FISCAL NOTE TO

SENATE, No. 1810

STATE OF NEW JERSEY

DATED: MAY 12, 1997

Senate Bill No. 1810 of 1997 would exempt the sale of "alternative fuel" vehicles from the sales and use tax. The exemption would apply to any motorized vehicle -- two wheel, four wheel or more -- except vehicles running on rails or tracks and motorized bicycles. The vehicle could be dedicated solely to an alternative fuel or it could be capable of switching between the use of an alternative fuel or traditional motor fuels such as gasoline or diesel. "Alternative fuel" means various combustible substances or electricity used in vehicles complying with the standards and requirements of the federal legislation known as the Clean Air Act of 1990. The sales tax exemption would be allowed for a period of five years following enactment.

The Division of Taxation has prepared a fiscal note for the bill. It notes the bill would exempt several categories of motor vehicles from tax. The list includes typical cars and trucks operated on highways, many kinds of warehousing, manufacturing and construction support vehicles, farm vehicles, recreational vehicles such as electric golf carts and baggage handling equipment used in airports and other places. The division indicates there are no specific data on the number of all of the kinds of vehicles sold in New Jersey annually to which the exemption would apply.

The division cites the tax loss for individual sales at two price levels, $1,500 and $40,000. The sales tax loss on transactions at these values would be $90 and $2,400 respectively. The division comments, "if it is assumed that 2% of the over the road motor vehicle sales qualify, this would result in a $10 million annual loss." However, the sum of the loss would be much greater due to the sale and leasing of vehicles for the variety of off-road applications indicated.

The Office of Legislative Services (OLS) concurs with the division that the sales tax loss could be significant and wide ranging due to the bill's broad definition of a motor vehicles. While the current number of applicable highway use motor vehicles is relatively small, the impact of the federal Clean Air Act rules is expected to become more significant in 1998 and 1999 as fleet operators phase in alternative fuel vehicles. The domestic motor vehicle manufacturers and the domestic engine manufacturers have been preparing to produce significant quantities of engines for a wide variety of cars and trucks to be assembled by the motor vehicle firms. The predominant fuel for these vehicles is expected to be liquefied petroleum gas (propane) followed by compressed natural gas (CNG).

This fiscal note has been prepared pursuant to P.L.1980, c.67.