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#### FISCAL IMPACT REPORT

SPONSOR:	Garcia, M.P.	DATE TYPED:	02/20/01	HB	741
SHORT TITLE: Tax Exemption for Alternative Fuel Vehicles				SB	
ANALYST:				YST:	Eaton

#### **REVENUE**

Estin	mated Revenue	Subsequent	Recurring	Fund	
FY01	FY02	Years Impact	or Non-Rec	Affected	
	(negative)	(negative)	Recurring	General Fund- MVX	
	positive	positive	Recurring	General Fund - GRCT	
	positive	positive	Recurring	Local Govt GRCT	

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

#### **SUMMARY**

## Synopsis of Bill

This bill provides an exemption from the Motor Vehicle Excise Tax for alternative fuel vehicles. Alternative fuel vehicles are "vehicles that operate exclusively on alternative fuel, whether with a bifuel capability or dedicated engine configuration.

Alternative fuel means "natural gas, liquified petroleum gas, electricity, hydrogen, a fuel mixture containing not less than eighty-five percent ethanol or methanol or a water-phased hydrocarbon fuel emulsion consisting of a hydrocarbon base and water in an amount not less than twenty percent of volume of the total water-phased fuel emulsion."

## FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) estimate that this bill would actually increase revenue, the amount of which is indeterminate at this time.

Current law (Sections 7-9-22 and 7-9-23) exempt motor vehicles from the Gross Receipts Tax and the Compensating Tax (GR&CT) when the Motor Vehicle Excise Tax (MVX) has been paid. By

# House Bill 741 -- Page 2

exempting alternative fuel vehicles from the Motor Vehicle Excise Tax, the bill effectively imposes the GR&CT on these vehicles. The excise tax is levied at 3 percent, the GR&CT is levied at 5 percent (3.275 to the general fund, 1.225 local). Local option taxes would also be levied.

While the estimated impact is unknown, it would not be large as the increased tax would be a disincentive resulting in fewer vehicle sales.

## ADMINISTRATIVE IMPLICATIONS

Moderate.

#### **TECHNICAL ISSUES**

TRD suggests that the definition of bi-fuel be clarified.

## **OTHER SUBSTANTIVE ISSUES**

Assuming an amendment is made to also exempt the gross receipts tax, TRD indicates that the magnitude of impact would depend on the interpretation of the definition of bi-fuel.

If bi-fuel means gasoline/alternative fuel, the revenue losses would be significant, on the order of millions of dollars. TRD recommends that while the bill requires vehicles to operate "exclusively" on alternative fuels, "bi-fuel" could be interpreted as two alternative fuel types (i.e. gasoline/alternative). The Taxation and Revenue Department indicate that they would not allow gasoline/alternative fuel engines to be exempt, they recommend a clarification in the bill for the benefit of the taxpayer.

The Taxation and Revenue Department's suggestion is well founded. Last year Arizona passed an extensive incentive for alternative fuel vehicles which, while being successful in stimulating alternative fuel (bi-fuel) vehicle purchases, resulted in catastrophic revenue losses and revealed a number of schemes designed to exploit the tax incentive.

The spirit of the Arizona law was to promote clean air. The "bi-fuel" inclusion (gasoline/alternative) actually resulted in people buying enormous Sport Utility Vehicles (SUV's) with a 3-5 gallon propane tank. The result was people bought vehicles that were less fuel efficient, primarily ran on gasoline that dirtied the air, and nearly shaved \$800 million off of state government revenue in the process.

JBE/ar