HB 937

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 937 (Delegate O'Donnell, *et al.*)
Ways and Means

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

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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. The minimum expenditure is currently $150 and increases to $450 in January 2000.

This bill is effective July 1, 1999, and applies to all taxable years beginning on or after December 31, 1998.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $10.5 million and Transportation Trust Fund (TTF) revenues could decline by $198,400 in FY 2000. In FY 2000 and beyond, the revenue decline reflects the increase in the minimum required repair expenditure and inflation. No effect on expenditures.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($10.5)	($15.8)	($16.1)	($16.4)	($16.8)
SF Revenues	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($10.7)	($16.1)	($16.4)	($16.7)	($17.1)

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

Local Effect: Local revenues will decline by $59,500 in FY 2000. Expenditures would not be affected.
Small Business Effect: Minimal.

Fiscal Analysis

State Effect: General fund revenues could decline by an estimated $10.5 million and TTF revenues could decline by an estimated $198,400 in fiscal 2000 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 $150;
- the average qualifying expenditure for repairs will increase to $225 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 1999, owners of the 71,500 failed vehicles will spend a total of $10.7 million on repairs after failing the VEIP test. This amount will be claimed as credits in fiscal 2000, when tax year 1999 returns are filed.

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 increase, to $225. The 71,500 owners would then spend an estimated $16.1 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 $793,650 of credits will be claimed against the corporate income tax in fiscal 2000. This would result in a revenue loss to the TTF of about $198,400. 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 $10.5 million.

Future year revenue losses reflect the January 2000 increase in the required repair expenditures and 2% inflation.

The Office of the Comptroller would incur one-time computer programming costs of $65,000 to add the credit to the individual and corporate income tax returns. The Department of Legislative Services advises that economies of scale regarding computer programming changes could be realized since there will be changes to the income tax processing system due to the 1997 income tax reduction which is phased-in through 2002.

Local Revenues: Local revenues would decline by $59,500 in fiscal 2000 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

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