



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

DRAFT

Date Amended:	05/14/09	Bill No:	<u>AB 1304</u>
Tax:	Sales and Use	Author:	Saldana
Related Bills:	SB 658 (Walters) SB 714 (Dutton)		

BILL SUMMARY

This bill would exempt from sales and use tax until January 1, 2015, the sale and purchase of electric vehicles, as defined. The exemption would be limited to 100 electric vehicles per manufacturer.

SUMMARY OF AMENDMENTS

The amendments to this bill since our last analysis eliminate the proposed exemption for sales and purchases of electric vehicle batteries, various labor and service charges, and battery charging station infrastructure. The amendments also limit the proposed exemption for sales of electric vehicles to 100 per manufacturer.

ANALYSIS

CURRENT LAW

Existing law imposes a sales or use tax on the sale of, or the storage, use, or other consumption of, tangible personal property, unless specifically exempted by statute. Currently, the Sales and Use Tax Law does not provide any sort of exemption for sales and purchases of electric vehicles or any other zero-emission or low-emission vehicles sold in this state, or any component part of such vehicles. Therefore, the sales or use tax applies to the full selling price or purchase price of any such vehicles, batteries, or any other item of tangible personal property sold with the vehicle.

PROPOSED LAW

This bill would add Revenue and Taxation Code Section 6357.3 to the Sales and Use Tax Law to provide an exemption until January 1, 2015 from sales and use tax for the sale and purchase of electric vehicles.

The bill would limit the exemption to 100 electric vehicles per manufacturer, and would define “electric vehicle” to mean a passenger vehicle that uses electricity as its sole source of propulsion power.

This bill would become operative on the first day of the first calendar quarter commencing more 90 days after the bill is enacted.

COMMENTS

- Sponsor and purpose.** This bill is sponsored by the author. According to the author’s office, “there are at least half a dozen states that have either passed or have under consideration tax credits for electric vehicles. AB 1304 will provide an incentive for California customers to purchase electric vehicles. Automotive companies are competing to be first to market plug-in hybrids and full electric vehicles. It is imperative that California’s market be ready for these vehicles and that barriers to developing the market be minimized. By exempting the sales tax,

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California will become more attractive to car manufacturers as a place to invest their business. “

2. **The May 14, 2009 amendments** eliminate the proposed exemption for sales and purchases of electric vehicle batteries, electric vehicle infrastructure, and any taxable labor and services associated with batteries or the infrastructure. Also, the amendments limit the proposed exemption for sales of electric vehicles to 100 per manufacturer.
3. **Would neighborhood electric vehicles (NEVs) be included?** The NEV is a United States Department of Transportation classification for speed-limited battery electric vehicles. These vehicles are most common in communities that provide separate routes for them or generally accommodate slow speed traffic. Some retirement and golf club communities are specifically designed, sometimes with alternative road bypass routes for NEVs. Is it the author's intent to include these vehicles within the proposed exemption?
4. **What if the sale is by a dealership?** The bill limits the exemption to 100 vehicles “per manufacturer.” It is unclear how that would apply to dealerships – if a Mitsubishi dealership sold an electric vehicle, would that sale count towards the 100? If the intent is to limit the exemption to 100 per make of vehicle, the bill should so state.
5. **Sales of electric cars would have to be reported to the Board instantly.** In order to not exceed the 100 car limit, it appears that each time an electric vehicle is sold, it would require a simultaneous notification to the Board by the seller. If enacted, it appears the Board would have to implement a system for instant reporting and accounting of these vehicles.
6. **Related legislation.** SB 658 (Walters) and SB 714 (Dutton) have been introduced this year to exclude the value of a vehicle traded-in for a new vehicle from the computation of tax.

COST ESTIMATE

Some administrative costs would be incurred in creating a system for the reporting and accounting of vehicles sold, notifying affected retailers, revising the Board's regulation and publications, and answering inquiries from taxpayers. An estimate of these costs is pending.

REVENUE ESTIMATE

The electric vehicles industry and associated technology is growing rapidly. Advancing technology and economies of scale reduce the cost of vehicles, but the vagaries of the market may favor one element over another. This estimate is concerned only with battery electric vehicles (BEVs), those vehicles powered solely by an electric battery, and capable of freeway operation. If the bill is intended to include battery powered neighborhood vehicles, the revenue loss would be greater.

Based on data from the U.S. Energy Information Agency (EIA) and the California Air Resources Board (CARB), the number of BEVs in California is projected to increase from 4,620 units in 2009 to 5,280 in 2011, for a yearly increase of 220 vehicles. The average price for a BEV is about \$40,000. The bill is intended to limit the exemption to 100 for each make of electric vehicles. Since there are currently 6 manufacturers of

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BEVs, the total sales that could be exempted by this measure over a five year period would amount to \$24 million (6 x 100 x \$40,000), or \$4.8 million each year (\$24 million / 5 years). Accordingly, the annual state and local sales and use tax revenue loss would be \$432,000 (4.8 million x 9%), as follows:

State General Fund (6%)	\$288,000
State Fiscal Recovery Fund (1/4%)	12,000
Local (2%)	96,000
Special districts (.75%)	<u>36,000</u>
Total	<u>\$432,000</u>

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