HB14-1326

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 14-0489	**Date:**	March 24, 2014
Prime Sponsor(s):	Rep. Primavera; Scott Sen. Hodge	**Bill Status:**	House Transportation and Energy
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

SHORT TITLE: TAX INCENTIVES FOR ALTERNATIVE FUEL TRUCKS

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	**$1,503,000**	**$1,183,000**
Revenue Change		
General Fund	1,503,000	1,183,000
State Expenditures	**$7,412**	**$10,000**
General Fund	7,000	10,000
Cash Funds	412	
FTE Position Change		
Appropriation Required: School Finance - $7,000; Department of Revenue - $412 (FY 2014-15)		

* *This summary shows changes from current law under the bill for each fiscal year.*

Summary of Legislation

This bill makes changes to three areas of tax policy affecting low-emission and alternative fuel vehicles. It creates a new income tax credit, reduces the number of vehicles eligible to claim an existing sales and use tax exemption, and reduces the taxable value of certain vehicles for the purpose of calculating the specific ownership tax. Each of these is described below.

Tax credit for innovative trucks. A new income tax credit is created in addition to the innovative motor vehicle income tax credit available in current law. Taxpayers would not be able to claim both credits. The value of the new credit is equal to a percentage of the purchase or conversion cost of light duty, medium duty, and heavy duty trucks, as well as some light duty passenger motor vehicles, when the vehicle being purchased or converted uses certain alternative fuels or emission reduction technologies. If the value of the credit is greater than the claimant's income tax liability, the excess credit will be refunded to the taxpayer. The credit is available for vehicles purchased in tax years 2014 through 2021. In tax year 2014, only vehicles purchased, leased, or converted on or after July 1 are eligible to claim the credit.

Three vehicle categories that currently qualify for the innovative motor vehicle income tax credit are relocated to the innovative trucks credit. These are:

- Category 4, which includes vehicles built to operate on compressed natural gas or liquefied petroleum gas;
- Category 4 A, which includes conversions of vehicles that allow them to operate on compressed natural gas or liquefied petroleum gas; and
- Category 5, which includes conversions of vehicles that reduce the amount of time the engine spends idling.

The bill makes several adjustments to the amount of credit available to taxpayers for these three vehicle categories. These include:

- expanding the definition of category 4 and 4 A vehicles to include heavy duty trucks with gross vehicle weight ratings over 26,000 pounds;
- increasing the percentage of actual costs incurred used to calculate the value of the credit; and
- increasing the maximum amount of credit available to purchasers or converters of light duty, medium duty, and heavy duty trucks.

Table 1 summarizes the new credit values for these three vehicle categories.

Table 1. Values of Category 4, 4 A, and 5 Tax Credits in HB 14-1326

Category	Vehicle type	Cap	TY 2014*-2016	TY 2017-2018	TY 2019-2021
Category 4 Vehicles built to operate on compressed natural gas or liquefied petroleum gas	Passenger vehicles	$6,000	18% of actual costs incurred	15% of actual costs incurred	2019: 11.25% 2020: 7.5% 2021: 3.75%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 4 A Vehicle conversions to use compressed natural gas or liquefied petroleum gas	Passenger vehicles	$6,000	55% of actual costs incurred	45% of actual costs incurred	2019: 33.75% 2020: 22.5% 2021: 11.25%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 5 Vehicle conversions to reduce idling time	Passenger vehicles; light, medium and heavy duty trucks	$6,000	25% of actual costs incurred	25% of actual costs incurred	25% of actual costs incurred

* *For tax year 2014, only vehicles purchased, leased or converted on or after July 1 are eligible to claim the credit.*

In addition to the relocated portions of the existing credit, seven new credit categories are created. These are:

- Category 4 B, which includes vehicles built to operate on liquefied natural gas or hydrogen fuel;
- Category 4 C, which includes conversions of vehicles that allow them to operate on liquefied natural gas or hydrogen fuel;
- Category 6, which includes conversions of vehicles that improve aerodynamics;
- Category 7, which includes electric and plug-in hybrid electric passenger vehicles with gross vehicle weight ratings over 8,500 pounds, and electric and plug-in hybrid electric light, medium, and heavy duty trucks;
- Category 7 A, which includes conversions of passenger vehicles with gross vehicle weight ratings over 8,500 pounds and light, medium, and heavy duty trucks, allowing these vehicles to operate using electric or plug-in hybrid electric power systems; and
- Category 8, which includes clean fuel refrigerated trailers;
- Category 8 A, which includes conversions of refrigerated trailers to clean fuel refrigerated trailers.

Table 2 summarizes the credit values for the seven new vehicle categories.

Table 2. Values of Category 4 B, 4 C, 6, 7, 7 A, 8, and 8 A Tax Credits in HB 14-1326

Category	Vehicle type	Cap	TY 2014*-2016	TY 2017-2018	TY 2019-2021
Category 4 B Vehicles built to operate on liquefied natural gas or hydrogen fuel	Passenger vehicles	$6,000	18% of actual costs incurred	15% of actual costs incurred	2019: 11.25% 2020: 7.5% 2021: 3.75%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 4 C Vehicle conversions to use liquefied natural gas or hydrogen fuel	Passenger vehicles	$6,000	55% of actual costs incurred	45% of actual costs incurred	2019: 33.75% 2020: 22.5% 2021: 11.25%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 6 Vehicle conversions to improve aerodynamics	Passenger vehicles; light, medium and heavy duty trucks	$6,000	25% of actual costs incurred	25% of actual costs incurred	25% of actual costs incurred
Category 7 Electric and plug-in hybrid electric passenger vehicles and trucks	Passenger vehicles**	$6,000	18% of actual costs incurred	15% of actual costs incurred	2019: 11.25% 2020: 7.5% 2021: 3.75%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 7 A Vehicle conversions to use electric and plug-in hybrid electric systems	Passenger vehicles**	$6,000	55% of actual costs incurred	45% of actual costs incurred	2019: 33.75% 2020: 22.5% 2021: 11.25%
	Light duty trucks	$7,500			
	Medium duty trucks	$15,000			
	Heavy duty trucks	$20,000			
Category 8 Clean fuel refrigerated trailers	Refrigerated trailers	$7,500	18% of actual costs incurred	15% of actual costs incurred	2019: 11.25% 2020: 7.5% 2021: 3.75%
Category 8 A Conversions of trailers to clean fuel refrigerated trailers	Refrigerated trailers	$7,500	55% of actual costs incurred	45% of actual costs incurred	2019: 33.75% 2020: 22.5% 2021: 11.25%

* *For tax year 2014, only vehicles purchased, leased or converted on or after July 1 are eligible to claim the credit.*
** *Only passenger vehicles with gross vehicle weight ratings over 8,500 pounds qualify for the credit under categories 7 and 7 A.*

During calendar year 2018, the Colorado Energy Office is required to study life-cycle emissions produced by medium and heavy duty trucks in categories 4, 4 A, 4 B, 4 C, 7, and 7 A. If it is determined that medium and heavy duty trucks in any of these categories generate life-cycle emissions materially greater than those generated by comparable trucks using traditional fuel, the office shall inform the Department of Revenue that the tax credit for the relevant category is not available in tax year 2019. The office is required to reconsider the eligibility of each category annually through January 1, 2021. An exception is available for individual models of trucks and truck engines if the Colorado Energy Office determines that the truck or engine in question generates life-cycle emissions materially less than a comparable traditional fuel truck or engine. A separate exception is available if a taxpayer purchasing a truck in category 4, 4 A, 4 B, 4 C, 7, or 7 A demonstrates that he or she has a long-term contract with a green fuel provider, defined as a fuel provider that has adopted best practices for low life-cycle emissions, such that the truck produces materially less emissions than a comparable traditional fuel truck.

Sales and use tax exemption. Under current law, vehicles with gross vehicle weight ratings over 10,000 pounds are eligible for exemption from the state sales and use tax if they use a source of energy determined to meet or exceed the low-emitting vehicle standard in the Federal Clean Air Act. Beginning July 1, 2014, the bill requires vehicles with gross vehicle weight ratings of between 10,000 and 26,000 pounds to meet the definition of either category 4, 4 A, 4 B, 4 C, 7, or 7 A to qualify for the exemption. Vehicles weighing over 26,000 pounds may qualify for the exemption by meeting both Environmental Protection Agency emissions standards and National Highway Traffic Safety Administration fuel efficiency standards. Vehicles over 26,000 pounds may also independently qualify for the exemption by meeting the definition of either category 4, 4 A, 4 B, 4 C, 7, or 7 A.

Specific ownership tax. The specific ownership tax is an *ad valorem* tax levied against vehicles when they are registered. While specific ownership taxes are sometimes collected by the Department of Revenue, the revenue they generate is received by local governments rather than the state. For all Class A and Class B trucks, truck tractors, trailers, and semitrailers greater than 16,000 pounds declared empty vehicle weight, the taxable value of the vehicle is equal to its actual purchase price. The bill reduces the taxable value of vehicles meeting the definition of either category 4, 4 A, 4 B, 4 C, 7, or 7 A to 75 percent of the actual purchase price. The change to the specific ownership tax base is effective for calendar years 2014 through 2026.

