Colorado Legislative Council Staff

HB16-1332

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0355	**Date:**	March 17, 2016
Prime Sponsor(s):	Rep. Duran; Rankin Sen. Scott; Johnston	**Bill Status:**	House Finance
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

BILL TOPIC: ALTERNATIVE FUEL MOTOR VEHICLE INCOME TAX CREDITS

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	**$151,828**	**$303,656**
General Fund	151,828	303,656
State Expenditures	**$37,038**	
General Fund	37,038	
TABOR Impact	$151,828	$303,656
Appropriation Required: $37,038 - Department of Revenue (FY 2016-17).		
Future Year Impacts: Ongoing state revenue increase.		

Summary of Legislation

Effective tax year 2017, the bill changes two refundable income tax credits in current law: the innovative motor vehicle credit and the innovative truck credit. These changes are described below.

Computation of credits. Current law includes various methods for the computation of tax credits for different vehicle types, called categories. Depending on the category, the amount of credit awarded may be computed based on the vehicle's cost or battery capacity. The bill repeals these formulas, establishing fixed credit amounts for each category and truck weight class beginning tax year 2017. Credit amounts are reduced beginning in tax year 2020, and the credit is sunset after tax year 2021. Tables on pages 2 through 4 of this fiscal note present the current law computation and the fixed credit amounts established in the bill.

Discontinuation of Category 2 and 3 credits. Beginning in tax year 2017, credit is no longer available for the purchase, lease, or conversion of Category 2 and Category 3 vehicles, which are diesel-electric hybrid vehicles with a fuel economy of at least 70 miles per gallon.

Transfer of credit to a financing entity. The bill allows a taxpayer to elect to transfer the entire tax credit allowed for the purchase or lease of a vehicle to a financing entity when a purchase or lease is finalized. The financing entity must compensate the taxpayer for the full nominal value of the credit, except that the financing entity may collect an administrative fee not to exceed $150.

Additional changes. Beginning in tax year 2017, credit may be awarded only for the purchase or lease of new vehicles, not used vehicles. The bill establishes two years as the minimum duration for a qualifying lease. The Department of Revenue is required to record and track the vehicle identification numbers (VIN) of qualifying vehicles for which credit is awarded beginning in tax year 2017. These changes affect credits allowed for vehicles in Category 8, clean fuel refrigerated trailers, which are otherwise unaffected by the bill.

Credits for vehicles in Category 5, conversions to reduce idling time, and Category 6, conversions to improve aerodynamics, are unaffected by the bill.

Table 1. Value of Category 1 and Category 1 A Credit under Current Law and HB16-1332

Category 1: Electric and plug-in hybrid electric passenger vehicle purchases and leases
Category 1 A: Electric and plug-in hybrid electric passenger vehicle conversions

	Vehicle type	Through TY 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021
Current Law	**Category 1*** Passenger vehicle purchases and leases	100% of cost*	75% of cost*	50% of cost*	25% of cost*
	Category 1 A Passenger vehicle conversions	75% of cost	56.25% of cost	37.5% of cost	18.75% of cost
HB16-1332	**Category 1** Passenger vehicle purchases		$5,000	$4,000	$2,500
	Category 1 Passenger vehicle leases		2,500	2,000	1,500
	Category 1 A Passenger vehicle conversions		5,000	4,000	2,500

* *The percentage used to calculate the current law credit for Category 1 vehicles is applied only to a portion of the vehicle's MSRP, determined by the vehicle's battery capacity in kilowatt hours.*

Table 2. Value of Category 4, 4 A, 4 B, and 4 C Credit under Current Law and HB16-1332

Category 4: Liquefied petroleum gas and compressed natural gas vehicle and truck purchases and leases
Category 4 A: Liquefied petroleum gas and compressed natural gas vehicle and truck conversions
Category 4 B: Liquefied natural gas and hydrogen vehicle and truck purchases and leases
Category 4 C: Liquefied natural gas and hydrogen vehicle and truck conversions

