

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 Enrolled - Revised

Senate Bill 393

(Senator Manno)

Budget and Taxation

Environment and Transportation

Clean Cars Act of 2017

This bill extends through fiscal 2020 the termination dates of the qualified plug-in electric vehicle excise tax credit and the Electric Vehicle Recharging Equipment Rebate Program. The bill also (1) increases the annual maximum amount of incentives available in each fiscal year; (2) generally decreases the value of the incentives; and (3) alters certain eligibility requirements.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Strategic Energy Investment Fund (SEIF) revenues decrease by \$2.4 million annually and Transportation Trust Fund (TTF) revenues decrease by \$0.6 million annually in FY 2018 through 2020 due to the extension of the electric vehicle excise tax credit. SEIF expenditures increase by \$1.2 million annually in FY 2018 through 2020 due to extension of the rebate program. The FY 2018 operating budget includes \$1.2 million in funding for the rebate program and assumes a \$2.4 million reduction in SEIF revenues due to extension of the tax credit.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	(\$3.0)	(\$3.0)	(\$3.0)	\$0	\$0
SF Expenditure	\$1.2	\$1.2	\$1.2	\$0	\$0
Net Effect	(\$4.2)	(\$4.2)	(\$4.2)	\$0.0	\$0.0

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

Local Effect: Local highway user revenues decrease by \$57,600 annually in FY 2018 through 2020. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Qualified Electric Vehicle Excise Tax Credit

- ***Extends Termination Date and Funding:*** The program's termination date is extended through fiscal 2020 and the credit is available for qualified vehicles that are newly acquired and titled for the first time through June 30, 2020.
- ***Increases Program Funding:*** The Motor Vehicle Administration (MVA) is authorized to award an annual maximum of \$3.0 million in credits in fiscal 2018 through 2020 and specified amounts in each fiscal year must be transferred from SEIF to TTF.
- ***Reduces Credit Value:*** The value of the credit is reduced to \$100 times the number of kilowatt-hours battery capacity of the vehicle, subject to a maximum of \$3,000.
- ***Adds Additional Eligibility Requirements:*** A qualifying vehicle must have (1) a total purchase price of \$60,000 or less and (2) a battery capacity of at least 5.0 kilowatt-hours.

Exhibit 1 shows the impact of the proposed changes on the credit value for four popular electric vehicles.

Exhibit 1 Electric Vehicle Excise Tax Credit Current Law and Proposed

	<u>Current Law</u>	<u>Proposed</u>	<u>Difference</u>
Chevy Volt	\$2,063	\$1,650	(\$413)
Nissan Leaf	3,000	2,400	(600)
Tesla Model S	3,000	0	(3,000)
Ford Fusion Energi	875	700	(175)

Source: Maryland Department of Transportation; Department of Legislative Services

Electric Vehicle Recharging Equipment Rebate Program

- **Extends Termination Date and Increases Funding:** The program’s termination date is extended through fiscal 2020 and the maximum amount of rebates MEA may award in each year is doubled to \$1.2 million.
- **Reduces Credit Value:** **Exhibit 2** shows the rebate value under current law compared to the proposed value.

Exhibit 2
Electric Vehicle Recharging Equipment
Current and Proposed Rebate Program

	<u>% Credit</u>	<u>Maximum Value</u>
<u>Current</u>		
Individual	50%	\$900
Business*	50%	5,000
Retail Gasoline Service Station	50%	7,500
<u>Proposed</u>		
Individual	40%	\$700
Business*	40%	4,000
Retail Gasoline Service Station	40%	5,000

*Includes units of State and local governments.

Current Law:

Electric Vehicle Recharging Equipment Rebate Program

Chapters 359 and 360 of 2014 repealed the electric vehicle recharging equipment income tax credit and replaced the credit with a rebate program administered by MEA. The Acts authorized MEA to award an annual maximum of \$600,000 in rebates in fiscal 2015 through 2017. The rebate is equal to 50% of the cost of property that is located in the State and used for recharging vehicles propelled by electricity, subject to specified maximum values. MEA may also reimburse a person for the reasonable costs of installing the qualifying equipment. An individual may not receive more than one rebate, but there are no limits on the number of rebates that can be issued to other entities.

