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

SPONSOR Trujillo, J **ORIGINAL DATE** 1/18/19 **LAST UPDATED** 3/16/19 **HB** 185

SHORT TITLE Electric Motor Vehicles Fees & Tax Credits **SB**

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
0	(1,241.0) to (5,000.0)	(1,297.0) to (5,000.0)	(1,354.0) to (5,000.0)	(1,410.0) to (5,000.0)	Recurring	General Fund (PIT)
0	(186.0) to (500.0)	(210.0)	(234.0) to (500.0)	(261.0) to (500.0)	Recurring	General Fund (PIT)
0	51.0	64.0	77.0	89.0	Recurring	State Road Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		12.5	12.5	25.0	Recurring	MVD operating

Parenthesis ( ) indicate expenditure decreases

Note: this administrative impact was indicated in TRD's review of 2014's HB-136. This table will be updated when TRD provides an analysis of this bill.

Previous introductions:
2014 HB-136
2015 SB-09
2015 HB-40

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of Bill

House Bill 185 proposes a pair of personal income tax credits to incentivize the purchase or lease plug-in hybrid and 100 percemt electric vehicles. The electric vehicle income tax credit is $2,000 for most vehicle purchases, but is increased to $3,500 for:

- Single taxpayers with adjusted gross income of $50,000 or less;
- Married filing separately with adjusted gross income $50,000 or less; and
- Married filing jointly or heads of household with adjusted gross income of $75,000 or less.

Taxpayers may claim a credit in each year in which the taxpayer purchases an electric or plug-in hybrid vehicle. The maximum aggregate amount of personal income tax credits that will be paid in any year is $5,000,000. If any claim is denied because of the cap, that claim becomes the first paid in the following year. The credit is refundable.

The second credit is an electric vehicle charging unit income tax credit. This credit is a maximum of $300 or the actual cost of purchasing and installing an electric vehicle charging unit. The aggregate annual credits to be paid are limited to $500,000 and will be paid in the order received by the Department. There is no rollover feature; claims will be paid by TRD on a first-come, first-paid basis.

The bill also imposes an additional annual registration fee of $25 dollars for an electric vehicle and $15 for a plug-in electric vehicle. The proceeds of this additional registration fee will be distributed to the state road fund. This fee is imposed whether the vehicle owner is allowed an electric vehicle income tax credit or not.

The effective date of the additional registration fee is January 1, 2020. The applicable date of the income tax credit is for income tax years beginning on or after January 1, 2020. The purchasers of any electric vehicle or plug-in hybrid vehicle registered in the state after that date will be able to claim the credits on a 2019 income tax return filed by April 15, 2020. The income tax credit portion of the bill does not carry a delayed repeal, but vehicle purchases must be consummated by January 1, 2027

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

In its analysis of 2014 HB-136, TRD interpreted the provisions of that bill to include 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. This bill, however, redefines eligible vehicles to exclude gas and electric hybrids, in favor of a clear definition of plug-in hybrid. This reduces the number of new vehicles to about 500 per year and a current inventory of about 1,700 vehicles, about equally divided between 100% electric vehicles and plug-in hybrids. Whether this bill satisfactorily excludes conventional gasoline electric hybrid vehicles or not is critical to the analysis.

With the advent of >150 mile range vehicles, with price after federal credit of under $48,000, including the new Nissan Leaf, the Tesla Model 3 and the Chevrolet Bolt, plug-in electric cars may become more popular. However, gasoline prices will continue around $2.00 per gallon for

some time. This will put a damper on growth of plug-in electric vehicles. In addition, 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.

For the purposes of this estimate, we assume that the inventory of vehicles will grow at a 5 percent annual rate.

