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

SPONSOR Akhil/Ely/Small/ Sariñana **ORIGINAL DATE** 2/25/19 **LAST UPDATED** 3/09/19 **HB** 612/aHTRC

SHORT TITLE Motor Vehicle Tax For Electric Cars **SB**

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
		($2,500.0)	($2,500.0)	($2,500.0)	Recurring	General Fund
		($100.0)	($100.0)	($100.0)	Recurring	State Road Fund

Parenthesis ( ) indicate revenue decreases

The estimates above include a rough estimate of extending the MVEX exemption to the more traditional hybrid-electric vehicles having a battery capacity of less than 4 kilowatt-hours that are not capable of being recharged from an external source of electricity.

SOURCES OF INFORMATION
LFC Files

Responses Received on Original Bill From
Department of Transportation (NMDOT)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC amendment

The House Taxation and Revenue Committee Amendment to House Bill 612 expands the new vehicle motor vehicle excise tax exemption to conventional hybrid electric vehicles and delays the effective date to July 1, 2020.

Synopsis of Original Bill

House Bill 612 reinstates an exemption that was in effect from July 1, 2004, through June 30, 2009. This bill provides a **one-time** exemption from the motor vehicle excise tax (MVET) for the initial titling of new electric vehicles, plug-in hybrid vehicles, and hybrid-electric vehicles that

have a battery capacity of not less than 4 kilowatt-hours and are capable of being recharged from an external source of electricity. ~~This excludes conventional hybrid vehicles with a battery capacity of less than 4 KwH.~~ [LFC note: HTRC amendment expanded the exemption to include conventional hybrid-electric vehicles.]

The effective date of this bill is July 1, ~~2019~~. [LFC note: HTRC amendment delayed the effective date until July 1, 2020 to allow TRD sufficient time to implement the program.] There is no delayed repeal date of this bill, but the exemption expires July 1, 2024. ~~TRD suggests that a July 1, 2019 effective date will be difficult, if not impossible, to meet. TRD suggests an October 1, 2019 effective date to allow TRD time to modify the Motor Vehicle computer system.~~

FISCAL IMPLICATIONS

The HTRC amendment added conventional hybrid vehicles to the MVEX exemption. From a graphic published by EVAdoption.com, nationwide, the 2018 ratio between battery electric vehicles (BEVs) plus plug-in hybrids (PHEVs) and conventional hybrid electric vehicles (HEVs) was about 60/40. However, this statistic is heavily weighted toward California where the adoption of conventional plus BEVs and PHEVs in 2014 was 20 vehicles per 1,000 population. New Mexico in the same year showed about 9.6 vehicles per 1,000 population. Currently, sales of new BEVs and PHEVs in New Mexico are around 400 per year, while it is expected that conventional hybrids will be 1,000 to 1,200. According to the notes below, BEVs and PHEVs will be cost-equivalent to standard vehicles by 2025. For the purpose of this estimate, then, the fiscal impact previously estimated will be increased by a factor of three. TRD expects prices to fall over the next few years, while DOT expects vehicle sales to increase. Overall, these two effects about cancel within the estimating window.

Both TRD and DOT have estimated the fiscal impact of this bill. The impacts differ. For the purposes of this FIR, the DOT estimate has been reported in the table on page 1, because the analysis seems to be more thorough. However, the TRD estimate should not be discounted since it forecasts a larger general fund impact.

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
	($90.0)	($90.0)	($80.0)	($70.0)	Recurring	State Road Fund
	($2,130.0)	($2,040.0)	($1,860.0)	($1,590.0)	Recurring	General Fund

TRD discusses its methodology as follows:

> The Taxation and Revenue Department (TRD) began with forecasts for total population of plug-in hybrids and battery-electric vehicles from the Department of Transportation. From this was derived the number of new sales of each, since the exemption only applies to new vehicles. It is forecast by several sources that these vehicles will be cost equivalent with standard vehicles by 2025, so the decreasing cost of battery-electric vehicles was factored in, assuming a typical cost increase rate of 'regular' vehicles of 2.6%. From this, a base for the revenue was estimated and the 3% motor vehicle excise tax applied, as well as the percentages of the two funds which receive distributions from

this revenue. ~~The exemption expires in FY2025, so it is considered non-recurring~~. [LFC note: for budgetary purposes, this would be considered a recurring general fund revenue decrease.]

DOT has included a more substantial discussion of methodology. This discussion results in a smaller estimate of the general fund and road fund fiscal impacts.

HB 612 decreases Motor Vehicle Excise Tax (MVET) revenues by $870 thousand to about $1.1 million in FY 2020 and by $1.0 million to about $1.25 million in FY 2023. The range of values reflect the fact that some vehicle purchases under current law will involve an unpredictable trade-in deduction that would result in a lower tax payment. An estimated trade-in deduction of up to 20% of price is used in the range of the fiscal impact.

