

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Alternative Fuel Vehicle Subtraction

March 13, 2007

Department of Revenue
Analysis of S. F. 339 (Rosen) / H. F. 433 (Cornish)

	Yes	No
DOR Administrative Costs/Savings		X

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(000's)	
General Fund	(\$790)	(\$1,730)	(\$1,890)	(\$2,070)

Effective for vehicles placed into service on or after July 1, 2007.

EXPLANATION OF THE BILL

For the purposes of the individual income tax, this bill would allow a subtraction from federal taxable income for the purchase of an alternative fuel vehicle. The subtraction is equal to \$2,000 for vehicles weighing less than 10,000 pounds and \$5,000 for a vehicle weighing 10,000 pounds or greater. An alternative fuel vehicle is defined as a dedicated, flexible, or dual-fuel vehicle operated primarily on alternative fuel. Alternative fuels include: natural gas; liquefied petroleum gas; hydrogen; coal-derived liquefied fuels; electricity; methanol, denatured ethanol, and other alcohols; mixtures containing 85% or more, by volume, or methanol, denatured ethanol, and other alcohols with gasoline or other fuels; and fuels other than alcohol that are derived from biological materials.

Note: This analysis assumes that all vehicles equipped to operate on E85 fuel will be eligible for the subtraction. The definition of alternative fuel vehicle specifies that the vehicle be operated primarily on alternative fuel. The subtraction would be claimed at the time of purchase, and it may not be known at that time whether the owner will use E85 fuel most or all of the time.

REVENUE ANALYSIS DETAIL

- Based on national data from the U.S. Department of Energy (DOE), there were approximately 14,200 alternative fuel vehicles sold in Minnesota in 2006.
- Separate growth rates were used for each type of alternative fuel vehicle, based on information from the DOE. An annual growth rate of 8.1% was used for compressed natural gas vehicles. An annual growth rate of 22.3% was used for electric (non-hybrid) vehicles. A growth rate of 9.3% was used for E85 vehicles.
- It was assumed that 60% of alternative fuel vehicles are purchased by individuals.
- DOE information on alternative fuel vehicles was broken down into light, medium and heavy duty categories. Medium duty vehicles were listed as 8,501 – 26,000 pounds. For this analysis it was assumed that all medium duty vehicles would be eligible for the \$5,000 subtraction. Approximately 1% of all alternative fuel vehicles qualify for the \$5,000 subtraction.

REVENUE ANALYSIS DETAIL (Continued)

- It was assumed that annual used car sales of alternative fuel vehicles are equal to 20% of new car sales volume.
- A marginal tax rate of 7.05% was assumed.
- Because the effective date is July 1, 2007, it is assumed that tax year 2007 would represent half of the calendar year 2007 purchases.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: Approximately 5,600 taxpayers in tax year 2007; approximately 12,300 in tax year 2008.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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