Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 557 (Substitute S-4 as reported)
Senate Bill 558 (Substitute S-2 as reported)
Senate Bill 559 (Substitute S-2 as reported by the Committee of the Whole)
Senate Bill 560 (Substitute S-3 as reported by the Committee of the Whole)
Senate Bill 561 (as passed by the Senate)
Senate Bill 1007 (Substitute S-1 as reported by the Committee of the Whole)
Senate Bill 1008 (as passed by the Senate)
Senate Bill 1009 (Substitute S-1 as reported)
Sponsor: Senator Mat J. Dunaskiss (Senate Bills 557, 558, 1007, 1008, and 1009)
Senator Dianne Byrum (Senate Bill 559)
Senator Walter H. North (Senate Bill 560)
Senator Dan L. DeGrow (Senate Bill 561)
Committee: Technology and Energy

Date Completed: 6-24-96

RATIONALE

Congress has urged states to examine ways to increase the usage of alternative-fueled vehicles (AFVs). Indeed, the Federal Energy Policy Act sets standards for minimum percentages of certain fleets of state-owned vehicles that must use alternative fuels. (Although compliance with and enforcement of those standards reportedly has been delayed by the slow development of Federal rules, the Act's requirement for meeting those standards began on September 1, 1995.) In addition to Congress's promoting the use of AFVs in state-owned fleets, some private sector operations, such as automobile manufacturers and electric utilities, have developed and used AFVs in an effort to promote that technology in Michigan. Some people believe that, while increasing the use of AFVs in government and corporate fleets is laudable, the State should help to spur the development of a broader market for AFVs and the infrastructure to support their use by offering tax incentives to businesses and individuals to purchase AFVs and develop fueling stations.

CONTENT

Senate Bills 557 (S-4), 558 (S-2), 559 (S-2), 560 (S-3), and 1009 (S-1) would amend various acts to provide for tax credits related to the sale and use of vehicles that used an "alternative fuel" as their primary fuel source. Senate Bill 561 would amend the Fire Prevention Code to exempt from certification requirements certain compressed gas or liquefied petroleum gas vehicular fueling locations. Senate Bill 1007 (S-1) would provide for an AFV registration fee as an alternative to the gasoline tax. Senate Bill 1008 would amend the Michigan Vehicle Code to require a vehicle's title to indicate whether the vehicle used an alternative fuel.

"Alternative fuel" would mean methanol, denatured ethanol, and other alcohols; mixtures containing at least 70% by volume of methanol, denatured ethanol, and other alcohol with gasoline or other fuels; natural gas; liquefied petroleum gas; hydrogen; coal-derived liquid fuels; fuels, other than alcohol, derived from biological materials; electricity, including electricity from solar energy; and any other fuel designated an alternative fuel by the Secretary of Energy under the provisions of Title III of the Federal Energy Policy Act.

Senate Bill 557 (S-4)

The bill would amend the General Sales Tax Act to provide that, for sales made after December 31, 1996, and before January 1, 2002, a person subject to the sales tax could exclude from gross proceeds used for the computation of the tax the amount of gross proceeds from the sale of a motor vehicle, including a vehicle purchased for lease to another, that used an alternative fuel as its primary fuel source, equal to the difference between the cost of the AFV and the cost that the same vehicle would have had with a traditional fuel source.

Senate Bill 558 (S-2)

The bill would amend the General Property Tax Act to provide that an increase in the taxable value of real property due to new construction of an alternative fuel fueling station for the retail sale of alternative fuel to a consumer for use in a motor vehicle would be exempt from taxation under the Act for three years. In addition, an alternative fuel fueling station for the retail sale of alternative fuel to a consumer for use in motor vehicles that was taxable as personal property under the Act would be exempt from taxation for three years if the fueling station were new construction. The exemptions would begin on December 30 of the year construction of the alternative fuel fueling station began.

Senate Bills 559 (S-2) and 560 (S-3)

Senate Bills 559 (S-2) and 560 (S-3) would amend the Income Tax Act and the Single Business Tax (SBT) Act, respectively, to provide that, for tax years beginning after December 31, 1996, and before January 1, 2001, a taxpayer could claim a credit of up to $1,500 against his or her income tax or SBT for the year for both of the following: the difference between the cost of a "conventional-fueled vehicle" and the cost paid by the taxpayer in the tax year for a comparable AFV or "dual-fueled vehicle"; and the cost paid by the taxpayer in the tax year to purchase and install AFV conversion equipment. If the proposed credit exceeded the taxpayer's tax liability for the year, the portion that exceeded the tax liability could not be refunded or carried forward to offset the tax liability in subsequent years.

