

## Fiscal Estimate - 2005 Session

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

<b>LRB Number</b> <b>05-4549/1</b>	<b>Introduction Number</b> <b>SB-620</b>
<b>Description</b> Creating an income and franchise tax credit for motor vehicles that use gasoline and ethanol mixtures as fuel and for fuel efficient hybrid motor vehicles	
<b>Fiscal Effect</b>  <b>State:</b> <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No State Fiscal Effect  <input type="checkbox"/> Indeterminate                      <input type="checkbox"/> Increase Existing Appropriations                      <input type="checkbox"/> Decrease Existing Appropriations                      <input type="checkbox"/> Create New Appropriations                 </div> <div style="width: 33%;"> <input type="checkbox"/> Increase Existing Revenues  <input checked="" type="checkbox"/> Decrease Existing Revenues                 </div> <div style="width: 33%;"> <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget                      <input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No  <input type="checkbox"/> Decrease Costs                 </div> </div> <b>Local:</b> <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No Local Government Costs  <input type="checkbox"/> Indeterminate                      1. <input type="checkbox"/> Increase Costs                          <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory                      2. <input type="checkbox"/> Decrease Costs                          <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory                 </div> <div style="width: 33%;">                     3. <input type="checkbox"/> Increase Revenue                          <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory                      4. <input type="checkbox"/> Decrease Revenue                          <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory                 </div> <div style="width: 33%;"> <b>5. Types of Local Government Units Affected</b>  <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> Towns  <input type="checkbox"/> Counties  <input type="checkbox"/> School Districts                         </div> <div style="width: 33%;"> <input type="checkbox"/> Village  <input type="checkbox"/> Others  <input type="checkbox"/> WTCS Districts                         </div> <div style="width: 33%;"> <input type="checkbox"/> Cities                         </div> </div> </div> </div>	

## Fiscal Estimate Narratives

DOR 3/8/2006

LRB Number	05-4549/1	Introduction Number	SB-620	Estimate Type	Original
<b>Description</b> Creating an income and franchise tax credit for motor vehicles that use gasoline and ethanol mixtures as fuel and for fuel efficient hybrid motor vehicles					

### Assumptions Used in Arriving at Fiscal Estimate

Under the bill, a person may claim an income or franchise tax credit for the sales or use tax paid on the purchase of:

1. A motor vehicle that is capable of using both gasoline and a mixture consisting of gasoline and at least 85% ethanol (E85) as fuel, or
2. A hybrid motor vehicle that has a federal Environmental Protection Agency combined city-highway mileage rating of no less than 40 miles per gallon.

The amount of the credit that may be claimed may not exceed \$1,000 on the purchase of any single motor vehicle. The credit is nonrefundable but any unused balance may be carried forward for up to 15 years. The credit would first apply to purchases of eligible motor vehicles during the taxable year beginning January 1 of the year the bill takes effect except that, if the bill takes effect after July 31, the credit first applies to purchases during the taxable year beginning the next January 1.

#### FLEXIBLE FUEL VEHICLES

According to the Department of Administration, there are about 88,000 privately-owned flexible fuel vehicles (FFVs -- vehicles capable of using either E85 or conventional gasoline) currently registered in Wisconsin. Model years of the vehicles range from 1996 through 2005.

On average, 12,346 FFVs of each model year were sold in Wisconsin from 2001 through 2004, and the estimated average price of a 2005 FFV is \$27,365. Since the credit is limited to \$1,000, the credit would apply only to the first \$20,000 of the price of the FFV. Assuming 12,346 new FFVs are sold, estimated sales of new FFVs eligible for the new credit would be \$247 million (\$20,000 x 12,346).

Data on sales of used FFVs are not available. However, the number of used vehicles sold in general exceeds the number of new vehicles sold by at least 50%. In addition, the price of a used vehicle is typically about 30% of the price of a new vehicle. Assuming the number of used FFVs sold is 50% greater than the number of new vehicles sold, and the price is 30% of that of a new vehicle, estimated sales of used FFVs that would be eligible for the new credit would be \$152 million (\$8,210 x 18,489). Thus, total sales of FFVs eligible for the new credit are estimated at \$399 million (\$247 mil. + \$152 mil.) in 2004.

