HB13-1247

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 13-0800	**Date:**	March 21, 2013
Prime Sponsor(s):	Rep. Duran; Singer Sen. Johnston; Ulibarri	**Bill Status:**	House Transportation and Energy
		Fiscal Analyst:	Ryan Brendle (303-866-4105)

TITLE: CONCERNING THE INNOVATIVE MOTOR VEHICLE INCOME TAX CREDIT.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014	FY 2014-2015
State Revenue General Fund - Income Tax	($2.4 million)	($5.2 million)	($5.9 million)
State Transfers Transfer from the General Fund to the State Education Fund		($2.4 million)	
State Expenditures			
FTE Position Change			
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2013-14: None.			
Local Government Impact: None.			

Summary of Legislation

The innovative motor vehicle tax credit is a refundable income tax credit available to taxpayers who purchase or lease an alternative fuel motor vehicle or convert a vehicle to an alternative fuel. The credit is available under current law through tax year 2015; House Bill 13-1247 extends the credit for tax years 2016 through 2021. In addition, beginning with tax year 2013, the bill:

- clarifies the definition of electric vehicle to allow the credit for plug-in hybrid electric vehicles, such as the Chevrolet Volt and Toyota Prius plug-in; and
- alters the way the credit is calculated for:
  - the purchase and lease of electric, plug-in hybrid electric, compressed natural gas, and liquefied petroleum gas vehicles; and
  - the conversion of vehicles to electric and natural gas power sources.

Table 1 shows how the bill changes the way the credit is calculated, while Table 2 shows changes in the categories of vehicles eligible for the credit. The changes simplify these calculations for the Department of Revenue by eliminating the need to estimate the cost of a comparable vehicle or conversion, and instead base the calculation on measures reportable by the taxpayer. In most cases, the value of the credit is not significantly altered. However, the value of the credit for the purchase and lease of natural gas vehicles (category 4) is higher than under current law during tax years 2014 through 2016.

The calculation of the credits refer to a "percentage" applied to costs involved in the purchase, lease or conversion of vehicles. Table 3 on page 4 shows how the "percentage" applied to the formula changes over time under the bill.

Table 1
Changes in the Methods for Calculating the Credit Under HB13-1247
All Changes Effective Tax Year 2013

Purchase or Lease of Electric Vehicles and Plug-In Hybrid Electric Vehicles - Category 1	
Current Law	Credit capped at $6,000. A percentage of the difference between the cost of the vehicle and the cost of the same or most similar vehicle that uses a traditional fuel. Plug-in hybrid electric vehicles are not included in category 1 under current law.
HB13-1247 /a	Credit capped at $6,000. A percentage* of a portion of the cost of the vehicle. The portion of the cost to which the percentage* is applied is determined by the vehicle's battery capacity (in Kilowatt-hours).
Purchase or Lease of Compressed Natural Gas Vehicles - Category 4	
Current Law	A percentage of the difference between the cost of the vehicle and the cost of the same or most similar vehicle that uses a traditional fuel.
HB13-1247 /b	A percentage* of the actual cost of the vehicle.
Converting a Traditional Fuel Vehicle to Electric or Natural Gas Fuels - Multiple Categories	
Current Law	Capped at $6,000 for conversions to an electric vehicle or a natural gas fueled vehicle, or, beginning with tax year 2014, a conversion to a liquified petroleum gas fueled vehicle. For conversions to 100 percent electric vehicles, a percentage of the difference between the cost of replacing the vehicle's power source with an alternative fuel vs. the cost of replacing the vehicle's power source with a traditional fuel. For a conversion to a compressed natural gas vehicle, a liquified petroleum gas vehicle, or a plug-in hybrid electric vehicle, a percentage of the cost of conversion.
HB13-1247 /a	Capped at $6,000. A percentage* of the cost of conversion.
Converting a Hybrid Electric Vehicle to a Plug-In Hybrid Electric Vehicle - Category 1A	
Current Law	Capped at $7,500. A percentage of the cost of conversion.
HB13-1247	Capped at $7,500 in 2013 and $6,000 in 2014 through 2021. A percentage* of the cost of conversion.

/a The formula simplifies the calculation for the Department of Revenue and, in most cases, does not change the value of the credit.
/b The value of the credit is higher under HB13-1247 than under current law in tax years 2014 through 2016.
**This percentage changes over time and is shown in Table 3 on page 4.*

Table 2. Categories of Innovative Motor Vehicles and Fuel-Efficient Technologies Eligible for State Income Tax Credit

