

Fiscal Estimate - 2009 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 09-1853/1	Introduction Number SB-138
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Description
 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

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<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"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs	5. Types of Local Government Units Affected	
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Fund Sources Affected	Affected Ch. 20 Appropriations
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

Agency/Prepared By DOR/ Jacek Cianciara (608) 266-8133	Authorized Signature Paul Ziegler (608) 266-5773	Date 5/7/2009
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Fiscal Estimate Narratives

DOR 5/7/2009

LRB Number	09-1853/1	Introduction Number	SB-138	Estimate Type	Original
Description 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 current law, with certain exemptions, sales of motor vehicles are subject to sales and use taxes.

Under the bill, a person may claim an income or franchise tax credit up to the amount of state sales or use tax paid on the purchase or lease of a new motor vehicle that is:

- A flexible fuel vehicle (FFV) capable of using both gasoline and a mixture consisting of gasoline and at least 85% ethanol (E85) as fuel, or
- A hybrid motor vehicle (HMV) which combines the technology of gasoline engines and electric motors, with a federal Environmental Protection Agency rating that is greater than 40 miles per gallon.

The amount of the credit that a person may claim in a taxable year may not exceed \$1,000 per motor vehicle. Partners, members of limited liability companies, and shareholders of tax - option corporations may claim the credit in proportion to their ownership interests.

The credit first applies to taxable years beginning January 1 of the year the act takes effect except, if the act takes effect after July 31, the credit first applies to the next taxable year beginning January 1.

Analysis

The ongoing recession has impacted car sales in Wisconsin. Based on the Department of Revenue's quarterly March 2009 Wisconsin Economic Outlook, new car sales in the state are expected to decline by 25.3% in 2009 but are expected to increase by 22.2% in 2010 as the state economy begins to recover. It is assumed for this fiscal note that the sale of FFVs and HMVs will follow this projected pattern of overall vehicle sales in Wisconsin.

Flexible Fuel Motor Vehicles

According to the Wisconsin Department of Transportation (DOT), in December 2007 there were 148,619 vehicles registered as FFVs. By December 2008, the number of FFVs registered vehicles increased to 169,073 (a 13.8% increase in 2008).

Assuming this recent FFV growth rate is impacted by the overall growth rates presented above (a decline of 25.3% in 2009 followed by a 22.2% increase in 2010), it is estimated that by the end of 2009 there will be 185,613 FFVs in Wisconsin, an increase of 16,540 over 2008, and by the end of 2010 there will be an additional 20,205 vehicles, for a total of 205,818 FFVs.

Since the credit is limited to \$1,000 of a state sales tax paid and given that the prices of new FFVs generally exceed \$20,000, the new credit will apply only to the first \$20,000 (\$1,000/5%) of the price paid for a new FFV. Assuming the credit first applies to taxable year 2009 and that 16,540 FFVs are sold with all eligible credits claimed, TY09/FY10 income tax collections would decrease by \$16.5 million. For TY10/FY11, the projected sales of 20,205 vehicles would decrease income tax collections by \$20.2 million.

Hybrid Motor Vehicles

Hybridcars.com reported that nationwide sales of hybrids totaled 314,271 in 2008, and the sales in 2008 were down by 10.0% compared to sales in 2007. According to Wisconsin DOT, in December 2007, there were 14,329 vehicles registered as HMVs. In 2008, there were 4,438 HMVs added, bringing the 2008 total to 18,184 (a 26.9% increase during 2008).

Assuming, as before, that this recent growth rate will be impacted by the same overall projected vehicle sale trends, it is estimated that by the end of 2009 there will be 21,461 HMVs in Wisconsin, an increase of 3,316

over 2008, and by the end of 2010 there will be an additional 4,050 vehicles, for a total of 25,511 HMs.

Based on the available data, about 67% of hybrids have an EPA rating of greater 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 above assumptions, about 1,774 ($=3,316 \times 67\% \times 80\%$) hybrids eligible for the new credit would be sold in 2009 and about 2,170 ($=4,050 \times 67\% \times 80\%$) eligible hybrids would be sold in 2010. Since prices of new hybrids generally exceed \$20,000, it is assumed that each vehicle sold would be eligible for a \$1,000 credit under the bill. Assuming all eligible credits are claimed, TY09/FY10 income tax collections would be reduced by \$1.7 million ($\$1,000 \times 1,774$) and TY10/FY11 income tax collections would be reduced by 2.1 million ($\$1,000 \times 2,170$).

Summary

Under the assumptions discussed above, Wisconsin income taxes would be reduced by a total of \$18.2 million in TY09/FY10 and \$22.3 million in TY10/FY11.

Administrative costs are minimal and would be absorbed.

Long-Range Fiscal Implications

In FY12 and thereafter, as U.S. and Wisconsin economies recover and enter a period of growth, sales of motor vehicles, including FFVs and HMs, may increase sharply. As a consequence, the bill's impact on state tax revenues is anticipated to grow.

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

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Description 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			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
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, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-18,200,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-18,200,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-18,200,000	\$
Agency/Prepared By			
DOR/ Jacek Cianciara (608) 266-8133		Authorized Signature	
		Paul Ziegler (608) 266-5773	
			Date
			5/7/2009