Based on the definition used in the bill for electric vehicles, hybrid-electric vehicles, and plug-in hybrid electric vehicles, the more conventional hybrid gas-electric vehicles were excluded from the analysis. This is primarily due to a condition in the bill that the vehicle "*has a battery pack that holds at least four kilowatt-hours*" which was found to be inconsistent with the specifications of more conventional hybrid vehicles currently on roads.

The tables below report the number of battery electric vehicles (BEV) and plug-in hybrid electric vehicle (PHEV) sales in New Mexico, estimates for the following fiscal years, and the indexed average prices for these vehicles.

Number of Vehicle Sales

FISCAL YEAR	PHEV[1]	BEV[1]
2018	257	202
2019	343	236
2020	315	392
2021	330	393
2022	359	405
2023	367	433

Average Price of PHEV and BEV Vehicles

FISCAL YEAR	Average Price(PHEV)[2]	Average Price(BEV)[2]
2018	$ 39,148	$ 58,046
2019	$ 39,748	$ 58,936
2020	$ 40,428	$ 59,944
2021	$ 40,947	$ 60,713
2022	$ 41,260	$ 61,179
2023	$ 41,408	$ 61,398

PHEV → Plug-in Hybrid Vehicle is a vehicle that takes its power from both an electric motor and an internal combustion engine, and uses the electric motor as the main power source.
BEV → Electric Vehicle is a vehicle that runs solely on a battery powered motor, which is plugged into the electric grid.

1. Values are sales of new vehicles. Data source for FY 18 is https://autoalliance.org/energy-environment/advanced-technology-vehicle-sales-dashboard/. Vehicles in following fiscal years are estimated using projected growth rates provided by the **Annual Energy Outlook 2018** (on EIA.gov) on vehicle sales for PHEV, and BEV, under the '**Low Oil Price' scenario**.
The 'Low Oil Price' scenario assumes low oil prices result from a combination of lower demand for petroleum and other liquids in the non-OECD nations and higher global supply. The vehicles considered for calculating the growth rates for plug-in hybrid vehicles included PHEV-10 and PHEV-40 vehicles. The vehicles considered for calculating the growth rates for electric vehicles included EV-100 and EV-200 vehicles.
2. Data on the average of the manufacturer's suggested retail prices (MSRP) for PHEV and BEV vehicle models used in calculating the annual sales were obtained from https://evadoption.com/ev-models/ and https://insideevs.com/monthly-plug-in-ev-sales-scorecard-historical-charts/. The average prices are weighted averages of all available MSRP for BEV and PHEV vehicle models sold in the U.S. respectively which used data on vehicle model MSRP and the number of vehicle model sales for 2018. The 2018 weighted-average prices were further adjusted by the Chained Price Index for Consumer New Autos published by IHS Markit Global Insights.

Note: pursuant to Laws 2018, Ch. 3, § 1 Section 7-14-10 NMSSA 1978 requires a distribution of 4.15 percent of the proceeds of the motor vehicle excise tax to the state road fund. This percentage has been applied in both the TRD and DOT analyses.

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.

SIGNIFICANT ISSUES

TRD notes the following, "…the bill functions as in incentive on the purchase of new plugin hybrids and battery electric vehicles. Traditionally such incentives have been popular because of such vehicles' perceived lack of social externalized costs (fewer pollutants and reduced dependence on oil). This bill satisfies the principle of adequacy and equity as it applies to a specific technology to enhance the societal environment and has a sunset. Deductions however narrow the tax base requiring a higher rate of taxation to generate the same amount of revenue. This may lead to reductions in government services, an increase in taxes in other areas, or both.

It should be noted from both the TRD and the DOT analyses, and particularly from the initial price table in the DOT analysis that PHEV and BEV vehicles should be considered luxury purchases. One principle of tax policy that is not usually discussed is vertical equity. This is the principle that taxes should be based to some extent on the ability to pay the taxes. Thus, progressive tax systems impose a smaller percentage tax burden on lower and middle-income taxpayers than on higher-income taxpayers. Because New Mexico relies heavily for total revenues on the essentially regressive gross receipts tax, we should be particularly aware and,

perhaps, critical of proposals that increase the regressivity of the overall tax structure. Balancing this somewhat theoretical principle is the comment in the TRD review that indicates that increasing the number of PHEVs and BEVs in the state has society-wide positive benefits, in reducing greenhouse gasses and reliance on fossil fuels.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill 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. The bill does not explicitly describe the goals of the exemption, so that TRD could only report the numbers of vehicles that would take advantage of the exemption provided by the provisions of the bill.

