

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 469
 Ways and Means

(The Speaker, *et al.*) (By Request - Administration)

Budget and Taxation

Motor Vehicle Excise Tax - Tax Credit For Electric Vehicles

This Administration bill creates a tax credit for the purchase of qualified plug-in electric vehicles equal to 100% of the State vehicle excise tax imposed, not to exceed \$2,000. The bill requires a transfer of \$279,000 from the Maryland Strategic Energy Investment Fund (SEIF) to the Transportation Trust Fund (TTF) in fiscal 2011, \$939,600 in fiscal 2012, and \$1,287,000 in fiscal 2013.

The credit applies to qualified vehicles titled beginning October 1, 2010, through June 30, 2013.

Fiscal Summary

State Effect: SEIF revenues decrease by \$279,000 in FY 2011, \$939,600 in FY 2012, and by \$1.3 million in FY 2013. TTF revenues may decrease by \$655,100 in FY 2012 and by \$626,600 in FY 2013. Potential minimal increase in TTF expenditures in FY 2011 due to computer programming costs at the Motor Vehicle Administration (MVA).

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	(\$.3)	(\$1.6)	(\$1.9)	\$0	\$0
SF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$.3)	(\$1.6)	(\$1.9)	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local highway user revenues may decrease by \$131,000 in FY 2012 and by \$125,300 in FY2013. Local expenditures are not affected.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The bill establishes a tax credit against the vehicle excise tax for 100% of the excise tax imposed, not to exceed \$2,000, for the purchase of a qualified plug-in electric vehicle. The credit is limited to one vehicle per individual and 10 vehicles per business entity. The credit is available for qualified vehicles titled beginning October 1, 2010, through June 30, 2013.

A qualified plug-in electric vehicle is an unmodified motor vehicle that: (1) is made by a manufacturer primarily for use on public streets; (2) is acquired for use or lease by the taxpayer and not for resale; (3) is rated at no more than 8,500 pounds unloaded gross vehicle weight; (4) has a maximum speed of at least 55 miles per hour; and (5) is propelled to a significant extent by an electric motor that draws electricity from a battery capable of being recharged from an external source of electricity with a capacity of at least four kilowatt hours for a four-wheeled vehicle and a capacity of at least 2.5 kilowatt hours for a two- or three-wheeled vehicle.

The credit may not be claimed: (1) unless the vehicle is registered in the State; (2) unless the manufacturer has already conformed to any applicable state or federal laws or regulations governing clean-fuel vehicle or electric vehicle purchases during the calendar year in which the vehicle is titled; and (3) for a vehicle that was originally registered in another state.

The bill requires a transfer of \$279,000 in fiscal 2011 from SEIF to TTF; \$939,600 in fiscal 2012, and \$1,287,000 in fiscal 2013.

Current Law: No similar State tax credit exists, although purchases of qualified plug-in electric vehicles qualify for federal credits as discussed below. In addition, businesses may deduct or expense vehicle purchases, which typically results in a lower federal and State income tax liability.

The vehicle excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 6% of the fair market value of the vehicle minus the value of any trade-in. In fiscal 2011, a portion (20%) of the titling tax revenue is distributed to local governments in the form of local highway user revenues. The remaining titling tax (80%) is used to pay the debt service on the Maryland Department of Transportation's consolidated transportation bonds. No part of the tax or other funds used for debt service on the bonds may be repealed or applied to any other purpose until the bonds and interest on the bonds are fully paid or a complete provision for paying the bonds has been made.

Background: Plug-in hybrid electric vehicles (PHEVs) have gained significant attention in recent years, as concerns about energy, environmental, and economic security – including rising gasoline prices – have prompted efforts to improve vehicle fuel economy and reduce petroleum consumption in the transportation sector. PHEVs differ from both conventional vehicles, which are powered exclusively by gasoline-powered internal combustion engines, and battery-powered electric vehicles, which use only electric motors. Conventional hybrids such as the Toyota Prius are not PHEVs, which may be “plugged” into an external power source in order to charge the battery.

Although PHEVs provide significant fuel savings (vehicles can get up to 100 miles per gallon), they are significantly more expensive to buy than a comparable conventional vehicle and may not represent the most cost effective method of reducing pollution and other undesirable impacts resulting from fossil fuel consumption. Significant research, including funding from the federal government, is currently directed at improving the performance of vehicle batteries.

Several PHEV models are expected to be introduced later this year or in 2011; including the Chevy Volt, Toyota Prius (plug-in version), Nissan Leaf, and VW Golf. General Motors (GM) has announced that the Chevy Volt will have a maximum range of 40 miles on one electric charge before switching to its gas generator. GM also recently announced plans to add production of electric motors at its White Marsh transmissions manufacturing plant. The federal Energy Information Administration (EIA) forecasts that PHEV sales will grow rapidly in the next few years, increasing to about 90,000 vehicles annually in 2015 or about 1.7% of the total light duty vehicle stock.

