Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Chiu	Analyst:	Davi Milam	Bill Number:	AB 2675
Related Bills	See Prior Analysis	Telephone:	845-2551	Amended Date	May 2, 2016
		Attorney:	Bruce Langston	Sponsor:	

SUBJECT: Electric Vehicle Infrastructure Credit

SUMMARY

This bill would, under the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL), allow a credit for electric vehicle infrastructure.

This analysis only addresses the provisions of the bill that would impact the department's programs and operations.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The May 2, 2016, amendments revised the tax credit requirements, defined new terms, and made other technical changes. In addition, a technical consideration was identified.

Except for the "This Bill," "Implementation Considerations," "Technical Considerations," "Economic Impact," and "Policy Concerns" sections, the remainder of the department's analysis of the bill as introduced on February 19, 2016, still applies. The "Support/Opposition" section has been updated to reflect currently available information and the "Fiscal Impact" section has been restated for convenience.

THIS BILL

For each taxable year beginning on or after January 1, 2017, and before January 1, 2020, this bill would, under both the PITL and the CTL, provide a taxpayer a tax credit of 10 percent of the amount paid or incurred for electric vehicle infrastructure during the taxable year for use at a qualified dwelling, not to exceed $2,500.

This bill would define the following phrases:

- "Battery charging station" means any level of electric vehicle supply equipment station that is designed and built in compliance with Article 625 of the 2013 California Electrical Code, and delivers electricity from a source outside an electric vehicle into a plug-in electric vehicle.
- "Electric vehicle infrastructure" means "structures, machinery, and equipment necessary and integral to support an electric vehicle, including a battery charging station, battery exchange station, and rapid charging station.

- "Rapid charging station" means an industrial grade electrical outlet that allows for faster charging of electric vehicle batteries through higher power levels that meet or exceed any existing standards, codes or regulations in effect at the time of purchase.
- "Qualified dwelling" means a multiunit dwelling, also known as a multifamily residence or multifamily dwelling unit, a mobilehome or manufactured home located at a mobilehome park, duplex, townhome, apartment, and condominium.

Any unused credits could be carried over for four years or until exhausted.

This bill would exempt the Franchise Tax Board (FTB) from the Administrative Procedures Act (APA) when the FTB is prescribing rules, guidelines, or procedures necessary or appropriate to carry out the bill's purpose.

This bill would provide that Revenue and Taxation Code (R&TC) section 41 would not apply to the credit that would be allowed by this bill.[1]

The credit would be repealed on December 1, 2020.

IMPLEMENTATION CONSIDERATIONS

Department staff has identified the following implementation considerations for purposes of a high-level discussion; additional concerns may be identified as the bill moves through the legislative process. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

The department lacks expertise on what constitutes electric vehicle infrastructure. Typically, credits involving areas for which the department lacks expertise are certified by another agency or agencies that possess the relevant expertise. The certification language would specify the responsibilities of both the certifying agency and the taxpayer. It is recommended that this bill be amended to include a certifying agency.

It is unclear whether the $2,500 cap would apply to the amount of credit per taxable year or the costs eligible for credit per taxable year. Additionally, because each individual included in a jointly filed return meets the definition of "taxpayer", the maximum credit on a jointly filed return would be $5,000. If this is contrary to the author's intent, the bill should be amended.

Because the bill is silent on the nature of expenditures includable in the calculation of the credit, the credit may be more broadly interpreted than the author intends. For example, would acquisition costs, upkeep and maintenance, and improvements to existing infrastructure qualify provided the amounts are paid or incurred for "electric vehicle infrastructure"? To avoid disputes between taxpayers and the department and for ease of administration, the bill should be amended.

[1] R&TC section 41 requires legislation that would create a new tax credit to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the credit's effectiveness.

The definition of "electric vehicle infrastructure" could be broadly interpreted to include items such as tires, or a garage. It is recommended that the bill be amended to clearly express the author's intent.

The bill uses the undefined phrase "battery exchange station." To avoid disputes with taxpayers and for ease of administration, the bill should be amended.

The bill would require the electric vehicle infrastructure to be for "use at a qualified dwelling," However, the bill is silent on whether the electric vehicle infrastructure must be placed in service or for how long it must be used for the taxpayer to receive the credit. Thus, the bill would permit the taxpayer to claim a 10 percent credit for amounts paid or incurred for the same electric vehicle infrastructure for multiple years. If this is inconsistent with the author's intent, the bill should be amended.

TECHNICAL CONSIDERATIONS

To clarify that a "qualified dwelling" must be located in this state, the phrase "in this state" should be inserted after the phrase "multiunit dwelling" and before the "," on page 4, line 5 and on page 5, line 10.

FISCAL IMPACT

The department is unable to determine the costs to implement this bill. As the bill moves through the legislative process and the implementation concerns are resolved, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2675 As Amended May 2, 2016 Assumed Enactment After June 30, 2016 ($ in Millions)		
2016-17	2017-18	2018-19
- $0.8	- $1.7	-$1.9

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Based on data from the California Energy Commission, California plans to install approximately 140,000 charging stations by 2020. According to media coverage, there are several large scale projects planned by utility companies and charging station companies that includes installing charging stations at multi-family dwellings. It is estimated that the expenses associated with these charging stations would exceed the $2,500 maximum credit[2] generation by a single taxpayer. It is assumed that approximately 300 charging stations would be installed at multi-family dwellings and qualify for the credit each year the credit is available. The average commercial charger cost including other necessary materials is $3,000. Applying the 10 percent credit rate would generate $90,000 in credits.

Additionally, the California Energy Commission estimates approximately 55,000 charging stations would be installed annually at residential locations. Using data on electric vehicles sales to individuals living in apartments, it is assumed that 10 percent of these chargers would be installed at multi-family dwellings. The average commercial charger including other necessary materials cost is $3,000. Applying the 10 percent credit rate generates $1.7 million in credits. Because the bill requires the charging stations to be in compliance with the California Code, the estimate assumes the revenue impact for chargers located outside the state would be minimal.

The total estimated revenue loss for 2017 is $1.8 million. It is assumed that 80 percent of the credit would be used in the year generated and the remaining 20 percent would be used over the next four years.

The tax year estimate is converted to fiscal year estimates, and then rounded to arrive at the amounts shown in the table above.

SUPPORT/OPPOSITION[3]

Support: Electric Vehicle Charging Association, Charge Point, Climate Resolve

Opposition: California Tax Reform Association.

POLICY CONCERNS

Because this bill fails to specify otherwise, the credit would be available for amounts paid or incurred for electric vehicle infrastructure located outside of the state.

This bill would allow taxpayers in certain circumstances to claim multiple tax benefits for the same costs.

LEGISLATIVE STAFF CONTACT

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[2] The estimate assumes that the implementation concern is resolved clarifying that the $2,500 limitation applies to the maximum credit and that necessary costs for the electric vehicle infrastructure costs are allowed.
[3] As noted in the Assembly Revenue and Taxation Committee analysis dated May 2, 2016.