State Revenue

General Fund revenue will increase by $1,503,000 in FY 2014-15 and $1,183,000 in FY 2015-16. The estimate for FY 2014-15 assumes full year impacts for both the income tax credit and the sales and use tax exemption. These estimates were derived from data on the innovative motor vehicle income tax credit in current law, alternative fuel vehicle registrations, new truck registrations in each weight class, the rate of adoption of aerodynamic modifications in the trucking industry, the average price of these modifications, prices for traditional fuel and alternative fuel trucks, and expected growth in the share of alternative fuel vehicles in the market for heavy duty trucks. The revenue impact is summarized in Table 3 on page 5.

Table 3. General Fund Revenue Impact of HB14-1326 by Tax Policy Change		
Tax Policy Change	**FY 2014-15**	**FY 2015-16**
Income Tax Credit		
Category 4 and 4 A	($4,665,000)	($5,150,000)
Category 4 B and 4 C	$0*	$0*
Category 5	$0**	$0**
Category 6	($408,000)	($417,000)
Category 7 and 7 A	$0*	$0*
Category 8	$0*	$0*
Category 8 A	$0*	$0*
Total Income Tax Credit	($5,073,000)	($5,567,000)
Sales and Use Tax Exemption	$6,576,000	$6,750,000
Total Revenue Impact	**$1,503,000**	**$1,183,000**

* *These technologies are currently not available on the consumer market. If they become available during the period shown, these estimates will be understated.*
** *The bill includes no changes to category 5 income tax credits until 2019.*

Income tax credit. The new income tax credit in the bill will decrease General Fund revenue by an estimated $5.1 million in FY 2014-15 and $5.6 million in FY 2015-16. For the purposes of this fiscal note, the following are assumed:

Categories 4 and 4 A. The majority of the revenue impact for the income tax credit is attributable to these categories. The expansion of the credit for these categories will reduce revenue for three reasons: 1) the bill increases the value of these credits relative to current law; 2) more of these vehicles will be purchased than under current law; and 3) heavy duty trucks are added, a change from current law. In calendar year 2012, taxpayers claimed approximately $4.2 million under the innovative motor vehicle income tax credit, of which 91.8 percent, or approximately $3.8 million, is assumed to be attributable to categories 4 and 4 A. About 1,800 credits were claimed under these categories, with the average credit worth approximately $2,100.

The bill increases the value of the credit for qualified passenger vehicles and light and medium duty trucks by increasing the percentage of costs incurred that is eligible for the credit and increasing the cap on the credit. The value of each credit will increase by 46.9 percent and 120.0 percent for light duty passenger motor vehicles and light and medium duty trucks in categories 4 and 4 A, respectively. The value of the average credit for heavy duty trucks in both categories is assumed to be 475 percent of the value of the average credit claimed for other qualifying vehicles, based on the average price of heavy duty vehicles relative to lighter vehicles in this category.

Based on an industry survey of the market for compressed natural gas and liquefied petroleum gas vehicles, it is assumed that the credit will increase the number of these vehicles purchased relative to current law. Historically, registrations for passenger vehicles and light and medium duty trucks increase at an annual rate of 2.1 percent. Under the bill, registrations for qualifying vehicles in these categories are assumed to increase 3.8 percent in 2014 and 4.8 percent in 2015 and 2016. Registrations for qualifying heavy duty trucks are assumed to increase 3.3 percent in 2014 and 4.5 percent in 2015 and 2016.

Categories 4 B and 4 C. No credit is expected to be awarded to owners of vehicles qualifying under category 4 B or 4 C in the fiscal note estimation period. According to the Energy Information Administration (EIA), no liquefied natural gas or hydrogen vehicles are currently licensed in Colorado. If these technologies become available in the consumer market, these estimates will be understated.

Category 5. The bill includes no statutory change to the value of category 5 credit until tax year 2019, and thus there is no revenue impact for this category during the fiscal note estimation period.

Category 6. According to the Environmental Protection Agency (EPA), 34 percent of trucks owned by EPA-certified SmartWay trucking companies use aerodynamic modifications. Because heavy duty trucks have an average lifespan of approximately nine years, it is assumed that the owners of 3.8 percent of heavy duty trucks licensed in Colorado will claim a credit under category 6 each year. The average cost of an aerodynamic modification eligible to claim a credit under this category is $1,470, and the average credit claimed under this category will be worth about $370.

Categories 7 and 7 A. No credit is expected to be awarded to owners of vehicles qualifying under category 7 or 7 A in the fiscal note estimation period. According to the EIA, all electric and plug-in hybrid electric vehicles licensed in Colorado weigh less than 8,500 pounds and would therefore qualify for the innovative vehicle credit in current law under category 1 or 1 A. If electric or plug-in hybrid electric heavy duty trucks become available in the consumer market, these estimates will be understated.

Categories 8 and 8 A. No credit is expected to be awarded to owners of refrigerated trailers qualifying under category 8 or 8 A in the fiscal note estimation period. This projection is based on the lack of clean fuel refrigerated trailers in the consumer market. If these trailers become available, this estimate will be understated.

