

STATE OF MARYLAND

**EV Excise Tax Credit**

Short Description: Excise tax credit of zero to \$2,000 to be claimed by purchaser.

Beneficiary: Purchaser of Electric Vehicle in Maryland

Type of Incentive: Income Tax Credit

Effective Dates: Current benefit

Value of Benefit: For a qualified electric vehicle a credit of up to \$2,000 is available against the excise tax imposed by the state.

Full Description:

The purchase of a new electric vehicle in Maryland qualifies a taxpayer for an income tax credit equal to the smallest of 100% of the excise tax imposed or \$2,000. The vehicle must be registered in Maryland to be eligible for the tax credit. The vehicle excise tax, also known as the "title tax," must be paid up front. The amount of the allowed credit may then be claimed on the taxpayer's state income tax return for the year of purchase against any state income tax liability.

State Statutory References:

- SB 281

Other Link(s):

- [http://mlis.state.md.us/2010rs/fnotes/bil\\_0001/sb0281.pdf](http://mlis.state.md.us/2010rs/fnotes/bil_0001/sb0281.pdf) (Bill)

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 281

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

**Motor Vehicle Excise Tax - Tax Credit for Electric Vehicles**

This Administration bill creates a tax credit for the purchase of qualified plug-in electric vehicles equal to 100% of the State vehicle excise tax imposed, not to exceed \$2,000. The bill requires a transfer of \$279,000 from the Maryland Strategic Energy Investment Fund (SEIF) to the Transportation Trust Fund (TTF) in fiscal 2011. The Governor is also required to include in the 2012 and 2013 budget bill a transfer of funds from SEIF to TTF in the amount estimated to offset the reduction in TTF revenues due to the credit.

The credit applies to qualified vehicles purchased beginning October 1, 2010, through June 30, 2013.

**Fiscal Summary**

**State Effect:** SEIF revenues decrease by \$0.3 million in FY 2011, \$1.3 million in FY 2012, and by \$1.6 million in FY 2013. Potential minimal increase in TTF expenditures in FY 2011 due to computer programming costs at the Motor Vehicle Administration (MVA).

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	(\$.3)	(\$1.3)	(\$1.6)	\$0	\$0
SF Expenditure	-	\$0	\$0	\$0	\$0
Net Effect	(\$.3)	(\$1.3)	(\$1.6)	\$0	\$0

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** Local highway user revenues may be impacted in FY 2011, 2012, and 2013 as discussed below. Local expenditures are not affected.

**Small Business Effect:** The Administration has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

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## Analysis

**Bill Summary:** The bill establishes a tax credit against the vehicle excise tax for 100% of the excise tax imposed, not to exceed \$2,000, for the purchase of a qualified plug-in electric vehicle. The credit is limited to one vehicle per individual and 10 vehicles per business entity. The credit is available for the purchase of a qualifying vehicle beginning October 1, 2010, through June 30, 2013.

A qualified plug-in electric vehicle is an unmodified four-wheeled motor vehicle that: (1) is made by a manufacturer primarily for use on public streets; (2) is acquired for use or lease by the taxpayer and not for resale; (3) is rated at no more than 8,500 pounds unloaded gross vehicle weight; (4) has a maximum speed of at least 55 miles per hour; and (5) is propelled to a significant extent by an electric motor that draws electricity from a battery that has a capacity of at least 4 kilowatt hours and is capable of being recharged from an external source of electricity.

The credit may not be claimed: (1) unless the vehicle is registered in the State; and (2) unless the owner “has already conformed to any applicable state or federal laws or regulations governing clean-fuel vehicle or electric vehicle purchases during the calendar year in which the vehicle is titled.”

The bill requires a transfer of \$279,000 in fiscal 2011 from SEIF to TTF. The Governor is also required to include in the fiscal 2012 and 2013 annual budget bill a transfer of funds from SEIF to TTF in an amount estimated to offset the reduction in vehicle excise revenues resulting from the bill.

**Current Law:** No similar State tax credit exists, although purchases of qualified plug-in electric vehicles qualify for federal credits as discussed below. In addition, businesses may deduct or expense vehicle purchases, which typically results in a lower federal and State income tax liability.

The vehicle excise tax, also known as the titling tax, must be paid at the time of application for an original or subsequent vehicle title. Applicants pay 6% of the fair market value of the vehicle minus the value of any trade-in. In fiscal 2011, a portion (20%) of the titling tax revenue is distributed to local governments in the form of local highway user revenues. The remaining titling tax (80%) is used to pay the debt service on the Maryland Department of Transportation’s consolidated transportation bonds. No

part of the tax or other funds used for debt service on the bonds may be repealed or applied to any other purpose until the bonds and interest on the bonds are fully paid or a complete provision for paying the bonds has been made.

**Background:** Plug-in hybrid electric vehicles (PHEVs) have gained significant attention in recent years, as concerns about energy, environmental, and economic security – including rising gasoline prices – have prompted efforts to improve vehicle fuel economy and reduce petroleum consumption in the transportation sector. PHEVs differ from both conventional vehicles, which are powered exclusively by gasoline-powered internal combustion engines, and battery-powered electric vehicles, which use only electric motors. Conventional hybrids such as the Toyota Prius are not PHEVs, which may be “plugged” into an external power source in order to charge the battery.

Although PHEVs provide significant fuel savings (vehicles can get up to 100 miles per gallon), they are significantly more expensive to buy than a comparable conventional vehicle and may not represent the most cost effective method of reducing pollution and other undesirable impacts resulting from fossil fuel consumption. Significant research, including funding from the federal government, is currently directed at improving the performance of vehicle batteries.

