



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

Date Amended:	04/16/01	Bill No:	AB 554
Tax:	Sales and Use	Author:	J. Campbell
Board Position:	Neutral	Related Bills:	

BILL SUMMARY

This bill would provide a state sales and use tax exemption for a specific percentage of the gross receipts from sales of ultra low emission vehicles, super ultra low emission vehicles, partially zero emission vehicles, zero emission vehicles, and advanced technology partial zero emission vehicles.

ANALYSIS

Current Law

Under the existing sales and use tax law, the sales or use tax applies to the sale or use of all tangible personal property, unless specifically exempted. Currently, the Sales and Use Tax Law does not provide any sort of exemption for zero-emission or low-emission vehicles or for related incremental costs. Therefore, the sales or use tax applies to the full selling price or purchase price of a motor vehicle.

Proposed Law

This bill would add Section 6368.8 to the Sales and Use Tax Law to provide a state sales and use tax exemption for specified time periods in the following percentages on the retail sale of a new vehicle rated by the State Air Resources Board as:

<u>Vehicle</u>	<u>Period</u>	<u>Percentage of state tax exemption</u>	<u>Period</u>	<u>Percentage of state tax exemption</u>
Ultra low emission vehicle (ULEV)	Op. date to 1/1/03	20%		
Super ultra low emission vehicle (SULEV)	Op. date to 1/1/03	40%	1/1/03 to 1/1/10	20%
Partially zero emission vehicle (PZEV)	Op. date to 1/1/03	60%	1/1/03 to 1/1/10	40%
Advanced technology partial zero emission vehicle (ATPZEV)	Op. date to 1/1/10	80%		
Zero emission vehicle (ZEV)	Op. date to 1/1/10	100%		

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As of January 1, 2003, the percentage of state tax exemption for the sale of a ULEV would be eliminated, the percentage of state tax exemption for the sale of a SULEV would be reduced from 40 percent to 20 percent, and the percentage of state tax exemption for the sale of a PZEV would be reduced from 60 percent to 40 percent.

The proposed exemption would not apply to the taxes imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law, the Transactions and Use Tax Law, the taxes imposed pursuant to Sections 6051.2 or 6201.2, or under Section 35 of Article XIII of the California Constitution.

This bill would require retailers to designate the proposed exemptions as a separate line item in all reports to the Board of Equalization.

This bill would become operative on the first day of the first calendar quarter commencing more than 90 days after the effective date. The provisions of this bill would remain in effect until January 1, 2010, and as of that date would be repealed.

Background

In the 1989 Legislative Session, SB 1006 (Leonard, Ch. 990) was enacted to encourage the development and popularization of low-emission vehicles capable of using alternative fuels. Among other things, this measure added Section 6356.5 to the Sales and Use Tax Law to provide, until January 1, 1995, a sales and use tax exemption for the incremental costs of the sale or use of new low-emission vehicles as identified by the ARB. Although this section was repealed by its own terms on January 1, 1995, two bills were considered by the Legislature to extend the sunset date: SB 381 (Hayden, 1993) which failed passage in the Senate, and SB 1838 (Campbell, 1994) which failed passage out of the Senate Appropriations Committee.

Three additional measures relating to low-emission vehicles have also been introduced before the Legislature. SB 780 (Leonard) was considered in the 1995 Legislative Session and failed passage in the Senate Appropriations Committee. AB 3162 (Burton, et al.) was considered in the 1996 Legislative Session and failed passage in the Assembly Revenue and Taxation Committee. AB 2085 (Ortiz) was considered in the 1998 Legislative Session and was amended in the Assembly Revenue and Taxation Committee to remove the sales and use tax exemption provisions for low emission vehicles from the bill.

COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the author to provide a tax incentive for consumers to purchase lower emission vehicles.
- 2. Summary of April 16 amendments.** Amendments to this version of the bill consist of revising the percentage of gross receipts applicable to the different classes of vehicles, adding an advanced technology partial zero emission vehicle (ATPZEV) to the list of vehicles that can qualify for the proposed exemption, and requiring that

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the State Air Resources Board report to the Legislature on or before January 1, 2006, on whether the proposed exemption should be amended to ensure that it operates as an incentive for the manufacture and purchase of low emission vehicles.

- 3. Types of vehicles qualifying for exemption.** Currently, there are a few popular models of vehicles that qualify as SULEV's. Makes and models include the Honda Accord, Nissan Sentra and Toyota Prius. Additionally, there are many vehicles that currently qualify as ULEV's. Makes and models include the Acura 3.2TL, Audi A4, BMW 330i, Dodge Stratus, Ford Mustang, and Volkswagen New Beetle.
- 4. Partial exemption applies to new vehicles only.** The proposed exemption only applies to sales of new vehicles. Sales of the same vehicles as used vehicles would not qualify for the partial exemption.
- 5. SULEV classification will no longer apply.** According to the Air Resources Board, the classification of super ultra low emission vehicle (SULEV) is applicable only through 2002. The classification of SULEV will be replaced by partial zero emission vehicle (PZEV).
- 6. Partial tax exemptions are difficult to administer.** The proposed exemption would apply only to the state portion of the tax rate (currently 4.75 percent). The proposed exemption would not apply to the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law. Partial exemptions result in taxpayer return preparation errors. Also, returns claiming partial exemptions must be manually processed.

