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

		ORIGINAL DATE	02/09/10		
SPONSOR	Lujan, B.	**LAST UPDATED**	02/10/10	**HB**	282/aHBIC
SHORT TITLE	Natural Gas Vehicles Tax Credits			**SB**	
				ANALYST	Clifford

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	**FY11**	**FY12**		
	($3,000.0)	($3,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

To qualify for the gasoline station equipment credit equipment would have to be installed on or before January 1, 2017 rather than December 31, 2016.

Synopsis of Original Bill

House Bill 282 would create two new tax credits – each of which could be applied against either corporate or individual income tax liability. One credit would go to the owner of a vehicle who converts a motor vehicle from using gasoline to using natural gas and would equal 70 percent of the cost of vehicle conversion. The second would go to owners of a retail gasoline station who install equipment for dispensing natural gas into motor vehicles. The credit would equal 50 percent of the cost of purchasing and installing pumps or other devices to dispense natural gas. Both credits would be capped at a maximum of $2 million annually. Both of the credits could be claimed for taxable years beginning on or after January 1, 2010 and before January 1, 2017.

FISCAL IMPLICATIONS

Fiscal impacts are uncertain. Although the number of natural gas-fueled vehicles in the state is currently less than 2,000, the incentive created by the bill, when combined with the federal tax credit of up to $4,000 per vehicle, creates a strong incentive for vehicle owners to convert their vehicles and could increase the number of such vehicles significantly in the future.

TRD:

Due to significant uncertainty regarding the number of vehicle conversions, pump installations, and the associated costs, there is a high degree of uncertainty regarding the revenue impact (see Estimated Revenue Impact – Detailed Discussion below). However, the aggregate credit limits ensure that the revenue impact will not exceed $4 million annually.

Although the proposed tax credit (in conjunction with currently available federal tax credits) will help create an incentive for installing fueling stations, a large demand for natural gas will be required for such installations to be profitable. A lack of natural gas fueling stations (New Mexico currently has eight)[1] creates a disincentive for the conversion of vehicles to natural gas. In contrast, several factors create an incentive for such conversions. A federal tax credit of up to 80% of the conversion cost is currently available for converting vehicles to natural gas. In addition, the per-gallon cost of natural gas is currently approximately 50 cents lower than that of gasoline. The proposed credit would further increase the incentive for vehicle conversions.

It is assumed that the average cost of conversion is $11,000. (According to EMNRD, the conversion cost varies with vehicle size, as follows: small passenger vehicles cost approximately $8,000, mid-sized passenger vehicles vary from $10,000 to $12,000, pickups vary from $15,000 to $17,000, and buses and large trucks vary from $40,000 to $50,000.) The 70% credit associated with the $11,000 average conversion cost is therefore $7,700.

The vehicle conversion credit is non-refundable and, if claimed against PIT may not be carried forward. If claimed against CIT any unused portion of the credit may be carried forward for up to three years. Each year one percent of the nearly 18,000 personal income taxpayers who have sufficient tax liability to make use of the full credit are assumed to convert a vehicle to natural gas. An additional one percent of the approximately 95,000 personal income taxpayers who have sufficient liability to make use of 40% of the credit are also assumed to convert a vehicle to natural gas. In addition, a fleet of 25 corporate-owned vehicles is assumed to be converted. The credits associated with these vehicle conversions total more than $4 million annually. It is therefore assumed that the annual aggregate credit cap of $2 million for motor vehicle conversions is reached each year.

The retail fuel station credit is also non-refundable, but any unused portion of the credit may be carried forward for up to three years regardless of whether claimed against PIT or CIT. The cost of installing a fueling station can vary from $10,000 to several million.[2] It is therefore assumed that the 50% credit proposed in this bill results in $1 million in annual credit claims for fueling station purchase and installation costs.

[1] http://www.afdc.energy.gov/afdc/fuels/stations_counts.html
[2] http://www.informinc.org/FS_ST_NYC_Refuse.pdf

TECHNICAL ISSUES

TRD:

If the maximum aggregate credit limit has been reached, taxpayers expecting the credit may be denied by TRD. The term “natural gas” is not defined. The bill should stipulate that a husband and wife who file separate returns in a year in which they could have filed a joint return may each claim one-half the credit that would have been allowed on a joint return. The bill states that credits will be approved in the order received. Because some taxpayers do not submit all the necessary information to approve or deny credit claims, the department must request additional data. Such requests will delay the processing of requests submitted with all the necessary information. There is no stipulation that the combined state and federal tax credits cannot exceed the cost of vehicle conversion or pump purchase and installation costs.

TC/mt:svb:mew