

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Cisneros DATE TYPED 2-16-2003 HB _____

SHORT TITLE No Excise Tax on Fuel-Efficient Vehicles SB 86/aSFC

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(330.0)	(400.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of SFC Amendment

The SFC amendment imposes a sunset provision on the tax exemption. The exemption would be applicable from July 1, 2004 to June 30, 2009.

Synopsis of Original Bill

Senate Bill 86 provides a one-time motor vehicle excise tax exemption for gasoline-electric hybrid vehicles with U.S. environmental protection agency fuel economy rating of at least twenty-seven and one-half miles per gallon. It also extends the gross receipts and compensating tax exemptions provided to vehicles paying the motor vehicle excise tax. The bill has an effective date of July 1, 2004.

FISCAL IMPLICATIONS

TRD reports information from the Energy, Minerals and Natural Resources Department indicating that automobile dealers were expected to sell less than 400 hybrid electric vehicles in New Mexico in 2003. Estimated gross sales value for these cars was \$8.4 million (roughly \$21 thousand per car). Applying the 3 percent motor vehicle excise tax to this base yields \$250 thousand

in foregone revenue. Sales growth is estimated to increase 20 percent annually, implying a fiscal impact of \$330 thousand in FY05 and just under \$400 thousand in FY06. To the degree that the tax exemption is successful in stimulating increased sales, revenue losses may be higher.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the change will require some modifications to their forms and systems to track the use of the exemption. No need for additional funding was suggested.

OTHER SUBSTANTIVE ISSUES

TRD reports that some other states have had difficulty with tax provisions that encourage alternative vehicle sales. To avoid potential problems, they suggest that capping the total amount of tax exempt vehicles or providing sunset may be appropriate.

POSSIBLE QUESTIONS

1. Is there any evidence that tax incentives will evoke a significant degree in demand for hybrid vehicles?
2. If the incentive stimulates demand for additional hybrid cars, how many more might be expected to be sold (compared to what would have been sold without the incentive)?
3. What are the prospects for a technological break through that could significantly reduce the price of these vehicles?
4. If prices drop significantly and hybrid vehicles become more price competitive, what might the fiscal impact be?

BT/lg:yr