



The Distributional Effects of a Federal Gas Tax Holiday

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Published: June 12, 2026

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Key Takeaways

1

If enacted, we estimate that about 80% of the 18.4-cent per gallon excise tax cut would reach consumers while the rest would be retained by producers and retailers, but this central estimate is subject to uncertainty given the scarcity of relevant evidence.

2

Under that assumption, a federal gas tax holiday would save the average household about \$148 over a full year or roughly \$37 for a three-month holiday—a small share of the gas cost increase since the Iran conflict began.

3

Higher-income households receive larger benefits in dollar terms but smaller benefits relative to income. Annualized savings rise from about \$72 in the bottom income quintile to about \$214 in the top; as a share of income, they fall from about 0.43% to 0.08%.

4

Because heavy gas users are found across the income distribution, the tax relief provided is more unequal within income groups than across them. About 35% of bottom-income-quintile households would save \$25 or less over the year, while the top tenth of gas users in that same income quintile would save roughly \$174.

Introduction

Policymakers have proposed a temporary federal gas tax holiday as a way to offset the rise in gasoline prices caused by the war with Iran. As of early June 2026, Ryan Cummings and coauthors [estimated](#) that the average household will lose roughly \$1000 in 2026 due to war-induced gas price hikes, with disproportionate burden on lower- and middle-income families.¹

The idea of a gas tax holiday is familiar: John McCain and Hillary Clinton both proposed versions during the 2008 presidential campaign, and President Biden made a similar proposal in June 2022. However, a gas tax holiday has never been enacted at the federal level.

This analysis examines who would benefit from a three-month federal gas tax holiday, and by how much, relative to current law. First, we look at how much of the tax cut would actually reach consumers rather than being captured by producers; that is, what is the economic incidence of a gas tax holiday? Second, how are the benefits distributed: are heavy gas users typically rich, typically poor, or spread across the income spectrum?

Our reading of the limited available evidence is that consumers would likely receive most of the benefit of a three-month gas tax holiday. Higher-income households would receive more tax relief in dollar terms and lower-income households would receive more as a share of income. However, the spread of benefits within income groups is larger than the average difference across groups. The heaviest drivers gain the most, while many households that drive little (whether low- or high-income) gain almost nothing.

Do Gas Tax Holidays Benefit Consumers or Producers?

A gas tax holiday removes the 18.4-cent-per-gallon federal tax, but households do not directly pay that tax, and they benefit only to the extent that prices fall at the pump. As with all tax changes, the benefits of a federal gas tax holiday will be split between the producers (oil companies, refineries, and service stations in this instance) and consumers.

A general principle of tax analysis is that the less elastic side of a market—the side least sensitive to price—gains more from a tax cut. If in the short-run it is sufficiently difficult for suppliers to adjust how much gasoline they deliver to U.S. consumers, producers and retailers can retain part or even all of the benefits from the gas tax holiday.

Both producers and consumers can respond to a tax change, but their options for doing so are limited over a three-month holiday. On the demand side, gasoline consumption depends most directly on miles driven, which many households cannot easily adjust in the short run. Other means of adjustment, like buying a more or less fuel-efficient vehicle, moving closer to or farther from work, or making different use of public transit, may matter only if higher prices persist.² On the supply side, refinery utilization, net exports, and inventories can adjust to a limited extent in the short run.

To assess the interplay of these factors, we draw on Coyle, DeBacker, and Prisinzano (2012), who jointly estimate gasoline supply and demand using shifts in disposable income and supply disruptions from wars and natural disasters. (Because there are no federal gas tax holidays in the historical record, they cannot directly assess their effects.) Their results imply pass-through to consumers of about 80%.³ Evidence from past sub-national holidays points in the same direction.⁴ However, evidence from state-level gas tax holidays may have limited relevance to a federal gas tax holiday, for which the adjustment opportunities are more limited on the supply side: suppliers can more readily reroute supplies across state lines than across countries.

