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

**SPONSOR** Egolf | **ORIGINAL DATE** 03/04/13 | **LAST UPDATED** | **HB** 616

**SHORT TITLE** Alternative Fuel Vehicle Tax Credits | **SB**

**ANALYST** van Moorsel

## REVENUE (dollars in thousands)

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | | |
| | ($6,300.0) | ($7,910.0) | ($9,630.0) | ($11,400.0) | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

**SUMMARY**

Synopsis of Bill

House Bill 616 amends the Income Tax Act and the Corporate Income Tax Act to create two new nonrefundable and nontransferable credits – the alternative fuel vehicle tax credit and the alternative fueling station tax credit. The purpose of the tax credits created in the bill is to encourage mainstream transition to the use of alternative fuels in motor vehicles and reduce the use of gasoline or diesel fuel.

**Alternative Fuel Vehicle Tax Credit.** A taxpayer who purchases an alternative fuel vehicle or qualified conversion equipment between July 1, 2013 and June 30, 2016 may claim the alternative fuel vehicle tax credit in an amount up to exceed 50 percent of the cost basis of the alternative fuel vehicle or of the purchase price of the qualified conversion equipment.

The credit may be claimed in the taxable year in which the taxpayer purchases the vehicle equipment, and the credit must be claimed within one year following the end of the calendar year in which the taxpayer made the purchase. Credits in excess of tax liability may be carried forward three years.

The bill requires a taxpayer to apply to the Energy, Minerals and Natural Resources Department (EMNRD) with information including the vehicle identification number, serial number or other identification of the qualifying purchase, the purchase price and any additional information required to determine eligibility for the credit. EMNRD must adopt rules establishing procedures to certify a taxpayer for the purposes of obtaining the credit. EMNRD must keep detailed records of the credit, and TRD must periodically audit those records. TRD is required to compile an annual report that includes the number of taxpayers approved to receive the credit, and it may disclose the number of applicants for the credit, the amount of each credit approved, the number of vehicles purchased or converted, the annual aggregate amount of credits allowed and information to aid in evaluating the effectiveness of the alternative fuel vehicle tax credit to the Revenue Stabilization and Tax Policy Committee, which must review the effectiveness of the credit in 2015.

**Alternative Fueling Station Tax Credit.** A taxpayer who makes an investment in alternative fueling infrastructure between July 1, 2013 June 30, 2016 may claim an alternative fueling station tax credit. For a residential alternative fueling station, the credit may be claimed in an amount equal 50 percent of the cost to purchase and install the fueling station, not to exceed $2,500; and for a commercial alternative fueling station, the credit may be claimed in an amount equal to 75 percent of the cost to purchase and install the fueling station.

The credit may be claimed in the taxable year in which the taxpayer installs a residential alternative fueling station or commercial alternative fueling station, and the credit must be claimed within one year following the end of the calendar year in which the taxpayer made the installation. Credits in excess of tax liability may be carried forward three years.

The bill requires a taxpayer to apply to the Energy, Minerals and Natural Resources Department (EMNRD) with information including the serial number or other identification of the qualifying installation, the cost of installation and any additional information required to determine eligibility for the credit. EMNRD must adopt rules establishing procedures to certify a taxpayer for the purposes of obtaining the credit. EMNRD must keep detailed records of the credit, and TRD must periodically audit those records. TRD is required to compile an annual report that includes the number of taxpayers approved to receive the credit, and it may disclose the number of applicants for the credit, the amount of each credit approved, the number of fueling stations installed, the annual aggregate amount of credits allowed and information to aid in evaluating the effectiveness of the alternative fuel station tax credit to the Revenue Stabilization and Tax Policy Committee, which must review the effectiveness of the credit in 2015.

The effective date of this bill is July 1, 2013, and the provisions of the bill are applicable to taxable years beginning on or after January 1, 2013. The sunset date of this bill is June 30, 2016.

## FISCAL IMPLICATIONS

Information collected by TRD's Motor Vehicle Division (MVD) and estimated growth rates of motor vehicle excise tax in February 2012 General Fund Consensus Revenue Estimate were used in the fiscal impact. This estimate assumes that taxpayers are able to determine the cost basis. Analysis was performed recognizing that tax year claims will be paid across fiscal years. The average cost basis of alternative fuel vehicles was estimated to be $5,000 based on the average price differential from conventional vehicles. Thus, the 50 percent credit per alternative fuel vehicle was assumed to be $2,500. Information collected by MVD shows that, in FY12, about

1,720 alternative fuel vehicles excluding plug-in electric vehicles were registered in New Mexico. Because the $2,500 credit could attract consumers to buy more alternative fuel vehicles, and considering a small number of alternative fuel vehicles might be sold in New Mexico but registered in other states, TRD assumed 2,000 alternative fuel vehicles would be sold in New Mexico in FY13. Estimated growth rates of motor vehicle excise tax in the February 2012 General Fund Revenue Estimate were used to estimate the subsequent year fiscal impacts.

This bill defines that the entire purchase price of an alternative fuel vehicle propelled entirely by electricity (plug-in electric vehicles) is to be used as the “cost basis”. The average price of plug-in electric vehicles was assumed to be $32,000. Therefore, each qualified plug-in electric vehicles will be eligible for $16,000 credit. Estimated numbers of plug-in electricity vehicles in SFC/SB-264 were used in this analysis. The analysis also assumes that additional 25 Nissan Leaf and 25 Tesla Model S will be bought in New Mexico and sold to another state each year, such as California. The sales prices of Nissan Leaf and Tesla Model S were $35,430 and $57,400 respectively in 2011. These numbers were used to estimate the potential credit per vehicle. The average tax liability of $4,000 for Nissan Leaf purchaser and $5,000 for Tesla Model S purchasers per year were assumed in this estimate. Since, this credit is non-refundable, but can be carried forward for 3 consecutive years, fiscal impact numbers were adjusted accordingly.

TRD reports that, according to Alternative Fueling Station Counts by State, currently there are 112 alternative fuel stations in NM. About 77 percent are public stations and 23 percent are private stations. Growth rate of alternative fuel vehicles were used to estimate the numbers of new alternative fueling stations for the out years. $2,500 credit for residential alternative fueling station and estimated $7,500 for commercial alternative fueling station were used to estimate the fiscal impact.

HB 616 does not place a maximum annual cap on the tax credits created in the bill. Several tax credits in current law have shown large and unexpected increases in recent claims. A cap on the amount of credits that may be awarded annually could reduce their impact on the general fund and could contribute to a more predictable revenue picture.

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.

**SIGNIFICANT ISSUES**

The TRD cautions that there is a provision in the bill that may be subject to a large number of claims for a high-value credit. Specifically, page 5, lines 19-25, and page 15, lines 7-14, define the “cost basis” of an alternative fuel vehicle propelled entirely by electricity (plug-in electric vehicles) as the vehicle’s entire purchase price. The potential for a high credit could attract taxpayers to buy cars in New Mexico and then sell these cars to another state.

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.

**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 HB 616 would have a moderate impact on the department. TRD would need to update forms, instructions, publications and systems. The claim form will need to be developed at a one-time cost of $8,000. Additional FTE resources may be needed to audit, monitor and track the credits and to prepare the reports. TRD would need to coordinate with EMNRD concerning the rules, needed to implement the tax credit.

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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