

**Department of Legislative Services**  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

House Bill 212  
 Ways and Means

(Delegate Cardin, *et al.*)

**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, 2006 to June 30, 2009.

The bill takes effect July 1, 2006.

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues could decrease by approximately \$4.1 million in FY 2007; the State’s share would decrease by \$3.1 million. Out-year estimates reflect a projected 35% annual increase in qualified vehicle sales. Potential increase in TTF expenditures in FY 2007 only for computer reprogramming costs.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	(\$4,096,900)	(\$5,530,800)	(\$7,466,600)	\$0	\$0
SF Expenditure	-	0	0	0	0
Net Effect	(\$4,096,900)	(\$5,530,800)	(\$7,466,600)	\$0	\$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%) could decrease by approximately \$983,000 in FY 2007 and by \$1.8 million in FY 2009. Local government expenditures would not be affected.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** This bill reestablishes the vehicle excise tax credit for qualified electric and hybrid vehicles. It alters several provisions under the expired tax credit and reduces the amount of credit available.

A qualifying hybrid vehicle: (1) meets all applicable regulatory standards; (2) meets the current vehicle exhaust standard set under the National Low-Emission Vehicle Program for gasoline-powered passenger cars; (3) can draw propulsion energy from both gasoline or diesel fuel and a rechargeable energy storage system; and (4) has a fuel economy rating of more than: (a) 45 miles per gallon for a vehicle with a manufacturer's shipping weight of 3,700 pounds or less; and (b) 30 miles per gallon for a vehicle with a manufacturer's shipping weight that exceeds 3,700 pounds.

Qualified hybrid vehicles qualify for a credit equal to 50% of the vehicle excise tax imposed, not to exceed \$500. Electric vehicles that meet the requirements under Section 30 of the Internal Revenue Code qualify for a credit equal to 50% of the excise tax, not to exceed \$1,000.

The Motor Vehicle Administration (MVA) is required to adopt regulations to implement the bill. By October 1 of each year, the MVA is required to certify to the Comptroller the amount of credits allowed against the excise tax for the previous fiscal year.

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

The federal government has recently enacted several voluntary incentives to encourage consumers to purchase alternative fueled vehicles, including hybrids. The current tax credit applies to both hybrids and lean-burn vehicles. The maximum credit for a hybrid is \$3,400, and is phased out over time once the manufacturer has sold 60,000 qualifying vehicles.

**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 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.

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**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

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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 206,000 in 2005. Hybrid vehicle sales are expected to continue to increase rapidly as production of existing models increases and new models are introduced. Eleven models are currently available for sale in the United States, including SUVs and trucks that have broader commercial appeal. As of January 31, 2006, there were 12,278 hybrid vehicles registered in Maryland.

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 decrease by approximately \$4.1 million in fiscal 2007. The decrease in future year revenues will increase by 35%, totaling approximately \$5.5 million in fiscal 2008 and \$7.5 million in 2009. The State's share of vehicle excise tax revenues (76%) would decrease by \$3.1 million in fiscal 2007, \$4.2 million in fiscal 2008, and \$5.7 million in fiscal 2009. This estimate is based on the following facts and assumptions:

- total national sales of the five models in 2006 that would meet the fuel mileage requirements are expected to be approximately 175,000;
- future qualifying vehicle sales grow by 35% annually from 2006 to 2009 based on a sample of national market sales projections;
- based on 2003 registration data, Maryland represents approximately 4% of the national market;
- based on the base manufacturer's suggested retail price reported for each model, the entire \$500 credit would be claimed; 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. In addition, more vehicles than estimated could meet the fuel requirements specified by the bill.

**State Expenditures:** The MVA advises that computer programming changes would cost \$67,500. Legislative Services advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce the costs associated with this bill and other legislation affecting the MVA system.

**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 decrease by approximately \$983,000 in fiscal 2007. Future year revenues would decrease by approximately \$1.3 million in fiscal 2008 and \$1.8 million in fiscal 2009.

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### **Additional Information**

**Prior Introductions:** An identical bill, HB 368, was introduced in the 2005 session, but 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, HybridCars.com, JD Power and Associates, R.L. Polk & Co., The Freedonia Group, Governor's Office, Maryland Department of Transportation, Department of Legislative Services

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