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ALTERNATIVE-FUELED VEHICLES

House Bill 6050 (Substitute H-2)
House Bill 6051 (Substitute H-1)
First Analysis (10-14-98)

Sponsor: Rep. Kirk A. Profit
Committee: Tax Policy

THE APPARENT PROBLEM:

The House Tax Policy Committee recently appointed a Subcommittee to Explore the Environmental Sensitivity of the Michigan Tax Code. A number of legislative proposals have been introduced as a result of the subcommittee's hearings, including one that would encourage the purchase of alternative-fueled vehicles through sales and use tax exemptions. Federal energy and environmental policies already promote the displacing of petroleum with alternative fuels in order to lessen dependence on foreign oil and improve air quality, primarily through 1990 amendments to the Clean Air Act and the Energy Policy Act (EPACT) of 1992. Vehicles are available fueled by methanol, ethanol (in combination with gasoline), natural gas, liquefied petroleum gas, and electricity. Some vehicles can be operated by either an alternative fuel or gasoline. The proposed changes to state tax policy would add to existing incentives for fleets and consumers to make use of such vehicles.

THE CONTENT OF THE BILLS:

The bills would provide sales tax and use tax exemptions for alternative-fueled vehicles. The term "alternative fuel" in the bills would refer to methanol, denatured ethanol, and other alcohols; mixtures containing 50 percent or more by volume of methanol, denatured ethanol, and other alcohol, with gasoline or other fuels; natural gas; liquefied petroleum gas; hydrogen; coal-derived liquid fuels; and electricity. An alternative-fueled vehicle would be a motor vehicle that uses an alternative fuel as a source of propulsion or a dual-fueled vehicle. A dual-fueled vehicle would be a motor vehicle that has the capacity to be propelled by either conventional fuel or alternative fuel, or any combination of the two.

House Bill 6050 would amend the Use Tax Act (MCL 205.94o) to exempt from the tax a portion of the cost of the storage, use, or consumption of an alternative-fueled vehicle, including a vehicle purchased for lease to another person, equal to the difference between the cost of the alternative-fueled vehicle and the cost that the same motor vehicle would have had with a traditional fuel source.

House Bill 6051 would amend the General Sales Tax Act (MCL 205.54r) to exempt from the tax 1) the difference between the cost of an alternative-fueled vehicle, including one purchased for lease to another person, and the cost that the same motor vehicle would have had with a traditional fuel source; and 2) the sale of equipment used to convert a motor vehicle to an alternative-fueled vehicle.

BACKGROUND INFORMATION:

Information on federal alternative-fueled vehicle (AFV) policies and on the variety of vehicles available from such manufacturers as Chrysler, Ford, General Motors, Honda, Mazda, Nissan, Toyota, and Volvo, can be found at the U.S. Department of Energy web site (http://afdc3.nrel.gov).

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bills would reduce state revenues by an indeterminate amount. (HFA fiscal notes dated 9-22-98)

ARGUMENTS:

For:

The bills will provide an incentive for businesses and individuals to purchase vehicles powered by alternative fuels. Advocates of such vehicles say they will reduce the use of gasoline and lower air pollution. Alternative fuels are also touted as a means of reducing the nation's reliance on foreign sources of energy. Vehicles that use alternative fuels, either alone or in combination with conventional fuel, are increasingly available but are typically more expensive to purchase or operate than comparable conventional vehicles. Granting a sales tax and use tax break on the difference between the cost of conventional and alternative-fueled vehicles will help to promote these environment-friendly forms of transportation and make state tax policy more environmentally sensitive.

Against:

Government shouldn't use subsidies (or mandates) to interfere in the marketplace in this way. Currently, say petroleum industry spokespersons, federal alternative fuel subsidies exceed $1 billion annually, and such subsidies must be paid for somehow. Further, they say, the arguments in favor of alternative fuels -- cleaner air and increased energy security -- are no longer compelling. The air has become increasingly cleaner through the use of government-imposed performance standards that all vehicles must meet (no matter what fuel they use), and the sources of crude and petroleum products have become more diverse (with only 10 percent of all our fuel coming from the Persian Gulf and 35 percent of all imports coming from NAFTA trading partners, the Caribbean, and the North Sea). A better way to reduce air pollution would be to provide incentives that would get older vehicles that do not meet current emission standards off the roads. Further, the disadvantages that alternative-fueled vehicles face in the marketplace -- higher costs for either the vehicles or fuel, restricted range of travel, lower speeds, and lack of refueling facilities -- will hardly be offset by sales and use tax breaks at the state level.

POSITIONS:

Among those who have indicated supported for the bills are the American Automobile Manufacturers Association, Ford Motor Company, Detroit Edison, Michigan Consolidated Gas Company, and the Michigan Environmental Council. (9-23-98)

The Department of Treasury is opposed to the bills. (9-24-98)

Associated Petroleum Industries of Michigan (a division of the American Petroleum Institute) is opposed to the bills. (9-23-98)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.