Given the uncertainty about pass-through from a federal holiday, we show results for three pass-through scenarios—50% (low), 80% (central), and 100% (upper bound)—applied as a uniform rate to every household. In the central case the pump price falls about 14.7 cents per gallon, versus 9.2 cents at 50% and the full 18.4 cents at 100% pass-through. We visualize these scenarios in Figure 1 below, comparing them with the gas price increase from late February through early June.

Figure 1. The Recent Gas Price Increase is Large Relative to Federal Tax Holiday Savings

Cents per gallon

■ Gas price increase ■ Tax cut reaching consumers ■ Tax cut retained by suppliers



EIA regular gasoline rose from \$2.937 on Feb. 23, 2026 to \$4.305 on Jun. 1, 2026. Holiday bars split the 18.4-cent federal gasoline tax cut between consumers and suppliers under pass-through scenarios.

Chart: The Budget Lab • Source: EIA Weekly U.S. Regular All Formulations Retail Gasoline Prices; The Budget Lab analysis. • Created with [Datawrapper](#)

Which Consumers Benefit from a Gas Tax Holiday?

It is somewhat clearer how the consumer-side benefits of a gas tax holiday would be distributed across the population. To estimate how gasoline use varies within and across income groups, we use the Consumer Expenditure Survey (CEX) and National Household Travel Survey (NHTS). We convert CEX-derived gasoline spending into gallons using regional Energy Information Administration retail prices, then scale those implied gallons within each census region to match gasoline use as measured in the NHTS. We find the following results.

- **The average effect is small relative to recent price increases.** At 80% pass-through, a holiday saves the average household about \$148 over a full year or \$37 over a three-month holiday. As shown in Figure 1, under our central scenario a gas tax holiday offsets about 11% of the observed rise in gas prices from February 23 (the week before the war began) to June 1st.⁵
- **Gasoline consumption is highly concentrated.** Figure 2 shows the share of total gas consumption (by volume) accounted for by each gas-consumption quintile.⁶ The top quintile of gas purchasers are responsible for about half of total gasoline consumption, roughly double the amount consumed by the bottom 60%. Because gas-tax-holiday relief is proportional to gallons purchased, the same shares describe how relief is distributed across gasoline-use groups.

Figure 2. Top Fifth of Gas Users Accounts for Half of Gas Consumption

Share of total gasoline consumption by gasoline-consumption quintile.

