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FISCAL IMPACT REPORT

ORIGINAL DATE 02/01/09
LAST UPDATED 03/11/09 **HB** 89/aHFL#1

SPONSOR Trujillo

SHORT TITLE Hybrid Vehicle Excise Tax Exemption **SB** _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$1,400)	(\$1,500)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 Energy, Minerals and Natural Resources Department (EMNRD)

Responses Received From
 Department of Environment

SUMMARY

Synopsis of HFL#1 Amendment

The House Floor amendment to House Bill 89 extends the sunset date to June 30, 2012 instead of the original bill's extension to June 30, 2014.

Synopsis of Original Bill

House Bill 89 extends the sunset date from June 30, 2009 to June 30, 2014 for the 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. This bill also corrects technical errors in various statutes referring to this tax exemption.

Because no effective date is provided in the bill, its provisions will become effective 90 days after the 2009 legislative session adjourns, on June 19, 2009.

FISCAL IMPLICATIONS

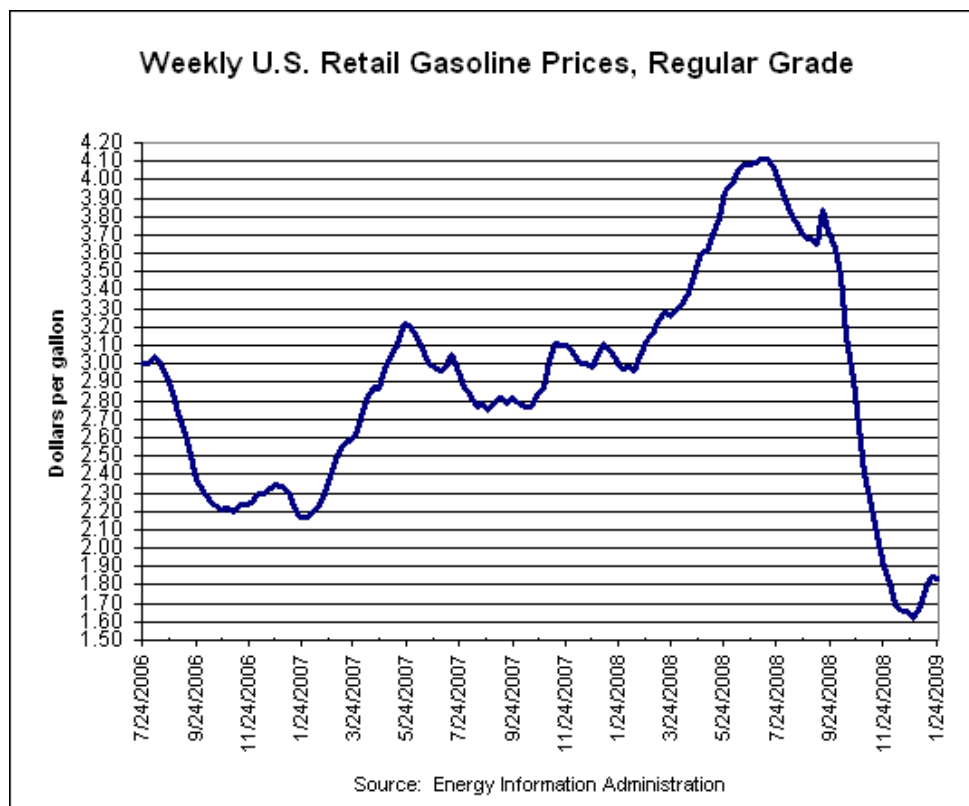
TRD:

In calendar year 2008, there were 2,464 hybrid vehicles with a taxable value (after trade-in) of \$52,490.8 thousand that were exempted by this provision from the motor vehicle excise tax, resulting in a revenue loss to the general fund of \$1,574.7 thousand.

LFC notes that TRD's assumption that hybrid vehicles will continue to sell like they did in calendar year 2008 is optimistic. Due to the economic downturn and lower gas prices, LFC believes there will be a decrease in sales of hybrid vehicles in calendar years 2009 and 2010. EMNRD stated that auto dealers are projecting a decrease in hybrid vehicle sales for model year 2009 with an estimated reduction in general fund of \$1,278 thousand in FY09.

SIGNIFICANT ISSUES

Gas prices have significantly decreased from their high during calendar year 2008. Sales in hybrid vehicles during calendar year 2008 could have been influenced by this rise in gas prices.



EMNRD:

This bill would further continued acceptance of gasoline-electric hybrid automotive technology by the motoring public in New Mexico. Hybrid technology is much more energy efficient in comparison to existing conventional gasoline engines. This tax exemption would provide an incentive to consumers to purchase more fuel-efficient vehicles thus increasing the access to hybrid vehicle technology for lower income households. This bill would assist in decreasing fuel consumption, increasing energy security, and reducing smog-forming as well as greenhouse gas emissions. All major automotive vehicle manufacturers offer hybrids vehicles.

Department of Energy:

HB 89 would incentivize the purchase of hybrid vehicles that have a vehicle rating of 27.5 mpg or greater. The fuel economy of these cars means that less air pollution is emitted from the vehicle per mile traveled, resulting in better air quality statewide. Additionally, improved fuel economy reduces greenhouse gas emissions, which may lessen the severity of climate change.

ADMINISTRATIVE IMPLICATIONS

TRD reports no significant impact to the motor vehicle division.

TECHNICAL ISSUES

TRD:

As part of a statutory clean-up to sections that reference the Motor Vehicle Excise Tax exemption, Section 2 of the bill amends Section 7-9J-2 NMSA 1978. Within that section, the definition of “pass-through entity” might also be adjusted to be consistent with proposed changes to the definition as proposed in HB-8. On page 6, line 12, the definition should be changed to read: “(2) an estate or trust *that does not distribute income to beneficiaries.*”

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)?

BLG/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** revenue should be adequate to fund government services.
2. ***Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
3. ***Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
4. ***Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
5. ***Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc