HB 110

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 110 (Delegate Fraser-Hidalgo, *et al.*)
Environment and Transportation

Electric Vehicles and Recharging Equipment - Rebates and Tax Credits - Extension

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This bill extends through fiscal 2020 the termination dates of the qualified plug-in electric vehicle excise tax credit and the Electric Vehicle Recharging Equipment Rebate Program. The bill also increases to $3.6 million the annual maximum amount of vehicle excise tax credits that may be claimed and requires the transfer of specified amounts in each fiscal year from the Strategic Energy Investment Fund (SEIF) to the Transportation Trust Fund (TTF).

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: SEIF revenues decrease by $2.6 million annually and TTF revenues decrease by $1.0 million annually in FY 2018 through 2020 due to the extension of the electric vehicle excise tax credit. SEIF expenditures increase by $0.6 million annually in FY 2018 through 2020 due to extension of the rebate program. The Governor's proposed FY 2018 budget includes $1.2 million in funding for the rebate program and assumes a $2.4 million reduction in SEIF revenues due to extension of the tax credit.

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	($3.6)	($3.6)	($3.6)	$0	$0
SF Expenditure	$0.6	$0.6	$0.6	$0	$0
Net Effect	($4.2)	($4.2)	($4.2)	$0	$0

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

Local Effect: Local highway user revenues decrease by $65,700 annually in FY 2018 through 2020. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law:

Electric Vehicle Recharging Equipment Rebate Program

Chapters 359 and 360 of 2014 repealed the electric vehicle recharging equipment income tax credit and replaced the credit with a rebate program administered by the Maryland Energy Administration (MEA). The Acts authorized MEA to award an annual maximum of $600,000 in rebates in fiscal 2015 through 2017. The rebate is equal to 50% of the cost of property that is located in the State and used for recharging vehicles propelled by electricity, subject to specified maximum values. MEA may also reimburse a person for the reasonable costs of installing the qualifying equipment. An individual may not receive more than one rebate, but there are no limits on the number of rebates that can be issued to other entities.

Qualified Electric Vehicle Excise Tax Credit

Chapters 359 and 360 of 2014 extended the qualified plug-in electric vehicle excise tax credit through fiscal 2017 and made several changes to the program. Subject to available funding, a person who newly acquires and titles for the first time a qualified vehicle may claim a credit against the vehicle excise tax. The value of the credit is equal to the lesser of (1) $125 times the number of kilowatt-hours battery capacity of the vehicle or (2) $3,000. The credit is limited to 1 vehicle per individual and 10 vehicles per business entity. The Acts authorized the Motor Vehicle Administration (MVA) to award a maximum of $1.8 million in credits in each fiscal year and required MEA to transfer in each fiscal year specified amounts from SEIF to TTF.

Federal Credits

Qualified plug-in hybrid vehicles may qualify for a federal income tax credit of up to $7,500 under Section 30D of the Internal Revenue Code (IRC). The tax credit begins to phase out for a manufacturer's vehicles after the manufacturer has sold a specified number of vehicles. Section 30C of IRC also allows taxpayers to claim a credit for the cost of installing specified alternative vehicle recharging property. The credit can be claimed for property placed in service through December 31, 2016.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program, and the implementing SEIF, to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF is primarily funded through the proceeds from the auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative. MEA may use the funds for specified purposes including providing rebates under the Electric Vehicle Recharging Equipment Rebate Program.

Background:

Rebate Program Activity

MEA has funded electric vehicle charging stations primarily through the Electric Vehicle Recharging Equipment Rebate Program, the Electric Vehicle Infrastructure Program, and the Alternative Fuel Infrastructure Program. From fiscal 2015 through September 30, 2016, MEA issued rebates to 750 charging stations through the rebate program. According to the U.S. Department of Energy, as of January 2017, Maryland has 1,085 public electric vehicle charging outlets, which ranks ninth in the United States. MEA awarded the annual maximum amount of authorized rebates in each year ($600,000) in fiscal 2016 and 2017.

Tax Credit Activity

According to MVA, from fiscal 2015 through December 2016, a total of 4,092 new plug-in electric vehicles have been titled in Maryland. The maximum amount of authorized credits ($1.8 million) has been claimed in each year. As of September 2016, MVA has awarded the maximum amount of credits authorized for fiscal 2017.