Several PHEV models are expected to be introduced later this year or in 2011; including the Chevy Volt, Toyota Prius (plug-in version), Nissan Leaf, and VW Golf. General Motors (GM) has announced that the Chevy Volt will have a maximum range of 40 miles on one electric charge before switching to its gas generator. GM also recently announced plans to add production of electric motors at its White Marsh transmissions manufacturing plant. The federal Energy Information Administration (EIA) forecasts that PHEV sales will grow rapidly in the next few years, increasing to about 90,000 vehicles annually in 2015 or about 1.7% of the total light duty vehicle stock.

#### *State Qualified Electric Hybrid Tax Credit*

Chapter 295 of 2000 provided a credit against the vehicle excise tax for individuals who buy either a qualified electric or hybrid vehicle. The credit expired July 1, 2004. **Exhibit 1** lists the total amount of credits and number of taxpayers who claimed the credit from fiscal 2001 to 2004. The majority of credits were claimed for qualifying hybrid vehicles.

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**Exhibit 1**  
**Amount of Credits Claimed**  
**Fiscal 2001-2004**

<u>Fiscal Year</u>	<u>Credits Claimed</u>	<u>Taxpayers</u>	<u>Average</u>
2001	\$225,316	222	\$1,015
2002	\$583,708	554	\$1,054
2003	\$1,422,351	1,390	\$1,023
2004	\$2,043,293	1,912	\$1,069

Source: Maryland Department of Transportation

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*Federal Tax Credits*

The federal Energy Improvement and Extension Act of 2008 established two tax credits for qualified electric vehicles – a maximum credit of \$2,500 for certain low-speed electric vehicles under Section 30 of the Internal Revenue Code and a maximum credit of between \$7,500 to \$15,000 for qualified plug-in electric vehicles under Section 30D. The American Recovery and Reinvestment Act of 2009 amended the credits effective for vehicles acquired after December 31, 2009. A vehicle may only qualify for one of the credits. The plug-in electric credit under Section 30D is currently equal to the sum of \$2,500 plus \$417 for each kilowatt hour of battery capacity in excess of 5 kilowatt hours, subject to an overall maximum of \$7,500. The credit begins to phase out for a manufacturer's vehicles over a certain one-year period once 200,000 qualifying vehicles manufactured by the manufacturer have been sold for use in the United States. The IRS will be publishing a list of vehicles that meet the current qualifications of the plug-in electric vehicle credit and the amount of credit for each qualifying vehicle.

*Strategic Energy Investment Fund*

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program, and the implementing SEIF, to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. Of the money received each year by SEIF, at least 46% must be allocated for energy efficiency and conservation programs, projects, and activities and demand response programs, which include grants to training funds and other organizations supporting job training for deployment of energy efficiency and energy conservation technology equipment. SEIF is primarily funded through the proceeds from auction of carbon allowances to power plants under the Regional Greenhouse Gas Initiative. In the fiscal 2011 allowance, a total of

\$79.1 million in SEIF is expended for low-income energy payment assistance, residential rate relief, weatherization and energy efficiency programs, and renewable energy funding.

**State Revenues:** The bill establishes a credit against the vehicle excise tax for qualified plug-in electric vehicles and requires a transfer of \$279,000 from SEIF to TTF in fiscal 2011. The Governor is required to include in the 2012 and 2013 budget bill a transfer of funds from SEIF to TTF in an amount estimated to offset the reduction in vehicle excise taxes resulting from the credit. As a result, SEIF revenues will decrease by \$279,000 in fiscal 2011, \$1.3 million in fiscal 2012, and by \$1.6 million in fiscal 2013.

SEIF revenue decreases reflect the estimated cost of the credit, which is based on federal Joint Committee on Taxation estimates of applicable federal PHEV credits and EIA's national forecast of PHEV sales, adjusted for Maryland and differences in the proposed credit and federal credit. SEIF revenues transferred to the TTF are intended to offset the reduction in TTF revenues resulting in the credit. Legislative Services estimates that a transfer of \$279,000 in fiscal 2011 should be sufficient to offset the cost of the credit. To the extent that more credits are claimed than estimated, TTF revenues will decrease in fiscal 2011. In addition, if TTF revenue losses due to the credit are greater (less) than the amount included in the fiscal 2012 and 2013 budget, TTF revenues will decrease (increase) in fiscal 2012 and 2013.

The proposed fiscal 2011 State budget specifies that special fund appropriations for the Maryland Energy Administration (Renewable and Clean Energy Programs and Initiatives) be reduced by \$279,000 contingent upon the enactment of this legislation. These funds would be transferred to TTF to cover the costs of the proposed tax credit.

**State Expenditures:** MVA reports that implementing the bill will require an estimated 140 hours of computer programming. If these programming expenses cannot be covered within existing resources, TTF expenditures will increase by \$35,000 in fiscal 2011.

**Local Revenues:** A portion of local highway user revenues are distributed from vehicle excise taxes. If TTF revenues decrease as a result of the bill, local highway user revenues will decrease. If TTF revenues increase, local highway user revenues will increase. Any change is expected to be modest.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 469 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means.

**Information Source(s):** Department of Budget and Management, Comptroller's Office, The Joint Committee on Taxation, Internal Revenue Service, Maryland Department of Transportation, U.S. Energy Information Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - February 16, 2010  
mpc/hlb

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

**TITLE OF BILL: Motor Vehicle Excise Tax - Tax Credit for Electric Vehicles**

BILL NUMBER: SB 281

PREPARED BY:

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.