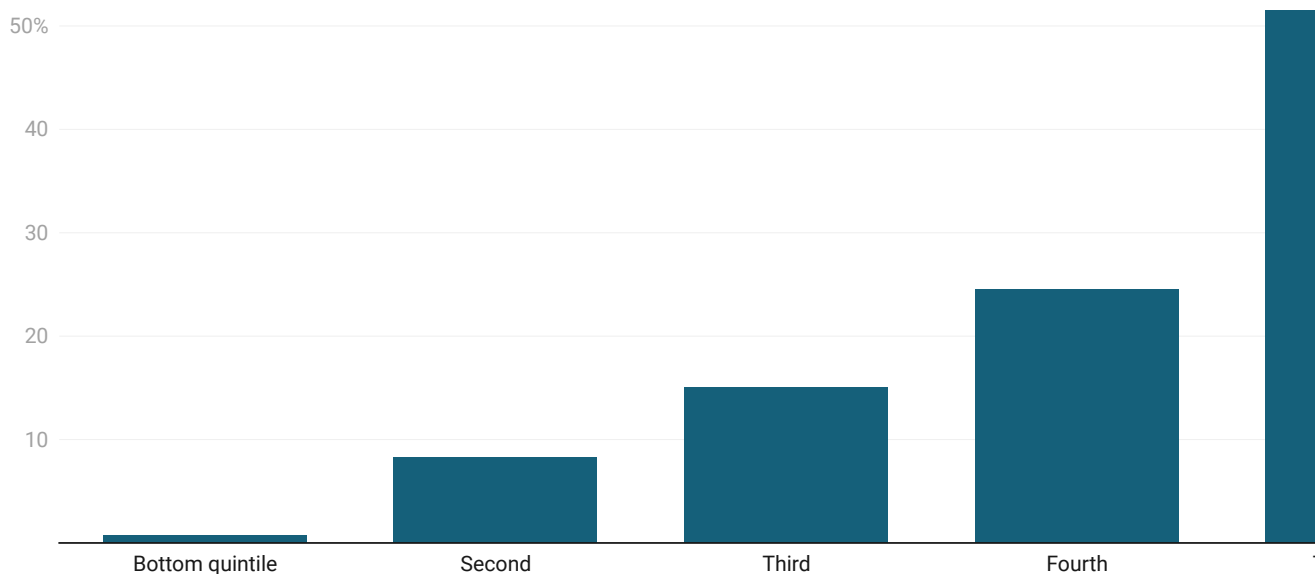


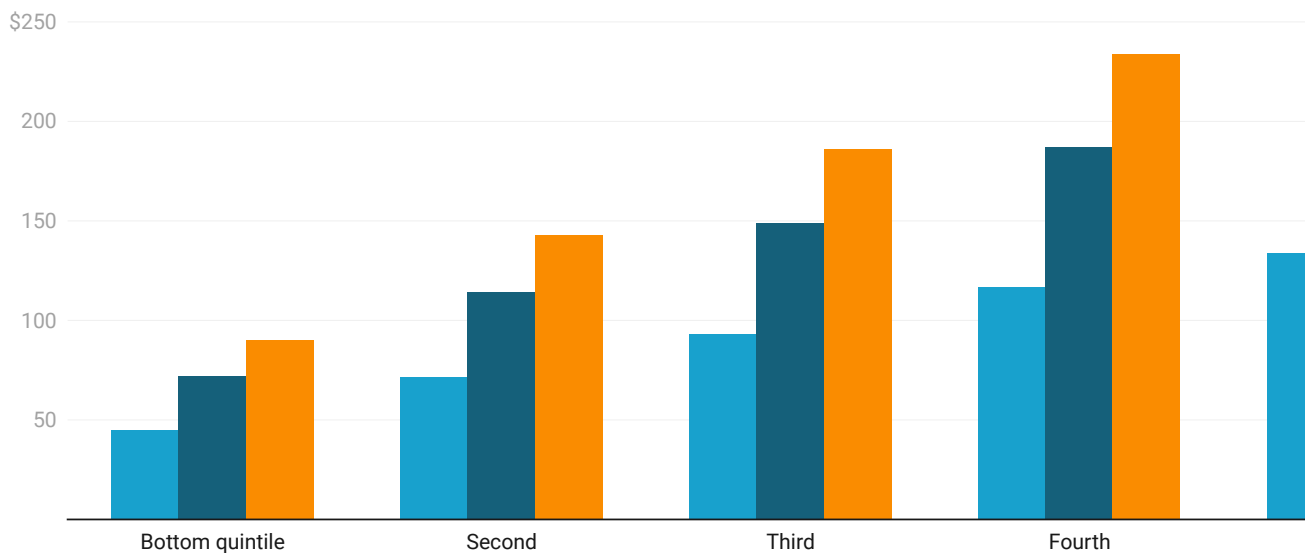
Chart: The Budget Lab • Source: BLS Consumer Expenditure Survey; The Budget Lab analysis. • Created with [Datawrapper](#)

- **Across income quintiles, higher-income households would receive more dollars, while lower-income households would receive more relative to income.** In dollar terms, the benefit rises with income. As shown in Figure 3, under 80% pass-through, annualized savings run from about \$72 in the bottom quintile to \$214 in the top quintile. Figure 4 shows that the pattern reverses when benefits are displayed as a share of income, falling from about 0.43% for the bottom quintile to 0.08% for the top.