ADMINISTRATIVE IMPLICATIONS

~~TRD notes the following administrative consequences of the provisions of this bill. The note about effective date has been noted above in the description of the bill's provisions:~~

This bill will have a moderate impact on TRD, resulting in additional soft costs~~. The effective date of July 1, 2019 is not feasible. A recommended effective date is October 1, 2019.~~

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB6 may provide for a personal income tax credit for the purchase of a new PHEV or BEV and an increase in motor vehicle registration fees for PHEVs and BEVs.
HB-185 also provides for a personal income tax credit for the purchase of a new PHEV or BEV and an increase in motor vehicle registration fees for PHEVs and BEVs.
HB-612 (this bill) provides for an exemption from the motor vehicle excise tax for new PHEVs or BEVs, but no corresponding increase in registration fees.

TECHNICAL ISSUES

TRD notes that the definition for battery-electric vehicles in section 2-H would exclude the most common type of non-plugin hybrid vehicles because of the high kilowatt-hour requirement in section 2-H(2).

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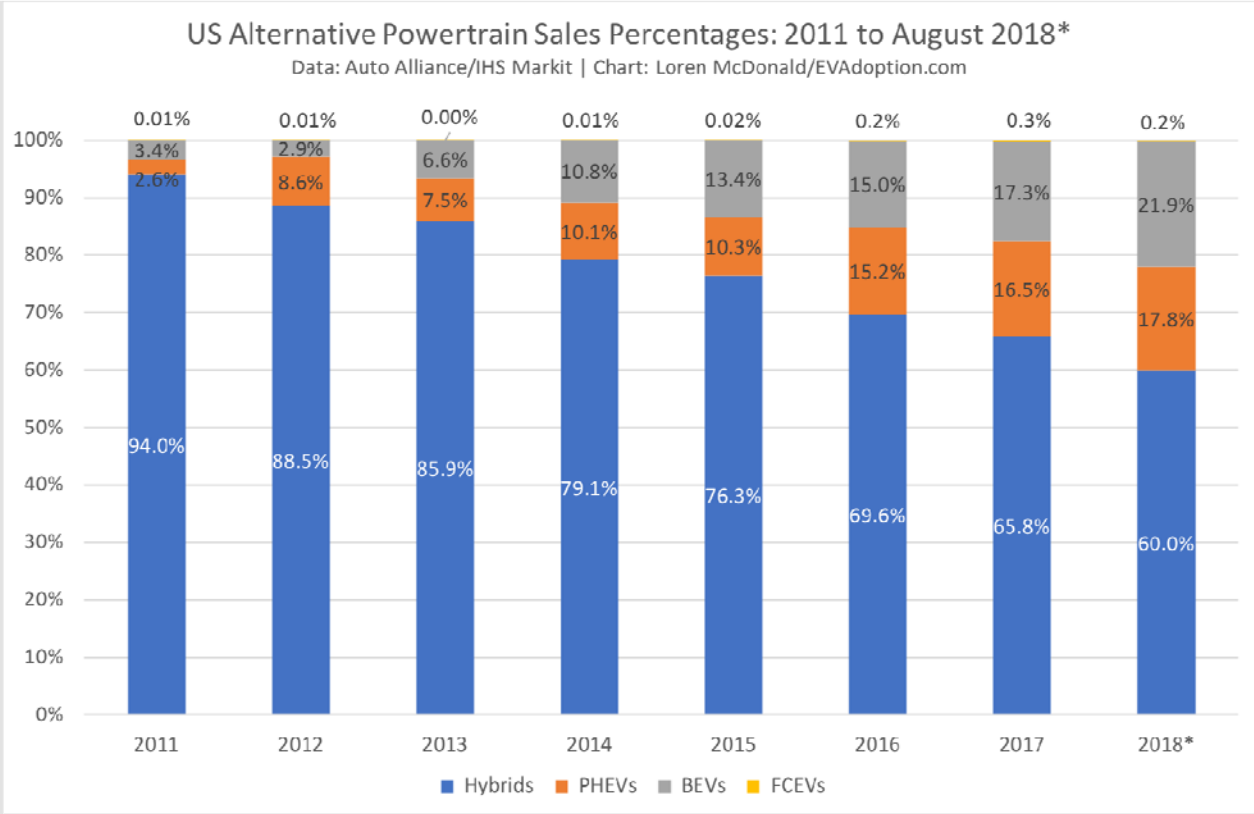
US Alternative Powertrain Sales Percentages: 2011 to August 2018*
Data: Auto Alliance/IHS Markit | Chart: Loren McDonald/EVAdoption.com
0.01%
0.01%
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0.01%
0.02%
0.2%
0.3%
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3.4%
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15.2%
17.3%
16.5%
21.9%
17.8%
94.0%
88.5%
85.9%
79.1%
76.3%
69.6%
65.8%
60.0%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
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2011
2012
2013
2014
2015
2016
2017
2018*
Hybrids
PHEVs
BEVs
FCEVs