Date of Hearing: April 17, 2017

ASSEMBLY COMMITTEE ON TRANSPORTATION
Jim Frazier, Chair
AB 1341 (Calderon) – As Amended March 29, 2017

SUBJECT: Zero-emission and near-zero-emission vehicles: tax credits and exemptions

SUMMARY: Excludes up to $40,000 from state sales tax on the purchase of used zero-emission vehicles (ZEVs) or near-zero emission vehicles (NZEVs) if purchased by a low-income purchaser, and allows a personal income tax credit (ranging $1,500-$5,000) for the purchase of certain plug-in hybrid electric vehicles (PHEVs), battery electric vehicles (BEVs), and hydrogen fuel cell vehicles, with an additional $500 credit allowed for low-income purchasers. Specifically, **this bill**:

1) Exempts, on or after January 1, 2018, up to $40,000 of the cost of a used ZEV or NZEV purchased by a "low-income purchaser" from the Sales and Use Tax (SUT) law and provides, notwithstanding any provision of the Bradley-Burns Uniform Local SUT Law or the Transactions and Use Tax Law.

2) Prohibits the sales tax exemption from applying to any tax levied by a county, city, or district.

3) For each taxable year beginning on or after January 1, 2018, and before on January 1, 2026, allows buyers to receive a $2,500 tax credit for the purchase of a qualifying BEV, $1,500 for a qualifying PHEV, or $5,000 for a qualifying hydrogen fuel cell vehicle provided to the taxpayer in the taxable year that the vehicle is purchased and if the qualified taxpayer is a low-income purchaser, allows an additional $500 credit for each eligible vehicle type

4) Authorizes a qualifying taxpayer purchasing a qualifying ZEV or NZEV to assign the allowable tax credit to a financing entity, as specified, and allows the tax to be carried over to reduce the "net tax" in the following and succeeding years for up to six years until the credit is exhausted.

5) Provides that moneys from the Greenhouse Gas Reduction Fund (GGRF), upon appropriation by the Legislature, may be transferred to the General Fund to reimburse the General Fund for costs of the sales tax exemption and income tax credit.

6) Defines a variety of terms.

EXISTING LAW:

1) Requires the California Air Resources Board (ARB), pursuant to AB 32, (Núñez), Chapter 488, Statutes of 2006, to develop a plan of how to reduce statewide greenhouse gas (GHG) emissions to 1990 levels by 2020 and authorizes ARB to use of market-based mechanisms (such as cap-and-trade).

2) Requires ARB, pursuant to SB 32 (Pavley), Chapter 249, Statutes of 2016, to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by 2030.

3) Establishes the GGRF in the State Treasury and requires all money collected pursuant to cap-and-trade, with limited exceptions, be deposited into the fund.

4) Establishes, by the Governor's Executive Order B-16-12, the goal of placing 1.5 million ZEVs and NZEVs on California's roadways by 2025.

5) Establishes the Clean Air Vehicle Rebate Program (CVRP) to promote the purchase of ZEVs and NZEVs by providing rebates for qualifying vehicles.

6) Establishes the Enhanced Fleet Modernization Program (EFMP), administered by ARB and local air districts to provide for the voluntary retirement of high polluting vehicles and replacement with cleaner cars.

7) Establishes the Charge Ahead California Initiative, pursuant to SB 1275 (de León), Chapter 530, Statutes of 2014, to provide incentives that increase the availability of ZEVs and NZEVs, particularly in disadvantaged communities and for low- and moderate-income consumers, establishes the goal of placing one million ZEVs and NZEVs into service by January 1, 2023.

8) Imposes local sales and use taxes in conformity with the SUT.

9) Allows, pursuant to the Personal Income Tax Law, various credits against the taxes imposed. and allows deductions from gross income in computing adjusted gross income under that law.

FISCAL EFFECT: Unknown

COMMENTS: According to the author, despite major advancements in the technology and the proliferation of new and more affordable purchase options, electric vehicles currently only account for 3% of all new car sales in California. In order for the state to achieve its GHG reduction goals, air quality mandates, and electric vehicle (EV) adoption goals, the state needs to continue incentivizing the purchase of ZEVs and NZEVs until the market matures and becomes self-sustaining. He notes, however, that thus far, EV incentive program funding has been mismatched with market demand and that to date, electric vehicles remain inaccessible to all Californians.

To address this, the author has introduced this bill which would provide consumers a tax credit for the purchase of new, qualifying ZEVs and NZEVs and a sales tax exemption for the purchase of used ZEVs and NZEVs. By creating these tax incentives, the author intends to create a self-executing incentive program independent of ARB that is better able to facilitate market expansion of these vehicles in order to help California achieve its clean air and climate change goals.