	Vehicle type	Cap per vehicle	Through TY 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021
Current Law Cat 4 and 4 B Purchases and leases	Passenger vehicles	$6,000	15% of cost	11.25% of cost	7.5% of cost	3.75% of cost
	Light duty trucks	7,500				
	Medium duty trucks	15,000				
	Heavy duty trucks	20,000				
Current Law Cat 4 A and 4 C Conversions	Passenger vehicles	$6,000	45% of cost	33.75% of cost	22.5% of cost	11.25% of cost
	Light duty trucks	7,500				
	Medium duty trucks	15,000				
	Heavy duty trucks	20,000				
HB16-1332 Cat 4 and 4 B Purchases	Passenger vehicles	N/A		$5,000	$4,000	$2,500
	Light duty trucks			7,000	5,500	3,500
	Medium duty trucks			10,000	8,000	5,000
	Heavy duty trucks			20,000	16,000	10,000
HB16-1332 Cat 4 and 4 B Leases	Passenger vehicles	N/A		$2,500	$2,000	$1,500
	Light duty trucks			3,500	2,750	1,750
	Medium duty trucks			5,000	4,000	2,500
	Heavy duty trucks			10,000	8,000	5,000
HB16-1332 Cat 4 A and 4 C Conversions	Passenger vehicles	N/A		$5,000	$4,000	$2,500
	Light duty trucks			7,000	5,500	3,500
	Medium duty trucks			10,000	8,000	5,000
	Heavy duty trucks			20,000	16,000	10,000

Table 3. Value of Category 7 and Category 7 A Credit under Current Law and HB16-1332

Category 7: Electric and plug-in hybrid electric truck purchases and leases
Category 7 A: Electric and plug-in hybrid electric truck conversions

	Vehicle type	Cap per vehicle	Through TY 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021
Current Law Category 7 Purchases and leases	Passenger vehicles	$6,000	15% of cost	11.25% of cost	7.5% of cost	3.75% of cost
	Light duty trucks	7,500				
	Medium duty trucks	15,000				
	Heavy duty trucks	20,000				
Current Law Category 7 A Conversions	Passenger vehicles	$6,000	45% of cost	33.75% of cost	22.5% of cost	11.25% of cost
	Light duty trucks	7,500				
	Medium duty trucks	15,000				
	Heavy duty trucks	20,000				
HB16-1332 Category 7 Purchases	Passenger vehicles	N/A	$5,000		$4,000	$2,500
	Light duty trucks		7,000		5,500	3,500
	Medium duty trucks		10,000		8,000	5,000
	Heavy duty trucks		20,000		16,000	10,000
HB16-1332 Category 7 Leases	Passenger vehicles	N/A	$2,500		$2,000	$1,500
	Light duty trucks		3,500		2,750	1,750
	Medium duty trucks		5,000		4,000	2,500
	Heavy duty trucks		10,000		8,000	5,000
HB16-1332 Category 7 A Conversions	Passenger vehicles	N/A	$5,000		$4,000	$2,500
	Light duty trucks		7,000		5,500	3,500
	Medium duty trucks		10,000		8,000	5,000
	Heavy duty trucks		20,000		16,000	10,000

Table 4. Value of Category 9 Credit under Current Law and HB16-1332

Category 9: Hydraulic hybrid medium and heavy duty truck conversions

	Vehicle type	Cap per vehicle	Through TY 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021
Current Law Category 9 Conversions	Medium duty trucks	$6,000	45% of cost	33.75% of cost	22.5% of cost	11.25% of cost
	Heavy duty trucks					
HB16-1332 Category 9 Conversions	Medium duty trucks	N/A	$5,000		$4,000	$2,500
	Heavy duty trucks					

State Revenue

The bill is expected to increase state General Fund revenue by **$151,828 in FY 2016-17 and $303,656 in FY 2017-18**, and by similar amounts in subsequent fiscal years. The estimate for FY 2016-17 represents a half-year impact.

Passenger vehicles. Expectations for passenger vehicle credits are shown in Table 5. Data from the Department of Revenue indicate that income tax credits worth $5.0 million were allowed for 1,484 passenger vehicles during tax year 2014, the most recent year for which data are available. On average, credits were worth $4,269 for each of 897 purchased new vehicles, $1,840 for 330 purchased used vehicles, $2,297 for 249 leased vehicles, and $4,784 for 8 converted vehicles. It is assumed that the quantity of 2014 credits is representative of those that will be claimed in 2017. Based on the Bureau of Labor Statistics consumer price index for new and used vehicles, vehicle price inflation is assumed to be negligible. However, average credit amounts for new purchased and leased Category 1 vehicles are expected to increase under current law based on increasing electric vehicle battery capacities.

Under these assumptions, the bill results in a $616,494 decrease in income tax credits for passenger vehicles, primarily owing to the elimination of eligibility for used vehicles, and increases state General Fund revenue by an identical amount annually beginning in tax year 2017.

Based on the quantity of vehicles for which credits are claimed under current law, the fiscal note assumes only a minimal revenue reduction resulting from the elimination of Categories 2 and 3.

