

Fiscal Estimate Narratives
DOR 6/13/2007

LRB Number	07-2650/2	Introduction Number	AB-0371	Estimate Type	Original
Description Creating income and franchise tax credits for certain electric motor vehicles and for motor vehicles that use gasoline and ethanol mixtures as fuel and highway specific information signs					

Assumptions Used in Arriving at Fiscal Estimate

Under the bill, a person may claim an income or franchise tax credit for certain amounts based on the vehicle's purchase price for any of the following vehicles, if the vehicle was purchased or leased in the taxable year as a new motor vehicle, manufactured in this state, and licensed for highway use:

- A motor vehicle ("flexible fuel" or "flex fuel" vehicles) that is capable of using both gasoline and a mixture consisting of gasoline and at least 85% ethanol (E85) as fuel.
- A vehicle ("hybrids" such the Toyota Prius) that has a chemically fueled internal combustion engine which is capable of operating on gasoline, one or more alternative fuels, or diesel fuel, or by means of a gas turbine, and is also equipped with an electric motor and an energy storage device.
- A vehicle that satisfies the requirements of the neighborhood electric vehicle test program conducted by the federal Department of Energy.
- A plug-in hybrid-electric vehicle.

The amount of the credit under the bill varies depending on the purchase price: The credit ranges from \$500 (\$100 for a leased vehicle) if the vehicle's purchase price is \$18,000 or more to \$100 (\$20 for a leased vehicle) if the vehicle's purchase price is between \$10,000 and \$11,000. Also, under the bill, a person may claim an income or franchise tax credit of \$50 for the purchase and installation of an engine modification kit that converts the person's motor vehicle into any of the vehicles described above. The new credits may only be claimed for taxable years from 2008 through 2012. The credits are nonrefundable but any unused balance may be carried forward for up to 15 years.

The Wisconsin Department of Transportation (DOT) charges an annual \$40 inspection and maintenance fee for each business mentioned on an informational sign. Informational signs are located on state highways indicating the availability of motorist services. Under the bill, a person who offers gasoline consisting of at least 85 percent ethanol may include the symbol "E85" on the sign and, if the symbol "E85" is included on the sign, the person is not required to pay DOT the \$40 annual permit fee.

FLEXIBLE FUEL MOTOR VEHICLES

According to the Department of Agriculture, Trade and Consumer Protection (DATCP), the number of privately owned flexible fuel vehicles (FFVs -- vehicles capable of using either E85 or conventional gasoline) in Wisconsin increased by 18,715 in 2006. Also according to DATCP, the number of FFVs registered in Wisconsin increased from 90,580 as of December 31, 2004 to 128,563 as of December 31, 2006, an average annual increase of 19.1%. If new FFV sales increase 19.1% per year, about 26,547 ($18,715 \times 1.191^2$) new FFVs will be sold in 2008. Assuming the new credit is \$500 per vehicle for 2008 sales and that all credits are claimed in FY09, FY09 general fund revenues would decrease by \$13.3 million ($\$500 \times 26,547$).

HYBRID MOTOR VEHICLES

According to hybridcars.com, nationwide sales of hybrids totaled 254,545 in 2006, up 18.4% from 215,000 in 2005. Also according to hybridcars.com, Wisconsin sales of hybrids accounted for 1.7% of nationwide sales in 2003. Assuming 20% annual growth in hybrid sales and that Wisconsin continues to account for 1.7% of sales, about 6,400 hybrids will be sold in Wisconsin in 2008. It is assumed that 20% of hybrids are sold to governments, non-profits and other exempt buyers. Under the foregoing assumptions, about 5,124 ($6,400 \times 80\%$) hybrids eligible for the new credit would be sold 2008. Assuming the new credit is \$500 per vehicle for 2008 sales and that all credits are claimed in FY09, FY09 general fund revenues would decrease by \$2.6 million ($\$500 \times 5,124$).

NEIGHBORHOOD ELECTRIC VEHICLES

Neighborhood electric vehicles (NEVs) are similar in size to golf carts but often include additional features such as windshields, headlights and taillights, turn signals and seat belts. NEVs have maximum speeds of

about 25 mph and typically carry one to four passengers.

Total credits for NEV purchases are likely to be minimal. Under current law, NEVs may not be registered for use on state highways but they are not exempt from registration either. Moreover, under s. 349.26, a municipality is required to enact an ordinance allowing the operation of NEVs; the department is aware of five municipalities that have done so -- Allouez, Ashwaubenon, Bellevue, Brillion, De Pere and Green Bay. It seems unlikely that a significant volume of sales would occur until the legal issues are resolved.

PLUG-IN ELECTRIC HYBRID VEHICLES

According to Plug-in Partners, plug-in hybrid electric vehicles (PHEVs) are being developed but none are currently commercially available. A reliable estimate of sales and credit claims under the bill is not feasible.

ENGINE MODIFICATION KITS

Installation of engine modification kits may void the manufacturer's warranty on a vehicle. Also, engine modification kits appear to be sold mainly into niche markets for environmentalists or technology enthusiasts. Data on sales of engine modification kits are not available and an estimate of the number of claims is not feasible.

E85 SIGNS

According to Wisconsin Department of Transportation (DOT), gas stations, hotels, restaurants and other businesses lease informational signs from a vendor that erects and maintains the signs, and pays DOT the \$40 annual inspection and maintenance fee per sign. Of the 9,200 informational signs in the state in 2006, 20 advertised E85. A reliable estimate of the number of additional E85 signs that would be installed and the decrease in transportation fund revenues due to the bill's waiver of the \$40 fee is not feasible. However, the decrease is likely to be minimal.

SUMMARY OF FISCAL EFFECT

Under the bill, an estimated \$13.3 million in income and franchise tax credits for purchases of flexible fuel vehicles eligible vehicles and an estimated \$2.6 million in credits for hybrid vehicles are estimated to reduce income and franchise taxes by a total of \$15.9 million (\$13.3 mil. + 2.6 mil.) in FY09.

An estimate of the reduction in income and franchise taxes due to new credits for neighborhood electric vehicles, plug-in hybrid electric vehicles, and engine modification kits is not feasible. The decrease in income and franchise taxes due to these credits is not expected to be significant.

Transportation fund revenues would decrease by a minor amount due to the waiver of the \$40 inspection and maintenance fee for informational signs regarding E85.

The Department of Revenue's administrative costs would be absorbed.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): The annual GPR income and franchise tax decrease shown below would occur for five years. An estimate of the minor decrease in SEG revenue is not available.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-15,900,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S (Transportation)		
	TOTAL State Revenues	\$	\$-15,900,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-15,900,000	\$
Agency/Prepared By		Authorized Signature	Date
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