ARB has been instrumental in driving innovation throughout the automotive industry through programs such as its ZEV Mandate. The ZEV Mandate was established to help meet the state's clean air and GHG reduction goals by targeting the transportation sector, which is responsible for nearly 40% of emissions. Specifically, the ZEV Mandate sets vehicle credit requirements for clean vehicle technology based on manufacturer's California sales volumes. A manufacturer's credit requirement is then expressed as a percentage of their annual total passenger car and light-duty truck sales in California. Manufacturer's meet their credit requirement through the production and sales of ZEVs in California.

ARB has encompassed a variety of non-regulatory efforts aimed at supporting market adoption of ZEVs in California. One such program is the CVRP, administered by ARB and funded with GGRF monies. The purpose of CVRP is to provide rebates to incentivize the purchase of new ZEVs thereby encouraging market adoption and deployment of these vehicles on California roadways. ZEV manufactures and dealers rely heavily on CVRP to promote the sale of ZEVs that, in turn, help them meet their ZEV sales requirements as specified in the ZEV Mandate.

Specifically, CVRP offers rebates on a first-come, first-served basis for light-duty ZEVs including fuel cell vehicles, BEV and PHEVs. Rebate amounts include $5,000 for hydrogen fuel-cell vehicles, $2,500 for BEVs, and $1,500 for PHEVs. CVRP also provides additional incentives for qualifying low-income consumers. These incentives, coupled with federal tax incentives, substantially lower the cost of purchasing or leasing qualifying ZEVs.

To date, the Center for Sustainable Energy, the entity that oversees administration of CVRP, reports that a total of 163,000 rebates have been issued totaling $349 million. CVRP's popularity has been steady and the program routinely runs out of allocated funds--something car dealers and manufacturers contend negatively impacts ZEV sales.

Despite CVRP's popularity, as the author reports, ZEVs still only comprise approximately 3% of total new car sales in California. While this percentage is "on track" with meeting the 15% market share goal for ZEVs by 2025, there are concerns that the steep increase in sales that is needed in subsequent years to meet the ultimate ZEV deployment goal will likely not materialize without assurances that ZEV incentives will continue to be available.

There are other programs that can be used by consumers (including low-income consumers) to secure both new and used ZEVs and NZEVs (as well as conventional vehicles that meet specified emissions and fuel economy standards). For example, the Consumer Assistance Program (CAP), administered by Bureau of Automotive Repair provides incentives for the voluntary retirement of high-polluting vehicles from operation in the state through the purchase and dismantling of these vehicles. The program is available to owners when their vehicles fail to pass a smog check inspection. Under CAP, low-income vehicle owners can receive $1,500 to retire their vehicle. This amount can be added to incentives provided under other programs such as CVRP or EFMP.

A second EFMP program, administered by ARB in partnership with local air districts offers incentives to retire-and-replace old, dirty vehicles and replace them with cleaner cars. EFMP also includes a vehicle replacement component, now known as EFMP Plus-Up, which is operated by the San Joaquin and South Coast air districts in partnership with ARB (both designated extreme non-attainment areas for ozone). Under EFMP Plus-Up, a low-income owner who lives in one of these districts can get a $2,500 “replacement” voucher in addition to the $1,500 base EFMP “retirement” voucher. The owner may use the funds to either purchase a car that is less than eight years old, or to obtain a public transit voucher. If a low-income owner lives within a DAC in one of these air districts, and wants to purchase a hybrid, plug-in hybrid, or battery electric vehicle, he or she can “stack” additional incentives on top of these two vouchers. While the program allows individuals to trade in their high-polluting cars for cleaner gas-powered cars, greater incentives are provided if the individual opts to purchase a hybrid, hybrid-electric, or fully electric vehicle. Depending on income and the type of replacement vehicle, the owner can get up to $12,000 total toward the purchase of a new car.

Committee comments:

1) It is laudable that the author is seeking to provide a stable source of funding to incentivize the purchase of clean vehicles to help the state achieve its clean air goals. This bill, however, has the potential to significantly draw down the GGRF and impact the General Fund because it does not limit the number of tax credits or exemptions that could be issued. Given that CVRP is consistently oversubscribed and has expended nearly $350 million since its inception, it is likely that the program established by this bill, without limits, could draw down significantly more that this amount in much less time. While the impact on GGRF would be limited to the amount that is allocated, anything beyond that amount would be borne by the General Fund.

2) The incentives for used ZEVs and NZEV contained in this bill could be problematic in that this bill does not limit the incentive to one per vehicle consequently a tax credit could be issued more than once for the same vehicle as the used vehicle changes hands in the secondary market. This would no doubt create a substantial drain on both the GGRF and impact the General Fund without necessarily decreasing emissions by replacing a higher emitting car or necessarily increasing the total number of ZEVs and NZEVs on California's roadways.

3) Additionally, for used ZEVs and NZEVs, this bill does not take into account the existing incentives that are already offered toward the purchase of used ZEVs and NZEV that, in some cases, equal the asking price of many of these used vehicles.

