

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 12 (Senators Mooney and Brochin)
Budget and Taxation

Tax Credit - Electric and Hybrid Vehicles

This bill reestablishes the vehicle excise tax credit for qualified electric and hybrid vehicles that expired on July 1, 2004. The credit is available for qualified vehicles that are titled from July 1, 2005 to June 30, 2009.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by approximately \$8.6 million in FY 2006; the State's share would decrease by \$6.5 million. Out-year estimates reflect a projected 50% annual increase in qualified vehicle sales. Expenditures would not be affected.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	(\$8.6)	(\$12.8)	(\$19.2)	(\$28.9)	\$0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$8.6)	(\$12.8)	(\$19.2)	(\$28.9)	\$0

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

Local Effect: Local governments' share of State vehicle excise tax revenues (24%) would decrease by approximately \$2.1 million in FY 2006 and by \$6.9 million in FY 2009. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: Qualified hybrid vehicles (combining fossil fuel, electric storage, and regenerative braking) qualify for a credit equal to 100% of the vehicle excise tax imposed, not to exceed \$1,500. The maximum credit allowed is based on a sliding scale that ranges from \$250 for each vehicle that has a rechargeable energy storage of 5% to 10% of the maximum available power, to \$1,000 for each vehicle that has a rechargeable energy storage of 30% of the maximum available power. If the qualified hybrid vehicle employs a regenerative braking system that supplies at least 20% of the energy available from braking, the credit is increased by:

- \$125 if the regenerative braking system supplies to the rechargeable energy storage system 20% to 40% of the energy available from braking;
- \$250 if the regenerative braking system supplies to the rechargeable energy storage system 40% to 60% of the energy available from braking; and
- \$500 if the regenerative braking system supplies to the rechargeable energy storage system at least 60% of the energy available from braking.

Electric vehicles that meet the requirements under Section 30 of the Internal Revenue Code qualify for a credit equal to 100% of the excise tax, not to exceed \$2,000.

Current Law: There is no credit against the vehicle excise tax for either qualified electric or hybrid vehicles titled after June 30, 2004.

However, federal law provides that individual taxpayers who purchase a hybrid vehicle in 2005 may deduct \$2,000 for federal personal income tax purposes. In 2006, the deduction reduces to \$500 and expires thereafter. For businesses, certain costs of a qualified clean-fuel vehicle may be expensed and deducted when such property is placed in service. The maximum amount of the deduction is \$50,000 for a truck or van with a gross vehicle weight over 26,000 pounds or a bus with seating capacities of at least 20 adults; \$5,000 in the case of a truck or van with a gross vehicle weight between 10,000 and 26,000 pounds; and \$2,000 in the case of any other motor vehicle.

Background: The excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 5% of the fair market value of the vehicle, which is the total purchase price of a new or used vehicle as certified by the dealer. The total purchase price means the price of a vehicle agreed on by the buyer and the seller, with no allowance for trade-in or other nonmonetary

consideration. A portion (24%) of the titling tax revenue is distributed to local governments.

The remaining titling tax (76%) is used to pay the debt service on the Maryland Department of Transportation's (MDOT) consolidated transportation bonds. No part of the tax or other funds used for debt service on the bonds may be repealed, or applied to any other purpose until the bonds and interest on the bonds are fully paid or a complete provision for paying the bonds has been made.

Chapter 295 of 2000 provided a credit against the vehicle excise tax for individuals who buy either a qualified electric or hybrid vehicle. The credit expired July 1, 2004. **Exhibit 1** lists the total amount of credits and number of taxpayers who claimed the credit from fiscal 2001 to 2004.

Exhibit 1
Amount of Credits Claimed
Fiscal 2001-2004

<u>Fiscal Year</u>	<u>Credits Claimed</u>	<u>Taxpayers</u>	<u>Average</u>
2001	\$225,316	222	\$1,015
2002	\$583,708	554	\$1,054
2003	\$1,422,351	1,390	\$1,023
2004	\$2,043,293	1,912	\$1,069

Source: Maryland Department of Transportation

A limited number of hybrid vehicles are available commercially. Nationally, sales have increased rapidly in the last few years, increasing from 28,000 in 2002 to 88,000 in 2004, and are expected to total 200,000 in 2005. Hybrid vehicle sales are expected to continue to increase rapidly as production of existing models increases and new models are introduced. Several models are planned to be introduced in 2005 and 2006, including SUVs and trucks that have broader commercial appeal. Toyota Motor Corporation plans to boost production of its existing hybrid model, the Toyota Prius, by 50% in 2005. Hybrid vehicle models typically have substantial purchasing waiting lists.

Several states have adopted or considered tax breaks for individuals who purchase alternative fuel vehicles including Colorado, Virginia, and West Virginia. Virginia taxpayers and businesses can claim a nonrefundable credit equal to 10% of the amount of

the federal clean fuel tax deduction. West Virginia taxpayers qualify for a tax credit based on the gross vehicle weight of the hybrid vehicle. The purchase of a typical passenger hybrid vehicle could qualify for a tax credit of up to \$3,750.

State Revenues: TTF revenues would decline by approximately \$8.6 million in fiscal 2006. The decrease in future year revenues will increase by 50%, totaling approximately \$28.9 million in fiscal 2009. The State's share of vehicle excise tax revenues (76%) would decrease by \$6.5 million in fiscal 2006 and \$22.0 million in fiscal 2009. This estimate is based on the following facts and assumptions:

- 200,000 hybrid vehicles are expected to be sold in the U.S. in 2005;
- future vehicle sales grow by 50% annually from 2004 to 2009 based on a sample of national market sales projections;
- based on 2003 registration data, Maryland represents 4% of the national market;
- the average credit in fiscal 2004 was \$1,069; and
- electric vehicle sales are minimal.

Legislative Services advises that hybrid vehicle sales projections are subject to significant variability due to changes in technology, gasoline prices, and consumer preferences which cannot be reliably predicted. More rapid than expected commercialization of technology, for instance, would increase the number of vehicles sold, increasing the cost of the credit.

Local Revenues: Twenty-four percent of the State's vehicle excise tax revenues are distributed to local governments. Based on the assumptions above, local government revenues would decline by approximately \$2.1 million in fiscal 2006. Future year revenues will decrease by approximately \$3.1 million in fiscal 2007, \$4.6 million in fiscal 2008, and \$6.9 million in fiscal 2009.

Additional Information

Prior Introductions: HB 821 of 2004, a substantially similar bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): ABI Research, Automotive Technology Research Group, Comptroller's Office, Maryland Department of Transportation, JD Power and Associates, R.L. Polk & Co., The Freedonia Group, Department of Legislative Services

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