	FY19	FY20	FY21	FY22	FY23
Total Eligible Vehicles inventory	1,500	2,030	2,590	3,180	3,800
New Vehicles	420	440	460	480	500
Pre-owned vehicles	110	120	130	140	150
Plug-in hybrids	1,015	1,295	1,590	1,900	2,225
100% Electric	1,015	1,295	1,590	1,900	2,225
New Small Scale Charging Stations	0	620	700	780	870
$2,500 tax credits	0	$748.0	$782.0	$816.0	$850.0
$3,500 tax credits	0	$492.8	$515.2	$537.6	$560.0
$300 charging station credits	0	$186.0	$210.0	$234.0	$261.0
$15 annual registration fee	0	$19.0	$24.0	$29.0	$33.0

	FY19	FY20	FY21	FY22	FY23		
EV Tax Credits	0	(1,241.0)	(1,297.0)	(1,354.0)	(1,410.0)	R	General Fund (PIT)
Charging Station Tax Credits	0	(186.0)	(210.0)	(234.0)	(261.0)	R	General Fund (PIT)
Additional Registration Fees	0	51.0	64.0	77.0	89.0	R	State Road Fund

$25 annual registration fee	0	$32.0	$40.0	$48.0	$56.0

The EV tax credits are limited to $5,000,000 per fiscal year, while the charging station tax credits are limited to $500,000 per fiscal year. The model estimate is shown as the lower impact in the table, while the statutory limit is shown as the higher impact amount.

SIGNIFICANT ISSUES

A "qualified electric vehicle" has a number of restrictions and requirements. The vehicle must:

- be new;
- have a purchase price of less than $48,000;
- have an unloaded base weight of not less than 2,200 pounds and not more than 8,500 pounds;
- not be homemade or significantly modified from a stock manufactured vehicle;
- have a maximum speed in excess of 65 mph;
- have a battery capacity of not less than four kilowatt hours; and
- have a battery capable of being recharged from an external source of electricity.

This definition ensures that electric motorcycles will not be eligible for the credit. It is not clear, however, that this definition will disqualify conventional gasoline electric hybrid vehicles from the credit. The difficulty may be with the phrase "… capable of being recharged from an external source of electricity. This is a qualification on the battery, not on the vehicle.

TRD previously noted that "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.

The bill requires taxpayers applying for the electric vehicle income tax credit and the electric vehicle charging unit income tax credit to provide information to TRD which may include a receipt of lease or purchase of the vehicle, a receipt of purchase of a charging station and a copy of data sheet specifying connector type, plug type, voltage, and current of the purchased electric vehicle charging unit.

The bill includes reporting requirements. TRD must compile a report that includes the number of taxpayers approved to receive the tax credits and the aggregate amount of tax credits approved and an analysis of the effectiveness and cost of the tax credit and of whether the tax credit is performing the purpose for which it was created.

TRD has previously noted that the $15 or $25 additional registration fees may be simply a nuisance, costing more to collect than it benefits the road fund. The purpose of the fee may be to address the loss of gasoline tax revenues to the road fund created by vehicles that use minimal amounts of gasoline.

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 has previously reported a moderate impact and that forms and procedures would need to be developed. For ease of administration, TRD requires an application process for these credits prior to allowing the taxpayer to claim the credits. This application could be administered by MVD at the time the vehicle was initially titled and registered. While this provision is not explicit in the provisions of the bill, the bill does provide sufficient latitude and flexibility so that TRD can administer the credit in the most efficient manner.

In its review of the 2014 HB-236, TRD noted that pre-approval of the credit would eliminate delays in processing refunds which could cost TRD interest on late refunds. Manual review of the application would be needed, requiring a ¼ of an FTE at a recurring cost of $12,500. However, if the application is processed by MVD at the time of registration, this cost would be assumed within the MVD operating budget. On the other hand, the EV charging station credit would cause delays in processing PIT refunds.

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.

An application and claim form 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

A plain reading of the bill indicates that once the $500,000 charging station cap is exceeded, taxpayers not awarded a tax credit simply lose the credit, since there is no provision in the bill for rolling the credit to the next year with higher priority. The EV tax credits, however, include this rollover provision.

Section 1, paragraph L may have a problem: subparagraph (1) defines a plug-in hybrid vehicle as having a battery pack that holds at least six kilowatt-hours and is capable of operation without the use of the internal combustion engine for an all-electric range of at least fifteen miles. Section (2) defines a "qualified electric vehicle" as a new motor vehicle or a plug-in hybrid vehicle with a battery capacity of at least four kilowatt-hours capable of being recharged from an external source of electricity. TRD's analysis of the (2) provisions would allow conventional gasoline electric hybrids to qualify for this credit. See discussion below under "Significant Features" and "Other Substantive Issues." This confusion should be clarified.