Impacts of Electric Vehicles

Many researchers and analysts, including the National Academy of Sciences, have concluded that the United States has compelling reasons to reduce its consumption of oil for geopolitical and national defense reasons and to reduce emissions of carbon dioxide and pollutants for environmental reasons. In recent years, there has been increasing focus in the tax code on energy conservation and renewable energy production standards. While the federal Joint Committee on Taxation (JCT) notes that economists generally agree that the most efficient means of addressing pollution would be a direct tax on the pollution-causing activities, the more indirect approach of targeting tax credits for certain technologies has been utilized. JCT states that many provisions of federal law provide for tax credits for investments in, or expenditures on, certain assets that reduce the consumption of conventional fuels and the attendant pollutants and emissions of gases related to atmospheric warming. JCT notes that the design of tax benefits is important to how close they will come, individually and collectively, to achieving their intended consequences in a cost-effective and efficient manner. Important policy decisions include what to subsidize and how much, and only by equalizing tax provisions with the same policy (*i.e.*, paying the same price for fossil fuel displacement) will the incentives be technologically neutral and cost-effective.

In addition to tax credits for electric vehicles, the federal government has adopted several policies to encourage the production and purchase of electric vehicles. JCT estimates that these policies will have a total federal budgetary impact of $7.5 billion through federal fiscal 2019. A recent analysis by the Congressional Budget Office (CBO) examined the effects of federal tax credits for the purchase of electric vehicles on gasoline consumption and greenhouse gas emissions. CBO concluded that the tax credits will have little or no impact on total gasoline use and greenhouse gas emissions over the next several years, primarily due to the interaction with corporate average fuel economy standards. CBO stated that the tax credits could impact gasoline consumption and emissions in the long-term if the sales of electric vehicles lead to revisions in fuel economy standards and/or if the credits play an important role in helping the electric vehicle industry become self-sustaining. A recent analysis by the National Research Council of the National Academy of Sciences concluded that subsidies of tens to hundreds of billions of dollars will be needed if electric vehicles are to achieve a significant share of the U.S. automotive market and even with these efforts, these vehicles are not expected to significantly impact oil consumption or carbon emissions before 2030.

State Fiscal Impact: The bill (1) extends through fiscal 2020 the termination dates of the Electric Vehicle Recharging Equipment Rebate Program and the qualified electric vehicle excise tax credit and (2) increases to $3.6 million the annual maximum amount of vehicle excise tax credits available in each fiscal year. As a result, the net effect on State finances will be a decrease of $4.2 million annually in fiscal 2018 through 2020. **Exhibit 1** details the fiscal impact of the bill.

MEA may award an annual maximum of $0.6 million in rebates in fiscal 2018 through 2020, with funding provided from SEIF revenues. The Governor's proposed fiscal 2018 budget includes $1.2 million in SEIF funds for the rebate program. The bill also authorizes MVA to award an annual maximum of $3.6 million in vehicle excise tax credits. The bill requires MEA to transfer in each fiscal year from SEIF to TTF a total of $2,574,000. Based on the existing history of the programs and proposed changes, it is estimated that the maximum amount of incentives authorized in each year will be awarded. As a result, TTF revenues will decrease by $1.0 million annually in fiscal 2018 through 2020.

Exhibit 1
Fiscal Impact of Legislation
Fiscal 2018-2022

Expenditures	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Rebate Program – SEIF	**$600,000**	**$600,000**	**$600,000**	**$0**	**$0**
Revenues					
Vehicle Excise Tax Credit					
SEIF	($2,574,000)	($2,574,000)	($2,574,000)	$0	$0
TTF	(1,026,000)	(1,026,000)	(1,026,000)	0	0
Total Revenues	**($3,600,000)**	**($3,600,000)**	**($3,600,000)**	**$0**	**$0**
Net Effect	**($4,200,000)**	**($4,200,000)**	**($4,200,000)**	**$0**	**$0**

SEIF: Strategic Energy Investment Fund
TTF: Transportation Trust Fund

Local Revenues: Local governments receive a portion of vehicle excise tax revenues to support the construction and maintenance of local roads and other transportation facilities. Under the assumptions above, local highway user revenues will decrease by $65,700 annually in fiscal 2018 through 2020.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office; Congressional Budget Office; U.S. Department of Energy; Joint Committee on Taxation; Maryland Energy Administration; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2017
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Analysis by: Robert J. Rehrmann

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