

SUMMARY ANALYSIS OF AMENDED BILL

Author: Margett Analyst: Nicole Kwon Bill Number: SB 308
 Related Bills: See Prior Analysis Telephone: 845-7800 Amended Date: May 2, 2007
 Attorney: Daniel Biedler Sponsor: _____

SUBJECT: Qualified Vehicle Transaction Deduction

- 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 DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended February 16, 2007.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 16, 2007, STILL APPLIES.
- OTHER – See comments below.

SUMMARY

This bill would provide personal income taxpayers a \$3,000 deduction for purchasing or leasing a 2007 or later model hybrid motor vehicle.

SUMMARY OF AMENDMENTS

The May 2, 2007, amendments made changes to the repeal date of the bill from December 1, 2011, to the earlier of either December 1, 2011, or when 100,000 qualified hybrid motor vehicles have been sold since January 1, 2007. As a result of the amendment, a new Technical Consideration is identified and included. The revenue estimate from the department's prior analysis of the bill is provided below for convenience. The remainder of the department's analysis of the bill as introduced February 16, 2007, still applies.

POSITION

Pending.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S	Brian Putler	5/10/07
<input type="checkbox"/> NA		
<input type="checkbox"/> SA		
<input type="checkbox"/> N		
<input type="checkbox"/> OUA		
<input type="checkbox"/> NP		
<input type="checkbox"/> NAR		
<input checked="" type="checkbox"/> PENDING		

TECHNICAL CONSIDERATION

While the definition of qualified year as “The year that immediately follows the first year in which at least 100,000 qualified vehicles are sold and registered in the state” on page 2, lines 11 to 13, can be interpreted as either 100,000 qualified vehicles sold in any one year or 100,000 qualified vehicles sold in cumulative years starting at 2007, the repeal date under subdivision (d) (2) states “When 100,000 qualified vehicles have been sold since January 1, 2007” can be interpreted as 100,000 qualified vehicles sold in cumulative years since January 1, 2007. The author’s office may want to clarify the correct intention of the bill and use a consistent date for both definitions identified above.

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, this provision would result in the following revenue losses.

Estimated Revenue Impact of SB 308 Effective for Tax Years BOA 1/1/2007 Assumed Enactment Date After 6/30/07 (\$ in Millions)		
2007/08	2008/09	2009/10
-\$8	-\$9	-\$11

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

Revenue Discussion

The revenue impact of this bill is dependent on the number of hybrid vehicles, 2007 or newer models, that are sold and leased in California. The deduction is effective for January 1, 2007, and would sunset at the earlier of the year after hybrid vehicle sales and leases total at least 100,000 during a calendar year or January 1 of a qualified year. The \$3,000 deduction would be considered a miscellaneous itemized deduction and allowed only to the extent that all miscellaneous deductions exceed 2% of the taxpayer’s adjusted gross income (AGI).

Based on an analysis of market projections, as well as data provided by the Air Resources Board and the Department of Motor Vehicles, qualified hybrid sales or lease are anticipated to reach and exceed the minimum threshold during 2010 and total 114,000. Annual qualified transactions would total 57,000 in 2007, 81,000 in 2008, 97,500 in 2009, and 114,000 in 2010.

Beginning in 2008, qualified transactions include purchases or leases by some taxpayers that would accelerate their hybrid purchase or leases by one year to secure eligibility of the tax benefit. Because the proposed deduction would be limited to vehicles purchased or leased by California personal income taxpayers, qualified transactions do not include purchases made in California and registered out of state, as well as corporate or government transactions.

For calendar year 2007, of the 57,000 qualified purchases, this estimate assumes that 5% or 2,850 (57,000 x 5%) taxpayers would not use the new deduction but instead, continue to use the standard deduction. Of the remaining 95% or 54,150 transactions (57,000 x 95%), some taxpayers would have adequate miscellaneous expenses to utilize the entire \$3,000 and others would be limited, based on their AGI.

Based on a review of tax return statistics and reports on the hybrid car market, this estimate assumes that 30% or 16,245 (54,150 x 30%) transactions would result in deductions that total 100% of the \$3,000 expense and in aggregate would equal \$48 million (16,245 x \$3,000) in deductions. This includes taxpayers that currently report miscellaneous deductions as well as those taxpayers whose miscellaneous expenses would now exceed 2% of their AGI. Additionally, deductions for the remaining 37,905 (54,150 x 70%) transactions are anticipated to be limited. Again, based on hybrid car market trends, this estimate uses an average AGI of \$100,000, setting the 2% floor at \$2,000 ($\$100,000 \times 2\% = \$2,000$). Therefore, these taxpayer would use 1/3 or \$1,000 ($\$3,000 - \$2,000 = \$1,000$) of the proposed deduction and in aggregate would equal \$38 million (37,905 x \$1,000) in deductions.

In summary, during 2007 annual deductions would equal \$86 million (\$48 million for taxpayers using the full deduction plus \$38 million for taxpayers using a portion of the deduction). Applying an average marginal tax rate of 7%, revenue losses for 2007 would total \$6 million ($\$86 \text{ million} \times 7\%$). Total qualified purchases or leases made during 2008 include 69,000 vehicles (purchases or leases that would have been made absent this proposal) and an additional 12,000 purchases or leases, resulting from anticipated altered behavior.

In the chart above, the estimate represents the revenue impact on a fiscal year basis. The \$8 million fiscal year revenue impact for 2007/08 includes deductions for all purchases or leases made during 2007 (\$6 million) as well as adjustments to withholding for a small portion of purchases or leases made during 2008 (\$2 million).

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