

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 821 (Delegate Cardin, *et al.*)  
 Ways and Means

Tax Credit - Electric and Hybrid Vehicles - Extension

This bill extends the termination date of the vehicle excise tax credit for qualified electric and hybrid vehicles from July 1, 2004 to July 1, 2009.

The bill takes effect July 1, 2004.

Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues could decline by approximately \$2.7 million in FY 2005; the State’s share would decrease by almost \$2.1 million. Out-year revenue losses would grow according to sales of hybrid and electric vehicles. Expenditures would not be affected.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	(\$2,694,100)	(\$4,077,600)	(\$6,168,600)	(\$9,334,800)	(\$14,124,000)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2,694,100)	(\$4,077,600)	(\$6,168,600)	(\$9,334,800)	(\$14,124,000)

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

**Local Effect:** Local governments’ share of State vehicle excise tax revenue would decline by approximately \$646,600 in FY 2005. Revenue losses will increase in the out-years.

**Small Business Effect:** Minimal.

## Analysis

**Current Law:** 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 for electric vehicles may not exceed \$2,000.

Qualified hybrid vehicles (combining fossil fuel, electric storage, and regenerative braking) qualify for credits on a sliding scale, ranging from \$250 for each vehicle that has a rechargeable energy storage of between 5% and 10% of the maximum available power, to \$1,000 for each vehicle that has a rechargeable energy storage of 30% of the maximum available power. If the qualified hybrid vehicle employs a regenerative braking system that supplies at least 20% of the energy available from braking, the credit is increased by:

- \$125 if the regenerative braking system supplies to the rechargeable energy storage system between 20% and 40% of the energy available from braking;
- \$250 if the regenerative braking system supplies to the rechargeable energy storage system between 40% and 60% of the energy available from braking; and
- \$500 if the regenerative braking system supplies to the rechargeable energy storage system at least 60% of the energy available from braking.

The 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 5% of the fair market value of the vehicle, which is the total purchase price of a new or used vehicle as certified by the dealer. The total purchase price means the price of a vehicle agreed on by the buyer and the seller, with no allowance for trade-in or other nonmonetary consideration. A portion (24%) of the titling tax revenue is distributed to local governments.

The law requires that the remaining titling tax (76%) be used to pay the debt service on the Maryland Department of Transportation's (MDOT) 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:** A limited number of hybrid vehicles are available commercially, including the Honda Insight and Civic and the Toyota Prius. Other manufacturers, including Mercedes Benz, General Motors (GM), and Saturn, have announced that they plan to introduce hybrid cars or sport utility vehicles (SUVs).

Several states have adopted or considered tax breaks for individuals who purchase alternative fuel vehicles. Colorado passed a law in 2003 that provides a state income tax

credit on hybrid electric vehicles and Massachusetts considered legislation to eliminate the state sales tax on the purchase of electric and hybrid electric vehicles. Legislation was proposed in New Jersey that would have authorized a corporate business tax credit for alternative fuel vehicles or technology equal to 15% of the purchase price.

**State Revenues:** MDOT’s TTF revenues are estimated to decrease by \$2,047,549 in fiscal 2005. Revenue loss in the out-years would grow according to vehicle sales. This estimate is based on the following trends:

- the amount of the credit claimed under existing law, which has more than doubled annually – in fiscal 2001, vehicle owners claimed \$225,316; this number grew to \$583,708 in 2002 and \$1.4 million in 2003;
- the projected national growth in demand for hybrid vehicles; Maryland accounts for 4% of that growth;
- the average per-vehicle tax exemption is currently \$1,024.

Due to the lack of commercially available electric vehicles, this estimate is based only on hybrid vehicle sales and demand. The Department of Legislative Services advises that the purchase price of hybrid vehicles is expected to increase as larger vehicles such as SUVs enter the market. The average price of a hybrid vehicle is currently \$20,700. Accordingly, the credit will increase but only up to the statutory limit. The projected total loss is shown below. MDOT’s share is 76%.

<u>Fiscal Year</u>	<u>Number of Vehicles</u>	<u>Revenue Loss (Total)</u>
2005	2,631	\$2,694,144
2006	3,982	4,077,568
2007	6,024	6,168,576
2008	9,116	9,334,784
2009	13,793	14,124,032

**Local Revenues:** Local revenues would decrease by \$646,595 in fiscal 2005 due to the decrease in titling tax revenue. Revenue losses would increase in the out-years.

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Department of Transportation, Maryland Energy Administration, National Conference of State Legislatures, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2004  
mh/mdr

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