Categories Under Current Law		Categories Under HB13-1247	
1	Electric motor vehicles and conversions to electronic motor vehicles. (Must meet EPA Tier 2 Bin 1 Standard.) *Example: Nissan Leaf: 100% electric*	1	100% electric and plug-in hybrid electric motor vehicles. *Examples: Nissan Leaf: 100% electric* *Chevrolet Volt, hybrid electric vehicle*
		1A	The conversion of a motor vehicle to an electric motor vehicle or plug-in hybrid electric motor vehicle. *Example: Conversion of a Toyota Prius to a plug-in*
2	Diesel-electric hybrid passenger vehicles with minimum fuel economy of 70 mpg. *Example: Peugeot 308: average mpg 47*	2	No change from current law.
3	Conversions of passenger vehicles and light and medium duty trucks to diesel-electric hybrid vehicles that increase the vehicle's fuel economy by 40% or more. *Example: Ford Fusion Hybrid: average mpg 41*	3	No change from current law.
4	Passenger vehicles and light and medium duty trucks originally manufactured to use compressed natural gas (CNG) or that are converted to use CNG or liquified petroleum gas (LPG). *Example: Honda Civic GX: average mpg 38*	4	Passenger vehicles and light and medium duty trucks originally manufactured to use CNG.
		4A	Conversions certified by the U.S. Environmental Protection Agency of passenger vehicles and light and medium duty trucks to use CNG or LPG.
5	Idling reduction technologies which allow heavy-duty diesel engines.	5	No change from current law.
6	Vehicles with minimum fuel economy of 40 mpg that meet EPA Tier 2, Bin 2, or Bin 3 Standards. *Example: Honda Civic Hybrid, average mpg 44*	6	Not eligible beginning in tax year 2014, although the value of the credit ($0) is unchanged from current law in tax years 2014 and 2015.
7	Vehicles with minimum fuel economy of at least 30 mpg bu less than 40 mpg that meet EPA Tier 2 or Bin 3 Standards. *Example: Toyota Prius: average mpg 51*	7	Not eligible beginning in tax year 2014, although the value of the credit ($0) is unchanged from current law in tax years 2014 and 2015.

Table 3
Percentages Used to Calculate the Innovative Motor Tax Credit Under HB13-1247

Category	2013	2014	2015	2016	2017	2018	2019	2020	2021
1*	100%*						75%*	50%*	25%*
1A	75%						56.25%	37.5%	18.75 %
2	25%	15%					11.25%	7.5%	3.75%
3	35%	25%					18.75%	12.5%	6.25%
4	10.5%	12.25%			10.5%		7.88%	5.25%	2.63%
4A	35%	25%					18.75%	12.5%	6.25%
5	25%						18.75%	12.5%	6.25%
6	10%	*The credit is no longer available for categories 6 and 7 beginning tax year 2014.*							
7	0%								

* *The percentage used to calculate the credit for electric and plug-in electric hybrid vehicles (category 1) is applied to only a portion of the cost of the vehicle. That portion is determined by the vehicle's battery capacity (in Kilowatt-hours). For example, the portions for a Chevrolet Volt and a 2013 Nissan Leaf are 16.5 percent and 24 percent, respectively (based battery capacities of 16.5 and 24 Kilowatt-hours, respectively).*

State Transfers

State Education Fund Transfer. HB 12-1338 transfers any General Fund surplus in FY 2012-13 to the State Education Fund. By reducing General Fund revenue by $2.4 million in FY 2012-13, this bill causes a corresponding reduction of $2.4 million in the amount that will be transferred to the State Education Fund in FY 2013-14.

State Revenue

House Bill 13-1247 will decrease General Fund revenue by $2.4 million in FY 2012-13, $5.2 million in FY 2013-14, and $5.9 million in FY 2014-15. Table 4 shows the revenue impact through FY 2022-23, when the bill is fully implemented. These estimates were derived from data on the state's current innovative fuel tax credit, sales of existing alternative fuel vehicles, and projections for the sale of alternative-vehicle sales from the U.S. Energy Information Administration. Although the calculation for many of the categories affected by the bill changed, the value of most credits was not significantly altered. The large majority of the revenue impact is the result of allowing the credit for the purchase and lease of plug-in electric hybrid vehicles.

It is important to note that the revenue impact of the bill could end up being higher or lower than the estimates, depending on the speed and extent to which more fuel-efficient vehicles enter the marketplace. Revenue will also be affected by the cost of more traditional fuels. If traditional fuel prices remain at elevated levels for extended periods of time, the revenue impact could be higher.

The revenue estimate will also be impacted by the rate at which infrastructure develops to support alternative fuel vehicles, such as recharging facilities for plug-in electric vehicles. Finally, changes in tax policy by the federal government could have an effect on the demand for alternative fuel vehicles. Currently, federal tax incentives exist for their purchase.

Table 4
Estimated General Fund Revenue Impact for the
Innovative Motor Fuel Tax Credit Under Current Law and HB 13-1247
Millions of Dollars

Fiscal Year	Current Law	HB 13-1247	Difference
FY 2012-13	($1.8)	($4.2)	($2.4)
FY 2013-14	(2.0)	(7.2)	(5.2)
FY 2014-15	(0.3)	(6.2)	(5.9)
FY 2015-16	(0.2)	(6.8)	(6.6)
FY 2016-17		(7.4)	(7.4)
FY 2017-18		(8.1)	(8.1)
FY 2018-19		(7.8)	(7.8)
FY 2019-20		(6.1)	(6.1)
FY 2020-21		(4.0)	(4.0)
FY 2021-22		(1.4)	(1.4)

State Expenditures

There is no expected state expenditures associated with this bill. The department of revenue expects only minor changes in claims, a minimal amount of CITA programming, and changes to the 104 CR form, which will be absorbed within existing resources.

Departments Contacted

Revenue   Transportation