

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 462 (Senator Neall. *et al.*)

Budget and Taxation

Vehicle Emissions Testing Equipment - State Income Tax Credit

This bill creates a credit against individual and corporate income taxes for 20% of the cost of transient mass-emission repair or testing equipment put into use by purchase or lease during a tax year. If the credit exceeds the taxpayer's tax liability, the unused portion of the credit may be carried forward for up to five years after the year in which the property was placed in service. The Maryland Department of the Environment (MDE) must publish a list of equipment that complies with the requirements for the tax credit by December 31, 1999.

This bill is effective July 1, 1999 and applies to all taxable years beginning after December 31, 1997, and to all property placed into service after that date.

Fiscal Summary

State Effect: Indeterminate but potentially significant decrease in general fund and special fund revenues. Expenditures would not be affected.

Local Effect: Indeterminate decrease in local revenues. Expenditures would not be affected.

Small Business Effect: Meaningful.

Fiscal Analysis

State Revenues: Currently, there are 293 MDE-certified public emission repair facilities and 150 fleet emission repair facilities. In addition, approximately 4,000 non-MDE certified facilities repair vehicles that have failed the Maryland Vehicle Emissions Testing Program (VEIP). Since the bill does not specify the types of transient mass-emission repair facilities that qualify for the credit, it is assumed that all 4,443 repair facilities mentioned above would qualify.

According to MDE, the average cost of transient mass-emission repair or testing equipment is approximately \$19,000. For illustrative purposes, if all 4,443 facilities purchase the repair equipment and claim the credit, State income tax revenues could decline by \$16.9 million in fiscal 2000. The actual impact depends on the tax liability of the business because the credit cannot exceed the entity's tax liability and on the proportion of facilities that lease rather than purchase the equipment.

Currently, service stations do not perform re-testing of vehicles that fail the dynamometer test at VEIP stations; however, service stations may be allowed to perform re-testing in future years. The cost of a dynamometer for re-testing purposes is about \$40,000. If service stations that conduct the re-testing claim the credit, the potential cost to the State in future years could increase.

If the credit is claimed against the corporate income tax, special fund revenues to the Transportation Trust Fund (TTF) would decrease since about 25% of corporate tax revenues are distributed to the TTF.

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

Small Business Effect: Costs of mass-emission testing and repair equipment would be reduced by 20% under this bill. Thus, any small business that qualifies for the credit would benefit.

Information Source(s): Maryland Department of the Environment, Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Department of Transportation (Office of Finance, Motor Vehicle Administration), Department of Legislative Services

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Analysis by: Lina Walker

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510