COST ESTIMATE

Some costs would be incurred in revising returns, regulations and publications. Due to the partial tax exemption, additional workload would be required for return processing and local tax allocation. A detailed estimate of the workload impact is pending.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Under this proposal, new vehicles sold in the state of California would be partially to fully exempt from the state sales and use tax, depending upon one of five emission classifications delineated by the Air Resources Board. The classifications include ultra low emission vehicle (ULEV), super ultra low emission vehicle (SULEV), partially zero emission vehicle (PZEV), zero emission vehicle (ZEV) and advanced technology partially zero emission vehicles (ATPZEV). According to the Air Resources Board, the classification SULEV is applicable in 2002 only and will be replaced by PZEV. The exemptions range from 20% to a full 100% of the gross receipts from the sale of a new vehicle through January 1, 2010 with a review by the Air Resources Board on or before January 1, 2006 to report to the legislature whether this section should be amended.

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The revenue loss is based on the total number of vehicles that meet the requirements of each category as provided by both the Air Resources Board and the California Energy Commission, as well as the gross receipts that qualify under this proposal beginning in 2002.

Revenue Summary

The total annual revenue effect from partial to full exemptions on the gross receipts of vehicles with the defined emission standards delineated by the Air Resources Board is estimated to be:

Revenue Effect
State Loss (5.00%)* in millions

Year	ULEV	SULEV	PZEV	ZEV	ATPZEV	Total
2002	\$50.0	\$1.8	\$2.8	\$1.9		\$56.5
2003			\$35.0	\$8.3	\$7.9	\$51.2
2004			\$70.0	\$8.3	\$15.8	\$94.1
2005			\$104.9	\$8.3	\$23.7	\$136.9
2006			\$140.0	\$12.3	\$31.6	\$183.9
2007			\$140.0	\$13.8	\$31.6	\$185.4
2008			\$140.0	\$15.1	\$31.6	\$186.7
2009			\$140.0	\$21.6	\$31.6	\$193.2
Total	<u>\$50.0</u>	<u>\$1.8</u>	<u>\$772.7</u>	<u>\$89.6</u>	<u>\$173.8</u>	<u>\$1087.9</u>

* While the state tax rate is 4.75 percent for calendar year 2001, it is assumed the tax rate will return to 5.0 percent in 2002.

Analysis prepared by:	Bradley E. Miller	445-6662	5/02/01
Revenue estimate by:	Dave Hayes	445-0840	
Contact:	Margaret S. Shedd	322-2376	

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Attachment 1 Estimated Qualifying Vehicle Sales

Ultra Low Emission Vehicles**								
Year	2002	2003	2004	2005	2006	2007	2008	2009
Units	280,000							
Gross Receipts (in billions) (average price \$17,900)	\$ 5.0							
20% exempt for 2002 only (in billions)	\$ 1.0							
State tax 5% (in millions)	\$ 50.0							

** Applicable for year 2002 only.

Super Ultra Low Emission Vehicles**								
Year	2002	2003	2004	2005	2006	2007	2008	2009
Units	5,000							
Gross Receipts (in millions) (average price \$17,900)	\$ 89.5							
40% exempt for 2002 only; (in millions)	\$ 35.8							
State tax 5% (in millions)	\$ 1.8							

**Applicable for year 2002 only.

Partially Zero Emission Vehicles								
Year	2002	2003	2004	2005	2006	2007	2008	2009
Units	5,000	95,000	190,000	285,000	380,000	380,000	380,000	380,000
Gross Receipts (in billions) (average price \$18,400)	\$.092	\$ 1.75	\$ 3.50	\$ 5.24	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0
60% exempt for 2002 only; 40% until 2010 (in billions)	\$.055	\$.70	\$ 1.40	\$ 2.10	\$ 2.80	\$ 2.80	\$ 2.80	\$ 2.80
State tax 5% (in millions)	\$ 2.8	\$ 35.0	\$ 70.0	\$ 104.9	\$ 140.0	\$ 140.0	\$ 140.0	\$ 140.0

Zero Emission Vehicles								
Year	2002	2003	2004	2005	2006	2007	2008	2009
Units	1,000	4,420	4,420	4,420	6,570	7,360	8,067	11,500
Gross Receipts (in millions) (average price \$37,500)	\$ 37.5	\$ 165.8	\$ 165.8	\$ 165.8	\$ 246.4	\$ 276.0	\$ 302.5	\$ 431.3
100% exempt (in millions)	\$ 37.5	\$ 165.8	\$ 165.8	\$ 165.8	\$ 246.4	\$ 276.0	\$ 302.5	\$ 431.3
State tax 5% (in millions)	\$ 1.9	\$ 8.3	\$ 8.3	\$ 8.3	\$ 12.3	\$ 13.8	\$ 15.1	\$ 21.6

Advanced Technology Partially Zero Emission Vehicles**								
Year	2002	2003	2004	2005	2006	2007	2008	2009
Units		10,700	22,000	32,000	43,000	43,000	43,000	43,000
Gross Receipts (in millions) (average price \$18,400)		\$ 196.9	\$ 395.6	\$ 592.5	\$ 791.2	\$ 791.2	\$ 791.2	\$ 791.2
80% exempt (in millions)		\$ 157.5	\$ 316.5	\$ 474.0	\$ 633.0	\$ 633.0	\$ 633.0	\$ 633.0
State tax 5% (in millions)		\$ 7.9	\$ 15.8	\$ 23.7	\$ 31.6	\$ 31.6	\$ 31.6	\$ 31.6

** Applicable for 2003 and after.

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