

exempting alternative fuel vehicles from the Motor Vehicle Excise Tax, the bill effectively imposes the GR&CT on these vehicles. The excise tax is levied at 3 percent, the GR&CT is levied at 5 percent (3.275 to the general fund, 1.225 local). Local option taxes would also be levied.

While the estimated impact is unknown, it would not be large as the increased tax would be a disincentive resulting in fewer vehicle sales.

ADMINISTRATIVE IMPLICATIONS

Moderate.

TECHNICAL ISSUES

TRD suggests that the definition of bi-fuel be clarified.

OTHER SUBSTANTIVE ISSUES

Assuming an amendment is made to also exempt the gross receipts tax, TRD indicates that the magnitude of impact would depend on the interpretation of the definition of bi-fuel.

If bi-fuel means gasoline/ alternative fuel, the revenue losses would be significant, on the order of millions of dollars. TRD recommends that while the bill requires vehicles to operate “exclusively” on alternative fuels, “bi-fuel” could be interpreted as two alternative fuel types (i.e. gasoline/alternative). The Taxation and Revenue Department indicate that they would not allow gasoline/alternative fuel engines to be exempt, they recommend a clarification in the bill for the benefit of the taxpayer.

The Taxation and Revenue Department’s suggestion is well founded. Last year Arizona passed an extensive incentive for alternative fuel vehicles which, while being successful in stimulating alternative fuel (bi-fuel) vehicle purchases, resulted in catastrophic revenue losses and revealed a number of schemes designed to exploit the tax incentive.

The spirit of the Arizona law was to promote clean air. The “bi-fuel” inclusion (gasoline/alternative) actually resulted in people buying enormous Sport Utility Vehicles (SUV’s) with a 3-5 gallon propane tank. The result was people bought vehicles that were less fuel efficient, primarily ran on gasoline that dirtied the air, and nearly shaved \$800 million off of state government revenue in the process.

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