**SB 788**

# Department of Legislative Services

Maryland General Assembly
2014 Session

## FISCAL AND POLICY NOTE

Senate Bill 788 (Senators Ramirez and Manno)
Budget and Taxation

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**Income Tax Credit - Electric Vehicle Recharging Equipment - Retail Service Station Dealers**

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This bill alters the existing electric vehicle recharging equipment income tax credit by increasing the value of the credit that can be claimed by a retail gasoline service station. A retail gasoline service station can claim a credit of up to 50% of the qualified cost, not to exceed the lesser of $1,000 for each individual recharging system or the income tax liability imposed in the taxable year.

The bill takes effect July 1, 2014, and applies beginning with tax year 2014.

## Fiscal Summary

**State Effect:** To the extent that the Maryland Energy Administration (MEA) awards additional tax credits, Strategic Energy Investment Fund (SEIF) revenues may decrease in FY 2016, 2017, and 2018. No effect on expenditures.

**Local Effect:** None.

**Small Business Effect:** Minimal.

## Analysis

**Current Law/Background:**

*Electric Vehicle Recharging Equipment Income Tax Credit*

Chapter 402 of 2011 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. Chapter 389 of 2013 extended the tax credit program through tax year 2016. 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 annually in tax years 2013 through 2016.

In order to offset the reduction of revenues from the credit, Chapter 402 and Chapter 389 required a transfer of $400,000 from SEIF to the general fund in fiscal 2013, $500,000 in fiscal 2014, and $600,000 annually in fiscal 2015 through 2018. 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 established a tax credit against the motor vehicle excise tax for the purchase of a qualified plug-in electric vehicle. Chapter 389 of 2013 altered the value of the credit and extended, subject to available funding, the tax credit through fiscal 2014. MEA may award a maximum of $1,287,000 in credits and a transfer from SEIF to Transportation Trust Fund is required to offset revenue losses resulting from the credit. The credit is limited to 1 vehicle per individual and 10 vehicles per business entity.

*Federal Credits*

Section 30C of Internal Revenue Code (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.

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 (after December 31, 2009).

*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. SEIF is primarily funded through the proceeds from the auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative.

*Maryland Electric Vehicle Infrastructure Council*

Chapter 400 of 2011 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:** Under current law, MEA may award a maximum of $600,000 in qualified electric vehicle recharging equipment credits in calendar 2014 through 2016. MEA will transfer up to $600,000 from SEIF to the general fund annually in order to offset the revenue losses that result from the credit. The transfers occur in fiscal 2016, 2017, and 2018. The bill increases the value of the electric vehicle recharging equipment income tax credit that can be claimed by a retail gasoline service station beginning with tax year 2014. As a result, the bill may result in additional SEIF revenue losses in fiscal 2016, 2017, and 2018. A minimal amount of credits have been claimed under the program; the Comptroller's Office advises that a total of $2,553 in credits were claimed in tax year 2011, the latest year of available data.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Energy Administration, Department of Legislative Services

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