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| PROPOSED MASSACHUSETTS TAX EXPENDITURES  EVALUATION SUMMARY |
| EVALUATION YEAR: 2020 |

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| **TAX EXPENDITURE TITLE** | Deduction for Clean Fuel Vehicles and Certain Refueling Property |
| **TAX EXPENDITURE NUMBER** | 1.421 |
| **TAX EXPENDITURE CATEGORY** | Deduction against taxable income |
| **TAX TYPE** | Personal income tax |
| **LEGAL REFERENCE** | IRC §§ 62(a)(14) and 179A |
| **YEAR ENACTED** | As part of 1998 Code update |
| **REPEAL/EXPIRATION DATE** | None, but deduction is limited to vehicles and certain refueling property placed in service on or before December 31, 2006 |
| **ANNUAL REVENUE IMPACT** | Negligible |
| **NUMBER OF TAXPAYERS** | N/A |
| **AVERAGE TAXPAYER BENEFIT** | N/A |

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| **Description of the Tax Expenditure:**  A deduction is allowed for a portion of the cost of qualifying motor vehicles that use clean-burning fuel placed in service on or before December 31, 2006.  The deduction exists in Massachusetts because it was present in the Code as of 1/1/05. The federal deduction was repealed in 2014. | **Is the purpose defined in the statute?**  The statute does not explicitly state the purpose of this tax expenditure. We inferred that the purpose was to encourage the purchase of vehicles that use clean burning fuel. |
| **What are the policy goals of the expenditure?**  To increase consumer purchasing of alternative fuel-powered vehicles, thereby reducing environmental pollution. | **Are there other states with a similar Tax Expenditure**? All New England states and NY have a variety of electric and/or hybrid vehicle incentives and some clean fuel incentive programs but no income tax deduction. |

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| Incentive Evaluation Results |

**INTRODUCTION**

This expenditure is tied to a federal deduction that was repealed in 2014. The deduction was for a portion of the cost of qualifying motor vehicles that use clean-burning fuel and for certain refueling property used for the storage or dispensing of a clean-burning fuel or for the recharging of electric motor vehicles. Because Massachusetts currently conforms to the Code as of January 1, 2005, Massachusetts conforms to the federal deduction as in effect at that time, including this one which required vehicles and property to be placed in service on or before December 31, 2006. Massachusetts follows this requirement. Thus, for practical purposes the deduction is no longer in effect.

If Massachusetts were to update to the current Code, the 2014 repeal would be picked up as part of that update and the deduction would no longer be part of Massachusetts law.

**POLICY GOAL**

To encourage the purchase and use of clean fuel vehicles by allowing an immediate deduction for the cost of such vehicles and equipment used to refuel them instead of requiring such costs to be capitalized and deducted over a period of years. Note, however, that the federal statute to which Massachusetts conforms has since been repealed. Massachusetts law retains the deduction solely because of its conformity with the Code as it was in effect in 2005.

**COSTS**

While DOR has estimated the cost of this expenditure to be “Negligible”, its cost is likely zero because the deduction is only available for vehicles placed in service prior to December 31, 2006.

**BENEFITS**

Given the requirement that eligible vehicles must have been placed in service prior to December 31, 2006, DOR estimates that very few, if any, taxpayers are benefitting from this deduction.

**EVALUATION: COMPARING COSTS AND BENEFITS**

This deduction, which was intended to promote alternatively fueled vehicles and facilities, has been superseded by other credits/deductions. Both costs and benefits are no longer in effect.

**OTHER TAX EXPENDITURES / PROGRAMS WITH SIMILAR GOALS**

*Federal Tax Credit*

The [Qualified Plug-in Electric Drive Motor Vehicle Tax Credit](https://www.irs.gov/credits-deductions/individuals/plug-in-electric-drive-vehicle-credit-section-30d) is the main federal incentive program for electric cars available in the United States. Under this program, the purchase of a new electric vehicle is eligible for a tax credit worth $7,500 as long as it meets the following criteria:

* Purchased after December 31, 2009
* Uses a traction battery (as the vast majority of EVs do)
* Battery has at least 4 kilowatt hours (kWh) of capacity
* Uses an external plug-in source to recharge
* Has a vehicle weight rating of up to 14,000 pounds
* Meets emissions standards

The federal electric car tax credit applies to both all-electric vehicles and plug-in hybrid vehicles, and the actual amount you can claim varies based on car model.

This tax credit has a “phase out” built into the program that is dependent on the volume of vehicles sold by the manufacturer of the car. The phase out will kick in at the beginning of the second calendar quarter after a manufacturer has sold 200,000 eligible AEVs and/or PHEVs.

While most electric cars are still eligible for this tax credit, it is of note that Tesla cars are no longer eligible for the full incentive. Only vehicles delivered by December 31, 3018 received the full credit. Vehicles delivered before June 30, 2019 received a credit of $3,750, those delivered between July 1, 2019 and December 31, 2019 will receive $1,875, and beyond that timeline no credit is available for Tesla.

*Massachusetts Plug-In and Zero Emission Vehicle Rebates*

While Massachusetts does not offer additional deductions or a tax credit for electric vehicles, it does offer rebates for certain vehicles. The Massachusetts Department of Energy Resources administers the “*Massachusetts Offers Rebates for Electric Vehicles*” (“MOR-EV”) Program which offers residents, nonprofits, and businesses rebates of up to $2,500 toward the purchase or lease of eligible battery electric and fuel cell electric vehicles and up to $1,500 for the purchase or lease of eligible plug-in hybrid electric vehicles. Eligible nonprofit and business fleet vehicles may include rental cars, company cars, and delivery vehicles. Vehicle purchase prices must be below $50,000. Applicants must retain ownership of the vehicle for a minimum of 36 months. Only vehicles purchased or leased on or after January 1, 2020 are eligible. For more information, visit the [MOR-EV](https://mor-ev.org/) website.

**SIMILAR TAX EXPENDITURES OFFERED BY OTHER STATES**

Maine: Has various incentive programs for hybrid & electric vehicles and clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=ME>

Vermont: Has various incentive programs for hybrid & electric vehicles and clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=VT>

New Hampshire: Has some incentive programs for clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=NH>

Rhode Island: Has some incentive programs for clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=RI>

Connecticut: Has various incentive programs for electric vehicles and clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=CT>

New York: Has various incentive programs for hybrid & electric vehicles and clean fuel, but no deduction. <https://afdc.energy.gov/laws/state_summary?state=NY>

Current Federal Incentives for Clean Fuel:

<https://afdc.energy.gov/laws/all?state=US>

[Alternative Fuels Data Center](https://afdc.energy.gov/) Survey

<https://afdc.energy.gov/laws>

**IS THE INCENTIVE AS DESIGNED ACCOMPLISHING ITS PURPOSE?**

This deduction has only been retained as a result of Massachusetts conforming to the 2005 Code. But as noted above, for practical purposes the deduction is no longer in effect. Thus, it no longer incentivizes the purchase of alternatively fueled vehicles.

To be completed further by TERC

Conclusion/Recommendations: [To be Entered by TERC]