

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 1597 (First Edition)

SHORT TITLE: Income Tax Credit for Fuel-Efficient Vehs.

SPONSOR(S): Representatives K. Alexander and Mackey

FISCAL IMPACT \$In Millions					
	Yes ()	No ()	No Estimate Available (X)		
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUES	*See Assumptions and Methodology*				
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	North Carolina Department of Revenue				
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 1, 2009				

BILL SUMMARY: House Bill 1597 amends GS 105-130.49 (Corporation Income Tax) and GS 105-151.33 (Individual Income Tax) to provide a tax credit equal to 6% of the purchase price of a qualifying fuel efficient vehicle. The legislation requires that the credit be taken in three equal installments. With respect to married couples with joint title to a vehicle, the credit may only be claimed if the spouses file a joint return. A qualifying motor vehicle is a vehicle with a highway mileage rating of at least 50 miles per gallon. This bill, if enacted, would be effective for taxable years beginning on or after January 1, 2009.

ASSUMPTIONS AND METHODOLOGY: HB 1597 is not estimated to have an immediate fiscal impact because there are currently no new vehicles that meet the 50 highway miles per gallon specifications set forth in the legislation. However, as fuel efficiency technologies continue to advance, the fiscal impact of providing a six percent income tax credit could range from \$2.3 to \$12.0 million dollars per fiscal year.

According to the Environmental Protection Agency (EPA), only one vehicle exhibits a fuel efficiency rating of 50 miles per gallon or better—the Toyota Prius. The hybrid electric version the 2010 Toyota Prius exhibits fuel efficiency above 50 miles per gallon, but only in city miles.

House Bill 1597 requires that the vehicle exhibit a highway mileage rating of at least 50 miles per gallon to qualify for the tax credit. Meanwhile, the EPA mileage rating for the Prius equals 51 miles per gallon in the city and 48 miles per gallon on the highway.

Two vehicle manufacturers, Toyota and Honda, produce vehicles that come close to meeting the fuel efficiency standards set forth in HB 1597. According to the U.S. Department of Energy's Alternative Fuels and Advanced Vehicle Data Center, roughly 159,000 Honda Insights and Toyota Prius are sold in the U.S. each year and North Carolina represents roughly 2.9% of national retail sales. Apportioning national car sales to the state using the 2.9% ratio, Fiscal Research estimates that North Carolina consumers purchase approximately 4,600 Prius and 21 Honda Insights each year. The average retail value of a Honda Insight is \$19,800 and the average value of a Toyota Prius is \$25,800. Therefore, the full value of the tax credit would equal 6% of the total value of all qualified energy efficient vehicles purchased in 2009—a value of roughly \$7.1 million.

Value of Tax Credit for Fuel Efficiency Vehicles, FY 2009-10			
Make and Model	Average Price	Estimated North Carolina Car Sales	Total Value of Income Tax Credit (6% of Purchase Price)
Honda Insight	\$19,800	21	\$24,725
Toyota Prius	\$25,800	4,599	\$7,075,992
Total			\$7,100,717

The credit must be claimed in three equal installments, reducing the fiscal impact of the tax credit by 2/3 in the first year and 1/3 in the second year. The third year of the credit represents the full fiscal impact of HB 1597. Toyota Prius purchases between 2005 and 2008 grew an average of 19% annually. Between 2003 and 2006, the last years for which data is available, Honda Insight sales increased by an average of 8% annually. Earmarking future car sales by past growth and projected changes in personal income, Fiscal estimates that the full value of the tax credit will increase by 20% annually. The tax credit, if past trends in car sales and changes in personal income hold true, could reduce General Fund availability by \$12 million five years after the qualified vehicles become available.

Fiscal Impact of Tax Credit for Fuel Efficiency Vehicles, FY 2009-10 thru FY 2013-14					
	2009-10	2010-11	2011-12	2012-13	2013-14
Honda Insight	\$24,725	\$27,586	\$30,314	\$33,212	\$36,211
Toyota Prius	\$7,075,992	\$8,643,186	\$10,398,586	\$12,472,518	\$14,887,809
Total	\$7,100,717	\$8,670,773	\$10,428,902	\$12,505,731	\$14,924,021
Fiscal Impact to the General Fund when credit taken in three equal installments	\$2,366,906	\$5,257,163	\$8,733,464	\$10,535,135	\$12,619,551

SOURCES OF DATA: Environmental Protection Agency; www.fueleconomy.gov
U.S. Department of Energy's Alternative Fuels and Advanced Vehicle Data Center;
www.afdc.energy.gov/afdc/data/

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Sandra Johnson, Fiscal Analyst

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: June 3, 2009



Signed Copy Located in the NCGA Principal Clerk's Offices