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OREGON'S PROPOSED TIRE TAX
WHAT IT MEANS FOR THE ECONOMY

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ABOUT THE AUTHORS

Mark McMullen brings a wealth of expertise to CSI, having served as the longest-tenured Chief Economist for the State of Oregon under three governors. Serving under a fourth governor as interim Chief Economist his first year, Mark accumulated 14 years of invaluable experience in the governor's office. Before joining CSI, Mark held prominent roles, including Director of Consulting at Moody's Analytics and researcher at the Congressional Budget Office. He earned his undergraduate degree from Pomona College and completed his graduate studies at the University of Pennsylvania.

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Growing up in Istanbul, she developed a strong interest in working on emerging market economies. In her free time, she enjoys rock climbing and scuba diving.

Thomas Young, Ph.D. brings a wealth of experience at the touch points of economics including economic forecasting, public policy and public finance, econometrics, investing, survey research, and cost-benefit analyses to name a few. He received his Ph.D. in Business Economics, Industrial Organization, Econometrics, and Finance from the University of Utah. Thomas currently lives in Salt Lake City, Utah with his wife and four wonderful daughters.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Oregon economy and individual opportunity.

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CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

House Bill (HB) 3362 of the 2025 Regular Session proposes a 4% excise tax on sales of tires.[i] The revenue from the excise tax would be deposited into two funds and spent:

- 50% towards public rail transit (approximately $23.0 million): While HB 3362 does not specify detailed projects, it allocates funding towards enhancing the state's rail transit system. During a legislative meeting on the bill, several areas were highlighted as priorities for potential improvement within the state's rail system. These areas include safety enhancements at railroad crossings, upgrades to bridge materials, and improvements in connectivity and efficiency.[ii]
- 25% towards pollution reduction caused by tires (approximately $11.5 million): This allocation aims to address environmental concerns linked to tire pollution, specifically focusing on pollutants like 6PPD-quinone that negatively affect aquatic life such as salmon and trout. Short-term solutions identified include treating this chemical before it enters waterways to mitigate its harmful impact.[iii]
- 25% towards reducing the number of wildlife-vehicle collisions, approximately $11.5 million.

As of writing, a complete fiscal note is not publicly available.[iv] In 2020, the Legislative Revenue Office estimated that a $1 per tire tax on all tires sold in Oregon would generate $3.1 million.[v] The Office also estimated that a 0.77% tax rate on the retail value of tires sold would generate the same $3.1 million.[vi]

HB 3362 defines a **taxable tire** as a **new or newly refurbished tire** designed for use on motor vehicles operating on public highways. However, **tires for vehicles with a combined weight exceeding 26,000 pounds are exempt from the tax**, meaning large commercial trucks and other heavy vehicles will not be affected.

KEY FINDINGS

- House Bill 3362 imposes a 4% tax on retail tire transactions in the state, generating approximately $46.1 million in tire tax revenue in calendar year 2026. The tax increase is ongoing.
- Revenues collected from the proposal are to be allocated between public rail transit and tire-related pollution reduction and mitigation efforts. One of the stated goals of the policy is to create a dedicated funding stream for public transportation projects. The tire tax would only represent a small first step in this direction. The Department of Transportation requested $514 in public transportation spending in its upcoming two-year budget. As such, the tire tax would be expected to cover less than 9% of program costs, with project costs highly subject to change over time.
- The economic impact on:
  - Jobs equate to an initial increase of +115 from the increased government spending and a decline in jobs for every year thereafter, with a drop in jobs of 396 by 2060. The higher cost of living effect overtakes the government spending effect.
  - Personal income equates to a drop in income of $9 million in 2026 and a drop in income of $164 million by 2060.
- Tire inflation was much higher than overall inflation from July 2021 through October 2023. Since then, tire inflation has slowed and is currently deflating at -0.5%. A 4% tax rate would push tire inflation to again above the overall inflation rate to an estimated 5% compared to overall inflation of 3%.
- The proposed tire tax is likely regressive, meaning that it hits lower income individuals harder than higher income individuals. For instance, a person making $25,000 may pay 0.064% of their income in tire tax whereas a person making $250,000 may pay only 0.016% of their income in tire tax.
- The tire tax also can be expected to disproportionately be borne by rural Oregonians. Households in rural areas often must drive further to reach their destinations, spend less time on interstate highways and other paved roads, have less access to public transit options, and are often subject to harsher climates than are their neighbors in more populated areas.

