HB 791

# Department of Legislative Services

Maryland General Assembly
2013 Session

## FISCAL AND POLICY NOTE
**Revised**

House Bill 791 (Delegates McHale and Malone)
Ways and Means Budget and Taxation

### Tax Credits - Electric Vehicles - Extensions

This bill extends the termination date of the electric vehicle recharging equipment income tax credit through tax year 2016. The bill also extends, subject to available funding, the qualified electric vehicle excise tax credit through June 30, 2014. The Maryland Energy Administration (MEA) is authorized to award a maximum of $600,000 in recharging equipment credits annually, and $1,287,000 in electric vehicle excise tax credits is made available in fiscal 2014. Funds from the Strategic Energy Investment Fund (SEIF) must be transferred to the general fund and the Transportation Trust Fund (TTF) in order to offset revenue losses caused by the tax credits.

The bill takes effect July 1, 2013.

## Fiscal Summary

**State Effect:** General fund revenues may decrease minimally in FY 2015 as a result of credits claimed against the personal and corporate income tax. SEIF revenues decrease by $1.3 million in FY 2014 and by $600,000 annually in FY 2016 through 2018. TTF and Higher Education Investment Fund (HEIF) revenues may decrease minimally beginning in FY 2015 due to credits claimed against the corporate income tax. To the extent MEA does not award the maximum amount of credits, revenue impacts will be less than estimated. No effect on expenditures.

| (in dollars) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|---|
| GF Revenue | $0 | (-) | $0 | $0 | $0 |
| SF Revenue | ($1,287,000) | (-) | ($600,000) | ($600,000) | ($600,000) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | ($1,287,000) | $0 | ($600,000) | ($600,000) | ($600,000) |

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

**Local Effect:** Local highway user revenues may decrease minimally beginning in FY 2015 due to credits claimed against the corporate income tax. No effect on expenditures.

**Small Business Effect:** Minimal.

---

## Analysis

**Bill Summary:** The bill extends the termination date of the vehicle recharging equipment income tax credit through tax year 2016. The bill also (1) extends, subject to available funding, the qualified electric vehicle excise tax credit through June 30, 2014; and (2) reduces the maximum value of the credit. The maximum value of the credit ranges from $600 to $1,000 based on the battery capacity of the qualifying vehicle. MEA can award a maximum amount of credits in each year and is required to transfer funds from SEIF to the general fund and TTF in order to offset revenue losses caused by the tax credits.

**Current Law:**

*Electric Vehicle Recharging Equipment Income Tax Credit*

Chapter 402 of 2011 (HB 163) created a tax credit against the State income tax equal to 20% of the cost of qualified electric vehicle recharging equipment placed in service by a business or individual during the tax year. The credit may not exceed the lesser of $400 for each recharging system or the State income tax liability in the tax year. Any unused amount of the credit may not be carried over to any other tax year. The credit is limited to one recharging system per individual and 30 recharging systems per business entity. A taxpayer can claim the credit only if the electric vehicle recharging equipment qualifies under Section 30C of the Internal Revenue Code (IRC).

Taxpayers seeking the credit must first apply for approval from MEA. MEA can issue a maximum of $400,000 in credits in tax year 2011, $500,000 in tax year 2012, and $600,000 in tax year 2013. In order to offset the reduction of revenues from the credit, Chapter 402 required a transfer of $400,000 from SEIF to the general fund in fiscal 2013, $500,000 in fiscal 2014, and $600,000 in fiscal 2015. SEIF revenue transfers in each year are reduced if MEA does not award the maximum amount of credits.

*Qualified Electric Vehicle Excise Tax Credit*

Chapter 490 of 2010 (HB 469) established a tax credit against the motor vehicle excise tax for 100% of the tax imposed, not to exceed $2,000, for the purchase of a qualified plug-in electric vehicle. The credit is limited to 1 vehicle per individual and 10 vehicles per business entity. The credit is available for qualified vehicles titled between October 1, 2010, and 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 4 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.

