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Virginia's Transportation Funding Package Heading Toward 'Destination Unknown'

New taxes hit low-income Virginians hardest; risky bet could flatten funding

RICHMOND, VA – Low-income Virginians will pay a greater share of their income in new taxes than wealthier Virginians under the transportation funding legislation adopted by the General Assembly last week, according to a new, comprehensive analysis of the package from The Commonwealth Institute for Fiscal Analysis, a non-profit, independent fiscal and economic policy organization based in Richmond.

The complex package relies on a combination of funding from higher sales taxes and new revenue that the state would get if Congress allows it to require online merchants to collect sales taxes on purchases made by Virginians. Should Congress balk, over \$400 million in revenue from the package disappears.

“In an attempt to fix one problem legislators have created several more. They’ve shifted the cost of funding transportation onto non-drivers in our state, and they’ve stuck low-income people with a bigger bill. In addition, the backstops put in place to deal with the complicated issue of congressional action on Internet sellers don’t come close to replacing the lost revenue if Congress doesn’t take action on that issue,” says Michael Cassidy, President of The Commonwealth Institute.

Under the transportation funding package:

- **Low-income people pay more.** People earning less than \$21,000 will pay three to six times more of their income in new taxes than people with incomes that top \$509,000.
 - In Northern Virginia and Hampton Roads, low-income households will pay between five and eight times more of their income.
- **Responsibility moves away from drivers.** Most of the new revenue would come from activities unrelated to driving, dramatically shifting the responsibility for funding transportation away from those who use the highways the most.
 - Statewide, less than 10 percent of the new tax revenue is from driving-related sources, such as the gas tax.
 - In Northern Virginia, the new regional taxes in the package come entirely from sources unrelated to driving.
 - In Hampton Roads, 64 percent of the new taxes come from sources unrelated to driving.

- **Virginia schools may not receive much new help.** While the prospect of dedicated education funding was used to help pass the plan, whether it will actually result in any meaningful new funding for Virginia's schools is unclear. Furthermore, while the share of sales tax revenue dedicated to education gets a one-time bump, the share diverted to transportation grows over time.
- **The gas tax swap will bring in less money.** The state will lose nearly \$850 million by replacing the current 17.5-cents-per gallon gas tax paid by drivers at the pump with a 3.5 percent tax on the wholesale price of gasoline.

The full report, *Destination Unknown: Navigating Virginia's New Transportation Funding Package and the Issues Ahead*, is available at www.thecommonwealthinstitute.org.

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The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.