

Department of Legislative Services  
 Maryland General Assembly  
 2023 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 692

(Senators King and Hester)

Budget and Taxation

Ways and Means

Income Tax - Credit for Purchase of Zero-Emission and Hybrid Mobile Machinery

This bill authorizes a nonrefundable credit against the State income tax for the purchase of hybrid and zero-emission mobile machinery for use in an eligible taxpayer’s business or for rental or lease to the general public. The amount of the credit is equal to 15% of the purchase price of the qualified mobile machinery (30% for zero-emission mobile machinery) subject to a maximum of \$5,000 (\$10,000 in the case of mobile machinery with a gross vehicle weight rating of at least 14,000 pounds). An eligible taxpayer may apply any excess credit to succeeding taxable years until fully used. The credit is available for tax years 2024 through 2027. By December 1, 2027, the Comptroller must report to the General Assembly on the utilization of the tax credit. **The bill takes effect July 1, 2023.**

Fiscal Summary

**State Effect:** No effect on revenues in FY 2024. In FY 2025, general fund revenues may decrease by an estimated \$6.4 million, Transportation Trust Fund (TTF) revenues may decrease by an estimated \$1.5 million, and Higher Education Investment Fund (HEIF) revenues may decrease by an estimated \$0.5 million. Future years reflect annualization and projected growth in creditable purchases. General fund expenditures increase by an estimated \$63,000 in FY 2024 only. TTF expenditures for local highway user revenue grants may decrease by an estimated \$0.3 million in FY 2025 and \$0.4 million in FY 2028.

| (\$ in millions) | FY 2024 | FY 2025 | FY 2026  | FY 2027  | FY 2028  |
|------------------|---------|---------|----------|----------|----------|
| GF Revenue       | \$0     | (\$6.4) | (\$8.9)  | (\$9.6)  | (\$10.6) |
| SF Revenue       | \$0     | (\$2.0) | (\$2.9)  | (\$3.2)  | (\$3.2)  |
| GF Expenditure   | \$0.1   | \$0     | \$0      | \$0      | \$0      |
| SF Expenditure   | \$0     | (\$0.3) | (\$0.4)  | (\$0.5)  | (\$0.4)  |
| Net Effect       | (\$0.1) | (\$8.1) | (\$11.4) | (\$12.3) | (\$13.4) |

Note:( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

**Local Effect:** Local highway user revenues decrease by an estimated \$0.3 million in FY 2025 and \$0.4 million in FY 2028. Local expenditures are not affected.

**Small Business Effect:** Minimal.

---

## Analysis

**Bill Summary:** A taxpayer may be eligible to claim the credit if (1) the taxpayer has a place of business located in the State; (2) the taxpayer’s principal business is the rental or lease of tangible personal property to the general public; and (3) the taxpayer derives at least 51% of the taxpayer’s annual gross revenue from the rental or lease of tangible personal property to the general public.

Under the bill, “mobile machinery” has the meaning stated in § 4053(8) of the Internal Revenue Code (IRC). Section 4053(8) of the IRC generally defines “mobile machinery” as a vehicle which consists of a chassis to which there has been permanently mounted machinery or equipment to perform a construction, manufacturing, processing, farming, mining, drilling, timbering, or similar operation if the operation of the machinery or equipment is unrelated to transportation on or off the public highways, as specified.

“Hybrid mobile machinery” means mobile machinery that (1) is a qualified commercial clean vehicle under § 45W of the IRC and (2) is capable of drawing propulsion energy from both (1) gasoline, diesel fuel, or other fuels intended to be used in an internal combustion engine and (2) a rechargeable energy storage system.

“Zero-emission mobile machinery” means mobile machinery that is a qualified commercial clean vehicle under § 45W of the IRC.

### **Current Law:**

#### *Federal Commercial Clean Vehicle Credit*

The federal Inflation Reduction Act of 2022 established a credit against the federal income tax for qualified commercial clean vehicles, including specified mobile machinery, placed in service during the tax year. The provision applies to vehicles acquired after December 31, 2022, and before January 1, 2033.

The value of the credit is equal to the lesser of (1) 15% of the basis of the vehicle (30% in the case of a vehicle not powered by a gasoline or diesel internal combustion engine) or (2) the incremental cost of the vehicle (the excess of the purchase price of the qualified

clean vehicle compared to the purchase price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine). The amount of the credit per qualified commercial clean vehicle may not exceed \$7,500 (\$40,000 in the case of a vehicle that has a gross vehicle weight rating of at least 14,000 pounds).

