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

		ORIGINAL DATE	01/20/14		
SPONSOR	Trujillo, J	**LAST UPDATED**	02/17/14	**HB**	136/aHTRC
SHORT TITLE	Electric Vehicle Income Tax Credit			**SB**	
				ANALYST	Dorbecker

REVENUE (dollars in thousands)

Appropriation					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
($2,000.0)	($2,000.0)	($2,000.0)	($2,000.0)	($2,000.0)	Recurring	General Fund (Section 1)
($1,000.0)	($1,000.0)	($1,000.0)	($1,000.0)	($1,000.0)	Recurring	General Fund (Section 2)
($300.0)	($320.0)	($330.0)	($360.0)	($400.0)	Recurring	General Fund (Section 3)
($3,300.0)	($3,320.0)	($3,330.0)	($3,360.0)	($3,400.0)	Recurring	Total

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	**FY15**	**FY16**	**3 Year Total Cost**	**Recurring or Nonrecurring**	**Fund Affected**
Total	$6.0	$12.5	$12.5	$31.0	Recurring	Taxation and Revenue Department

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment adds language to require and additional annual registration fee of $30 dollars for the purchase or lease of a new plug-in electric vehicle. The amendment requires the proceeds of the additional registration fee to be distributed to the state road fund pursuant to Subsection B of Section 66-6-6.1 NMSA 1978.

Synopsis of Original Bill

House Bill 136 creates a new section of the Income Tax Act for the electric vehicle income tax credit, the electric vehicle charging unit income tax credit, and the electric vehicle charging unit corporate income tax credit.

A qualifying taxpayer will be eligible for a credit against the taxpayer's income tax liability in the amount of two thousand five hundred dollars ($2,500). A taxpayer may claim the tax credit for each taxable year in which the taxpayer purchases or leases a qualified electric vehicle with a maximum annual aggregate tax credit claim of two million dollars ($2,000,000).
HB 136 also creates the electric vehicle charging unit income tax credit for a qualifying taxpayer that purchases and installs an electric vehicle charging unit. The electric vehicle charging unit income tax credit will not exceed three thousand dollars ($3,000) or thirty percent of the cost to purchase and install an electric vehicle charging unit, whichever is less. If the charging station powered primarily by solar power, the income tax credit will not exceed five thousand dollars ($5,000) or thirty percent of the cost of purchase and installation, whichever is less. Furthermore, TRD may allow a maximum annual aggregate of one million dollars ($1,000,000) in electric vehicle charging unit income tax credits and electric vehicle charging unit corporate income tax credits.

The bill creates the electric vehicle charging unit corporate income tax credit for a qualifying taxpayer that files a New Mexico corporate income tax return and purchases and installs an electric vehicle charging unit. The credit will not exceed three thousand dollars ($3,000) or thirty percent of the cost to purchase and install an electric vehicle charging unit, whichever is less. TRD caps the maximum annual aggregate of one million dollars ($1,000,000) for this tax credit.

The bill requires taxpayers applying for the electric vehicle income tax credit, the electric vehicle charging unit income tax credit, and the electric vehicle charging unit corporate income tax credit to provide information to TRD including a receipt of lease or purchase of the vehicle, a receipt of purchase of a charging station, copy of data sheet specifying connector type, plug type, voltage, and current of the purchased electric vehicle charging unit, and a final and approved electrical inspection document issued by the construction industries division of the regulation and licensing department or other state-authorized construction-permitting governmental entity.

The bill includes reporting requirements. TRD is required to periodically audit records of the electric vehicle income tax credit, the electric vehicle charging unit income tax credit, and the electric vehicle charging unit corporate income tax credit, to ensure the credit's effective administration. TRD must also compile an annual report that includes the number of taxpayers approved to receive the tax credit and the aggregate amount of tax credit approved. The bill requires the appropriate legislative committee to review the effectiveness of the state graduate employment tax credit every five years, beginning in 2018.

The bill provides that the tax credit would be applicable to taxable years beginning on or after January 1, 2014. The bill provides for a sunset date of January 1, 2020.

FISCAL IMPLICATIONS

Based on the definitions of electric vehicles provided by the bill in section I, TRD interprets that it includes; hybrid electric vehicles, electric vehicles, and gas and electric vehicles. According to Motor Vehicle Division records, there were approximately 7,164 registered vehicles that met the requirement and the definitions of electric vehicle provided by the bill during fiscal year 2013.