State Qualified Electric Hybrid Tax Credit

Chapter 295 of 2000 provided a credit against the vehicle excise tax for individuals who buy either a qualified electric or hybrid vehicle. The credit expired July 1, 2004. **Exhibit 1** lists the total amount of credits and number of taxpayers who claimed the credit from fiscal 2001 to 2004. The majority of credits were claimed for qualifying hybrid vehicles.

Exhibit 1
Amount of Credits Claimed
Fiscal 2001-2004

<u>Fiscal Year</u>	<u>Credits Claimed</u>	<u>Taxpayers</u>	<u>Average</u>
2001	\$225,316	222	\$1,015
2002	\$583,708	554	\$1,054
2003	\$1,422,351	1,390	\$1,023
2004	\$2,043,293	1,912	\$1,069

Source: Maryland Department of Transportation

Federal Tax Credits

Qualified plug-in hybrid vehicles may qualify for two federal income tax credits. A four-wheel vehicle purchased after December 31, 2009, with a gross weight of less than 14,000 and capable of drawing propulsion from an externally charged battery with at least 4 kilowatt hours qualifies for a credit equal to between \$2,500 and \$7,500, depending on the battery capacity. The plug-in electric drive vehicle credit begins to phase out for a manufacturer's vehicles after the manufacturer has sold 200,000 vehicles. Certain low-speed electric vehicles and two- or three-wheeled vehicles may qualify for a tax credit equal to 10% of the vehicle cost, up to a maximum of \$2,500. Vehicles must be purchased after February 17, 2009, and before January 1, 2012. Low-speed vehicles must have a battery with a capacity of at least 4 kilowatt hours; for two- and three-wheeled vehicles, the battery must have a capacity of at least 2.5 kilowatt hours. A taxpayer may not claim this credit if the vehicle qualifies for the plug-in electric drive vehicle credit.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program, and the implementing SEIF, to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. Of the money received each year by SEIF, at least 46% must be allocated for energy efficiency and conservation programs, projects, and activities and demand response programs, which include grants to training funds and other organizations supporting job training for deployment of energy efficiency and energy conservation technology equipment. SEIF is primarily funded through the proceeds from auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative. In the fiscal 2011 allowance, a total of

\$79.1 million in SEIF is expended for low-income energy payment assistance, residential rate relief, weatherization and energy efficiency programs, and renewable energy funding.

State Revenues: The bill establishes a credit against the vehicle excise tax for qualified plug-in electric vehicles and requires a transfer of \$279,000 from SEIF to TTF in fiscal 2011, \$939,600 in fiscal 2012, and \$1,287,000 in fiscal 2013. These revenue transfers are intended to offset TTF revenue reductions resulting from the credit. Based on the Joint Committee on Taxation estimates of the federal PHEV credits and EIA's national PHEV sales forecast, adjusted for Maryland and differences in the proposed State credit and federal credit, Legislative Services estimates that a transfer of \$279,000 in fiscal 2011 should be sufficient to offset the cost of the credit. If TTF revenue losses due to the credit are greater (less) than the amount transferred in fiscal 2011, TTF revenues will decrease (increase) in fiscal 2011.

SEIF transfers in fiscal 2012 and 2013 are estimated to be insufficient to offset the cost of the credit. As a result, TTF revenues decrease by \$655,100 in fiscal 2012 and by \$626,600 in fiscal 2013. Considerable uncertainty exists in the expected commercialization of plug-in hybrid vehicles and motorcycles. Revenue losses may be significantly different than estimated.

The proposed fiscal 2011 State budget specifies that special fund appropriations for the Maryland Energy Administration (Renewable and Clean Energy Programs and Initiatives) be reduced by \$279,000 contingent upon the enactment of this legislation. These funds would be transferred to TTF to cover the costs of the proposed tax credit.

State Expenditures: MVA reports that implementing the bill will require an estimated 140 hours of computer programming. If these programming expenses cannot be covered within existing resources, TTF expenditures will increase by \$35,000 in fiscal 2011.

Local Revenues: A portion of local highway user revenues are distributed from vehicle excise taxes. If TTF revenues decrease as a result of the bill, local highway user revenues will decrease. If TTF revenues increase, local highway user revenues will increase. Based on the estimate above, local highway user revenues will decrease by \$131,000 in fiscal 2012 and by \$125,300 in fiscal 2013.

Additional Information

Prior Introductions: None.

Cross File: SB 281 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

Information Source(s): Department of Budget and Management, Comptroller's Office, The Joint Committee on Taxation, Internal Revenue Service, Maryland Department of Transportation, U.S. Energy Information Administration, Department of Legislative Services

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mpc/hlb Revised - House Third Reader - March 30, 2010
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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Motor Vehicle Excise Tax - Tax Credit for Electric Vehicles

BILL NUMBER: HB 469

PREPARED BY:

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.