LFC staff note this bill might raise constitutional questions because of phrasing in the anti-donation clause of the New Mexico Constitution. Staff provided a memo to the chairs of HAFC, SFC, and HTRC notifying them of concerns more broadly regarding this type of tax treatment.

OTHER SUBSTANTIVE ISSUES

In previous versions of this bill, TRD notes that 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 has previously noted the definition of "qualified electric vehicle" does not give a clear distinction between hybrid vehicles, and electric vehicles which are propelled wholly by rechargeable batteries.

TRD also pointed out another substantial issue dealing with leasing. A taxpayer can lease an electric car every tax year and thereby qualify for the credit every year, a potential loophole that may lead to the flooding (maximizing) the credit every tax year.

The provisions of this bill do not conform to the first four of the Legislative Finance Committee's 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

ALTERNATIVES

Although both the EV tax credits and the charging station tax credits appear similar, the administrative consequences are quite different. Separating this bill into a clean EV tax credit bill, which clearly excludes conventional gasoline electric hybrids and a companion bill that includes the charging station tax credit and the increase in registration fees should be considered.

LG/sb/al

INSIDEEVs **Plug-In Vehicle Comparisons - US**

Updated 2018-09-03

Estimation

Brand	Model	Base Price (MSRP)	Dest. Charge	Tax Credit	Price After Tax Credit	Battery Size (kWh)	EPA EV Range (mi)	Total Range (mi)	Top Speed (mph)	Peak Power EV (kW)	Peak Power ICE (hp)	0-60 mph (sec)	Weight (lbs)	Price per kWh
Audi	A3 Sportback e-tron (2018)	$ 39,500	$ 975	$ 4,502	$ 35,973	8.8	16	400	130	75	150	7.6	3,616	$4,489
BMW	330e iPerformance (2018)	$ 45,600	$ 995	$ 4,001	$ 42,594	7.6	14	350	140	65	180	5.9	3,900	$6,000
BMW	530e iPerformance (2018)	$ 53,400	$ 995	$ 4,668	$ 49,727	9.4	16	370	87	70	184	6.0	4,266	$5,681
BMW	530e xDrive iPerformance (2018)	$ 55,700	$ 995	$ 4,668	$ 52,027	9.4	14	360	87	70	184	5.8	4,385	$5,926
BMW	740e xDrive iPerformance (2018)	$ 91,250	$ 995	$ 4,668	$ 87,577	9.2	14	340	155	80	255	5.1	4,409	$9,918
