HB 1181

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1181 (Delegate Vogel)
Ways and Means

Income Tax - Credit for Purchase of Zero-Emission and Hybrid Mobile Machinery

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This bill authorizes a nonrefundable credit against the State income tax for the purchase of hybrid and zero-emission mobile machinery for use in an eligible taxpayer's business or for rental or lease to the general public. The amount of the credit is equal to 15% of the purchase price of the qualified mobile machinery (30% for zero-emission mobile machinery) subject to a maximum of $5,000 ($10,000 in the case of mobile machinery with a gross vehicle weight rating of at least 14,000 pounds). An eligible taxpayer may apply any excess credit to succeeding taxable years until fully used. The credit is available for tax years 2024 through 2032. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: General fund revenues, Higher Education Investment Fund (HEIF) revenues, and Transportation Trust Fund (TTF) revenues and expenditures decrease by an indeterminate amount beginning in FY 2025 due to credits claimed against the corporate income tax, as discussed below. General fund expenditures for the Comptroller's Office increase by an estimated $63,000 in FY 2024 only.

Local Effect: Local highway user revenues decrease by an indeterminate amount beginning in FY 2025 due to credits claimed against the corporate income tax.

Small Business Effect: Minimal.

Analysis

Bill Summary: A taxpayer may be eligible to claim the credit if (1) the taxpayer’s principal place of business is located in the State; (2) the taxpayer’s principal business is the rental or lease of tangible personal property to the general public; and (3) the taxpayer derives at least 51% of the taxpayer’s annual gross revenue from the rental or lease of mobile machinery.

“Hybrid mobile machinery” means mobile machinery, as defined under § 4053(8) of the Internal Revenue Code (IRC), that (1) is a qualified commercial clean vehicle under § 45W of the IRC and (2) is capable of drawing propulsion energy from both gasoline or diesel fuel and a rechargeable energy storage system.

“Zero-emission mobile machinery” means mobile machinery that is a qualified commercial clean vehicle under § 45W of the IRC and, without alteration from the manufacturer’s original specifications, produces no tailpipe or evaporative emissions.

Current Law:

Federal Commercial Clean Vehicle Credit

The federal Inflation Reduction Act of 2022 established a credit against the federal income tax for qualified commercial clean vehicles, including specified mobile machinery, placed in service during the tax year. The provision applies to vehicles acquired after December 31, 2022, and before January 1, 2033.

The value of the credit is equal to the lesser of (1) 15% of the basis of the vehicle (30% in the case of a vehicle not powered by a gasoline or diesel internal combustion engine) or (2) the incremental cost of the vehicle (the excess of the purchase price of the qualified clean vehicle compared to the purchase price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine). The amount of the credit per qualified commercial clean vehicle may not exceed $7,500 ($40,000 in the case of a vehicle that has a gross vehicle weight rating of at least 14,000 pounds).

State Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program

Chapter 234 of 2022 established the Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program within the Maryland Energy Administration (MEA). Subject to available funds, in each of fiscal 2024 through 2027, a person or unit of local government may apply to MEA for a grant of up to 20% of the cost for qualified medium-duty or heavy-duty zero-emission vehicles, zero-emission vehicle supply equipment, or zero-emission heavy equipment property. The Act requires the Governor to include in the annual budget bill for each of fiscal 2024 through 2027 an appropriation from the Strategic Energy Investment Fund of at least $1.75 million for the program, of which at least $1.0 million is for qualified medium-duty and heavy-duty zero-emission vehicles and $750,000 is for zero-emission heavy equipment property.

State/Local Fiscal Effect: As discussed above, the State income tax credit for hybrid and zero-emission mobile machinery contemplated under the bill generally mirrors (with certain additional limitations with respect to credit value, eligibility, and scope) the recently enacted federal commercial clean vehicle credit, which may be claimed with respect to qualified mobile machinery, among other qualified commercial vehicles.

It is assumed that the State credit primarily affects corporate taxpayers. Thus, to the extent credits are claimed against the corporate income tax, general fund, HEIF, and TTF revenues decrease beginning in fiscal 2025. A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues); thus, local highway user revenue grants to local governments also decrease to the extent credits are claimed against the corporate income tax.

Due to data limitations, it is unknown how many businesses will meet the bill’s eligibility requirements and claim the State tax credit. Thus, a reliable estimate of the bill’s effect on State revenues cannot be determined at this time. However, based on the following information and assumptions, it is assumed that State revenue reductions resulting from the proposed income tax credit are *at least less than* (and potentially a small fraction of) $3.1 million in fiscal 2025; $4.0 million in fiscal 2026; $5.2 million in fiscal 2027; and $6.8 million in fiscal 2028:

- The U.S. Joint Committee on Taxation estimates that the federal commercial clean vehicle tax credit (which may be claimed with respect to additional types of qualifying commercial clean vehicles, as well as qualifying mobile machinery) will reduce federal revenues by approximately $1 billion over the course of federal fiscal 2022 through 2026, including approximately $0.2 billion annually in federal fiscal 2023 through 2025 and $0.3 billion in federal fiscal 2026.

- According to the 2019 Statistics of U.S. Businesses by the U.S. Census Bureau, there are 150 commercial and industrial machinery and equipment rental and leasing firms in Maryland, which represent approximately 1.7% of U.S. commercial and industrial machinery and equipment rental and leasing firms.

- Assuming, *for contextual purposes only*, that approximately 1.7% of the estimated federal revenue reductions resulting from the federal commercial clean vehicle tax credit are attributable to Maryland, Maryland accounts for approximately $3.3 million of the federal revenue loss in federal fiscal 2023; $3.1 million in federal fiscal 2024; $4.0 million in federal fiscal 2025; $5.2 million in federal fiscal 2026; and $6.8 million in federal fiscal 2027.

- State revenue reductions resulting from the proposed State income tax credit would be less than the above amounts in the first four years of implementation as the proposed State credit is notably more limited in terms of scope, maximum dollar value, and eligibility.

Based on analyses of similar legislation, it is estimated that general fund expenditures for the Comptroller's Office may increase by $63,000 in fiscal 2024 for one-time changes to the Comptroller's tax systems necessary to implement the State income tax credit established under the bill.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 692 (Senator King) - Budget and Taxation.

Information Source(s): State Department of Assessments and Taxation; U.S. Joint Committee on Taxation; U.S. Census Bureau; CCH AnswerConnect; Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2023
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