F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/24/15
SPONSOR Gallegos **LAST UPDATED** **HB** 512

SHORT TITLE Natural Gas Car Tax Deductions & Credits **SB**

ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
	($2,500.0)	($2,500.0)	($3,500.0)	($4,300.0)	Recurring	General Fund – Aggregate Credit
	($210.0)	($300.0)	($230.0)	(270.0)	Recurring	General Fund – Gross Receipts Tax
	($180.0)	($200.0)	($400.0)	($530.0)	Recurring	General Fund – Motor Vehicle Excise Tax
	($2,890.0)	**($3,000.0)**	**($4,130.0)**	**($5,100.0)**		**Total**

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	**FY16**	**FY17**	**3 Year Total Cost**	**Recurring or Nonrecurring**	**Fund Affected**
Total	$144.0	$0.0	$0.0	$144.0	Nonrecurring	TRD Operating – IT Division
Total	$0.0	$70.0	$70.0	$140.0	Recurring	EMNRD Operating

Parenthesis ( ) indicate expenditure decreases

Relates to SB 347

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Energy, Minerals and Natural Resources Department
Office of the State Auditor (OSA)

Responses Not Received From
Department of Finance and Administration (DFA) a/o 2/26/15
Department of Transportation (DOT) a/o 2/26/15

Synopsis of Bill

House Bill 512 adds a new Section to the Gross Receipts and Compensating Tax Act to create a deduction from gross receipts tax and compensating tax for natural gas motor vehicle equipment and installation. The bill also adds new Sections to the Income Tax Act and Corporate Income and Franchise Tax Act, to create a refundable tax credit against the taxpayer's income tax liability denominated as the natural gas vehicle income tax credit and the corporate income tax credit. These credits are to be available for a period from January 1, 2016, through December 31, 2020.

The bill also amends the Motor Vehicle Excise Tax Act, Section 7-14-6 NMSA 1978, to create a tax exemption from motor vehicle excise tax (MVET) for the periods of January 1, 2016 through December 13, 2020 for a person who acquires a vehicle for subsequent lease and for a person who purchases a new vehicle that is certified by the U.S. Environmental Protection Agency (EPA) to operate on natural gas fuel.

The bill proposes two options for a taxpayer to claim the credits: 1) A taxpayer can claim 55 percent of the cost of qualified natural gas motor vehicle equipment or a certain dollar amount, whichever is less, and 2) A taxpayer can claim 18 percent of the cost of a purchase of the new natural gas motor vehicle or a certain dollar amount, whichever is less. Table 1 shows the bill's proposed maximum dollar amounts of the credits to be claimed once per vehicle identification number (VIN).

Table 1 (dollars in thousands)

Max Credit Amount per Vehicle	Vehicle Type	Gross Vehicle Weight
$6.0	Light duty passenger vehicle	Under 14,000 lbs
$7.5	Light duty truck	Under 14,000 lbs
$15.0	Light-to-medium heavy duty vehicle	Between 14,000 lbs and 26,000 lbs
$25.0	Heavy duty vehicle	Over 26,000 lbs

The bill requires that the equipment purchase receiving a tax deduction must be installed by a technician who is certified or approved by the equipment manufacturer and licensed in New Mexico. Further, HB 512 would amend the Motor Vehicle Excise Tax Act, Section 7-14-6 NMSA 1978, to exempt new natural gas vehicles over 14,000 pounds from the motor vehicle excise tax eliminating the excise tax exemption for hybrid vehicles that expired in 2009.

The purpose of the deduction on the sale and installation of natural gas motor vehicle equipment is to address a concern for the environment by improving air quality and reducing dependence on volatile energy sources like foreign oil. The bill also aims at enhancing the state's economic base by promoting the use of and network for the state's abundant supply of natural gas.

Table 2 shows the maximum aggregate amount of the natural gas vehicle income tax credits and natural gas vehicle corporate income tax credits allowed.

Table 2 (dollars in thousands)

Calendar Year	Max Aggregate Deduction Amount
2016	$2,500.0
2017	$3,500.0
2018	$4,500.0
2019 through 2022	$5,500.0

The bill includes reporting requirements. A taxpayer who wishes to take advantage of either credit will be required to apply to TRD and include certification from EMNRD. Such certification must include a calculation of the maximum amount of the tax credit for which the taxpayer would be eligible.

TRD is required to compile an annual report on the tax credit including the following:

- Number of taxpayers approved to receive the credit,
- Aggregate amount of tax credits approved, and
- Other necessary information to evaluate the credit's effectiveness.

Starting in 2018 and every year thereafter, the bill requires TRD to present the annual report to LFC and RSTP with a cost/benefit analysis to determine whether the tax credit is performing the purpose for which it was created.

