SB 776

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 776 (Senator Mooney)
Budget and Taxation

Income Tax - Credit for Hybrid and Electric Vehicles

This bill creates a credit against the State income tax for the purchase of qualified electric and hybrid vehicles. The credit is equal to 10% of the cost of the qualified vehicle, not to exceed $4,000. The amount of credit claimed may not exceed the tax liability in the tax year, and any unused amount may not be carried forward to any other tax year.

The bill takes effect July 1, 2007 and applies to tax year 2007 and beyond.

Fiscal Summary

State Effect: General fund revenues could decrease by $34.8 million in FY 2008 due to credits being claimed as provided by the bill. Future years reflect the estimated number of taxpayers, average tax liability, and average cost of qualifying vehicles. General fund expenditures would increase by $34,000 in FY 2008 only for one-time tax form changes and computer programming expenditures at the Comptroller's Office.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	($34.81)	($44.45)	($57.04)	($73.20)	($93.94)
GF Expenditure	.03	0	0	0	0
Net Effect	($34.84)	($44.45)	($57.04)	($73.20)	($93.94)

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

Local Effect: Local highway user revenues would decrease to the extent credits are claimed against the corporate income tax. Expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: No similar State income tax credit exists.

Background: Chapter 295 of 2000 provided that individuals could claim a credit against the vehicle excise tax for the purchase of qualified hybrid and electric vehicles. A total of $4.3 million in credits were claimed in fiscal 2001 through 2004. In fiscal 2004, 1,912 individuals claimed a total of $2.0 million in credits. The tax credit expired July 1, 2004.

The federal government recently enacted several voluntary incentives to encourage consumers to purchase alternative fueled vehicles, including hybrids. The current tax credit applies to the purchase of 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.

State Revenues: Tax credits could be claimed beginning in tax year 2007. As a result, general fund revenues could decrease by $34.8 million in fiscal 2008 and $93.9 million by fiscal 2012. 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 2012 based on the growth between 2005 and 2006;
- based on 2003 registration data, Maryland represents approximately 4% of the national market;
- the average tax liability in tax year 2004 was $2,175;
- the average price of qualifying vehicles is estimated to be $28,300 in fiscal 2008; 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.

State Expenditures: The Comptroller's Office reports that it would incur a one-time expenditure increase of $34,000 in fiscal 2008 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/hlb

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