HB 730

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 730 (Delegate O'Donnell, *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. The minimum expenditure for calendar 2000 and 2001 is: $200 for 1990 model year vehicles or older; $300 for model years 1991 through 1997; and $450 for model years 1998 and newer. Beginning January 2002, the minimum expenditure will be $450 for all vehicles.

This bill is effective July 1, 2000, and applies to all taxable years beginning on or after December 31, 1999.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated $26.6 million and Transportation Trust Fund (TTF) revenues could decline by $217,300 in FY 2000. Future years reflect the increase in required repair expenditures and a 1% vehicle failure rate increase. No effect on expenditures.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($26.6)	($27.8)	($28.7)	($29.5)	($30.4)
SF Revenues	($0.217)	($0.316)	($0.326)	($0.336)	($0.346)
GF Expenditures	$0.0	$0.0	$0.0	$0.0	$0.0
Net Effect	($26.817)	($28.126)	($29.026)	($29.836)	($30.746)

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

Local Effect: Local revenues could decline by $93,100 in FY 2001. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: No credit of this type exists.

State Fiscal Effect: General fund revenues could decline by an estimated $26.6 million and TTF revenues could decline by an estimated $217,300 in fiscal 2001 based on the following facts and assumptions:

- in calendar 1999, 6,700 corporate vehicles and 113,000 private vehicles failed the VEIP test;
- the minimum expenditure for emissions repairs was $150 for calendar 1999. For calendar 2000 and 2001, the minimum expenditure increases to $200 to $450, depending on the model year of the vehicle; beginning January 1, 2002, the minimum expenditure will be $450 for all vehicles;
- the average qualifying expenditure for repairs will increase to $225 in 2001;
- repair costs will increase by 2% annually; and
- the number of vehicles failing the test will increase by 1% annually.

Although the tax credit applies to tax year 2000, it is assumed that for most taxpayers withholding and estimated taxes will not be adjusted to reflect the tax credit until tax year 2001 because of the mid-year effective date. As a result, the amount will be claimed as credits in fiscal 2001, when tax year 2000 returns are filed.

Credits taken on personal income tax returns will reduce general fund revenues in the amount of the credits. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenue distributed to the TTF is distributed to local governments.

Future year revenue losses reflect increases in the required repair expenditures and a 1%

vehicle failure rate increase.

The Office of the Comptroller would incur one-time computer programming costs of $43,500 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 $93,130 in fiscal 2000 since a portion of corporate income tax revenues are distributed to local governments through the TTF.

Additional Information

Prior Introductions: This bill was introduced as HB 937 during the 1999 session and received an unfavorable report by the House Ways and Means Committee.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Maryland Department of Transportation, Department of Legislative Services

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