Figure 3. Federal Gas Tax Holiday Savings Rise with Income

Annual household savings by income quintile under alternative pass-through assumptions

50% pass-through 80% pass-through 100% pass-through



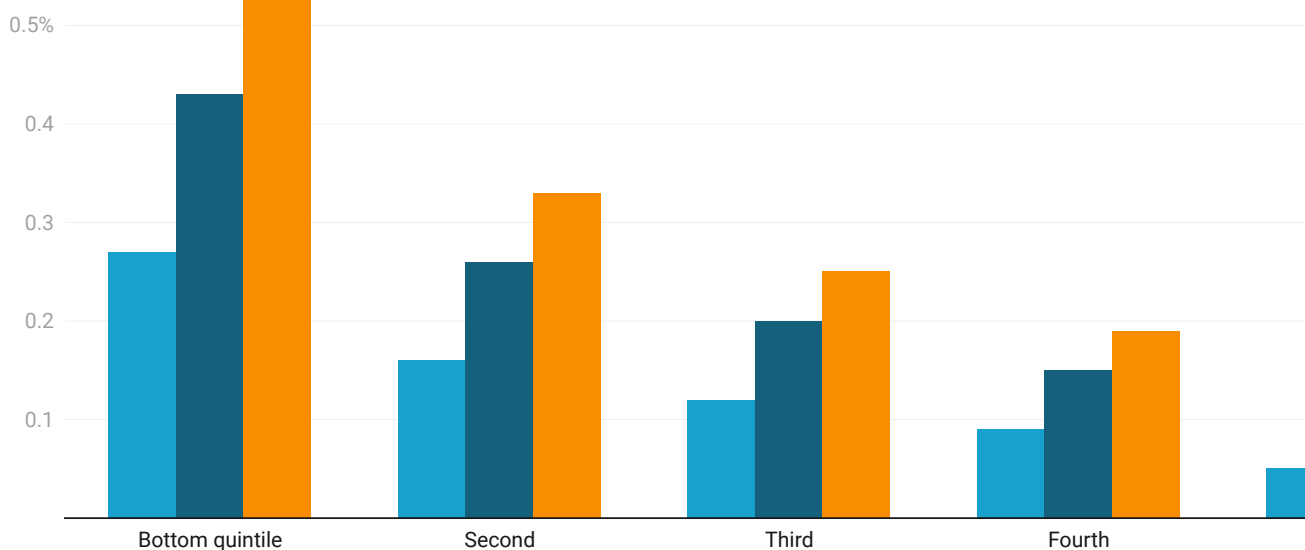
Quintiles calculated using before-tax income

Chart: The Budget Lab • Source: BLS Consumer Expenditure Survey, National Household Travel Survey; The Budget Lab analysis. • Created with [Datawrapper](#)

Figure 4. Federal Gas Tax Holiday Savings Fall as a Share of Income

Annual savings divided by before-tax income by income quintile under alternative pass-through assumptions.