#### *State Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program*

Chapter 234 of 2022 established the Medium-Duty and Heavy-Duty Zero-Emission Vehicle Grant Program within the Maryland Energy Administration (MEA). Subject to available funds, in each of fiscal 2024 through 2027, a person or unit of local government may apply to MEA for a grant of up to 20% of the cost for qualified medium-duty or heavy-duty zero-emission vehicles, zero-emission vehicle supply equipment, or zero-emission heavy equipment property. The Act requires the Governor to include in the annual budget bill for each of fiscal 2024 through 2027 an appropriation from the Strategic Energy Investment Fund of at least \$1.75 million for the program, of which at least \$1.0 million is for qualified medium-duty and heavy-duty zero-emission vehicles and \$750,000 is for zero-emission heavy equipment property.

**State/Local Revenues:** It is assumed that the State credit primarily affects corporate taxpayers. Thus, beginning in fiscal 2025, general fund, HEIF, and TTF revenues decrease significantly due to credits claimed against the corporate income tax. **Exhibit 1** shows the bill's estimated effect on State and local revenues in fiscal 2025 through 2029. As shown in the exhibit, in fiscal 2025, general fund revenues decrease by an estimated \$6.4 million, HEIF revenues decrease by an estimated \$0.5 million, and TTF revenues decrease by an estimated \$1.5 million. A portion of TTF revenues from the corporate income tax is used to provide capital transportation grants to local governments (local highway user revenues); thus, local highway user revenues decrease by an estimated \$0.3 million in fiscal 2025.

This estimate is based on projected U.S. sales of hybrid and zero-emission mobile machinery, adjusted for the estimated share of such purchases attributable to Maryland's equipment rental market. Future year revenue losses reflect annualization, projected growth in creditable purchases, and the termination of the credit after tax year 2027.

---

**Exhibit 1**  
**Projected Effect on State and Local Revenues**  
**Fiscal 2025-2029**  
**(\$ in Millions)**

|                           | <u><b>FY 2025</b></u> | <u><b>FY 2026</b></u> | <u><b>FY 2027</b></u> | <u><b>FY 2028</b></u> | <u><b>FY 2029</b></u> |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>State Revenues</b>     |                       |                       |                       |                       |                       |
| General Fund              | (\$6.4)               | (\$8.9)               | (\$9.6)               | (\$10.6)              | (\$2.7)               |
| HEIF                      | (0.5)                 | (0.7)                 | (0.8)                 | (0.8)                 | (0.2)                 |
| TTF                       | (1.5)                 | (2.2)                 | (2.4)                 | (2.3)                 | (0.6)                 |
| <b>Total</b>              | <b>(\$8.4)</b>        | <b>(\$11.8)</b>       | <b>(\$12.8)</b>       | <b>(\$13.8)</b>       | <b>(\$3.5)</b>        |
| <br><b>Local Revenues</b> |                       |                       |                       |                       |                       |
| LHUR                      | (\$0.3)               | (\$0.4)               | (\$0.5)               | (\$0.4)               | (\$0.1)               |

HEIF: Higher Education Investment Fund

LHUR: local highway user revenues

TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Comptroller's Office; Department of Legislative Services

---

**State Expenditures:** General fund expenditures for the Comptroller's Office increase by \$63,000 in fiscal 2024 for one-time changes to the Comptroller's tax systems necessary to implement the State income tax credit established under the bill.

TTF expenditures for local highway user revenue grants decrease by an estimated \$0.3 million in fiscal 2025 and \$0.4 million in fiscal 2028.

---

**Additional Information**

**Prior Introductions:** Similar legislation has not been introduced within the last three years.

**Designated Cross File:** HB 1181 (Delegate Vogel) - Ways and Means.

**Information Source(s):** Comptroller's Office; State Department of Assessments and Taxation; U.S. Joint Committee on Taxation; U.S. Census Bureau; CCH AnswerConnect; Business Wire; CALSTART; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2023  
js/jrb Third Reader - March 29, 2023  
Revised - Amendment(s) - March 29, 2023  
Revised - Clarification - March 29, 2023  
Revised - Updated Information - March 29, 2023

---

Analysis by: Elizabeth J. Allison

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510