"Conventional-fueled vehicle" would mean a vehicle that was propelled by fuel that was suitable for use in spark-ignition internal combustion engines and was commonly or commercially known or sold as gasoline. "Dual-fueled vehicle" would mean a vehicle with the capacity to operate on either conventional fuel or alternative fuel.

Senate Bill 561

The bill would amend the Fire Prevention Code to exempt from certification requirements a compressed gas or liquefied petroleum gas vehicular fueling location that did not have storage capacity.

The Fire Prevention Code prohibits a firm or person from establishing or maintaining a flammable compressed gas or liquefied petroleum gas container filling location without obtaining a certificate from the State Fire Marshal. The bill would exempt from that prohibition a compressed gas or liquefied petroleum gas vehicular fueling location that did not have storage capacity.

The bill specifies, however, that each compressed natural gas system for fueling a motor vehicle would have to comply with the standards established by the Department of State Police through rule promulgation. A city, village, township, county, or other governmental entity could not adopt a standard, ordinance, or rule that was inconsistent with this requirement.

Senate Bill 1007 (S-1)

The bill would amend the motor fuel tax Act to provide for an alternative to the gasoline tax for a vehicle that used an alternative fuel.

The bill provides that, in place of the gasoline tax imposed under the motor fuel tax Act, the owner of a vehicle propelled on Michigan highways by an alternative fuel would have to purchase an annual highway use sticker for the privilege of using the roads and highways. The sticker would have to be purchased at the same time the vehicle registration was obtained for the vehicle. The sticker would have to be affixed to the lower-left corner of the vehicle's front windshield. The fee for the sticker would be $90 per year.

Senate Bill 1008

The bill would amend the Michigan Vehicle Code to require the application for a vehicle's title to indicate whether the vehicle used an alternative fuel as its fuel source.

Senate Bill 1009 (S-1)

The bill would amend the Use Tax Act to specify that the use tax would not apply to the use of a vehicle, purchased for lease to another person, that used an alternative fuel as its primary fuel source, after December 31, 1996, and through December 31, 2001.

Proposed MCL 205.54p (S.B. 557)
Proposed MCL 211.7ff &211.9f (S.B. 558)
Proposed MCL 206.266 (S.B. 559)
Proposed MCL 208.37e (S.B. 560)
MCL 29.5c et al. (S.B. 561)
MCL 207.102 (S.B. 1007)
MCL 257.217 (S.B. 1008)
Proposed MCL 205.94o (S.B. 1009)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By providing an economic incentive, the bills would encourage both individual and corporate purchases of AFVs and the development of fueling facilities necessary to support the use of AFVs. Implementing temporary tax incentives would help to jump start the AFV industry and commercialize technologies already developed for certain companies' internal use. The development of this new industry, in turn, would serve a broad public benefit by aiding the economy and reducing air pollution. New jobs could be developed and tax revenues, in the long-term, should increase as AFVs became more popular.

Response: The bills would not necessarily benefit either the economy or the environment. AFVs generally are more expensive to manufacture and operate than are conventional vehicles. Due to this factor, the industry is unlikely to see any significant growth, regardless of any perceived economic effect of tax subsidies. In addition, according to testimony before the Senate Technology and Energy Committee, tailpipe emissions from conventionally fueled vehicles have decreased 97% since the 1960s. Any difference in level of pollutants from use of AFVs, then, would be minuscule.

Opposing Argument

Targeting tax incentives toward one segment of the automobile industry would be inappropriate and unfair. The competitive marketplace, not government subsidies, should determine whether the AFV industry develops and thrives. Although the bills' tax incentives would be temporary, once they were implemented proponents of these subsidies likely would seek to increase them and extend their applicability. Ultimately, the market will decide the fate of AFVs, so artificially manipulating the market through tax exemptions could be misleading and useless.

Opposing Argument

There is no assurance that providing tax incentives now would result in a later benefit from a possible increase in the AFV market. In addition, the tax breaks proposed by the bills could have revenue implications for various funds and uses of public tax dollars. For instance, reductions in gas tax revenue would result in less State money for roads, and decreased sales, use, property, and single business tax revenue could affect a myriad of programs.

