

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 876

(Senator DeGrange, *et al.*)

Budget and Taxation

Excise Tax - Tax-Free Period for Purchase of Advanced Technology Vehicles

This bill exempts from the State excise tax the purchase of advanced technology vehicles for the period of April 16, 2007 through April 22, 2007.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by approximately \$5.0 million in FY 2007; the State's share would decrease by \$3.8 million. 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 | (\$5,000,000) | \$0 | \$0 | \$0 | \$0 |
| SF Expenditure | - | 0 | 0 | 0 | 0 |
| Net Effect | (\$5,000,000) | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: The local share of State vehicle excise tax revenues (24%) could decrease by approximately \$1.2 million in FY 2007. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: An advanced technology vehicle is a qualified advanced lean burn technology vehicle, a qualified alternative fuel vehicle, a qualified fuel cell vehicle, or a qualified hybrid vehicle.

The Maryland Energy Administration (MEA) must assist the Motor Vehicle Administration (MVA) with administering the excise tax exemption. The MVA must report to the General Assembly by July 1, 2007 on the number and types of advanced technology vehicles purchased during the excise tax-free period.

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 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.

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, rising from 28,000 in 2002 to 88,000 in 2004, and to 206,000 in 2005. Eleven models are currently available for sale in the United States, including SUVs and trucks that have broader commercial appeal. An additional six models will be introduced in calendar 2006. As of January 31, 2006, there were 12,278 hybrid vehicles registered in Maryland.

According to the U.S. Department of Energy, there are three alternative fuel vehicles that are available or will be available shortly. Compressed natural gas vehicles are currently used by utilities and State and local government agencies. Currently, there are no refueling stations in Maryland, which would likely limit the 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. There are some advanced lean-burn diesel vehicles available; however, sales in the United States are limited as opposed to Europe due to tougher diesel vehicle emission standards.

State Revenues: TTF revenues would decrease by approximately \$5.0 million in fiscal 2007. The State's share of vehicle excise tax revenues (76%) would decrease by \$3.8 million in fiscal 2007. This estimate is based on the following facts and assumptions:

- total national sales of all hybrid models in 2006 are expected to be approximately 278,000;

- based on 2003 registration data, Maryland represents approximately 4% of the national market;
- 35% growth in hybrid sales from calendar 2006 to 2007;
- minimal sales of lean-burn and alternative fueled vehicles;
- approximately 25% of consumers who would otherwise purchase a hybrid vehicle in calendar 2007 would wait to purchase hybrids until April 16, 2007; and
- an average vehicle excise tax of \$1,333 for 2006 models.

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. In addition, the average excise tax for new models introduced in late 2006 as 2007 models could be higher than \$1,333. To the extent that more rapid than expected technological advances lead to more advanced lean-burn diesel vehicles sold in fiscal 2007, TTF revenues could be further reduced.

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. MEA could assist in the administration of this tax-free week with existing resources.

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 \$1.2 million in fiscal 2007.

Additional Information

Prior Introductions: SB 994 of 2005, a bill that would have introduced income tax credits for similar vehicles, was referred to the Senate Budget and Taxation Committee, but no further action was taken. HB 368 of 2005 would have established a credit equal to 50% of the motor vehicle excise tax for qualified electric and hybrid vehicles titled in the State from July 1, 2005 to June 30, 2008, not to exceed \$500. The bill received an unfavorable report from the House Ways and Means Committee. That same year, SB 12 would have established a tax credit against the motor vehicle excise tax, with a maximum credit of \$1,500 per vehicle. The bill received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: HB 811 is listed as a cross file, but is not identical.

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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