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March 2, 1998

Hon. Daniel E. Lungren  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Connie Lemus  
Initiative Coordinator

Dear Attorney General Lungren:

Pursuant to Elections Code 9005, we have reviewed the proposed initiative relating to electric vehicles (File No. SA 98 RF 0004). This measure would provide the original purchaser of an electric-powered vehicle (EV) or an EV conversion kit, an income tax credit and an exemption from state sales taxes and registration fees.

**Background**

*The Electric-Powered Vehicle Industry.* The EV industry is an emerging industry, with several hundred EVs sold annually in the state today. The EV technology has made significant advances in recent years. Compared to conventionally powered vehicles, however, EVs are relatively expensive. In addition, certain EV features still pose disadvantages for consumers. These include the limited number of miles one can drive per battery recharge and feasible vehicle sizes and weights. Thus, from an economics perspective, the future competitiveness and sales of EVs will depend on such factors as the degree to which their prices drop and advances in battery technology occur (including reduced battery recharge times, increased battery energy-retention capabilities and life spans, and lower EV battery replacement costs).

In addition to these basic economic factors, a key element in the future outlook for EV-related sales involves governmental regulations relating to vehicle emissions. In

California, current regulations require that 10 percent of new vehicles offered for sale annually be zero-emission vehicles by the year 2003. Based on current vehicle-sales levels, this would translate into around 170,000 such zero-emission vehicles annually. At present, only EVs qualify as zero-emission vehicles.

***Federal Tax Incentives.*** Under existing law, a federal EV income tax credit is available for EVs purchased after June 30, 1993 and before January 1, 2005. This federal credit is equal to 10 percent of a vehicle's purchase price, up to a maximum of \$4,000. The credit phases out gradually beginning in the year 2002. In addition, a federal clean-fuel vehicle tax deduction is available of up to \$2,000 of the incremental purchase price or conversion cost of a vehicle for which the credit has not been claimed.

***State Tax Incentives.*** Currently, purchasers of EVs and EV conversion kits do not receive state tax credits, and are subject to the same vehicle registration provisions as are other vehicles in the state. Between January 1, 1991 and January 1, 1996, a California low-emission vehicle income tax credit and sales tax exemption were available to EVs; however, that program expired January 1, 1996.

## **Proposal**

This measure provides that any California resident, corporation, or business is entitled to take a state income tax credit equal to 50 percent of the purchase price of any EV or EV conversion kit. The measure does not specifically define the term "electric-powered vehicle." Thus, it is not clear whether the credit would apply only to battery-powered vehicles or also to "hybrid" vehicles partly powered by electricity and partly using internal combustion technology (such as are currently being developed for certain markets).

Under the measure, the EV or conversion kit must be used for the purchaser's primary personal or business transportation at least 50 percent of the year. The credit must be used by the original purchaser, and can be carried over until used up for up to ten years after the purchase.

In addition to providing this income tax credit, the measure exempts original purchasers of EVs or conversion kits from state sales taxes and all registration fees. The EV credit is to remain in effect for ten years starting in 1998 (and be retroactive to 1998), or until ten million EVs are registered in the state, whichever comes first.

## **Fiscal Effects**

The direct fiscal effects of this measure would depend primarily on the number and prices of qualifying EVs and EV conversion kits sold. It is difficult to project future qual-

ifying EV-related sales, given that the EV industry is in a developing state and its future will be significantly affected by as-yet unknown technological and regulatory factors. Moreover, we cannot predict the extent to which the measure's tax incentives would increase consumer demand for these vehicles.

**State Income Tax Losses.** Based on current EV prices, annual state revenue reductions associated with the measure's EV income tax credit could range from less than \$10 million (based on current sales levels) to over \$1 billion (if, for example, the number of low-emission vehicles mandated under current air-quality regulations were to eventually materialize). Given the industry's current situation, these latter, larger fiscal effects would not occur for a number of years.

**State Sales Tax Losses.** State sales taxes would experience annual reductions that would range from several hundreds of thousands of dollars to several hundreds of millions of dollars, depending on EV-related sales. About 80 percent of these losses would accrue to the state's General Fund and 20 percent to local governments. These local losses represent monies used to fund local criminal justice administration and local health and social services costs.

**Losses in Vehicle Registration Fees.** Vehicle registration fees currently are levied at a basic rate of \$30 per vehicle and are used to fund transportation-related state agencies. Reduced registration fees under the measure would range from thousands of dollars to millions of dollars annually, depending on qualifying EV-related sales.

**Summary of Fiscal Impact.** Depending on future EV-related sales, this measure would have the following major impact:

- Annual reductions in state revenues ranging from less than \$10 million to potentially over \$1 billion.

Sincerely,

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Elizabeth G. Hill  
Legislative Analyst

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Craig L. Brown  
Director of Finance