The bill includes definitions of the following terms:

- Emissions benefits
- Natural gas fuel
- Natural gas motor vehicle
- Qualified natural gas motor vehicle equipment
- Cost of qualified natural gas motor vehicle equipment

The effective date of the provisions of this bill is January 1, 2016. The sunset date of this bill is December 31, 2022. The provisions of Sections 3 and 4 pertaining to the natural gas vehicle income tax credit and the natural gas vehicle corporate income tax credit of this bill apply to taxable years beginning on or after January 1, 2015.

FISCAL IMPLICATIONS

The analysis conducted by TRD to estimate the fiscal impact of the bill used the total number of registrations for vehicles fueled by natural gas as well as other sources to estimate the costs of installation to convert internal-combustion gasoline vehicles to natural gas.

TRD divided the number of registrations into two groups; light trucks and passenger vehicles, and medium and heavy-duty trucks. The bill specifies that vehicles weighing more than 14,000 pounds are eligible for the Gross Receipts deduction.

Due to data used showing the high costs associated to vehicle conversions, TRD assumed the vehicles most likely to be modified were the medium and heavy-duty trucks. The rationale used was that taxpayers would be more likely to purchase a new natural gas vehicle rather than have their current gasoline vehicles modified; these new vehicle registrations were then used to estimate the impact of the exemption from the motor vehicle excise tax. The number of registrations for medium and heavy-duty trucks was used by the department to estimate the impact of the exemption from gross receipts tax and the costs of the personal income tax and corporate income tax credit. The counts for passenger vehicles were used in the calculation of the Motor Vehicle Excise Tax exemption. TRD asserts the cap would limit the costs which are estimated to be greater than the cap.

This bill may be counter to the 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.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD reports there would be a high impact on their information technology (IT) division estimated at approximately 1,600 hours. If the bill becomes law, the gross receipts deduction would require changes to:

- Configuration of the combined reporting system (CRS),
- Return document in GenTax,
- Configuration of the CRS return document in the Taxpayer Access Point (TAP) for e-filing, and keyed from image for data input.

The credit claimed against the personal and corporate income taxes would involve making changes to the personal income tax and corporate income tax (GenTax and TAP) documents, configuration on GenTax rule and on the Business Credit module would need to be modified as well, and two new reports would be needed.

EMNRD estimates an additional $70,000 per fiscal year in their operating budget would be required for technical, legal and administrative staff to support the program proposed by the bill. EMNRD adds the department would incur in other costs associated with the administration of the credit, including the development of regulations and the review of eligibility for each potential natural gas motor vehicle tax credit.

RELATIONSHIP AND CONFLICT

The bill relates to HB 512. Both bills share many common aspects but there are several technical differences between the two:

- HB 512 includes a definition not found in SB 347 for "emissions benefits" and the "natural gas fuel" and "qualified natural gas motor vehicle equipment" definitions differ,
- HB 512, Sections 1 and 2, the gross receipts tax/compensating tax and motor vehicle excise tax only apply to natural gas vehicles over 14,000 pounds; SB 347 does not include a weight limit for the incentives in Sections 1 and 2,
- The tax credit amounts on both bills vary and the effective and expiration dates are not the same:
    - For the gross receipts and compensating tax deductions for natural gas vehicles and equipment and motor vehicle excise tax exemption, the expiration date is 2020 for SB 347 and 2022 for HB 512,
    - For the personal and corporate income tax credit, the expiration date in SB 347 is December 31, 2020, while the expiration date in HB 512 is January 1, 2023,
    - The effective date of HB 512 is January 1, 2016, and the effective date of SB 347 is July 1, 2015,
- The tax credit amounts on the income and corporate tax credits for natural gas vehicles have different incentives and weight limit levels,
- SB 347 provides the aggregate cap amounts for the personal and corporate natural gas vehicle tax credits in fiscal years, while HB 512 presents the caps in calendar years; the cap amounts are not the same.

TECHNICAL ISSUES

TRD notes Section 3-M-5(b) states under the definition of "qualified natural gas motor vehicle equipment", the vehicle would need to operate natural gas fuel for a minimum distance of 100 miles without refilling. According to TRD, this requirement would be difficult to enforce for vehicles that do not have an official "fuel consumption per mile ratio" from the EPA.

OTHER SUBSTANTIVE ISSUES

EMNRD notes the refueling infrastructure is critical to ensure natural gas motor vehicles have access to natural gas in order to function. EMNRD reports that according to the U.S. Department of Energy, the total number of public "alternative fuel" stations in New Mexico is six natural gas public stations (CNG) and one liquefied natural gas public station (LNG).

Comparatively, EMNRD adds according to the New Mexico Natural Gas Vehicle Coalition, there are currently 14 total CNG stations (both private and public) and one LNG in the state with plans to build two additional CNG station and one LNG station in the current calendar year.

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

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