

# MINNESOTA • REVENUE

## MOTOR VEHICLE SALES TAX Hybrid Motor Vehicles

March 23, 2004

Department of Revenue  
Analysis of S.F. 2349 (Dibble)/ H.F. 2789 (Hornstein)

	Yes	No
Separate Official Fiscal Note Requested		X
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		X

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund, Nondedicated (46.25%)	\$0	(\$440)	(\$510)	(\$600)
Highway User Tax Distribution Fund (30.00%)	\$0	(\$285)	(\$330)	(\$390)
Metro Area Transit Fund (21.50%)	\$0	(\$205)	(\$235)	(\$280)
Greater MN Transit Fund (1.43%)	\$0	(\$13)	(\$16)	(\$19)
County State-Aid Highway Fund (0.65%)	\$0	(\$6)	(\$7)	(\$9)
Municipal State-Aid Street Fund (0.17%)	<u>\$0</u>	<u>(\$1)</u>	<u>(\$2)</u>	<u>(\$2)</u>
<b>Total - All Funds</b>	<b>\$0</b>	<b>(\$950)</b>	<b>(\$1,100)</b>	<b>(\$1,300)</b>

Effective for sales and transfers made after June 30, 2004, and before July 1, 2008.

### EXPLANATION OF THE BILL

**Current Law:** The sale of a motor vehicle is generally subject to the motor vehicle sales tax.

**Proposed Law:** Hybrid vehicles would be exempt from the motor vehicle sales tax. Certain fuel efficient vehicles are defined to be hybrid vehicles. The exempted vehicles must meet the fuel efficiency definitions and are propelled by an internal combustion engine / rechargeable energy storage system power combination. The vehicle is also required to meet certain regulatory standards set by the U.S. Environmental Protection Agency.

The exemption may not apply to some hybrid type vehicles that do not meet the fuel efficiency guidelines and would not apply to other alternative fuel vehicles and flexible fuel vehicles.

### REVENUE ANALYSIS DETAIL

- It is assumed that there are currently three models that qualify (Honda Insight, Honda Civic, and Toyota Prius). A hybrid Ford Escape (2005 model) is expected to be available for sale in late 2004 along with hybrid versions of the Chevrolet Silverado, GMC Sierra, and Lexus RX330. It has not been determined whether these vehicles will meet the city fuel economy standards of the bill.

**REVENUE ANALYSIS DETAIL (cont.)**

- The 2005 models of the Saturn Vue, Dodge Ram Truck, and Toyota Highlander are expected to have hybrid engine options. For 2006, Chevrolet Equinox SUV and Mercedes S-Class are expected to have hybrid engine options. For 2007, Chevrolet Tahoe SUV, GMC Yukon SUV, and Chevrolet Malibu are planning to have hybrid engine options. Again, it has not been determined which of these vehicles will meet the city fuel economy standards of the bill.

However, all of these vehicles would be within the weight limit of less than 6,000 pounds curb weight.

- Registration data from the Department of Public Safety - Driver and Vehicle Services provides information on qualifying models currently in use by model year:

2000 – 72  
2001 – 283  
2002 – 424

The available information has incomplete data for model years 2003 and 2004.

- It is assumed that leases of qualifying vehicles do not qualify for the exemption.
- An average new car value of \$22,000 and an annual price growth of 3% were assumed.
- A growth factor of 15% is used for estimating sales for 2003 – 2007. The growth factor is intended to reflect a technology implementation / market introduction phase. The growth factors may be conservative given the expanded number of models offered by the five automakers producing or expecting to produce hybrid vehicles, unless a large number of the new hybrid type vehicles do not qualify for the exemption.

**Number of Taxpayers:** It is estimated that there will be approximately 600 new vehicles and 150 transfers of used vehicles that qualify for the exemption from the motor vehicle sales tax in fiscal year 2005.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)