



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

Date Introduced	02/21/01	Bill No:	AB 554
Tax:	Sales and Use	Author:	J. Campbell
Board Position:		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, and 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 in the following percentages on the retail sale of a new vehicle rated by the State Air Resources Board as:

<u>Vehicle</u>	<u>Percentage of state tax exemption</u>
Ultra low emission vehicle (ULEV)	25%
Super ultra low emission vehicle (SULEV)	50%
Partially zero emission vehicle (PZEV)	75%
Zero emission vehicle (ZEV)	100%

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 staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

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 The provisions of this bill would remain in effect until January 1, 2007, and as of that date would be repealed.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.** According to office of the author, who is also the sponsor of this bill, the purpose of this bill is to provide a tax incentive for consumers to purchase lower emission vehicles.
- 2. 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.
- 3. 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.

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.

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REVENUE ESTIMATE

Under this proposal, new vehicles sold in California would be partially to fully exempt from the state sales and use tax, depending upon one of four 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), and zero emission vehicle (ZEV). The exemptions range from 25% to a full 100% of the gross receipts from the sale of a new vehicle.

According to the California Energy Commission, the average price of these vehicles is \$17,900. According to both the Air Resources Board and the California Energy Commission, the total number of vehicles that meet the requirements of each category, as well as the gross receipts that qualify under this proposal beginning in 2002, are as follows:

Ultra Low Emission Vehicles					
Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Units	280,000	314,000	508,000	480,000	491,000
Gross Receipts (in billions) (average price \$17,900)	\$5.0	\$5.6	\$9.1	\$8.6	\$8.8
25% exempt (in billions)	\$1.3	\$1.4	\$2.3	\$2.2	\$2.2
State tax 5.00% (in millions)	\$65.0	\$70.0	\$115.0	\$110.0	\$110.0

Super Ultra Low Emission Vehicles					
Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Units	5,000	5,000	5,000	5,000	5,000
Gross receipts (in millions) (average price \$17,900)	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0
50 % exempt (in millions)	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0
State tax 5.00% (in millions)	\$2.3	\$2.3	\$2.3	\$2.3	\$2.3

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Partially Zero Emission Vehicles

Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Units	5,000	95,000	190,000	285,000	380,000
Gross receipts (in billions) (average price \$17,900)	\$0.090	\$1.7	\$3.4	\$5.1	\$6.8
75 % exempt (in billions)	\$0.068	\$1.3	\$2.6	\$3.8	\$5.1
State tax 5.00% (in millions)	\$3.4	\$65.0	\$130.0	\$190.0	\$255.0

Zero Emission Vehicles

Year	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Units	1,000	5,000	5,000	8,000	10,000
Gross receipts (in millions) (average price \$17,900)	\$17.9	\$89.5	\$89.5	\$143.2	\$179.0
100 % exempt (in millions)	\$17.9	\$89.5	\$89.5	\$143.2	\$179.0
State tax 5.00% (in millions)	\$0.9	\$4.5	\$4.5	\$7.2	\$9.0

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