other drivers must pay.

The solution to both problems, according to the **RCCAO**, is road tolls such as downtown cordon pricing and congestion pricing that vary the cost of driving with traffic density. All this makes economic sense, but can be politically tricky.

A more palatable solution may be to simply impose a small user fee on all drivers for every kilometre travelled.

In the U.S., where gas taxes are specifically tied to highway construction and maintenance, the looming decline in fuel tax revenue poses an existential threat to road maintenance budgets. In North Carolina, for example, gas taxes comprise nearly two-thirds of the entire highway budget.

With their minds suitably focused, several states are now experimenting with new ways to collect road infrastructure money. Oregon is the acknowledged leader with OReGO — a system

charges drivers 1.8 cents (U.S.) per mile driven (approximately 1.5 cents (Cdn.) per kilometre) in exchange for a rebate on their fuel taxes. Travel is calculated by a privately managed mileage-reporting device, and drivers are not actively tracked.

At present, OReGO is small and voluntary, with only about 1,600 vehicles enrolled. But the plan is for it to eventually replace all state fuel taxes. “This is the future of transportation funding,” says Michelle Godfrey, a public information officer at Oregon’s Department of Transportation. “We’re encouraging people to get into electric cars, but if they’re not paying the gas tax, they’re not contributing to our road system.”

Curiously enough, Godfrey reports that several dozen OReGO members actually drive electric cars; since they’re not getting a gas tax rebate, they must have joined out of a sense of civic responsibility.

Note the key features of OReGO: all drivers pay, there’s no invasion of privacy by government and it *replaces* the gas tax, rather than adds to it. Canadian drivers might also appreciate the fact all revenues go toward building and maintaining the road system. It is an unambiguously fair system.

Of course, pay-as-you-drive mileage tracking is not entirely foreign to Canada today. The next time a transport truck roars by you on the 401, take a look at the driver’s side door. If there’s a small sticker that says “IFTA,” the driver is a participant in the International Fuel Tax Agreement, a unique deal between Canadian provinces and U.S. states that offers another example of how a simple road charge might work.

IFTA was set up to ensure a fair distribution of fuel taxes across Canada and the U.S. for cross-border truckers. Mileage, route and gas purchase details are reported on a quarterly basis and IFTA uses this information to calculate the share of fuel taxes owing in each state or province the truck passed through.

If a trucker gassed up in a high tax location and then travelled through mostly low-tax jurisdictions, a rebate may be in order. If the opposite is true, they’ll get a bill. IFTA thus demonstrates the feasibility of recording and reconciling travel across borders based on distance and locale. Consider it another glimpse into the future.

As fuel taxes decline in significance, a shift to mileage-based user fees looks all the more likely. Let’s do it right.