According to the federal Energy Information Administration, the number of FFVs sold nationally has been increasing at over 20% per year. Since FFVs apparently do not start as well in cold climates as gasoline-fueled cars, sales of FFVs in Wisconsin are assumed to increase at only 15% annually, increasing to \$527 million (\$399 mil. x 1.15 x 1.15) in 2006. Although car dealers are likely to inform purchasers of the new tax credit as a selling point for FFVs, it is assumed that only 90% of potential claimants will claim the new credit under the bill. Under the foregoing assumptions, if the bill took effect by July 31, 2006, income taxes due to sales of FFVs would decrease by \$24 million (\$527 mil. x 90% x 5%) in FY07 under the bill.

#### HYBRID VEHICLES

According to hybridcars.com, 205,749 hybrid vehicles were sold nationwide in 2005, up from about 88,000 units in 2004. Based on data reported by hybridcars.com, Wisconsin sales of hybrids accounted for 1.7% of nationwide sales in 2003. Assuming this percentage does not change, about 3,500 hybrids were sold in Wisconsin in 2005. Although sales of hybrids by gas mileage are not available, higher gas mileage is a major selling point of the cars. Therefore, it is assumed that two-thirds of the vehicles have a combined EPA rating of no less than 40 miles per gallon. In addition, it is assumed that 20% of hybrids are sold to governments, non-profits and other exempt buyers. Under the foregoing assumptions, about 1,865 hybrids would meet the requirements for the credit under the bill in 2005.

A cap of \$1,000 means prices greater than \$20,000 (\$1,000/5%) would be subject to state sales tax. Since

hybrids typically sell for more than \$20,000, all sales are assumed to qualify for the \$1,000 state credit under the bill. Assuming that sales of hybrids increase 50% per year, 2,800 vehicles in 2006 would qualify for the \$1,000 credit under the bill. Assuming 90% of potential claimants claim the new credit under the bill, state tax revenues would decrease by about \$2.5 million ( $\$1,000 \times 2,800 \times 90\%$ ) in FY07 under the bill.

#### **SUMMARY**

State tax revenues are estimated to decrease by a total of \$26.5 million (\$24 mil. + \$2.5 mil.) under the bill.

Administrative costs of the bill would be absorbed.

#### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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<b>Description</b> Creating an income and franchise tax credit for motor vehicles that use gasoline and ethanol mixtures as fuel and for fuel efficient hybrid motor vehicles	
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>  The analysis assumes the credit would first apply to sales in 2006 and reduce FY07 income taxes.	
<b>II. Annualized Costs:</b>	<b>Annualized Fiscal Impact on funds from:</b>
	Increased Costs      Decreased Costs
<b>A. State Costs by Category</b>	
<input type="checkbox"/> State Operations - Salaries and Fringes	\$
<input type="checkbox"/> (FTE Position Changes)	
<input type="checkbox"/> State Operations - Other Costs	
<input type="checkbox"/> Local Assistance	
<input type="checkbox"/> Aids to Individuals or Organizations	
<input type="checkbox"/> <b>TOTAL State Costs by Category</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>	
<input type="checkbox"/> GPR	
<input type="checkbox"/> FED	
<input type="checkbox"/> PRO/PRS	
<input type="checkbox"/> SEG/SEG-S	
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>	
	Increased Rev      Decreased Rev
<input type="checkbox"/> GPR Taxes	\$      \$-26,500,000
<input type="checkbox"/> GPR Earned	
<input type="checkbox"/> FED	
<input type="checkbox"/> PRO/PRS	
<input type="checkbox"/> SEG/SEG-S	
<input type="checkbox"/> <b>TOTAL State Revenues</b>	<b>\$      \$-26,500,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>	
	State      Local
NET CHANGE IN COSTS	\$      \$
NET CHANGE IN REVENUE	\$-26,500,000      \$
<b>Agency/Prepared By</b>	
DOR/ Blair Kruger (608) 266-1310	
<b>Authorized Signature</b>	
Paul Ziegler (608) 266-5773	
<b>Date</b>	
3/8/2006	