



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

**Bill:** H.B. 310 of the 129th G.A.

**Date:** November 16, 2011

**Status:** As Introduced

**Sponsor:** Rep. Goodwin

**Local Impact Statement Procedure Required:** Yes

**Contents:** Reduces by up to \$2,000 the amount of sales tax due on the purchase or lease of certain electric vehicles

### State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2012 is July 1, 2011 – June 30, 2012.

- The bill reduces by up to \$2,000 per vehicle the amount of sales tax on the purchase or lease of a qualified electric vehicle. The partial sales tax exemption will reduce state sales tax revenue.
- The reduction in sales tax revenue will increase each fiscal year, and might be up to \$5.0 million in FY 2014. The partial exemption expires on December 31, 2014.
- The state GRF would bear the entire revenue loss due to the Local Government Fund (LGF) and the Public Library Fund (PLF) "freeze" in this biennium. Beginning in FY 2014, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.

### Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
<b>Counties and transit authorities</b>			
Revenues	Potential loss	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -
<b>Counties, municipalities, townships, and libraries</b>			
Revenues	- 0 -	- 0 -	Potential loss
Expenditures	- 0 -	- 0 -	-0-

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The partial sales tax exemption will reduce revenue from county permissive and transit authority sales taxes.
- A share of GRF tax revenues is distributed under permanent law to the LGF and PLF. In this biennium, the state GRF would bear the entire revenue loss due to the LGF and PLF "freeze." Beginning in FY 2014, any reduction to GRF tax receipts would also reduce the amount distributed to the LGF and PLF.

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## Detailed Fiscal Analysis

The bill reduces by up to \$2,000 per vehicle the amount of sales and use tax due on the purchase or lease of qualified electric vehicles before January 1, 2015. The partial exemption applies to the purchase or lease of one vehicle for individuals, and up to 10 vehicles for businesses per calendar year. The partial exemption will reduce revenues from the state sales and use tax, and also will decrease receipts from county permissive and transit authority sales taxes. Those local sales taxes share the same tax base as the state sales and use tax.

Receipts from the state sales and use tax are deposited into the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF). Am. Sub. H.B. 153 (the operating budget act for fiscal years 2012 and 2013) fixed the LGF and PLF transfer amounts at pre-determined levels so that any decrease in tax receipts during the biennium will affect the GRF only.<sup>1</sup> For FY 2014 and subsequent years, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues. Subsequent transfers to the LGF and PLF will be based on those respective ratios.<sup>2</sup>

The yearly revenue loss to the GRF and to counties and transit authorities from the partial sales tax exemption, potentially several millions, is uncertain. Revenue losses will be dependent on levels of production of electric vehicles, the relative purchase prices of internal combustion engine vehicles and electric cars, and the demand for electric vehicles. The bill would effectively reduce by about 6.8% the price of an electric vehicle, thereby increasing the demand for those vehicles, *i.e.*, the tax incentive may cause some taxpayers to buy a tax-exempt electric vehicle instead of a taxable gasoline-powered vehicle. The demand for electric vehicles may also be dependent on the availability of federal tax credits that may further lower the ultimate cost of the vehicle to a purchaser.<sup>3</sup> Finally, the demand for electric vehicles, and revenue losses under the bill, may also be dependent on gas prices. Independently of manufacturers' sales or government tax incentives, sales of hybrid and electric vehicles generally increase with higher gasoline prices. Conversely, lower gasoline prices dampen the demand for those vehicles.

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<sup>1</sup> Section 757.10 of H.B. 153.

<sup>2</sup> Revised Code 131.51.

<sup>3</sup> A federal income tax credit of \$7,500 that qualifying buyers receive for buying an electric car will expire when electric vehicle manufacturers each hit 200,000 in sales, something that is unlikely to happen for several years. Through October, about 13,156 plug-in electric vehicles were sold nationwide in 2011, according to Hybridcars.com. Another credit, the 30% federal income tax credit for public and private alternative fueling infrastructure (which includes electric vehicle chargers) expires in December 2011.

Based on various automotive manufacturers' announcements, the production of electric vehicles may experience a steep increase over the next few years. According to a state by state projection of future sales of electric vehicles by the Center for Automotive Research,<sup>4</sup> Ohio consumers might purchase 1,893 electric vehicles in 2012, 2,852 in 2013, 3,344 in 2014, and 3,442 in 2015. Based on these estimates, and assuming qualifying electric vehicles have an average price of \$30,000,<sup>5</sup> the state revenue loss from the bill might be \$3.9 million in FY 2013, \$5.1 million in FY 2014 and \$2.8 million in FY 2015. Counties and transit authorities may forego about \$1.1 million in 2013 and \$1.3 million 2014. Revenue losses in 2012 for the state GRF and local governments would be dependent on the effective date of the bill, though they may be less than \$1 million for local governments. Please note that estimated revenue losses may be lower if sales were below the projections above.

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<sup>4</sup> *"Deployment Rollout Estimate of Electric Vehicles, 2011-2015."* Center for Automotive Research, January 2011.

<sup>5</sup> A vehicle priced at \$30,000 would yield about \$2,040 in state and local sales taxes. All electric vehicles being sold currently have a price exceeding \$30,000 per unit. The Nissan Leaf (about 62% of electric vehicle sales year-to-date in 2011) reportedly sells for about \$33,000. Prices for the Chevrolet Volt (about 38% of sales) exceed \$40,000. Though announced increases in production of existing electric vehicles, and the introduction of several more models from other manufacturers, scheduled for 2012, suggest average prices may fall, this fiscal note assumes average prices would not fall below \$30,000, at least in the next few years.