STATIC FISCAL NOTE

Tire Retailers

On a static basis – meaning excluding economic feedback loops – HB 3362 generates revenue from a proposed excise tax on tire sales. Per IBISworld,[vii] sales by tire dealers will be $1.1 billion in calendar year 2025. In addition to tires, tire dealers may offer services for installation, balancing, mounting and removal of tires. Given this, $1.1 billion is likely the high end of taxable sales of tires from tire retailers. Per Tire Business,[viii] about 50% of tire retailers' revenue stems from actual tire sales, which would equate to potential tire sales from specialty tire retailers of $550 million in 2025 – or $22 million in revenue at a 4% tax rate. From this amount, one needs to subtract off the amount for exempt motor vehicles and government purchases. Using 25% and 2% as the share of the market for these two leaves $511.4 million in taxable sales.

General Retailers, Automotive Dealers, Online Retailers

In addition to specialized tire retailers, retailers whose primary purpose is something other than tires, but also sell tires, account for a significant portion of sales. Per Marketforce INFORMATION,[ix] specialty tire retailers account for 37% of the tire market, leaving 63% for large and small general retailers (46%), automotive dealers (11%), and online retailers (6%). Applying the same adjustments for exempt motor vehicles and government purchases, and these figures result in taxable sales from these sectors of: large and small general retailers ($467 million), automotive dealers ($112 million), and online sales ($61 million). Together, the non-specialty tire retailers' tire tax collection in 2025 would sum to $25.6 million if implemented for the full 2025 calendar year.

Although these static estimates depend on a different methodology than has been used by the Legislative Revenue Office (LRO) to score similar bills in the past, the estimates are very similar. In particular, after adjusting for inflation, the Current CSI static estimates and 2020 LRO estimates match very closely.

Summary Static Fiscal Note

Summing the four broad sellers of tires results in approximately $1.2 billion in taxable tire sales in calendar year 2025, resulting in approximately $46.1 million in tire tax revenue (Table 1).

TABLE 1: TIRE TAXABLE SALES AND REVENUE BY OUTLET TYPE

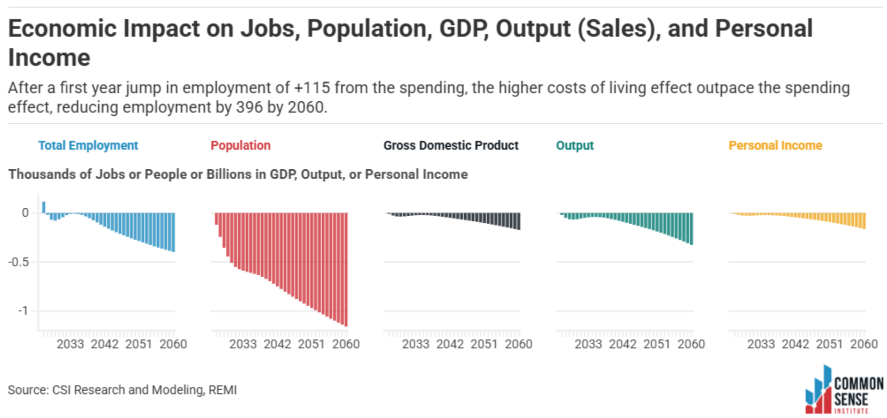
	Taxable Sales	Tire Tax Revenue
Specialty Tire Retailer	$511,376,250	$20,455,050
General Merchandise Retailer	$467,287,325	$18,691,493
Automotive Dealers	$111,742,621	$4,469,705
Online Sales	$60,950,521	$2,438,021
Total	**$1,151,356,716**	**$46,054,269**

ECONOMIC IMPACT

Jobs Impact

The higher prices for tires reduce jobs. The government spending from the additional tax revenue correlates with higher employment. Putting the two effects together results in an initial increase in employment of 115. After the initial jump from spending, the higher cost of living effect overtakes the higher government spending, resulting in fewer jobs of 396 by 2060 (Figure 1).

