HB 124

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 124 (Delegate Cardin, *et al.*)
Ways and Means

Tax Credit - Fuel-Efficient Vehicles

This bill establishes a credit against the motor vehicle excise tax for a qualified fuel-efficient vehicle titled from July 1, 2007 to June 30, 2011. The credit is equal to 100% of the imposed excise tax for a vehicle that has a fuel economy rating of greater than 60 miles per gallon (mpg), and 50% for all other qualified fuel-efficient vehicles.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by $5.0 million in FY 2008, the State's share would decrease by $3.8 million. Out-year estimates reflect a projected 22.8% annual increase in qualified vehicle sales. Potential increase in TTF expenditures in FY 2007 only for computer reprogramming costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$0	($5,014,200)	($6,157,400)	($7,561,300)	($9,285,300)
SF Expenditure	-	0	0	0	0
Net Effect	$0	($5,014,200)	($6,157,400)	($7,561,300)	($9,285,300)

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

Local Effect: Local governments' share of State excise tax revenues (24%) could decrease by $1.2 million in FY 2008 and by $2.2 million in FY 2011. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: A qualified fuel-efficient vehicle is a vehicle that has a fuel economy rating of more than: (a) 45 mpg for a vehicle with a manufacturer's shipping weight of 3,700 pounds or less; and (b) 30 mpg for a vehicle with a manufacturer's shipping weight that exceeds 3,700 pounds.

The Motor Vehicle Administration (MVA) must certify to the Comptroller on or after October 1 of each year the total amount of credits allowed for the proceeding fiscal year. The credit cannot be claimed unless the vehicle is registered in the State.

The bill also clarifies the technical definition of hybrid for purposes of exemption from the Vehicle Emissions Inspection Program.

Current Law: 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. In the case of motor homes and travel trailers, the total purchase price is the price of a motor home and travel trailer, less the value of any motor home or travel trailer traded in as part of the consideration of the sale. This trade-in allowance is not to exceed the value shown in a national magazine of used motor home and travel trailer values.

Twenty percent of titling tax revenue is distributed directly to MDOT and 80% is deposited into the Gasoline and Motor Vehicle Revenue Account, of which 30% is distributed to local governments as highway user revenues. The result is an effective distribution of 76% to MDOT and 24% to local jurisdictions. The law requires that the State's share of funds be used to pay the debt service on MDOT's consolidated transportation bonds. Licensed vehicle dealers may retain the lesser of $24 per vehicle or 1.2% of the gross excise tax collected as compensation for collecting and remitting the tax.

The State enacted a tax credit against the motor vehicle excise tax for owners of hybrid vehicles, which are more fuel-efficient than conventional cars, under the Maryland Clean Energy Incentive Act of 2000. The credit ranged from $125 to $1,000 depending on the type of hybrid purchased. That credit has since expired.

Background: Due to concerns about U.S. dependency on foreign oil, curbing consumption of a nonreplaceable fossil fuel, and climate change due to consumption of fossil fuels, there has been heightened interest in increasing the fuel efficiency of vehicles. Sales of sports-utility vehicles (SUVs) have declined, and several manufacturers have introduced more fuel-efficient vehicles. These vehicles have included several new "hybrid" vehicles, such as hybrid versions of mid-size sedans and SUVs, with more on the way. But they have also included sub-compact vehicles such as the Nissan Versa, the Honda Fit, and the Toyota Yaris.

The U.S. Department of Transportation recently revised the Corporate Fuel Economy Standards for light trucks for the 2011 model year, including some vehicles with a gross vehicle weight rating between 8,500 and 10,000. The new mpg target will be 24.1 mpg in model year 2011, ramping up from 21.6 in model year 2006. In addition, President Bush called for an increase in the fuel economy of new vehicles in his State of the Union Address in January 2007.

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.

Exhibit 1
Amount of Credits Claimed
Fiscal 2001-2004

Fiscal Year	Credits Claimed	Taxpayers	Average
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

The only types of cars currently available that can meet the bill's credit requirements are four models of hybrid cars. No passenger vehicle widely available has a fuel economy rating of more than 60 mpg. The Honda Insight had a fuel economy of 63 mpg with a manual transmission, but that car has been discontinued. Two vehicle models have a combined fuel economy of 45 mpg for vehicles weighing 3,700 pounds or less, the Toyota Prius and the Honda Civic Accord Hybrid. Two models have a combined fuel economy of 30 mpg for vehicles weighing more than 3,700 pounds, the Ford Escape

Hybrid and the Mercury Mariner Hybrid. Hybrid sales grew 22.8% from calendar 2005 to 2006.

State Revenues: TTF revenues would decrease by approximately $5.0 million in fiscal 2008. The State's share of vehicle excise tax revenues (76%) would decrease by $3.8 million in fiscal 2008. This estimate is based on the following facts and assumptions:

- The term "fuel economy" refers to combined fuel economy.
- Total national sales of the four hybrid models in 2006 that meet the fuel mileage requirements were 161,545, or 64% of total sales.
- Based on 2003 registration data, Maryland represents approximately 4% of the national market.
- Approximately 310,000 hybrids are sold nationwide in calendar 2007 22.8 % annual growth in hybrid sales.
- Sixty-four percent of hybrids sold from fiscal 2008 to 2011 meet the requirement.
- No other types of vehicles meet the fuel economy requirement.
- All vehicles that meet the fuel economy guideline qualify for the 50% credit against the motor vehicle excise tax.
- A weighted average vehicle excise tax of $1,134.

This estimate does not take into account used car sales of vehicles that meet the fuel economy standards. **Exhibit 2** summarizes the revenue loss for both the State and local governments from fiscal 2008 to fiscal 2011.

Exhibit 2
Projected State and Local Revenue Decrease
Fiscal 2008-2011

	FY 2008	FY 2009	FY 2010	FY 2011
TTF	$3,810,788	$4,679,648	$5,746,608	$7,056,834
Local Aid	1,203,407	1,477,784	1,814,718	2,228,474
Total	**$5,014,195**	**$6,157,432**	**$7,561,326**	**$9,285,309**

Legislative Services advises that hybrid vehicle sales projections are subject to significant variability due to changes in technology, gasoline prices, and consumer preferences which cannot be reliably predicted. In addition, more vehicles than estimated could meet the fuel requirements specified by the bill by fiscal 2011, including the 60 mpg requirement for a 100% tax credit.

State Expenditures: The MVA advises that computer reprogramming associated with this bill would cost $450,000. Legislative Services advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting the MVA.

The MVA advises that computer reprogramming would need to occur in fiscal 2007 in order to be prepared for the July 1, 2007 effective date. Legislative Services concurs with this assessment. The MVA advises it would need to either delay current ongoing projects until fiscal 2008, or would seek a budget amendment to secure funding for this expenditure in fiscal 2007.

Local Revenues: Twenty-four percent of the State's vehicle excise tax revenues are distributed to local governments. Based on the assumptions above, local government revenues would decrease by approximately $1.2 million in fiscal 2008, $1.5 million in fiscal 2009, $1.8 million in fiscal 2010, and $2.2 million in fiscal 2011.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): HybridCars.com, Consumer Affairs, Edmunds.com, Kelly Blue Book, National Highway Traffic Safety Administration, Fuel Economy.gov, Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 5, 2007
ncs/hlb

Analysis by: Nora C. McArdle

Direct Inquiries to:
(410) 946-5510
(301) 970-5510