Response: If the bills did not result in the expansion and development of the AFV market and industry, revenue lost due to the tax incentives would be minimal. If the bills did encourage that development, long-term benefits would be realized. In addition, Senate Bill 1007 (S-1) would require the purchase of an AFV registration sticker, which would help to alleviate the loss of revenue due to avoidance of the gasoline tax.

Legislative Analyst: P. Affholter

FISCAL IMPACT

Senate Bills 557 (S-4)-560 (S-3), 1007 (S-1), and 1009 (S-1)

The following fiscal impact estimates are based on data on the number of alternative-fueled vehicles in Michigan from the U.S. Department of Energy and Michigan Department of Commerce. The fiscal impacts presented below were estimated jointly by the Senate Fiscal Agency and the Department of Treasury.

Senate Bill 557 (S-4). It is estimated that this bill would reduce sales tax revenue by $0.2 million a year.

Senate Bill 558 (S-2). This bill would reduce State and local property taxes by an estimated $94,000 in FY 1996-97. The State education property tax would be reduced by an estimated $12,000. The local school 18-mill property tax would be reduced by an estimated $35,000, but as a result, the State would have to increase school aid expenditures by this amount to assure that the affected school districts still received their guaranteed foundation amount. Therefore, the total impact on State government would be $47,000, which would consist of reduced revenues and increased expenditures. Local government property taxes and school property taxes derived from other than the 18-mill tax would be reduced by an estimated $47,000.

Senate Bills 559 (S-2) and 560 (S-3). The proposed income tax and SBT credits would become effective for tax years beginning after December 31, 1996, and so could not be initially claimed until taxpayers filed 1997 annual returns in 1998. Therefore, there would be no loss of revenue in FY 1996-97. In FY 1997-98, it is estimated that these bills would reduce income tax and single business tax revenue by a combined $2.1 million. Both of these credits would be available only through calendar year 2000.

Senate Bill 1007 (S-1). Under this bill, in exchange for purchasing an annual highway use sticker, owners of alternative-fueled vehicles that used a fuel mixture containing no more than 30% gasoline, would be exempt from the gasoline tax on the gasoline included in the fuel mixture. Owners of vehicles that used liquefied petroleum gas (LPG), however, would have to purchase a sticker as well as continue to pay the current LPG motor fuel tax of 15 cents per gallon. It is estimated that this sticker fee would generate $1.26 million in FY 1996-97. The revenue generated from the sticker fee would increase in subsequent years as the number of alternative-fueled vehicles increased.

Senate Bill 1009 (S-1). Given an effective date of January 1, 1997 through December 31, 2001, and assuming that the average lease is for three years, it is estimated that this bill would reduce use tax revenue by $38,000 in FY 1996-97. In FY 1997-98, additional vehicles would be leased, which in addition to the vehicles leased in FY 1996-97, would boost the loss in revenue to an estimated $150,000. In FY 1998-99, the number of leased vehicles qualifying for this exemption would again increase as new leases are made and as a result the loss in revenue would increase to $250,000. The loss in revenue would then level off in FY 1999-2000 and FY 2000-2001.

The estimated fiscal impacts of these bills are summarized in the following table.

ALTERNATIVE-FUELED VEHICLE BILLS - STATE FISCAL IMPACT
FY 1996-97 TO FY 1998-99
(dollars in thousands)

Senate Bill	FY 1996-97	FY 1997-98	FY 1998-99
Tax Credits and Exemptions:			
S.B. 557.	$(200)	$(200)	$(200)
S.B. 558.	(47)	(47)	(47)
S.B. 559 & 560.	---	(2,100)	(2,100)
S.B. 1009.	(38)	(150)	(250)
Subtotal.	$(285)	$(2,497)	$(2,597)
Alternative-Fueled Vehicle Fee:			
S.B. 1007.	$ 1,260	$ 1,340	$ 1,420
Total Fiscal Impact.	$ 975	$(1,157)	$(1,177)

Senate Bill 561

The bill would have a minimal fiscal impact on the Department of State Police. The Department is authorized to charge for plan review and inspections of compressed natural gas and liquefied gas storage systems.

Senate Bill 1008

The bill would have no fiscal impact on State or local government.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.