4) This bill creates yet another program to incentivize the purchase and use of ZEVs and NZEVs despite the fact that there are a multitude of existing programs that similarly incentivize the purchase of these vehicles. The author points out that more incentives are needed to achieve a self-sustaining market for these vehicles but the fact that the multitude of incentive programs already in existence has not "moved the needle" is concerning. Given that this is only one of many bills introduced this year to that create ZEV and NZEV incentives, the Legislature may wish to pause, gather the data and develop a comprehensive strategy to attack the problem rather than to continue to pursue this patchwork approach.

Double referral: This bill will be referred to the Assembly Revenue and Taxation Committee should it pass out of this committee.

Related legislation: AB 33 (Quirk) would require the Public Utilities Commission by March 30, 2018, to authorize investor owned utilities (IOUs) to offer programs and investments in residential electric vehicle service equipment. AB 33 is set to be heard by the Assembly Communications and Conveyance Committee on April 26, 2017.

AB 188 (Salas) would require ARB to update the EFMP guidelines to allow participants to replace their vehicles with a light-duty truck so long as they are retiring a pickup truck and the replacement truck meets fuel efficiency standard set for minivans. AB 188 passed out of this committee on March 27, 2017, with a 14-0 vote and is awaiting a hearing in the Assembly Appropriations Committee.

AB 193 (Cervantes) would require ARB to create a program that incentivizes the purchase and use of used clean air vehicles by low- and moderate income individuals living in areas of the state with poor air quality and where existing clean air vehicle rebate programs have been underutilized. AB 193 is set to be heard by this committee on April 24, 2017.

AB 544 (Bloom) would amend the current high occupancy vehicle lane sticker program for EVs. AB 544 is set to be heard by this committee on April 24, 2017.

AB 615 (Cooper) is an urgency measure that would make permanent the current income restrictions in the CVRP program that were imposed by last year's budget. AB 615 passed out of this committee on March 20, 2017, with a 13-0 vote and is awaiting a hearing by the Assembly Appropriations Committee.

AB 964 (Gomez) is similar to this bill in that it would create a new program (The California Affordable Clean Vehicle Program) to be administered by the Authority, to help low-income and high financial risk individuals buy low-emission vehicles using qualified loans. AB 964 is set to be heard by this committee on April 17, 2017.

AB 1081 (Burke) would exempt from state sales tax the value of a vehicle traded in to purchase a cleaner car. AB 1081 is set to be heard by the Assembly Revenue and Taxation Committee on April 17, 2017.

AB 1082 (Burke) would require IOUs to develop a program for the installation of vehicle charging stations at school facilities for use by faculty, students, and parents with electricity provided at time-of-use rates. AB 1082 passed out of the Assembly Communications and Conveyance Committee on April 6, 2016, with a 10-3 vote and is set to be heard by the Assembly Education Committee on April 26, 2016.

AB 1083 (Burke) Would require IOUs to create a charging network at all state parks and beaches by July 31, 2018 with electricity provided at time-of-use rates. AB 1082 passed out of the Assembly Communications and Conveyance Committee on April 5, 2017, with a 10-3 vote and is set to be heard by the Assembly Water, Parks, and Wildlife Committee on April 25, 2016.

AB 1341 (Calderon) would establish tax credits, deductions, and exemptions to incentivize the deployment of ZEVs and NZEVs. AB 1341 is set to be heard by this committee on April 17, 2017.

Previous legislation: AB 32 (Núñez), Chapter 488, Statutes of 2006, required the ARB to develop a plan of how to reduce emissions to 1990 levels by the year 2020 and also required ARB to ensure that, to the extent feasible, GHGs reduction requirement and programs direct public and private investment toward the most disadvantaged communities.

SB 32 (Pavley), Chapter 249, Statutes of 2016, requires ARB to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by 2030.

AB 945 (Ting) of 2015 would have provided a partial SUT exemption for the purchase and use of a qualified vehicle. AB 945 was held on the Assembly Appropriations Committee Suspense File.

AB 1077 (Ting and Muratsuchi) of 2014 would have excluded, for purposes of calculating both the vehicle license fee and sales and use taxes on a new alternative fuel vehicle, the value of the federal plug-in electric drive vehicle tax credit and any applicable state incentive programs, as specified. This bill died in the Assembly Appropriation Committee.

SB 1275 (de León), Chapter 530, Statutes of 2014, established the Charge Ahead California Initiative that, among other things, set the goal of placing one ZEV and NZEVs into service on California's roadways by January 1, 2023, and increasing access to these vehicles for disadvantaged, low-, and moderate-income communities and consumers.

AB 8 (Perea), Chapter 401, Statutes of 2013, extended, until January 1, 2024, extra fees on vehicle registrations, boat registrations, and tire sales in order to fund the programs that support the production, distribution, and sale of alternative fuels and vehicle technologies, as well as air emissions reduction efforts.

REGISTERED SUPPORT / OPPOSITION:

Support

CALSTART
Global Automakers
Southern California Edison

Opposition

None on file

Analysis Prepared by: Victoria Alvarez / TRANS. /