TRD assumes a potential growth of 10 percent annually through fiscal year 2018. With the provisions of the bill, a total of 800 leased and purchased vehicles are required to maximize the credits available for leased and purchased vehicles. Given the available data, TRD estimates that there will be at least 800 vehicles that can qualify in any given year since that there were over 7,000 vehicles that would qualify for the credit in fiscal year 2013.

TRD cites that According to the Department of Energy's Alternative Fuels Data Center there are approximately 15 electric charging stations in New Mexico available to the public. TRD assumes there will be a growth rate of at least 10 percent in the number of charging stations annually due to increased awareness, and federal and state tax incentives. TRD also assumes that at least half of these charging stations are solar powered and half are electric. TRD also assumes that at least 10 percent of those who own hybrid-powered vehicles or electric vehicles have a higher probability of acquiring a residential charging station. For this analysis, TRD has estimated an average of 750 residential charging stations, 17 business electric powered stations, and at least 8 business solar powered stations. Given these assumptions, this credit will reach the cap in any given year.

Finally, TRD does not have enough data to accurately estimate the fiscal impact of the bill's electric vehicle charging unit corporate income tax credit. However, it is expected that at least 100 companies will take the credit and install a charging unit. Under this scenario, the credits would be between $300,000 and $1 million. TRD estimates a slow growth in the adoption of the technology for the following reasons:

- Lack of consumer education is a significant barrier to the adoption of the technology since people have little understanding of electric vehicles; and
- Introducing a new technology into a very competitive and established automotive market is a herculean effort.

TRD is quoted as saying "Even with this credit, the consumer incurs the initial expense before realizing the benefit which is often the tax year after the purchase or the leasing period. Considering the average household income in New Mexico, most families cannot afford to make such a big investment while they have other basic needs to meet."

Given the current average cost of new units for personal use, an electric vehicle is considered a luxury by most households contributing to the slow growth of electric vehicle purchases.

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.

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 a moderate impact and that forms and procedures would need to be developed. For ease of administration, TRD would want to include an application process for these credits prior to allowing the taxpayer to claim the credits.

Pre-approval of the credit will eliminate delays in processing refunds which could cost TRD interest on late refunds. Manual review of the application will be needed, requiring a ¼ of an FTE at a recurring cost of $12,500.

TRD employees and taxpayers would need to be provided technical training on what a qualified electric vehicle and electric vehicle charging unit is. Regulations will need to be drafted for the rules and procedures.
Two applications and two claim forms will need to be developed. The forms, instructions and modifications to the income tax forms and publications can be performed with existing resources as part of the annual revision of the tax forms and publications.

TECHNICAL ISSUES

TRD notes on page 2, paragraph D, the bill limits the vehicle credit to $2,000,000 per fiscal year but page 6 and 10, paragraph D, indicates "per year". The bill does not clarify whether it is calendar or fiscal year.

Also, the agency indicates page 6, line 15 describes "Section 3 of this 2014 act" which could be described more clearly by referring to the "Electric Vehicle Charging Unit Corporate Income Tax Credit". Once the act is codified, it won't be easy for the reader to find the reference without going to the actual bill.

OTHER SUBSTANTIVE ISSUES

The definition of an electric vehicle as a vehicle that 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 an external source of electricity opens a window for hybrid electric vehicles, electric vehicles, and gas and electric vehicles to qualify for the credits and the considerations makes it easy to maximize the credits since

TRD notes the definition of "qualified electric vehicle" does not give a clear distinction between hybrid vehicles, and gas and electric from electric vehicles which are propelled wholly by rechargeable batteries.

Another substantial issue deals with leasing, whereby one can lease an electric car every tax year and thereby qualify for the credit every year, a potential loophole that leads to the flooding (maximizing) the credit every tax year.

TRD also notes releasing information from taxpayer returns to parties not specifically authorized in Section 7-1-8 NMSA 1978 may be considered to be a violation of the Taxpayer's Bill of Rights. Per Section 7-1-4.2 NMSA 1978 the New Mexico Taxpayer Bill of Rights includes: "the right to have the taxpayer's tax information kept confidential unless otherwise specified by law, in accordance with Section 7-1-8 NMSA 1978."

TRD is quoted by saying "The maximum annual aggregate credits allowed may present issues for taxpayers who have made the investment and are not allowed the credit because no more credits are available for the year." It is important to note the bill is not limited to New Mexico residents and businesses but requires the electric vehicle charging unit have a final approved electrical inspection document issued by the Construction Industries Division or other state-authorized construction permitting governmental entity. It is unknown how this would work if the charging unit is not located in New Mexico.

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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