LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS

Bill Number: SB 264 **51st Legislature, 1st Session, 2013**

Tracking Number: .191697.1

Short Title: Plug-In Electric Vehicle Tax Exemption

Sponsor(s): Senator Phil A. Griego

Analyst: Ian Kleats **Date: February 26, 2013**

Bill Summary:

Effective July 1, 2013, SB 264 amends sections of the *Gross Receipts and Compensating Tax Act*, the *Alternative Energy Product Manufacturers Tax Credit Act*, and the *Motor Vehicle Excise Tax Act* to:

- define "qualified plug-in electric vehicle" under those acts; and
- provide an exemption from motor vehicle excise tax for those vehicles.

Among its other provisions, SB 264:

- amends the definition of "modified combined tax liability" under the *Alternative Energy Product Manufacturers Tax Credit Act* to exclude certain liabilities; and
- provides a gross receipts and compensating tax exemption for qualified plug-in electric vehicles, which allows taxpayers to take full advantage of the motor vehicle excise tax exemption.

Fiscal Impact:

SB 264 does not contain an appropriation. The estimated revenue impact is illustrated in the table below, adapted from the analysis by the Taxation and Revenue Department (TRD).

Estimated Revenue Impact*				R or NR**	Fund(s) Affected
FY 13	FY 14	FY 15	FY 16		
0	(399)	(416)	(436)	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss.
** Recurring (R) or Non-Recurring (NR).

The TRD estimate uses a similar methodology as the Department of Finance and Administration (DFA). However, the TRD estimate assumes a smaller average qualified electric plug-in price ($32,000 compared to DFA's $35,000), but the TRD estimate also assumes that the strength of the economy will lead to higher-than-trend growth in qualified car sales.

Legislative Education Study Committee staff defer to the TRD estimate because it is consistent with recent growth in consumer durable demand and reflects the strength of the recovering economy.

<u>Fiscal Issues</u>:

The estimated fiscal impact of SB 264 could reduce General Fund revenue by approximately $400,000 in FY 14 through FY 18.

Based on *General Appropriation Act* appropriations for the last five years, the Legislature has appropriated approximately 43.5 percent of General Fund revenue for public education. The reduction of revenue from the General Fund as proposed in this bill could result in decreased annual appropriations of $174,000 for public education.

<u>Substantive Issues</u>:

Several factors already provide incentives for the purchase of qualified plug-in electric vehicles rather than vehicles powered by conventional means, namely:

- qualified plug-in electric vehicles typically afford cost-savings from increased fuel efficiency;
- according to the DFA analysis, 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; and
- although intangible, some consumers might receive satisfaction from decreasing their environmental impact.

Based on those factors, it is unclear how much additional incentive is afforded by the tax credit; that is, it is possible that a significant number of consumers would continue to buy the qualified plug-in electric vehicles even in the absence of the tax exemption proposed in SB 264.

The social benefit of any tax expenditure should be judged relative to multiplier effects from the likely use of the foregone government revenue. General Fund appropriations comprise many diverse uses, with the largest proportion going to fund public education. Without strong evidence to the contrary, an assertion that this tax exemption, and any environmental impact it might have, has a social benefit larger than that associated with public education or any other governmental program might be considered speculative.

Moreover, New Mexico's State Equalization Guarantee education funding formula implies that over 40 percent of government revenue would be spread equitably across the state, impacting small rural communities in a proportionate level to larger urban communities. It is unclear whether this tax exemption could ensure the same equitable impact to all communities that public school funding would provide, even absent any discussion of the relative social benefit of the tax policy.

<u>Technical Issues:</u>

On Page 5, lines 9-12, SB 264 deletes parts of the *Alternative Energy Product Manufacturers Tax Credit Act*, which allows that tax credit to be applied against liabilities stemming from the interstate telecommunications gross receipts tax, the telecommunications relay service surcharge, and the E911 surcharge[1]. Although it is unlikely that taxpayers qualifying for the tax credit

[1] Those taxes and surcharges are currently paid through the Combined Reporting System, the integrated system maintained by TRD to administer modified combined tax liability.

would be able to apply it against those specific liabilities, current law allows them to do so. As such, this is a substantial change to current law that is not reflected in the title of the bill.

Background:

A previous motor vehicle excise tax exemption for gasoline-electric hybrid vehicles expired on June 30, 2009. Prior legislative attempts to extend the sunset date of that provision have been unsuccessful.

Committee Referrals:

SCORC/SFC

Related Bills:

None as of February 26, 2013.