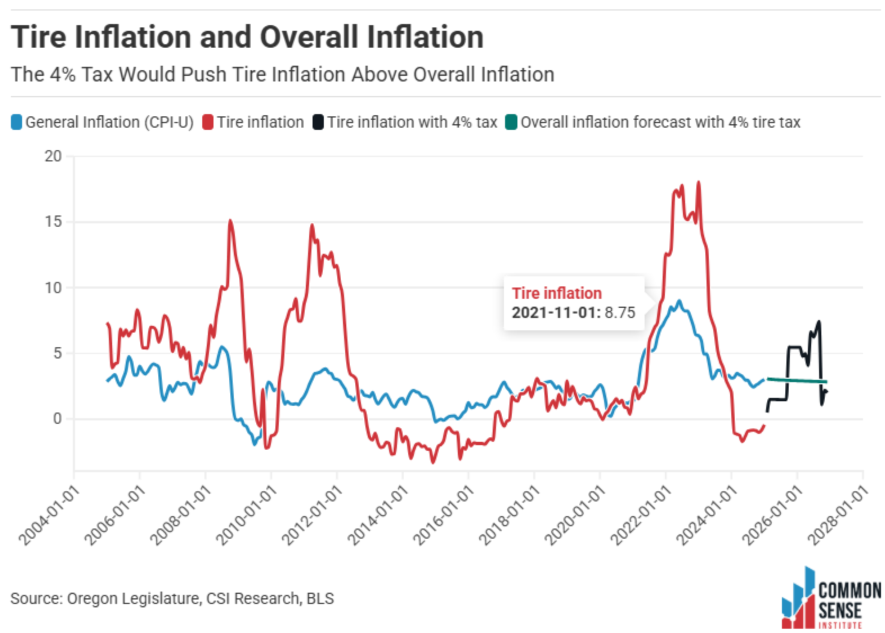
FIGURE 1



Price Impact

Overall, tire inflation has been hot. Tire inflation had been much higher than overall inflation until October 2023, at which point tire inflation began to drop into slight deflation. The 4% tax would put tire inflation above the top-line inflation figure again, as measured by the overall CPI Index and marginally increase in the overall inflation rate stemming from the estimate that tire spending represents about 0.297% of all consumer spending[x] (Figure 2).

FIGURE 2

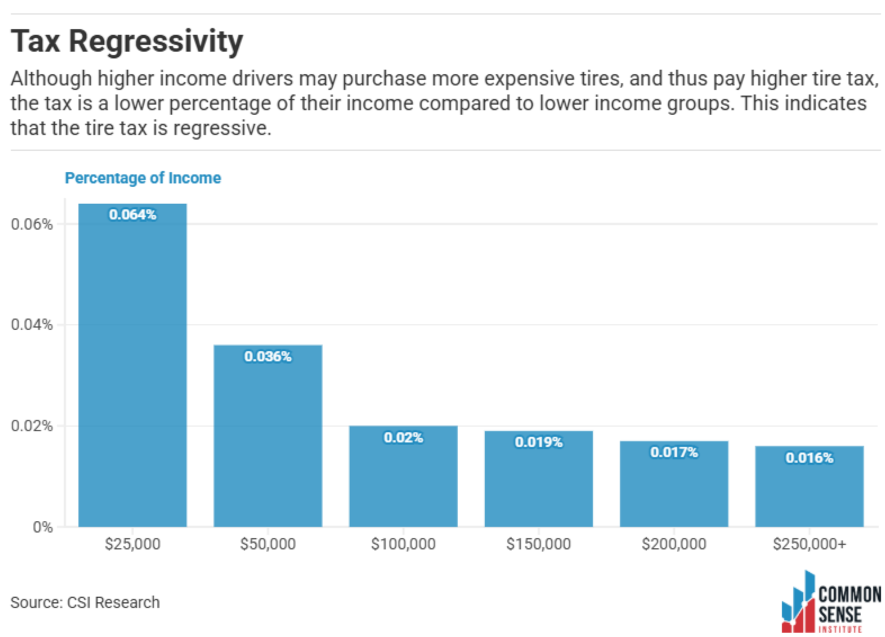


INCIDENCE OF THE TIRE TAX – REGRESSIVE OR PROGRESSIVE?

Implementing the tire tax impact individuals differently. Overall, suppose an individual making $25,000 buys four tires for a total taxable transaction of $400, or $16 in tire tax. Next, suppose an individual making $250,000 purchases four tires for a total taxable transaction of $1,000, or $40 in tire tax. Although the wealthier person is paying over double the amount in tire tax, the tax is regressive because the person making only $25,000 is paying 0.064% of their income in tire tax, whereas the person making $250,000 is paying 0.016% of their income (Figure 3).

- The tire tax also can be expected to disproportionately be borne by rural Oregonians. Households in rural areas often must drive further to reach their destinations, spend less time on interstate highways and other paved roads, have less access to public transit options, and are often subject to harsher climates than are their neighbors in more populated areas.

FIGURE 3



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