50% pass-through 80% pass-through 100% pass-through



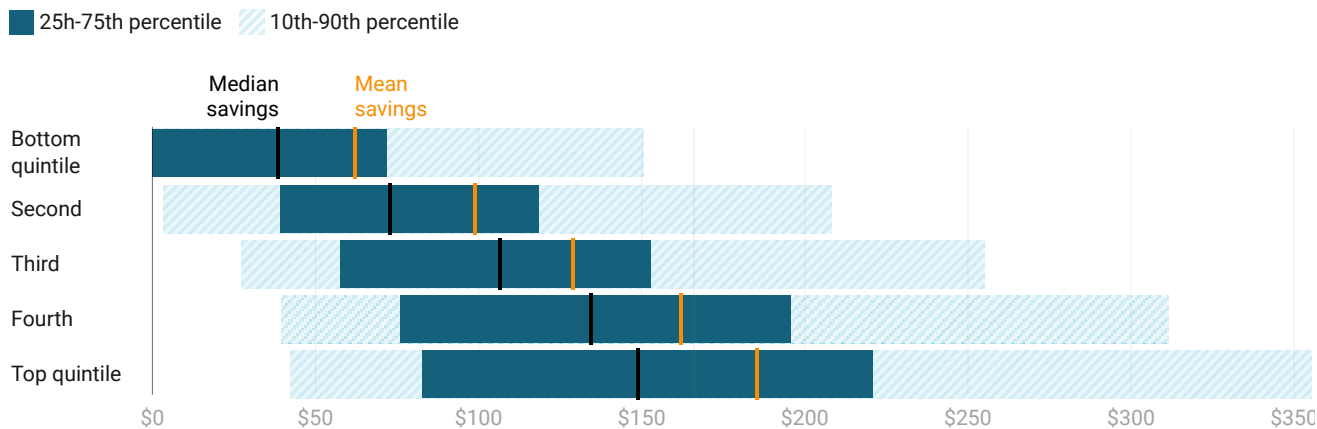
Quintiles calculated using before-tax income

Chart: The Budget Lab • Source: BLS Consumer Expenditure Survey, National Household Travel Survey; The Budget Lab analysis. • Created with [Datawrapper](#)

- **Gasoline consumption varies more within income groups than across them.** As shown in Figure 5, average annualized savings rise by about \$142 from the bottom income quintile to the top, but the 10th-to-90th percentile range within each quintile is larger than that. In the bottom income quintile, annualized savings run from \$0 at the 10th percentile to \$174 at the 90th, with a mean of \$72. The within-quintile range is even wider higher up the income distribution, at \$361 between the 10th and 90th percentiles in the top quintile.
- **Many receive little benefit from this policy.** In Figure 6 we examine what share of households in each income quintile would receive negligible relief. About 35% of bottom-quintile households would save \$25 or less over a full year, compared with about 5% of the top quintile.

Figure 5. Federal Gas Tax Holiday Savings Vary Widely within Income Groups

Dispersion of annual household savings by income quintile under 80 percent pass-through



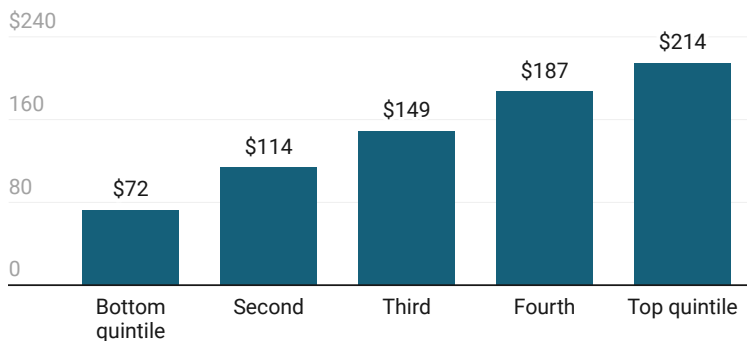
Quintiles calculated using before-tax income

Chart: The Budget Lab • Source: BLS Consumer Expenditure Survey, National Household Travel Survey; The Budget Lab analysis. • Created with [Datawrapper](#)

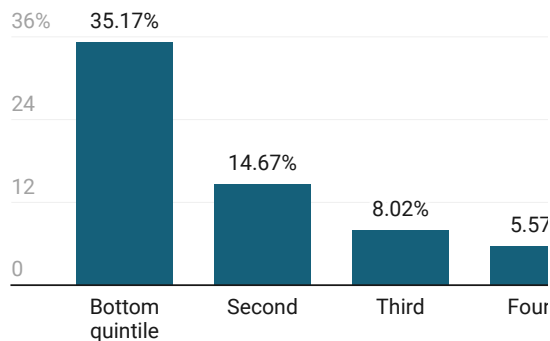
Figure 6. Mean Relief Rises with Income but Low-gas Households Appear in Every Income Quintile

