

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Alternative Fuel Vehicle Credit

March 9, 2007

Department of Revenue

Analysis of S. F. 523 (Jungbauer) / H. F. 1002 (Hornstein)

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
General Fund	(\$43,600)	(\$49,200)	(\$55,400)	(\$62,400)

Effective beginning with tax year 2007.

EXPLANATION OF THE BILL

This bill would allow a refundable credit against the individual income tax or corporate franchise tax for the purchase of an alternative fuel vehicle. The credit is equal to \$1,000 or 10% of the purchase price, whichever is greater. This credit would apply to both new and used vehicle purchases. 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, of 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 credit. The definition of alternative fuel vehicle specifies that the vehicle be operated primarily on alternative fuel. The credit 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.
- Based on published MSRP information and weighted according to market share, the average price for an alternative fuel vehicle is approximately \$25,000. Therefore, an average credit of \$2,500 was assumed for 2007 and a growth rate of 3% in the average price was assumed for subsequent years.

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 with an average price equal to 60% of the average new car price.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: Approximately 18,700 vehicles in tax year 2007.

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

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