Chapter 490 also required a transfer of $279,000 in fiscal 2011 from SEIF to TTF, $939,600 in fiscal 2012, and $1,287,000 in fiscal 2013 in order to offset TTF revenue losses resulting from the credit.

**Background:** According to MEA, a total of $8,500 in income tax credits for recharging equipment has been awarded from tax year 2011 through the first month of 2013. An average of $207 has been claimed, and about two-thirds of all claims were for residential properties. MEA states that it has not transferred any SEIF funds but will at a future date. MEA also reports that a total of 1,314 electric vehicles have qualified for the excise tax credit through January 2013. **Exhibit 1** shows the number of qualifying vehicles in each fiscal year and the amount of SEIF revenue MEA transferred to TTF as required by Chapter 490. MEA will transfer $1.3 million from SEIF to TTF at the end of fiscal 2013; that amount is less than the amount of credits that have been already claimed. It is estimated that TTF revenues will decrease by about $2.0 million in fiscal 2013 due to the excess credits awarded net of the SEIF revenues.

**Exhibit 1**
**Qualified Electric Vehicle Excise Tax Credits and Revenue Impacts**
**Fiscal 2011-2013**

| Electric Vehicles | FY 2011 | FY 2012 | FY 2013* | Total |
|---|---|---|---|---|
| Number | 75 | 364 | 875 | 1,314 |
| Percent of All Vehicle Sales | 0.01% | 0.04% | 1.2% | 0.1% |
| Average Credit | $1,979 | $1,951 | $1,838 | $1,877 |
| **Total Credits** | **$148,400** | **$710,100** | **$1,608,500** | **$2,467,000** |
| **SEIF Transfers** | **$279,000** | **$936,600** | **$1,287,000** | **$2,502,600** |
| **TTF Impact** | **$130,600** | **$226,500** | **($1,913,000)** | **($1,555,900)** |

*Through January 2013; total TTF impact assumes credits will total $3.2 million.

*Federal Credits*

Qualified plug-in hybrid vehicles may qualify for a federal income tax credit of up to $7,500 under Section 30D of IRC. The tax 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 also qualify for a tax credit.

Section 30C of IRC allows taxpayers to claim a credit for the cost of installing qualified alternative vehicle recharging property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer. The credit is generally equal to the lesser of 30% of the property's cost or $1,000 ($30,000 for business use property). The credit can be claimed for property placed in service before January 1, 2014, except for hydrogen property, which must be placed in service before January 1, 2015.

*Strategic Energy Investment Fund*

Chapters 127 and 128 of 2008 (SB 268/HB 368) 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. SEIF is primarily funded through the proceeds from auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative.

*Maryland Electric Vehicle Infrastructure Council*

Chapter 400 of 2011 (SB 176) established the Maryland Electric Vehicle Infrastructure Council and required it to develop a plan to expand the adoption of electric vehicles and develop an infrastructure charging network. In its final report issued in December 2012, the council issued several recommendations, including (1) extending the council through June 2015; (2) increasing the amount of zero-emission State fleet vehicle purchases to 10% by 2020 and at least 25% by 2025; (3) establishing a grant program for electric vehicle support equipment installation and procurement of transaction management software for multi-unit dwellings; and (4) extending the recharging equipment tax credit through December 2016 and the qualified electric vehicle excise tax credit through July 1, 2016.

