DEPARTMENT OF TAXATION
2011 Fiscal Impact Statement

1. Patron Mark D. Sickles

2. Bill Number HB 2308

House of Origin:

X **Introduced**

____ **Substitute**

____ **Engrossed**

Second House:

____ **In Committee**

____ **Substitute**

____ **Enrolled**

3. Committee House Finance

4. Title Individual Income Tax; Credit for Purchase of Motor Vehicle Using Certain Fuel

5. Summary/Purpose:

This bill would create an individual income tax credit equal to $2,000 for the purchase of a clean special fuels motor vehicle or plug-in electric motor vehicle.

The bill would be effective for taxable years beginning on and after January 1, 2011, but before January 1, 2015.

6. Budget amendment necessary: Yes.
Line 1, Revenue Estimate

7. Fiscal Impact Estimates are: Not available. (See Line 8.)

8. Fiscal implications:

Administrative Costs

The Department of Taxation considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

A number of states, including California, Maryland, Georgia, Louisiana, South Carolina and Colorado, have adopted and implemented tax credits similar to the one proposed by this bill ranging from $1,500 to $7,000 for purchasing hybrid cars. Currently, Virginia Department of Motor Vehicles (DMV) records show 66,462 hybrid motor vehicles and 4,687 special fuel vehicles are registered in Virginia.

The negative impact on General Fund revenue is not known. Data with regard to sales of special clean fuels motor vehicles or plug-in vehicles was not available. This is due in part because a number of the special clean fuels motor vehicles were sold to individuals and businesses that would qualify for the Tax Credit for Vehicle Emissions Testing Equipment, Clean-Fuel Vehicles and Certain Refueling Property. In addition, taxpayers, unable to use the entire credit for the taxable year in which they earn it, could carry over the credit impacting taxable years beyond Fiscal Year 2015. Finally, gasoline prices could significantly affect demand for motor vehicles powered by alternative fuels.

In addition, if it is the intent of this bill to include hybrid motor vehicles, the estimated negative impact on General Fund revenue would exceed $20 million beginning in Fiscal Year 2012.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Federal Law

The Energy Policy Act of 2005 established the Qualified Alternative Fuel Motor Vehicle Credit for individuals and businesses that purchased vehicles fueled entirely by compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, or any liquid at least 85% of the volume of which consists of methanol, and to certain "mixed-fuel" vehicles that use both alternative fuel and petroleum based-fuel. This credit expired December 31, 2010

The credit was based on a percentage of the "incremental cost" of that vehicle. Subject top certain limitation based on vehicle size, the incremental cost of any qualified alternative fuel motor vehicle was the excess of the manufacturer's suggested retail price (MSRP) of the qualified alternative fuel motor vehicle over the MSRP for a gasoline or diesel fuel motor vehicle of the same model.

Generally, the credit was equal to 50% of the incremental cost. However, an additional 30% credit was available if the vehicle received a Clean Air Act certificate certification or received an order certifying the vehicle as meeting the same requirements as vehicles which may be sold or leased in California.

In addition, the Alternative Fuel Vehicle Refueling Property Credit provides a federal income tax credit equal to 30% of the cost of installing new natural gas refueling equipment. A business can earn a maximum credit of $30,000 for natural gas pumps and equipment. Individuals can earn up to a $1,000 credit for home refueling appliances.

Internal Revenue Code (IRC) § 179 allows certain trades or businesses to elect to deduct the entire cost of qualified property, including motor vehicles rather than requiring the cost to be capitalized and deducted over a number of taxable years as depreciation. The deduction is limited to $25,000 of the cost of motor vehicles with a gross vehicle weight from 6,000 to 14,000 pounds. Motor vehicles weighing more than 14,000 lbs are not eligible for the deduction.

Virginia Law

The Tax Credit for Vehicle Emissions Testing Equipment, Clean-Fuel Vehicles and Certain Refueling Property allows any corporation, individual or public service corporation to claim a credit equal to 10% of the deduction allowed under IRC § 179 for purchases of clean-fuel vehicles principally garaged in Virginia or certain refueling property placed in service in Virginia or 10% of the costs used to compute the credit under the Qualified Alternative Fuel Motor Vehicle Credit and the Alternative Fuel Vehicle Refueling Property Credit.

Proposal

This bill would create an individual income tax credit equal to $2,000 for the purchase of a clean special fuels motor vehicle or plug-in electric motor vehicle. Unused credits could be carried over for up to five succeeding taxable years. Any credits that are unused at the end of the five-year period would expire.

"Clean special fuel" would mean any product or energy source used to propel a highway vehicle, the use of which, compared to conventional gasoline or reformulated gasoline, results in lower emissions of oxides of nitrogen, volatile organic compounds, carbon monoxide or particulates or any combination thereof. The term includes compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hythane (a combination of compressed natural gas and hydrogen), or electricity.

"Clean special fuel motor vehicle" would mean a motor vehicle made by a manufacturer and is only capable of operating on clean special fuels.

"Plug-in electric motor vehicle" would mean an on-road motor vehicle that draws propulsion using a traction battery that has at least four kilowatt hours of capacity, uses an external source of electric energy to recharge the battery, has a gross vehicle weight rating of up to 14,000 pounds, and meets specified federal emission standards.

This bill would not prohibit individuals from claiming both the credit proposed in this bill and the Tax Credit for Vehicle Emissions Testing Equipment, Clean-Fuel Vehicles and Certain Refueling Property for the same motor vehicle.

This bill would be effective for taxable years beginning on and after January 1, 2011, but before January 1, 2015.

Similar Bills

House Bill 2109 would create an individual income tax credit for taxpayers who convert or have converted their diesel-powered trucks to natural gas power.

Senate Bill 1101 would create an income tax credit for qualified property that is placed in service and is part of an electric energy facility producing electricity primarily from agricultural livestock waste nutrients.

Senate Bill 1236 and Senate Bill 1404 would extend the sunset date for the Clean Fuel Vehicle and Advanced Cellulosic Biofuels Job Creation Tax Credit.

cc : Secretary of Finance

Date: 1/27/2011 dtm
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