

MINNESOTA • REVENUE

MOTOR VEHICLE SALES TAX Fuel Efficient Motor Vehicles

March 24, 2003

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

Department of Revenue
Analysis of S.F. 405 (Dibble) / H.F. 507 (Hornstein)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
General Fund, Nondedicated (44.25%)	(\$752)	(\$929)	(\$1,062)	(\$1,195)
General Fund, Dedicated (2%)	(\$34)	(\$42)	(\$48)	(\$54)
Highway User Tax Dist. Fund (32%)	(\$544)	(\$672)	(\$768)	(\$864)
Metro Area Transit Fund (20.5%)	(\$349)	(\$431)	(\$492)	(\$553)
Greater MN Transit Fund (1.25%)	(\$21)	(\$26)	(\$30)	(\$34)
Total - All Funds	(\$1,700)	(\$2,100)	(\$2,400)	(\$2,700)

Effective for sales and purchases made after June 30, 2003, and before July 1, 2007.

EXPLANATION OF THE BILL

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

Proposed Law: The following three groups of vehicles would be exempt from the motor vehicle sales tax:

- 1) A motor vehicle purchased by a state agency or political subdivision if the motor vehicle has a fuel efficiency greater than 45 mpg highway and 35 mpg city (as certified by the Environmental Protection Agency),
- 2) A motor vehicle purchased by a person for business or personal use if the motor vehicle has a fuel efficiency greater than 45 mpg highway and 35 mpg city (as certified by the Environmental Protection Agency), and
- 3) A motor vehicle that: solely uses an alternative fuel; or uses a rechargeable energy storage system in conjunction with another specified fuel or combination of fuels.

REVENUE ANALYSIS DETAIL

- Information from the *2003 Fuel Economy Guide* distributed by the U.S. Environmental Protection Agency indicates there are no standard gas-powered models that qualify. There are three diesel-powered models that would qualify by their fuel efficiency ratings. There are another three hybrid models that would qualify under either the fuel efficiency ratings or under the rechargeable energy storage system provision.

REVENUE ANALYSIS DETAIL (cont.)

- Information regarding alternative fuel vehicles from the *2003 Fuel Economy Guide* indicates that, among the 2003 vehicles, there are seven models using compressed natural gas and one electric vehicle that would qualify for the exemption.
- It is assumed that flexible-fuel vehicles, other than those using a rechargeable source, would not qualify since they do not draw their propulsion energy "solely from an alternative fuel source" (they can add any amount of gasoline at any time and can run exclusively on gasoline). Note that there are many flexible-fuel vehicles and many of them have low fuel efficiency ratings. Including this type of vehicle would significantly alter the estimates.
- It is assumed that the hydrogen fuel cell vehicles currently being tested in California will not be available for mass distribution during the forecast period.
- It is assumed that lease of qualifying vehicles do not qualify for the exemption.
- The U. S. Department of Energy identified 2,657 alternative fuel vehicles in use in Minnesota in 1997 and 6,267 in use in Minnesota in 2000, which was an average annual increase of 1,203 vehicles.
- The number of qualifying vehicles was estimated based on the current sales of alternate fuel vehicles, current sales of hybrids, and current sales of qualifying diesel vehicles. Downward adjustments were made to remove federal fleet vehicles and for an expected transition from ethanol vehicles to non-qualifying fuel-flexible vehicles. An estimated 1,450 would qualify in fiscal year 2004, and a growth factor of 10% per year was assumed.
- Review of the prices for the types of vehicles qualifying for exemption indicates that the 2003 average price of this type of new car is approximately \$19,000. Growth in price was assumed to be 3% per year.
- The fiscal year 2004 estimate was reduced to reflect 11 months of collections.

Number of Taxpayers: It is estimated that there will be approximately 1,450 new vehicles that qualify for the exemption from the motor vehicle sales tax in fiscal year 2004.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>