Sales and use tax exemption. The reduction in the number of trucks eligible to claim a sales and use tax exemption will increase General Fund revenue by an estimated $6.6 million in FY 2014-15 and $6.8 million in FY 2015-16. These estimates account for the sales tax vendor fee.

All new trucks with gross vehicle weight ratings over 10,000 pounds meet the low emission vehicle standards in the Clean Air Act and therefore qualify for the sales and use tax exemption in current law. Because individuals registering a truck for the first time may only claim the exemption upon presenting a dealer's affidavit stating that the truck meets the minimum emission standards, it is assumed that only purchasers of new trucks claim the existing exemption. It is further assumed that all vehicles weighing over 26,000 pounds will continue to qualify for the exemption if the bill is adopted.

In calendar year 2013, 6,432 new trucks weighing between 10,000 and 26,000 pounds were sold in Colorado. According to the Department of Revenue, total truck registrations grow at a rate of approximately 5.1 percent annually. The average price of a new truck in the affected weight classes is approximately $35,500, and the amount of revenue foregone by the state as a result of the existing sales and use tax exemption for vehicles in this weight class totaled approximately $6.6 million in calendar year 2013.

Trucks weighing between 10,000 and 26,000 pounds will continue to qualify for the exemption if they meet the definition of either category 4, 4 A, 4 B, 4 C, 7, or 7 A. Approximately 0.9 percent of trucks met one of these definitions in calendar year 2013, and the market share of alternative fuel trucks is expected to increase to 1.8 percent, 3.1 percent, and 3.7 percent in calendar years 2014, 2015, and 2016, respectively, as a result of the tax incentives in the bill. A new alternative fuel truck weighing between 10,000 and 26,000 pounds is assumed to cost approximately $51,500. The revenue estimates shown in Table 3 have been adjusted to account for these trucks.

State Expenditures

General Fund expenditures for school finance will increase by $7,000 in FY 2014-15 and $10,000 in FY 2015-16. Cash fund expenditures will increase by $412 in FY 2014-15. The Department of Revenue will incur a one-time cost of $412 in FY 2014-15 for the programming of changes to the taxable value of Class A and Class B vehicles. These changes will need to be made to the Colorado State Titling and Registration System (CSTARS) and the associated expenditures are assumed to be paid from the CSTARS cash fund. State expenditures will also increase by $70,000 in FY 2017-18, as the Colorado Energy Office will need to fund a study to determine which categories of alternative fuel vehicles generate life-cycle emissions materially greater than those generated by comparable vehicles using traditional fuel in order to determine future eligibility for the income tax credit.

Specific ownership tax. Under the School Finance Act, the state must backfill property tax and specific ownership tax revenue foregone by local school districts. Because of the specific ownership tax changes in the bill, the state will be required to backfill approximately $7,000 in local revenue loss in FY 2014-15 and $10,000 in FY 2015-16. See the Local Government Impact section of this fiscal note for more information.

Table 4. Expenditures Under HB 14-1326

Cost Components	FY 2014-15	FY 2015-16
Department of Education		
School Finance	$7,000	$10,000
Department of Revenue		
Operating Expenses	$412	
Total Expenditures	**$7,412**	**$10,000**

Local Government Impact

Revenue to local districts will be reduced from specific ownership taxes assessed on vehicles over 16,000 pounds declared empty vehicle weight that meet the definition of either category 4, 4 A, 4 B, 4 C, 7, or 7 A, as defined in the income tax credit. The gross local government revenue loss due to changes to the specific ownership tax base is estimated to be $26,000 in FY 2014-15 and $36,000 in FY 2015-16. Approximately 27 percent of this reduction is for the local share of school finance, which will be backfilled by the state. The remaining local government revenue loss due to the specific ownership tax changes is estimated at $19,000 in FY 2014-15 and $26,000 in FY 2015-16, although some of this may be recovered through higher mill levies. For example, mill levies for outstanding bonded debt will increase to offset the loss in specific ownership tax.

Many local government districts use the state sales and use tax base as the base for the assessment of local sales and use taxes. In these districts, the reduced size of the sales and use tax exemption would result in an increase in local government revenue, partially or fully offsetting the impact of lower specific ownership tax collections.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. The income tax credit is available beginning July 1, 2014. Changes to the sales and use tax exemption are also effective July 1, 2014. Changes to the specific ownership tax base are effective upon the governor's signature.

State Appropriations

For FY 2014-15, the Department of Revenue requires an appropriation of $412 from the Colorado State Titling and Registration System cash fund.

A $7,000 appropriation to school finance will be required from the General Fund in FY 2014-15.

State and Local Government Contacts

Assessors	Colorado Energy Office	Counties
Public Health & Environment	Revenue	Transportation