

Author: Hagman, et al. Analyst: Jessica Matus Bill Number: AB 205
 Related Bills: See Prior Analysis Telephone: 845-6310 Amended Dates: March 29, 2011, and April 13, 2011
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Vehicle Registration Costs Credit

SUMMARY

This bill would provide a personal income tax credit for the registration fees paid on qualified vehicles.

SUMMARY OF AMENDMENTS

The March 29, 2011, and the April 13, 2011, amendments do the following:

- Add several co-authors.
- Change the operative date of the bill to taxable years beginning on or after January 1, 2011.
- Change the definition of “qualified costs.”
- Change the definition of “qualified vehicle.”
- Allow a carryover of the credit.
- Remove the public purpose statement in the bill.

As a result of the amendments, the “Technical Consideration” and two of the department’s “Implementation Considerations” as provided in the prior analysis of the bill as amended February 16, 2011, have been resolved. The remaining “Implementation Considerations” discussed in the analysis still apply and are restated below for convenience. The “This Bill,” “Fiscal Impact,” “Revenue,” and “Policy Concerns” sections have been revised. This analysis replaces the analysis of the bill as amended February 16, 2011.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

PURPOSE OF THE BILL

According to the author’s office, the purpose of the bill is to stimulate the economy by encouraging the purchase of vehicles.

Board Position:	Executive Officer	Date
_____ S		
_____ NA		
_____ SA		
_____ N		
_____ OUA		
_____ NP		
_____ NAR		
	Selvi Stanislaus	05/04/11

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2011.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Annually, California charges individuals and businesses a motor vehicle registration fee on the ownership of motor vehicles. The state Department of Motor Vehicles (DMV) administers the fee. The motor vehicle registration fee consists of a vehicle license fee (VLF), base registration fee, and other miscellaneous surcharges and fees.

Current federal and state laws allow individuals to deduct certain expenses, such as medical expenses, charitable contributions, mortgage interest, and taxes, such as the VLF, as itemized deductions. The VLF is considered a personal property tax based on the market value of the motor vehicle.

THIS BILL

For taxable years beginning on and after January 1, 2011, this bill would provide a tax credit to individuals for the costs paid to register a "qualified vehicle." To qualify for the credit, a taxpayer must pay "qualified costs" on a "qualified vehicle", then sell or trade in that vehicle for another vehicle for which the taxpayer has also paid qualified costs.

"Qualified costs" are defined as "fees" paid by the taxpayer during the taxable year, assessed on a vehicle by the Department of Motor Vehicles (DMV) as part of the vehicle registration process, including, but not limited to, the following:

- Registration fee
- California Highway Patrol fee
- Local County Transportation fees
- Vehicle License fee
- Motorcycle Safety fee
- Unladen Weight fee
- Weight fee
- Weight Sticker fee

- Cargo Theft Interdiction fee
- Smog Abatement fee
- Personalized License Plate fees
- Special Interest License Plate fees
- County fees
- Air Pollution Control District fees
- All other fees set forth in the vehicle code

“Qualified vehicle” is defined as any vehicle for which the taxpayer has paid qualified costs prior to the purchase of another vehicle for which the taxpayer has also paid qualified costs during the same calendar year, and that is either sold or traded in to purchase the other vehicle.

The unused portion of the credit could be carried over for three years.

The credit provided shall be in lieu of any other deduction.

IMPLEMENTATION CONSIDERATIONS

The bill states that the registration fees for the current and replacement vehicles must be paid in the same “taxable” year, yet the bill requires the sale or trade in of the old vehicle to be in the same “calendar” year. It is unclear whether the registration fees and trade in or sale of the qualified vehicle must occur during the same year in order to qualify for the credit. To eliminate confusion, the author may wish to amend the bill to use either calendar or taxable year.

FISCAL IMPACT

This bill would not significantly impact the department’s costs.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact of AB 205 as Amended April 13, 2011 For Taxable Years Beginning On or After January 1, 2011 Enactment Assumed After June 30, 2011 (\$ in Millions)			
2011-12	2012-13	2013-14	2014-15
-\$100	-\$65	-\$65	-\$65

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

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

POLICY CONCERNS

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

Generally, credits are limited as a percentage of amounts paid or incurred. This bill would allow a 100 percent credit, which is unprecedented.

LEGISLATIVE STAFF CONTACT

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