Under 80% passthrough

Mean annual household savings



Share of households saving <\$25



Quintiles calculated using before-tax income

Chart: The Budget Lab • Source: BLS Consumer Expenditure Survey, National Household Travel Survey; The Budget Lab analysis. • Created with [Datawrapper](#)

Conclusion

A federal gas tax holiday would likely offset a small portion of the increase in gas prices since before the Iran conflict: about \$37 over three months against a gasoline expenditure hike of about \$250 over the same time period. Benefits accrue to the households that burn the most fuel, which can be found throughout the income distribution.

The authors are grateful to Alex Brill and Ryan Cummings for insightful feedback on an earlier draft.

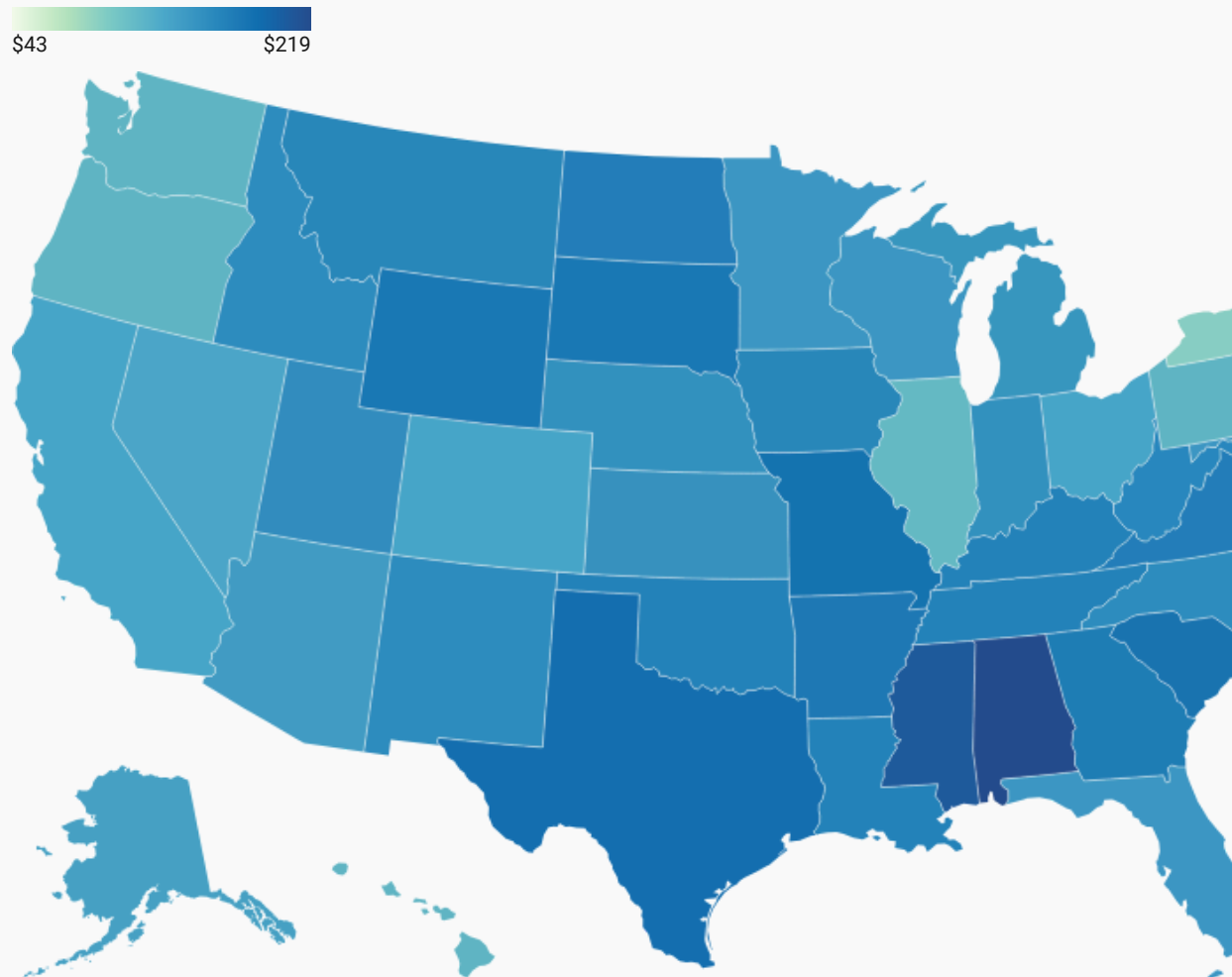
Appendix

Variation across states

The federal tax is uniform, but consumption per household is not, so the average benefit varies geographically. At 80% pass-through, average relief ranges from about \$43 per household in the District of Columbia to about \$219 in Alabama. This roughly fivefold spread is driven by differences in car dependence, commute length, and vehicle mix across states.

Figure A1. Average Household Savings by State

Under 80 percent pass-through



State averages use EIA SEDS transportation gasoline and Census ACS household counts

Source: EIA State Energy Data System and Census ACS; The Budget Lab analysis. • Created with [Datawrapper](#)

Data and assumptions

Our estimates of household gasoline use come from the BLS Consumer Expenditure Survey (CEX), which records gasoline spending and before-tax income for a large national sample of households. To translate spending into gallons, we divide each household's gasoline expenditure by the average EIA retail gasoline price for its region over the relevant survey months. Because the CEX understates gasoline use relative to external benchmarks, we then scale these implied gallons within each census region by a constant factor so the regional average matches household gasoline use measured in the 2022 National Household Travel

Survey (NHTS). The NHTS estimates are built from household vehicle miles and fuel economy. To address potential commercial activity or misreporting we cap NHTS responses at 100k miles/year; the processed data imply national gasoline consumption levels close to the EIA State Energy Data System (SEDS) national transportation-gasoline aggregate. A household's holiday savings are then its annual gallons times the 18.4-cent federal tax times the assumed pass-through rate; all dollar figures are annualized, so an actual three-month holiday would deliver about one-quarter of the reported amounts.

We rank households into before-tax income quintiles using CEX sample weights and report, for each quintile, the weighted-mean saving along with the within-quintile distribution (the 10th through 90th percentiles and the share of households saving \$25 or less) computed directly from the household-level data.

The state averages reported above are computed separately, dividing EIA SEDS transportation gasoline by Census American Community Survey household counts. A few limitations are worth noting. Because neither the CEX nor the NHTS identifies a household's state, we report average effects by state rather than the distribution of effects within a state. Additionally, we omit the small increase in driving that a temporary price cut would induce, which is second-order at these short-run elasticities.

Footnotes

- 1 The updated estimate is provided [here](#), with the underlying analysis described in Cummings et al. ([2026](#)).
- 2 Research indicates that consumers do adjust their choices about fuel efficiency in response to changes in expected fuel costs (Busse, Knittel, and Zettelmeyer [2013](#)).
- 3 The authors estimate a short-run demand elasticity of about -0.07 and a short-run supply elasticity of about 0.29 , implying that about 81% of a gas-tax change is passed through to consumers.
- 4 Doyle and Samphantharak ([2008](#)) estimate roughly 70% pass-through in the 2000 Illinois and Indiana moratoria; Penn Wharton Budget Model ([2022](#)) estimates 58-87% pass-through in the 2022 state holidays; and Tsvetanov ([2024](#)) estimates about 79% pass-through across 2024 East Coast cities.
- 5 This calculation provides economic context, but we do not attempt to identify the portion of this increase that is due to the conflict versus other shifts in gasoline supply and demand.
- 6 Our estimates are for households only, and do not reflect purchases of gasoline by businesses.