

SUMMARY ANALYSIS OF AMENDED BILL

Author: Saldana Analyst: Gail Hall Bill Number: AB 838

Related Bills: See Prior Analysis Telephone: 845-6111 Amended Date: April 27, 2005

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Hybrid Or Alternative Fuel Vehicle Annual License Fees Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 18, 2005 STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would create a tax credit for taxpayers that purchase fuel-efficient vehicles.

SUMMARY OF AMENDMENTS

The April 27, 2005, amendments made the following changes:

1. the credit would be calculated by taking a specific percentage of the vehicle license fee instead of using the total vehicle license fee,
2. the credit would be allowed and reported in the taxable year for the initial registration of the qualified vehicle (with a carryover for any unused amount of the credit) instead of an annual credit,
3. the bill added a zero emission vehicle (“ZEV”) as an “emission rating” that qualifies for the credit, and
4. the bill added a miles per gallon requirement for the ULEZ type of vehicle.

In addition, the amendments revised the revenue estimate and the repeal date and removed a policy concern discussed in the department’s analysis of the bill as introduced on February 18, 2005. These amendments are discussed further in this analysis.

Except for the discussion in this analysis, the remainder of the department’s analysis of the bill as introduced on February 18, 2005, still applies.

<p>Board Position:</p> <p>_____ S _____ NA _____ NP</p> <p>_____ SA _____ O _____ NAR</p> <p>_____ N _____ OUA _____ PENDING</p>	<p>Department Director</p> <p style="text-align: right;">Date</p>
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EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately upon signature and apply to taxable years beginning on or after January 1, 2005, and ending on or before January 1, 2011.

POSITION

Pending.

IMPLEMENTATION CONSIDERATION

The department's implementation concern from the department's analysis of the bill as introduced on February 18, 2005, remains the same and is included in this analysis for convenience.

The department lacks the expertise necessary to determine which vehicles qualify for this credit. The author should consider having a third party, such as the Department of Motor Vehicles (DMV), certify which vehicles qualify for this credit.

ECONOMIC IMPACT

The revenue estimate and discussion portion of the department's analysis of the bill as introduced on February 18, 2005, is replaced by the revenue estimate and discussion below.

Revenue Estimate

Based on the discussion below, the revenue loss from this bill is as follows:

Estimated Revenue Impact of AB 838		
Effective Tax Years BOA 1/1/05		
Assumed Enactment Date After 6/30/05		
(In Millions)		
2005/06	2006/07	2007/08
-\$3	-\$6	-\$16

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact of this proposal is dependent on the number of new qualified vehicles registered in California, the average vehicle license fee paid, and the average credit usage rate.

According to the DMV, 42,000 hybrid vehicles are currently registered in California. Based on sales trends of the hybrid car market, total registered hybrids in California account for approximately 25% of the U.S. market. Historical data shows that sales of hybrids have, on average, doubled over the past five years. With the release of five new hybrid vehicles during 2005, U.S. sales are anticipated to continue to double, and approximate 200,000 by 2006 and increase to 1.2 million by 2008.

It is estimated that 33,000 new hybrid vehicles will be registered during calendar year 2005. For vehicles purchased during 2005, recent legislation requires the vehicle license fee (VLF) to reflect .65% of the vehicle's market value. The average price of a new hybrid vehicle is approximately \$22,000; a \$3,000 adjustment is required so that the market value is comparable to a gas only vehicle. The average VLF for a new hybrid vehicle is estimated at \$124 $((\$22,000 - \$3,000) \times .65\%)$. This estimate assumes that as a result of this amendment, the average credit per vehicle will be limited to 87% of the VLF $(\$124 \times .87 = 108)$.

Based on the average VLF discussed above, and on the anticipated growth in sales, it is estimated that \$3 million in credits will be used during fiscal year 05/06. This amount is expected to increase to \$6 million for 06/07 and \$16 million during fiscal year 07/08.

POLICY CONCERNS

This bill would not limit the number of years for the carryover period. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with no more than an eight-year carryover period since experience shows credits are typically used within that period of time.

LEGISLATIVE STAFF CONTACT

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