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FISCAL IMPACT REPORT

ORIGINAL DATE 02/07/13
 SPONSOR SFC LAST UPDATED 02/27/13 HB _____
 SHORT TITLE Plug-In Electric Vehicle Tax Exemption SB 264/SFCS
 ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
\$0.0	(\$330.0)	(\$405.0)	(\$424.0)	(\$444.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)
 Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

The Senate Finance Committee substitute for Senate Bill 264 amends the Income Tax Act to allow a \$1,320 credit for the purchase qualified plug-in electric drive vehicles. It also adds a definition of “qualified plug-in electric vehicle” to Sections 7-9J-2 and 7-14-6 NMSA 1978. The bill caps the credit at \$2 million annually.

“Qualified plug-in electric drive vehicle” is defined in the Alternative Energy Product Manufacturers Tax Credit Act to mean a motor vehicle with four wheels that:

- is made by a manufacturer;
- is manufactured primarily for use on public streets, roads or highways;
- has not been modified from the original manufacturer specifications;
- is acquired for use or lease by a consumer and not for resale;
- is rated at not more than two thousand two hundred pounds unloaded gross vehicle weight and not more than eight thousand five hundred pounds unloaded gross vehicle weight;
- has a maximum speed capability of at least sixty-five miles per hour; and

- is propelled to a significant extent by an electric motor that draws electricity from a battery that: has a capacity of not less than four kilowatt-hours; and is capable of being recharged from and external source of electricity.

Effective Date: July 1, 2013

FISCAL IMPLICATIONS

For FY 14 and FY15, analysts assumed sales 200 and 300 units annually and then grew the out-years by rates found in the national forecast used for the consensus revenue estimates. Each unit was assumed to qualify for the full credit. The estimate was then “defiscalized” to conform with observed personal income tax cash flows.

This bill may be counter to the Legislative Finance Committee (LFC) tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

The TRD notes that although the bill’s short run fiscal impact is relatively manageable, it has the potential to significantly reduce the motor vehicle excise tax in the long run. This is a promising technology and could conceivably make up the bulk of the automobile and small truck stock in the foreseeable future.

The TRD notes that the federal government currently offers an income tax credit to purchasers of plug-in electric vehicles of \$2,500 to \$7,500 depending on the size of the car’s battery. A number of other states offer incentives of various kinds to purchasers of plug-in hybrids, including sales tax exemptions, reduced registration fees and in some cases cash rebates. See Attachments 1 and 2.

PERFORMANCE IMPLICATIONS

Its purpose.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

**ATTACHMENT 1
Federal Incentives**

For Cars

A tax credit is available for the purchase of a new qualified plug-in electric drive motor vehicle that draws propulsion using a traction battery that has at least four kilowatt hours (kWh) of capacity, uses an external source of energy to recharge the battery, has a gross vehicle weight rating of up to 14,000 pounds, and meets specified emission standards. The minimum credit amount is \$2,500, and the credit may be up to \$7,500, based on each vehicle's traction battery capacity and the gross vehicle weight rating. The credit will begin to be phased out for each manufacturer in the second quarter following the calendar quarter in which a minimum of 200,000 qualified plug-in electric drive vehicles have been sold by that manufacturer for use in the United States. This tax credit applies to vehicles acquired after December 31, 2009.

For 2- or 3-wheelers

A credit is also available for the purchase of a new qualified two- or three-wheeled plug-in electric drive vehicle that draws propulsion using a traction battery that has at least 2.5 kWh of capacity, uses an external source of energy to recharge the battery, has a gross vehicle weight rating of up to 14,000 pounds, is manufactured primarily for use on public roadways, and can drive at least 45 miles per hour. The credit is for 10% of the cost of the qualified vehicle, up to \$2,500, and applies to vehicles acquired between January 1, 2012, and December 31, 2013.

Source: U.S. Department of Energy Alternative Fuels Data Center (www.afdc.energy.gov)

**ATTACHMENT 2
Electric Vehicle Incentives by State**

AZ -Lower licensing fees available for BEVs. For PHEVs, eligibility depends on the extent to which the vehicle is powered by electricity.
CA -Rebate system provides \$5,000 for BEVs, \$3,000 for PHEVs, and \$1,500 for electric motorcycles and NEVs. Various utilities throughout the state also offer discounted rates for residential vehicle charging during off-peak hours. Carpool lane access available for BEVs; PHEV access pending in state legislature.
CO -Income tax credit totaling 75-85% of the cost premium for a BEV or PHEV purchase up to \$6,000. 20% rebate also available for EV charger installation.
CT - Considering exemption from state sales taxes.
DC - Excise tax exemption and reduced vehicle registration fees.
FL -EVs are exempt from most insurance surcharges. Limited PHEV conversion rebates of \$5,000 also available.
GA -Income tax credit for up to 20% of BEV cost (max. \$5,000) or 10% of conversion cost (max. \$2,500). PHEVs not included.
HI -Rebates up to 20% of the vehicle purchase price(max. \$4500/vehicle). EVSE rebates up to 30% of the charging equipment cost (to include installation costs; max. \$500/charger).
IL -Covers 80% of cost premium or conversion price, with maximum rebate of \$4,000.
LA - Tax credit equaling 50% of cost premium for BEV/PHEV purchase, 50% of conversion cost, or a tax credit worth 10% of the cost of a new BEV/PHEV vehicle (max. \$3,000). This same credit also applies to charge station costs.

MA - Considering exemption from state sales taxes and excise taxes. Also considering carpool lane access.
MT - Credit only available for conversion costs. Maximum \$500 credit or 50% of conversion cost.
NE - BEVs and PHEVs qualify for Nebraska's Dollar and Energy Saving Loan Program. Maximum loan amount is \$150,000 per borrower, at an interest rate of 5% or less.
NJ - Sales tax exemption for qualifying BEVs, not PHEVs. Rebates on BEV purchases also available for local governments.
NY - Considering exemption from state sales taxes and excise taxes. Also considering carpool lane access.
OK - Applies to either conversion cost or the cost premium of a new BEV purchase. For PHEVs, the credit is based on the portion of the vehicle attributable to propulsion by electricity. Credit also available for 75% of charge station cost.
OR -Credit of up to \$5,000 for conversion or purchase costs (PHEV only). Up to \$1,500 for purchase of or conversion to BEV.
PA - Considering exemption from state sales taxes.
SC - Income tax credit equaling 20% of federal credits for PHEVs and BEVs. Additional legislation pending.
TX - Considering sales tax exemption and income tax credits.
TN - Offering \$2,500 rebate for first 1,000 vehicles sold in state.
UT - Up to \$750 credit for BEV and PHEV purchases and up to \$2,500 credit for conversions.
WA - BEVs are exempt from 6.5% sales tax and PHEVs exempt from the motor vehicle sales tax of 0.3%. Tax exemptions also apply to charge station parts and labor costs.
WV - Income tax credit of 35% of vehicle purchase costs or 50% of conversion cost, up to \$7,500 for vehicles less than 26,000 lbs and up to \$25,00 for vehicles greater than 26,000 lbs. Expires Dec 31, 2021. Infrastructure tax credits of 50% of installation cost, up to \$10,000 for residential, up to \$250,000 for commercial, and up to \$312,500 for publicly accessible charging.

Source: U.S. Department of Energy Alternative Fuels Data Center (www.afdc.energy.gov)