Table 5. State Revenue Impact of 2017 Passenger Vehicle Credits under Current Law and HB16-1332
Categories 1, 1 A, 4, 4 A, 4 B, and 4 C

		Current Law		HB16-1332		
	Quantity	Average Credit	Total Credit	Average Credit	Total Credit	Change
New Purchased	897	($4,965)	($4,453,273)	($5,000)	($4,485,000)	($31,727)
Used Purchased	330	(1,840)	(607,325)	0	0	607,325
Leased	249	(2,671)	(665,121)	(2,500)	(622,500)	42,621
Converted	8	(4,784)	(38,275)	(5,000)	(40,000)	(1,725)
TOTAL	**1,484**	**($3,884)**	**($5,763,994)**	**($4,461)***	**($5,147,500)**	**$616,494**

** Credit amounts are shown as revenue decreases in parentheses. Excludes used purchased vehicles.*

Trucks. Expectations for innovative truck credits are shown in Table 6. Data from the Department of Revenue indicate that income tax credits worth $34,084 were awarded to purchasers of 20 used trucks during tax year 2014. Disallowance of used vehicles is assumed to increase state revenue by an identical amount annually.

Due to confidentiality requirements, the Department of Revenue is unable to release data on credits awarded for purchases of new light, medium, and heavy duty trucks. Data on truck purchases were culled from grant applications submitted to the Regional Air Quality Council (RAQC), a public organization that funded alternative fuel vehicle grants on the Front Range during 2014 and 2015. On average, RAQC grants were sought for the purchase of

188 trucks by taxpaying entities each year. It is assumed this quantity of credits is representative of those that will be claimed in 2017. Light duty truck purchasers were eligible for current law credits that, on average, slightly exceeded the amounts proposed in the bill, while medium duty truck purchasers were eligible for current law credits substantially less valuable than those proposed in the bill. All 65 heavy duty trucks were eligible for the maximum $20,000 credit, the same amount proposed in the bill. Based on Division of Motor Vehicles truck registration data for ten urban counties along the northern Front Range, RAQC grant applicants are assumed to account for 61.9 percent of statewide innovative truck purchasers.

Based on these assumptions, the bill results in a $312,838 increase in income tax credits for innovative trucks. These credits will decrease state General Fund revenue by an identical amount beginning in tax year 2017.

Table 6. State Revenue Impact of 2017 Innovative Truck Credits under Current Law and HB16-1332
Categories 4, 4 A, 4 B, 4 C, 7, 7 A, and 9

		Current Law		HB16-1332		
Truck Class	Quantity	Average Credit	Total Credit	Average Credit	Total Credit	Change
Used Light	20	($1,704)	($34,084)	$0	$0	$34,084
New Light	6	(7,397)	(44,379)	(7,000)	(42,000)	3,846
New Medium	117	(8,145)	(952,980)	(10,000)	(1,170,000)	(350,768)
New Heavy	65	(20,000)	(1,300,000)	(20,000)	(1,300,000)	0
TOTAL	**208**	**($11,209)**	**($2,331,443)**	**($13,362)***	**($2,512,000)**	**($312,838)**

** Credit amounts are shown as revenue decreases in parentheses. Excludes used light trucks.*

TABOR Impact

This bill increases state revenue from income taxes, which will increase the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill increases both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will increase money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

The bill is expected to increase General Fund expenditures by **$37,038 in FY 2016-17** only.

Department of Revenue. This bill requires changes to the department's GenTax software system. Changes are programmed by a contractor at a rate of $200 per hour. The changes in this bill are expected to increase General Fund expenditures by $33,200, representing 166 hours of programming. All GenTax programming changes are tested by department staff. Testing for this bill will require expenditures for contract personnel totaling $3,838, representing 160 hours of testing at a rate of $23.99 per hour.

Technical Note

Beginning in tax year 2017, the bill allows the credit to be claimed only for vehicles that are new, not used. Current law and the bill both allow the credit to be claimed for Categories 1 A, 4 A, 4 C, and 7 A, which concern vehicles converted to an innovative power source. Restricting the credit to new vehicles may disallow the credit for vehicle conversions under these four categories.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. The changes to the credits are effective tax year 2017. The Department of Revenue is required to begin tracking VIN information beginning from the bill's effective date.

State Appropriations

For FY 2016-17, the bill requires a General Fund appropriation of $37,038 to the Department of Revenue.

State and Local Government Contacts

Colorado Energy Office	Information Technology
Revenue	Transportation

Research Note Available

An LCS research note for HB16-1332 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.