HB 221

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

House Bill 221 (Delegate Holt, *et al.*)
Ways and Means

Vehicle Emissions Inspection Program - State Income Tax Credit for Emissions Related Repairs

This bill creates a credit against the individual and corporate income taxes for the lesser of 100% of expenses incurred in repairing a vehicle that has failed the Vehicle Emissions Inspection Program (VEIP) exhaust emissions test or the minimum expenditure for emissions related repairs required for a waiver, currently $150.

This bill is effective July 1, 1998, and applies to all taxable years beginning on or after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $9.9 million and Transportation Trust Fund (TTF) revenues could decline by $187,200 in FY 1999. In FY 2001, the revenue decline will increase substantially due to an increase in the minimum required repair expenditure. Expenditures could increase by $49,000 in FY 1999.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($9.9)	($10.1)	($20.7)	($21.1)	($21.5)
SF Revenues	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($10.1)	($10.3)	($21.1)	($21.5)	($21.9)

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

Local Effect: Revenues will decline for those credits claimed against the corporate income tax. Expenditures would not be affected.

Small Business Effect: Minimal.

Fiscal Analysis

State Revenues: General fund revenues could decline by an estimated $9.9 million and TTF revenues could decline by an estimated $187,200 in fiscal 1999 based on the following facts and assumptions:

- of the 1,175,000 vehicles tested annually, 71,500 will fail the emissions test;
- the average expenditure for emissions repairs qualifying for the credit is currently $142;
- the average qualifying expenditure for repairs will double in 2000;
- repair costs (and the federal minimum expenditure requirement) will increase by 2% annually; and
- 7.4% of tested vehicles are owned by corporations.

In tax year 1998, owners of the 71,500 failed vehicles will spend a total of $10.1 million on repairs after failing the VEIP test. This amount will be claimed as credits in fiscal 1999, when tax year 1998 returns are filed. The fiscal 2000 revenue loss will be 2% higher.

In tax year 2000, the minimum expenditure required for a waiver will increase to $450. The average emissions repair expenditure qualifying for the credit is expected to double, to $294. The 71,500 owners would then spend an estimated $20.8 million, which would be claimed as credits in fiscal 2001.

Assuming vehicles owned by corporations fail the emissions test at the same rate as all vehicles, about $748,700 of credits will be claimed against the corporate income tax in fiscal 1999. This would result in a revenue loss to the TTF of about $187,200. The remainder would be a decline in general fund revenues, which, along with credits claimed against the individual income tax, would result in an overall decline in general fund revenues of $9.9 million.

Local Revenues: Local revenues would decline for those credits claimed against the corporate income tax, since a portion of corporate income tax revenues are distributed to local governments through the TTF.

Information Source(s): Office of the Comptroller (Bureau of Revenue Estimates), Department of the Environment (Air and Radiation Management Administration), Department of Transportation (Motor Vehicle Administration), Department of Legislative

Services

Fiscal Note History: First Reader - February 17, 1998

lc

Analysis by: David F. Roose
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710