BMW	i3 (33.2 kWh) (2018)	$ 44,450	$ 995	$ 7,500	$ 37,945	33.2	114	114	93	125	---	7.2	2,961	$1,339
BMW	i3 REx (33.2 kWh) (2018)	$ 48,300	$ 995	$ 7,500	$ 41,795	33.2	97	180	93	125	34	8.0	3,234	$1,455
BMW	i3s (33.2 kWh) (2018)	$ 47,650	$ 995	$ 7,500	$ 41,145	33.2	107	107	100	135	---	6.8		$1,435
BMW	i3s REx (33.2 kWh) (2018)	$ 51,500	$ 995	$ 7,500	$ 44,995	33.2	97	180	100	135	34	7.6		$1,551
BMW	i8 Coupe (2019)	$ 147,500	$ 995	$ 5,669	$ 142,826	11.6	17	320	155	105	228	4.2	3,501	$12,716
BMW	i8 Roadster (2019)	$ 163,300	$ 995	$ 5,669	$ 158,626	11.6	17	320	155	105	228	4.4	3,671	$14,078
BMW	X5 xDrive40e (2018)	$ 63,750	$ 995	$ 4,668	$ 60,077	9.2	13	540	130	80	240	6.5	5,220	$6,929
Cadillac	CT6 PHEV (2018)	$ 75,095	$ 995	$ 7,500	$ 68,590	18.4	31	430	150	149	335	5.2	4,400	$4,081
Chevrolet	Bolt EV (2018)	$ 36,620	$ 875	$ 7,500	$ 29,995	60	238	238	90	150	---	6.5	3,580	$610
Chevrolet	Volt (2018)	$ 33,220	$ 875	$ 7,500	$ 26,595	18.4	53	420	98	111	101	8.4	3,543	$1,805
Chrysler	Pacifica Hybrid (2018)	$ 39,995	$ 1,395	$ 7,500	$ 33,890	16	33	570			248			$2,500
Fiat	500e (2017)	$ 32,995	$ 1,295	$ 7,500	$ 26,790	24	84	84	85	83	---	8.9	2,980	$1,375
Ford	Focus Electric (2018)	$ 29,120	$ 875	$ 7,500	$ 22,495	33.5	115	115		107	---		3,640	$869
Ford	Fusion Energi (2018)	$ 31,400	$ 875	$ 4,007	$ 28,268	7.6	21	610	104	88	141	8.6	3,984	$4,132
Ford	Fusion Energi - Titanium (2019)	$ 34,595	$ 875	$ 4,585	$ 30,885	9.0	25			88	141		3,986	$3,844
Honda	Clarity Electric (2018)	lease only		$ 7,500		25.5	89	89		120	---		4,024	
Honda	Clarity Plug-in Hybrid (2018)	$ 33,400	$ 895	$ 7,500	$ 26,795	17	47	340		135	103		4,052	$1,965
Hyundai	IONIQ Electric (2018)	$ 29,500	$ 885	$ 7,500	$ 22,885	28	124	124	102	88	---	9.9	3,164	$1,054
Hyundai	IONIQ Electric (2019)	$ 29,815	$ 885	$ 7,500	$ 23,200	28	124	124	102	88	---	9.9	3,164	$1,065
Hyundai	IONIQ Plug-in Hybrid (2018)	$ 24,950	$ 885	$ 4,543	$ 21,292	8.9	29	630		45	104			$2,803
Hyundai	IONIQ Plug-in Hybrid (2019)	$ 25,350	$ 885	$ 4,543	$ 21,692	8.9	29	630		45	104			$2,848
Hyundai	Kona Electric (2019)		$ 885	$ 7,500		64.0	258	258	104	150	---	7.6		
Hyundai	Sonata PHEV (2018)	$ 33,250	$ 885	$ 4,919	$ 29,216	9.8	28	600	75	50	154		3,787	$3,393

