SB 994

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 994 (Senator Giannetti)
Budget and Taxation

Income Tax - Vehicle Technology Tax Credit

This bill creates a tax credit against the State income tax for individuals and corporations that purchase qualifying hybrid, fuel cell motor, advanced lean burn technology, electric, alternative fuel, and mix-fuel vehicles.

The bill takes effect July 1, 2005 and applies to tax year 2005 and beyond.

Fiscal Summary

State Effect: Significant general fund and Transportation Trust Fund revenue decrease beginning in FY 2006. The amount of the decrease cannot be reliably estimated and depends on the number of vehicles that qualify for the credit, the amount of credit the vehicles qualify for, and whether or not the phase-out specified by the bill for hybrid vehicles and advanced lean burn vehicles is reached. General fund expenditures would increase by $44,400 in FY 2006 due to one-time tax form changes and computer expenditures.

Local Effect: Local highway user revenues would decrease beginning in FY 2006 as a result of credits being claimed against the corporate income tax.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill creates tax credits for qualifying vehicle types. For each credit, the credit may not exceed the tax liability of the taxpayer in that year. Any unused amount of the credit may be carried forward 10 tax years.

Qualified Electric Vehicle: Taxpayers can claim a credit equal to 10% of the cost of an electric vehicle, as defined by Section 30 of the Internal Revenue Code (IRC). The credit may not exceed $4,000.

Fuel Cell Motor Vehicle: Taxpayers can claim a credit that is based on the gross vehicle weight of the vehicle. The amount of the credit ranges from $4,000 if the gross vehicle weight is less than 8,500 pounds to $40,000 if the gross vehicle weight exceeds 26,000 pounds. The amount of the credit can be increased by between $1,000 and $4,000 for fuel cell motor vehicles that are passenger automobiles or light trucks that meet specified fuel economy ratings. The credit cannot be taken for vehicles placed in service after December 31, 2013.

Advanced Lean Burn Technology and Qualified Hybrid Vehicles: Taxpayers can claim a credit based on specified fuel savings of the qualified vehicle. The credit value ranges from $400 to $2,400 based on the specified fuel savings of the vehicle. The amount of the credit can be increased by between $250 and $1,000 based on the lifetime fuel savings of the vehicle as calculated by a formula. Qualified hybrid vehicles that are passenger vehicles or light trucks with a vehicle gross weight of less than 8,500 pounds qualify for the credit. The credit cannot be taken for vehicles placed in service after December 31, 2009.

Other Hybrid Vehicles: Taxpayers can claim a credit for hybrid vehicles that do not qualify for the tax credit above based on the cost of the hybrid vehicle in excess of same-model diesel or gasoline vehicles. The amount of the credit ranges from 20% to 40% of the incremental cost of the hybrid vehicle based on the fuel economy savings relative to the same-model diesel or gasoline vehicle. The credit cannot be taken for vehicles placed in service after December 31, 2009.

Alternative Fuel Vehicles: Taxpayers can claim a credit for vehicles that run on liquefied or compressed natural gas (CNG), liquefied petroleum gas, hydrogen, or at least 85% methanol. The amount of the credit is equal to 40% of the vehicle's cost in excess of same-model diesel or gasoline vehicles. The amount of the credit is increased to 70% of the incremental cost if the vehicle meets specified emissions standards. The credit cannot be taken for vehicles placed in service after December 31, 2007.

Mixed-fuel Vehicles: Taxpayers can claim a credit for vehicles that run on at least 75% or 90% alternative fuels as listed above. The amount of the credit for a vehicle that runs on 75% alternative fuels is equal to 70% of the credit allowable the vehicle would qualify for if it was an alternative fuel vehicle and 90% if the vehicle runs on at least 90% alterative fuels. The credit cannot be taken for vehicles placed in service after December 31, 2007.

The tax credit available to hybrid and advanced lean burn technology motor vehicles is subject to a phase-out if 80,000 of these vehicles are manufactured and sold in the United States in any calendar quarter. The amount of the credit otherwise allowable is reduced by 50%, 25%, and eliminated based on specified time frames.

Current Law: No such State tax credit exists.

Background: 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. In December 2004, over 10,000 hybrid vehicles were sold in the United States. Most of these vehicles were not manufactured in the United States.

State Revenues: The actual decrease in revenues cannot be reliably estimated and depends on the number of vehicles that qualify for the credit, the amount of credit the vehicles qualify for, and whether or not the phase-out specified by the bill for hybrid vehicles and advanced lean burn vehicles is reached.

Revenues would decrease significantly in fiscal 2006 and 2007 due to the credits claimed for purchases of qualifying hybrid vehicles. Revenues could decrease significantly in fiscal 2008 through 2010 depending on whether, and if so when, the phase-out of the credit is triggered.

According to the U.S. Department of Energy, there are three alternative fuel vehicles that are available or will be available shortly. CNG vehicles are currently used by utilities and State and local government agencies. Currently there are no refueling stations in Maryland which would likely limit fiscal impact from these vehicles in the near-term to fleet vehicles.

No fuel cell motor vehicles are currently in production. General Motors is attempting to have a limited fleet of fuel cell vehicles by 2008 and have at least one commercial model available by 2015, which is beyond the termination of the tax credit for these vehicles. Legislative Services, however, advises that it is not currently possible to predict the commercial availability of these vehicles. More rapid than expected technological advances could lead to an earlier introduction of these vehicles.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $44,400 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return processing and imaging systems, and system testing.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Department of Legislative Services

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