Qualified Electric Vehicle Excise Tax Credit

Chapters 359 and 360 of 2014 extended the qualified plug-in electric vehicle excise tax credit through fiscal 2017 and made several changes to the program. Subject to available funding, a person who newly acquires and titles for the first time a qualified vehicle may claim a credit against the vehicle excise tax. The value of the credit is equal to the lesser of (1) \$125 times the number of kilowatt-hours battery capacity of the vehicle or (2) \$3,000. The credit is limited to 1 vehicle per individual and 10 vehicles per business entity. The Acts authorized MVA to award a maximum of \$1.8 million in credits in each fiscal year and required MEA to transfer in each fiscal year specified amounts from SEIF to TTF.

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 a specified number of vehicles. Section 30C of the Internal Revenue Code also allows taxpayers to claim a credit for the cost of installing specified alternative vehicle recharging property. The credit can be claimed for property placed in service through December 31, 2016.

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. MEA may use the funds for specified purposes including providing rebates under the Electric Vehicle Recharging Equipment Rebate Program.

Background:

Rebate Program Activity

MEA has funded electric vehicle charging stations primarily through the Electric Vehicle Recharging Equipment Rebate Program, the Electric Vehicle Infrastructure Program, and the Alternative Fuel Infrastructure Program. From fiscal 2015 through September 30, 2016, MEA issued rebates to 750 charging stations through the rebate program. According to the U.S. Department of Energy, as of January 2017, Maryland has 1,085 public electric vehicle charging outlets, which ranks ninth in the United States. MEA awarded the annual maximum amount of authorized rebates in each year (\$600,000) in fiscal 2016 and 2017.

Tax Credit Activity

According to MVA, from fiscal 2015 through December 2016, a total of 4,092 new plug-in electric vehicles have been titled in Maryland. The maximum amount of authorized credits (\$1.8 million) has been claimed in each year. As of September 2016, MVA has awarded the maximum amount of credits authorized for fiscal 2017.

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 a significant share 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 Fiscal Impact: The bill (1) extends through fiscal 2020 the termination dates of the Electric Vehicle Recharging Equipment Rebate Program and the qualified electric vehicle excise tax credit and (2) increases the annual maximum amount of incentives available in each fiscal year. As a result, the net effect on State finances will be a decrease of \$4.2 million in fiscal 2018. **Exhibit 3** details the overall fiscal impact of the bill.

MEA may award an annual maximum of \$1.2 million in rebates in fiscal 2018 through 2020, with funding provided from SEIF revenues. The fiscal 2018 operating budget includes \$1.2 million in SEIF funds for the rebate program. The bill also authorizes MVA to award an annual maximum of \$3.0 million in vehicle excise tax credits. The bill requires MEA to transfer in each fiscal year from SEIF to TTF a total of \$2.4 million. Based on the existing history of the programs and proposed changes, it is estimated that the maximum amount of incentives authorized in each year will be awarded. As a result, TTF revenues will decrease by \$0.6 million annually in fiscal 2018 through 2020.

Exhibit 3
Fiscal Impact of Legislation
Fiscal 2018-2022

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<u>Expenditures</u>					
Rebate Program – SEIF	\$1,200,000	\$1,200,000	\$1,200,000	\$0	\$0
Total Expenditures	\$1,200,000	\$1,200,000	\$1,200,000	\$0	\$0
<u>Revenues</u>					
Vehicle Excise Tax Credit					
SEIF	(\$2,400,000)	(\$2,400,000)	(\$2,400,000)	\$0	\$0
TTF	(600,000)	(600,000)	(600,000)	0	0
Total Revenues	(\$3,000,000)	(\$3,000,000)	(\$3,000,000)	\$0	\$0
Net Effect	(\$4,200,000)	(\$4,200,000)	(\$4,200,000)	\$0	\$0

GF: general fund
SEIF: Strategic Energy Investment Fund
TTF: Transportation Trust Fund

Local Revenues: Local governments receive a portion of vehicle excise tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under the assumptions above, local highway user revenues will decrease by \$57,600 annually in fiscal 2018 through 2020.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Congressional Budget Office; U.S. Department of Energy; Joint Committee on Taxation; Maryland Energy Administration; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2017
mm/jrb Third Reader - April 4, 2017
Revised - Amendment(s) - April 4, 2017
Enrolled - May 9, 2017
Revised - Amendment(s) - May 9, 2017

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