

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 295 (Senator Mooney, *et al.*)
 Budget and Taxation

Tax Credit - Electric and Hybrid Vehicles

This bill reestablishes the motor 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, 2007 to June 30, 2011.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues could decrease by \$13.8 million in FY 2008; the State’s share would decrease by \$10.5 million. Out-year estimates reflect a projected 22.8% annual increase in qualified vehicle sales. Potential increase in TTF expenditures for one-time computer reprogramming costs.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	(\$13,824,200)	(\$16,979,100)	(\$20,846,600)	(\$25,599,600)	\$0
SF Expenditure	-	0	0	0	0
Net Effect	(\$13,824,200)	(\$16,979,100)	(\$20,846,600)	(\$25,599,600)	\$0

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

Local Effect: Local government revenues could decrease by \$3.3 million in FY 2008 and \$6.1 million by FY 2011. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: Electric vehicles, including vehicles powered by fuel cells, would be eligible for a credit against the 5% motor vehicle excise tax not to exceed \$2,000.

Qualified hybrid vehicles (combining fossil fuel, electric storage, and regenerative braking) would qualify for credits on a sliding scale, ranging from \$250 for each vehicle that has a rechargeable energy storage of between 5% and 10% of the maximum available power, to \$1,000 for each vehicle that has a rechargeable energy storage of at least 30% of the maximum available power. If the qualified hybrid vehicle employs a regenerative braking system that supplies to the rechargeable energy storage system, at least 20% of the energy available from braking, the credit allowed must be increased by:

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

A qualifying hybrid vehicle would have to meet the current vehicle exhaust standard set under the national low-emission vehicle program for gasoline-powered passenger cars.

The credit may not be claimed: (1) for a vehicle unless the vehicle is registered in the State; and (2) for a qualified electric vehicle unless the owner has already met any State or federal laws or regulations governing clean-fuel vehicle or electric vehicle purchases applicable during the calendar year in which the vehicle is titled.

The Motor Vehicle Administration (MVA) and the Maryland Energy Administration are 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: Chapter 295 of 2000 provided a credit against the motor vehicle excise tax for individuals who bought either a qualified electric or hybrid vehicle. The credit for electric vehicles could not exceed \$2,000. The tax credit terminated on June 30, 2004.

Background: The motor vehicle 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. In the case of motor homes and travel trailers, the total purchase price is the price of a motor home and travel trailer, less the value of any motor home or travel trailer traded in as part of the consideration of the sale. This trade-in allowance is not to exceed the value shown in a national magazine of used motor home and travel trailer values.

Twenty percent of titling tax revenue is distributed directly to Maryland Department of Transportation (MDOT) and 80% is deposited into the Gasoline and Motor Vehicle Revenue Account, of which 30% is distributed to local governments as highway user revenues. The result is an effective distribution of 76% to MDOT and 24% to local jurisdictions. The law requires that the State's share of funds be used to pay the debt service on MDOT's consolidated transportation bonds. Licensed vehicle dealers may retain the lesser of \$24 per vehicle or 1.2% of the gross excise tax collected as compensation for collecting and remitting the tax.

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

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.

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, 206,000 in 2005, and 252,000 in 2006. Hybrid vehicle sales are expected to continue to increase rapidly as production of existing models increases and new models are introduced. Thirteen models are currently available for sale in the United States, including SUVs and trucks that have broader commercial appeal. As of January 24, 2007, there were 16,752 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 \$13.8 million in fiscal 2008, increasing to \$17.0 million in fiscal 2009, and \$25.6 million in fiscal 2011. The State's share of vehicle excise tax revenues (76%) would decrease by \$10.5 million in fiscal 2008, \$12.9 million in fiscal 2009, and \$19.5 million in fiscal 2011. This estimate is based on the following facts and assumptions:

- total national sales of hybrids in 2007 are expected to be approximately 310,000;
- future qualifying vehicle sales grow by 22.8% annually from 2007 to 2011 based on the growth between 2005 and 2006;
- based on 2003 registration data, Maryland represents approximately 4% of the national market;
- an average credit of \$1,000 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, technological changes increasing the efficiency of hybrids could increase the amount of the average credit.

State Expenditures: The MVA advises that one-time 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. It is assumed that since the bill reestablishes a now-expired credit, any reprogramming could be accomplished quickly; and that based on the MVA's prior experience it could process credits manually until reprogramming was completed.

Local Fiscal Effect: 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 \$3.3 million in fiscal 2008. Future year revenues would decrease by approximately \$4.1 million in fiscal 2009 and \$6.1 million in fiscal 2011.

Additional Information

Prior Introductions: HB 821 of 2004 would have extended the tax credit until fiscal 2009, but received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): HybridCars.com, Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 26, 2007
ncs/hlb

Analysis by: Nora C. McArdle

Direct Inquiries to:
(410) 946-5510
(301) 970-5510