



## SUMMARY

### Synopsis of Bill

SB193 bill exempts vehicles that operate exclusively on alternative fuel and gas-electric hybrid vehicles from annual motor vehicle registration fees, and exempts the purchase of those vehicles from the Motor Vehicle Excise Tax. "Alternative Fuel" is defined for purposes of the tax and fee exemption as "*natural gas, liquefied petroleum gas, electricity, hydrogen, a fuel mixture containing not less than eighty-five percent ethanol or methanol, a fuel mixture containing not less than twenty percent vegetable oil or a water-based hydrocarbon fuel emulsion consisting of a hydrocarbon base and water in an amount not less than twenty percent by volume of the total water-phased fuel emulsion.*" SB193 has a July 1, 2003 effective date.

### Significant Issues

The Energy, Minerals and Natural Resources Department states in their analysis that passage of SB193 would:

1. Increase the sale of alternative fuel vehicles that operate exclusively on alternative fuel and gas-electric hybrid vehicles, resulting in reduced emissions and dependence on foreign oil and improved fuel efficiency.
2. Provide an incentive to private individuals (non-government entities) by exempting alternative fuel vehicles and gas-electric hybrids from the excise tax of 3% of the sale price of the vehicle. The average price of an alternative fuel vehicle is \$20,000, resulting in a \$600 savings for the consumer.
3. Provide an additional incentive to private individuals to purchase alternative fuel and gas-electric hybrid vehicles because of the exemption from vehicle registration fees.

The Environment Department notes that alternatively fueled motor vehicles produce less air pollution than traditionally fueled motor vehicles. Exempting such vehicles from paying motor vehicle excise taxes and from paying registration fees could encourage the purchase of more of these vehicles in New Mexico. This would result in less air pollution from vehicle exhaust.

## FISCAL IMPLICATIONS

SB193 exempts vehicles that operate exclusively on alternative fuel and gas-electric hybrid vehicles from motor vehicle registration fees and motor vehicle excise tax. This will decrease revenues to the general fund, the state road fund and to local governments as noted in the table above. Local government funds that will be negatively impacted include county and municipal road funds and general funds.

## ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department does not think the administrative impact will be significant although the motor vehicle personnel may require some documentation certifying that a vehicle does, in fact, qualify for the exemption.

## CONFLICT

SB193 conflicts with HB70, which exempts alternative fuel vehicles from the motor vehicle excise tax. HB70 defines alternative fuel differently, does not exempt the vehicles from the motor vehicle registration fees and does not exempt gas-electric hybrid vehicles.

## TECHNICAL ISSUES

The definition of "alternative fuel" contained in this proposal is not consistent with the definition contained in the Alternative Fuel Tax Act (Section 7-16B NMSA 1978), which provides preferential fuel excise tax rates for alternative fuel buyers.

- For the purpose of this proposal, alternative fuel means "*natural gas, liquefied petroleum gas, electricity, hydrogen, a fuel mixture containing not less than eighty-five percent ethanol or methanol, a fuel mixture containing not less than twenty percent vegetable oil or a water-based hydrocarbon fuel emulsion consisting of a hydrocarbon base and water in an amount not less than twenty percent by volume of the total water phased fuel..*"
- Pursuant to the Alternative Fuel Tax Act, alternative fuel means "*liquefied petroleum gas, compressed natural gas, liquefied natural gas, or a water-phased hydrocarbon fuel emulsion consisting of a hydrocarbon base and water in an amount not less than twenty percent by volume of the total water-phased fuel emulsion...*"

This discrepancy may cause some confusion for taxpayers, motor vehicle division personnel, and fuel tax administrators

## OTHER SUBSTANTIVE ISSUES

For the Highway and Transportation Department, the inevitable growth in the use of alternative fuel vehicles presents a significant challenge to funding highway transportation infrastructure needs. The current road fund tax structure, with its reliance on traditional fuel taxes, must be restructured in order to receive highway user fees from the new generation of alternative fuel vehicles, particularly gas-electric hybrids and fuel cell technology. Providing incentives for alternative vehicle technology while still maintaining highway infrastructure needs will increasingly pose a very difficult issue for state policymakers.

The Taxation and Revenue Department notes that a federal income tax deduction of \$2,000 is available for purchase of a gas-electric hybrid vehicle in 2003, although the deduction phases-down by \$500 per year over the following three years. The State of Colorado also provides significant state income tax credits for gas-electric hybrid vehicles.