Karma	Revero (2018)	$ 130,000	$ 1,400	$ 7,500	**$ 123,900**	**21.4**	37	240	125	301	260	5.4	5,400	$6,075
Kia	Niro PHEV (2018)	$ 27,900	$ 940	$ 4,543	**$ 24,297**	**8.9**	26	560		45	104		3,391	$3,135
Kia	Optima PHEV (2018)	$ 35,210	$ 895	$ 4,919	**$ 31,186**	**9.8**	29	610	75	50	154	9.1	3,788	$3,593
Kia	Soul EV (2018)	$ 33,950	$ 895	$ 7,500	**$ 27,345**	**30**	111	111		81.4	---		4,321	$1,132
Land Rover	Range Rover P400e (2019)	$ 95,150	$ 995		**$ 96,145**	**13.1**	20		137	85	296	6.4	5,532	$7,263
Land Rover	Range Rover Sport P400e (2019)	$ 78,300	$ 995		**$ 79,295**	**13.1**	20		137	85	296	6.3	5,448	$5,977
Mercedes	C350e (2018)	$ 47,900	$ 995	$ 3,501	**$ 45,394**	**6.2**	8	410		60	241	5.8	4,057	$7,726
Mercedes	GLC 350e (2018)	$ 49,990	$ 995	$ 4,460	**$ 46,525**	**8.7**	9	350			320	6.2		$5,746
Mercedes	GLE 550e (2018)	$ 66,700	$ 995	$ 4,460	**$ 63,235**	**8.8**	8	460		85	329	5.3	5,456	$7,580
MINI	Cooper S E Countryman ALL4 (2018)	$ 36,900	$ 850	$ 4,001	**$ 33,749**	**7.6**	12	270	78	65	136	6.7		$4,855
Mitsubishi	Outlander PHEV 2018)	$ 34,595	$ 995	$ 5,836	**$ 29,754**	**12.0**	22	310		120	117			$2,883
Nissan	LEAF (40 kWh) (2018)	$ 29,990	$ 885	$ 7,500	**$ 23,375**	**40**	151	151	90	110	---	7.9	3,433	$750
Porsche	Cayenne S E-Hybrid (2018)	$ 79,900	$ 1,050	$ 5,336	**$ 75,614**	**10.8**	14	490	151	70	333	5.4	5,181	$7,398
Porsche	Cayenne E-Hybrid (2019)	$ 79,900	$ 1,050	$ 6,670	**$ 74,280**	**14.1**			157	100	340	4.7		$5,667
Porsche	Panamera 4 E-Hybrid (2018)	$ 99,600	$ 1,050	$ 6,670	**$ 93,980**	**14.1**	16	480	172	100	330	4.4	4,784	$7,064
Porsche	Panamera Turbo S E-Hybrid (2018)	$ 184,400	$ 1,050	$ 6,670	**$ 178,780**	**14.1**	14	450	192	100	550	3.2	5,093	$13,078
smart	fortwo ED Cabrio (2018)	$ 28,100	$ 750	$ 7,500	**$ 21,350**	**17.6**	57	57	81	60	---	11.7		$1,597
smart	fortwo ED Coupe (2018)	$ 23,900	$ 750	$ 7,500	**$ 17,150**	**17.6**	58	58	81	60	---	11.4	2,363	$1,358
Tesla	Model 3 Standard	$ 35,000	$ 1,200	$ 7,500	**$ 28,700**		220	220	130		---	5.5	3,549	
Tesla	Model 3 Long Range (2018)	$ 49,000	$ 1,200	$ 7,500	**$ 42,700**	**80.5**	310	310	140		---	5.1	3,814	$609
Tesla	Model 3 LR AWD (2018)	$ 54,000	$ 1,200	$ 7,500	**$ 47,700**	**80.5**	310	310	145		---	4.5		$671
Tesla	Model 3 LR AWD Performance (201	$ 64,000	$ 1,200	$ 7,500	**$ 57,700**	**80.5**	310	310	155		---	3.5		$795
Tesla	Model S 75D (2018)	$ 77,000	$ 1,200	$ 7,500	**$ 70,700**	**75**	259	259	140		---	4.2	4,769	$1,027
Tesla	Model S 100D (2018)	$ 96,500	$ 1,200	$ 7,500	**$ 90,200**	**100**	335	335	155		---	4.1	4,883	$965
Tesla	Model S P100DL (2018)	$ 135,000	$ 1,200	$ 7,500	**$ 128,700**	**100**	315	315	155		---	2.5	4,941	$1,350
Tesla	Model X 75D (2018)	$ 83,000	$ 1,200	$ 7,500	**$ 76,700**	**75**	238	238	130		---	4.9	5,307	$1,107
Tesla	Model X 100D (2018)	$ 99,500	$ 1,200	$ 7,500	**$ 93,200**	**100**	295	295	155		---	4.7	5,421	$995
Tesla	Model X P100DL (2018)	$ 140,000	$ 1,200	$ 7,500	**$ 133,700**	**100**	289	289	155		---	2.9	5,531	$1,400
Toyota	Prius Prime (2018)	$ 27,300	$ 920	$ 4,502	**$ 23,718**	**8.8**	25	640		68			3,365	$3,102
Volkswagen	e-Golf (2018)	$ 30,495	$ 895	$ 7,500	**$ 23,890**	**35.8**	125	125	93	100	---	9.6		$852
Volvo	S60 T8 Twin Engine (2019)	$ 54,400	$ 995							64	313			
Volvo	S90 T8 Twin Engine (2018)	$ 63,650	$ 995	$ 5,002	**$ 59,643**	**10.4**	21	410		64	313	4.7	4,579	$6,120
Volvo	XC60 T8 Twin Engine (2018)	$ 52,900	$ 995	$ 5,002	**$ 48,893**	**10.4**	17	370		64	313	4.9		$5,087
Volvo	XC90 T8 Twin Engine (2018)	$ 64,950	$ 995	$ 5,002	**$ 60,943**	**10.4**	19	380		64	313	5.9	5,059	$6,245

https://insideevs.com/over-50-plug-in-evs-compared-price-range-more-march-2018-us/