*Impacts of Electric Vehicles*

Many researchers and analysts, including the National Academy of Sciences, have concluded that the United States has compelling reasons to reduce its consumption of oil for geopolitical and national defense reasons and to reduce emissions of carbon dioxide and pollutants for environmental reasons. In recent years, there has been increasing focus in the tax code on energy conservation and renewable energy production standards. While the federal Joint Committee on Taxation (JCT) notes that economists generally agree that the most efficient means of addressing pollution would be a direct tax on the pollution-causing activities, the more indirect approach of targeting tax credits for certain technologies has been utilized. JCT states that many provisions of federal law provide for tax credits for investments in, or expenditures on, certain assets that reduce the consumption of conventional fuels and the attendant pollutants and emissions of gases related to atmospheric warming. JCT notes that the design of tax benefits is important to how close they will come, individually and collectively, to achieving their intended consequences in a cost-effective and efficient manner. Important policy decisions include what to subsidize and how much, and only by equalizing tax provisions with the same policy (*i.e.*, paying the same price for fossil fuel displacement) will the incentives be technologically neutral and cost effective.

In addition to tax credits for electric vehicles, the federal government has adopted several policies to encourage the production and purchase of electric vehicles. JCT estimates that these policies will have a total federal budgetary impact of $7.5 billion through federal fiscal 2019. A recent analysis by the Congressional Budget Office (CBO) examined the effects of federal tax credits for the purchase of electric vehicles on gasoline consumption and greenhouse gas emissions. CBO concluded that the tax credits will have little or no impact on total gasoline use and greenhouse gas emissions over the next several years, primarily due to the interaction with corporate average fuel economy standards. CBO stated that the tax credits could impact gasoline consumption and emissions in the long-term if the sales of electric vehicles lead to revisions in fuel economy standards and/or if the credits play an important role in helping the electric vehicle industry become self-sustaining. A recent analysis by the National Research Council of the National Academy of Sciences concluded that subsidies of tens to hundreds of billions of dollars will be needed if electric vehicles are to achieve rapid penetration of the U.S. automotive market and even with these efforts, these vehicles are not expected to significantly impact oil consumption or carbon emissions before 2030.

**State Revenues:** The bill extends the tax credits for electric vehicle recharging equipment and electric vehicles and requires a transfer from SEIF to TTF of up to $1,287,000 in fiscal 2014 for electric vehicle excise tax credits and $600,000 annually in fiscal 2016 through 2018 for electric vehicle recharging equipment credits. As a result, SEIF revenues will decrease by $1.3 million in fiscal 2014 and by $600,000 annually in fiscal 2016 through 2018. This estimate assumes that MEA will award the maximum amount of credits.

The bill also reduces the maximum value of the vehicle excise tax credit and specifies that the credit is allowed subject to available funding. It is estimated that the maximum amount of credits will be awarded in fiscal 2014, and that MEA will not award any additional credits.

SEIF revenue transfers in fiscal 2016 through 2018 are intended to offset general fund revenue reductions resulting from the income tax credit for electric recharging equipment. However, income tax credits are generally claimed in the fiscal year following the tax year in which they are earned. As a result, general fund revenues will decrease in fiscal 2015 as a result of credits claimed against the personal and corporate income tax. It is assumed that MEA will transfer SEIF funds beginning in fiscal 2015, thereby minimizing any general fund impacts beyond fiscal 2014. The amount of SEIF revenue transfers are reduced if MEA awards less than the maximum amount of credits. To the extent MEA awards less than the maximum amount, revenue impacts will be less than estimated.

In addition, a portion of corporate income tax revenues are distributed to HEIF and TTF. All SEIF revenues will be transferred to the general fund. HEIF and TTF revenues will decrease in fiscal 2015 through 2017 to the extent credits are claimed against the corporate income tax.

**Local Revenues:** Baltimore City, counties, and municipalities receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Local highway user revenues will decrease beginning in fiscal 2015 as a result of credits claimed against the corporate income tax.

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 728 (Senator DeGrange, *et al.*) - Budget and Taxation.

**Information Source(s):** Comptroller's Office, Congressional Budget Office, Joint Committee on Taxation, Maryland Energy Administration, Maryland Department of Transportation, Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2013
ns/jrb Revised - Enrolled Bill - May 16, 2013

---

Analysis by: Robert J. Rehrmann

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