DEPARTMENT OF TAXATION
2018 Fiscal Impact Statement

1. Patron David A. Reid

2. Bill Number HB 469

House of Origin:
_____ **Introduced**
__X__ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Electric Vehicle Tax Credit

5. Summary/Purpose:

The Department of Taxation ("the Department") understands that the Patron will offer amendments for this bill. This fiscal impact statement is drafted based on incorporation of the amendments.

This bill would establish an income tax credit in an amount equal to 10 percent of the purchase price of an electric vehicle. No taxpayer would be permitted to earn credits in excess of $3,500. The total amount of this credit would be capped at $6 million per taxable year. This bill would require the Department to cease issuing tax credits for electric vehicles when notified by the Department of Motor Vehicles ("DMV") that at least 20 percent of the vehicles registered in Virginia are electric vehicles.

This bill would be effective for taxable years beginning on or after January 1, 2018, but before January 1, 2023.

6. Budget amendment necessary: Yes.

7. Fiscal Impact Estimates are: Preliminary (See Line 8).

8. Fiscal implications:

Administrative Costs

The Department has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our system and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

DMV considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown, potentially significant, negative General Fund revenue impact beginning in Fiscal Year 2019. It's unknown how many taxpayers would purchase electric vehicles and claim this credit. The United States Energy Information Administration estimates that 273,338 electric and plug-in hybrid vehicles will be sold nationwide in 2018. Virginia's share of electric and plug-in hybrid vehicle sales from 2011 to 2016 was 1.4 percent. Assuming that 1.4 percent of these electric vehicle sales occur in Virginia, an estimated 3,827 electric and plug-in hybrid vehicles would be sold in Virginia during 2018. Assuming that each of these purchases would qualify for the credit provided by this bill and taxpayers would claim the maximum credit, this bill would result in an estimated $13.4 million General Fund revenue loss in Fiscal Year 2019.

The Department understands that the Patron intends on amending the bill to impose an annual $6 million cap. It is likely that the credit would reach the annual cap, resulting in an annual General Fund revenue loss of $6 million.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles

10. Technical amendment necessary: Yes. DMV has suggested the following amendments, which the Department understands that the Patron intends to offer:

Page 1, Line 14, after "means a"

> Strike: "new qualified plug-in electric drive motor vehicle, as defined in 26 U.S.C. § 30D, that (i) if purchased, is registered with the Virginia Department of Motor Vehicles within 30 days of purchase, or (ii) if leased, is leased for primary use in the Commonwealth. If 26 U.S.C. § 30D is repealed and no successor is enacted, then the reference in this section shall be given the meaning of such provision as it existed immediately prior to its repeal."
>
> Insert: "vehicle which is propelled exclusively by an electric motor which draws electricity from a battery which has a capacity of not less than 4 kilowatt hours, and 2) is capable of being recharged from an external source of electricity."

Page 1, Line 21, after "vehicle"

> Insert: "which 1) meets the provisions of subsection d 1 A, d 1 B, d 1 C, d 1 D, and d 1 E of 26 U.S.C. § 30D 2) if purchased, is registered with the Virginia Department of Motor Vehicles, and 3) if leased, is leased for primary use in the Commonwealth."

Page 1, Line 25, after "C."

> Insert: "The total amount of tax credits available under this section for a taxable year shall not exceed $6 million. In the event that applications for such credit exceed $6 million for any taxable year, the Department shall approve, in the order received, applications for the credit that are properly submitted."

In addition, the Department understands that the Patron's intent is to allow a credit against individual income tax. The language of this bill refers to "any tax imposed under this article" (Article 3 of Chapter 3 of Title 58.1), but individual income taxes are imposed by Article 2 of Chapter 3 of Title 58.1. Accordingly, the Department suggests the following technical amendment:

Page 1, Line 20, after “imposed”

Strike: “this article”
Insert: “by Article 2 (”§ 58.1-320 et seq.)”

11. Other comments:

Virginia Low Emission and Alternative Fuel Vehicle Incentives

Virginia Vehicle Emissions Testing Equipment Credit

Virginia allows a credit equal to 20 percent of the purchase or lease price during the taxable year for equipment certified by the Department of Environmental Quality for vehicle emissions testing and located within, or adjacent to, a locality that is required by law to implement an enhanced vehicle emissions inspection program.

Virginia Clean-Fuel Vehicle and Advanced Cellulosic Biofuels Job Creation Tax Credit

Virginia previously allowed a corporate income tax credit equal to $700 for each job it creates that is related to the manufacture and production of clean fuel and advanced cellulosic biofuel vehicles. The credit was allowed in the taxable year in which the job was created and in each of the two succeeding years. This credit expired on December 31, 2014.

Low Emission and Alternative Fuel Vehicle Incentives in Other Jurisdictions

For federal income tax purposes, a credit is allowed for each new qualified plug-in electric drive motor vehicle placed in service by the taxpayer during the taxable year. The amount of the credit is determined by adding a base amount and an amount determined by the vehicle’s battery capacity. The base amount is $2,500. If the vehicle utilizes a battery with at least a 5 kilowatt-hour capacity, the amount determined by the battery’s capacity is $417, plus $417 for each kilowatt-hour of capacity in excess of 5 kilowatt-hours. The amount of the credit determined by battery capacity cannot exceed $5,000.

Maryland allows a credit against the excise tax imposed for a plug-in electric drive vehicle in an amount of $100 per kilowatt-hour of battery capacity of the vehicle. The credit is limited to the acquisition of one vehicle per individual and 10 vehicles per business entity.

New Jersey exempts the receipts from sales of zero emission vehicles from sales and use tax.

Sunset Dates for Income Tax Credits and Sales Tax Exemptions

Section 3-5.14 of the 2016 Appropriations Act provides that the General Assembly may not advance the sunset date for any existing income tax credit or sales tax exemption beyond June 30, 2022. Any new income tax credit or sales tax exemption enacted by the General Assembly prior to the 2021 Session must have a sunset date no later than June 30, 2022. This requirement does not apply to sales tax exemptions related to nonprofit entities or to income tax credits or sales tax exemptions with sunset dates after June 30, 2022 that were enacted or advanced during the 2016 Session.

Proposed Legislation

This bill would establish a tax credit in an amount of 10 percent of the purchase price of an electric vehicle. If the taxpayer leases the electric vehicle, the purchase price would equal the total price for the lease term. No taxpayer would be permitted to earn credits in excess of $3,500. The credit would be nonrefundable. If the credit exceeds the taxpayer's tax liability for the taxable year, any unused credit would be carried forward for the next three years or until the credit is used in full, whichever is sooner.

This bill would define "electric vehicle" as a vehicle that is propelled exclusively by an electric motor that draws electricity from a battery which:

- Has a capacity of not less than 4 kilowatt hours; and
- Is capable of being recharged from an external source of electricity.

This credit would be capped at an amount of $6 million per taxable year. If the applications for the credit exceed $6 million for any taxable year, the Department would approve properly submitted applications for the credit in the order that they are received.

This bill would require the Department of Motor Vehicles to notify the Department, on or before December 1 of each year, of the percentage of motor vehicles registered in Virginia that are electric vehicles. If the percentage is greater than or equal to 20 percent, the Department would be required to cease allowing this credits for the next and all subsequent taxable years.

This bill would be effective for taxable years beginning on or after January 1, 2018, but before January 1, 2023.

cc : Secretary of Finance

Date: 1/26/2018 JLOF
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