

## Gas Tax Holidays: Savings at What Cost?



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Rising oil prices associated with the current conflict in Iran have increased pressure on household and transportation affordability nationwide and have led to calls across the country for the suspension or reduction of taxes on motor fuel sales. In Illinois, however, motor fuel taxes now support a broader range of transportation and transit systems than in prior years, meaning temporary tax reductions could have significant implications for transportation funding statewide.

This report examines recent fuel price increases, the implications of potential motor fuel tax holidays for Illinois revenues, and how temporary reductions in motor fuel taxes could affect transportation and transit funding statewide.

While fuel tax holidays may provide some short-term relief to consumers, the actual consumer benefit remains uncertain, as research suggests portions of any tax reduction may not be fully passed through to drivers at the pump. At the same time, the impacts on Illinois' transportation systems could be significant. Just last year, the Regional Transportation Authority (RTA) faced an estimated \$771 million structural deficit that threatened major service reductions, fare increases, layoffs, and long-term economic harm to the region. HB5738, which would temporarily reduce Illinois' sales tax on motor fuel purchases from 6.25% to 1.25% for six months beginning July 1, 2026, could recreate a funding loss of similar magnitude at the same time the State is preparing to implement its newly adopted transit governance framework in northeastern Illinois.

The impacts of HB5738 would not be evenly distributed statewide, and Chicago would experience disproportionately large fiscal impacts at a time when both the City and the regional transit system are already confronting significant budgetary pressures.

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More broadly, the report highlights the complexity and interconnectedness of Illinois' transportation finance system following the enactment of Rebuild Illinois and subsequent transit funding reforms. Motor fuel taxes now support not only traditional transportation infrastructure, but also transit operations, local government distributions, debt service obligations, and other transportation-related expenditures. As a result, temporary reductions in motor fuel-related taxes would have ripple effects across multiple parts of the State's transportation and local government finance systems.

Policymakers considering temporary motor fuel tax reductions should weigh both the immediate benefits to consumers and the potential implications for the stability of transportation funding over time. Given the interconnected nature of Illinois' transportation finance system, understanding the full fiscal implications of temporary fuel tax reductions is particularly important before such policies are enacted.

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