



**Opportunities for State Action: Sales Tax Waiver**  
*One of a Series of ACEEE Fact Sheets*

**Context**

Encouraging the use of high-efficiency appliances, cars, and equipment will save energy, lower consumer bills, reduce greenhouse gas emissions and improve air quality. States have traditionally supported use of efficient products and services by providing information and encouraging utilities to offer demand-side management programs. In recent years, several leading states have also offered tax credits to residents who purchase very high-efficiency products.

**Why Tax Credits?**

Tax credits help buyers offset the relatively high first cost premium for new technologies. Tax credits also encourage manufacturers to continue to push for new innovative technology, initiate mass production of niche items, and begin marketing campaigns for efficient products. Tax credits can then be terminated when a product achieves a higher market share.

**How Does the Clean Energy Tax Credit Work?**

Oregon, Maryland, and Minnesota have enacted tax credits for energy-efficient appliances. Generally, appliances that qualify for the tax credits represent the leading edge of the market and have energy savings that far exceed national minimum-efficiency requirements (often based on the U.S. Department of Energy/Environmental Protection Agency's ENERGY STAR<sup>®</sup> qualifications). The appliances most often encouraged are highly efficient clothes washers, air conditioners, heat pumps, water heaters, and vehicles.

*Sales Tax Credit*

Maryland and Minnesota have implemented sales tax credits. The credits are applied at the point of sale and repeal the entire sales tax for qualifying appliances. These credits have the advantage of being instant, available, and equal for every consumer, plus the programs require less administration. Stores typically put signs on display models of qualifying appliances. This spurs the purchase of these appliances due to the direct cash incentive and the fact that the state is providing independent endorsement of the efficiency of the product.

*Income Tax Credit*

Oregon implemented an income tax credits program because it does not have a sales tax. The benefit of this program is that it can be monitored through tax records. Oregon, however, is attempting to make these tax benefits available at time of purchase, requiring as little paperwork as possible.

## Cost of Program

The primary cost for the sales tax waiver model is the lost revenue. Maryland (population: 5.2 million) estimated that the five-year program would cost the state five million dollars. In the income tax model, credits come from the general state budget. Oregon's (population: 3.4 million) income tax credits have been worth forty million dollars to date.

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This information is drawn from the upcoming ACEEE report: ***Opportunities for State Action: Tax Credits for Energy Efficiency in the Private Sector***. For more information, please contact:

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## Model Legislation

[Note: This language is intended for sales tax removal on energy-efficient appliances, products and vehicles. Income tax credit model language is available from ACEEE and will be included in the pending report.]

Definitions:

- (A) "Secretary" means Secretary of the [IMPLEMENTING AGENCY]

Efficient Appliances:

- (A) The sales and use tax does not apply to the sale of the following electric appliances purchased on or after [DATE OF IMPLEMENTATION], but before [SUNSET DATE] that meet or exceed the applicable Energy Star efficiency requirements developed by the United States Environmental Protection Agency and the United States Department of Energy:
- (1) A clothes washer;
  - (2) A room air conditioner; or
  - (3) A standard size refrigerator

Efficient Heating and Cooling Equipment

- (B) The sales and use tax does not apply to the sale of the following heating and cooling equipment installed in residences in the state on or after [DATE OF IMPLEMENTATION], but before [SUNSET DATE]
1. A natural gas heat pump that has a coefficient of performance of at least 1.25 for heating and at least 0.70 for cooling;
  2. An electric heat pump hot water heater that yields an energy factor of at least 1.7;
  3. An electric heat pump that has a heating system performance factor of at least 7.5 and a cooling seasonal energy efficiency ratio of at least 13.5;
  4. A central air conditioner that has a cooling seasonal energy efficiency ratio of at least 13.5; or
  5. An advanced natural gas water heater that has an energy factor of at least 0.65.

Hybrid/electric/fuel cell passenger automobiles and light trucks:

- (C) The sales and use tax [or in some states may be a titling fee] does not apply to the first \$40,000 in purchase cost for :
- (1) an electric vehicle;
  - (2) a hybrid electric vehicle that:
    - (i) achieves at least 175 percent of the average 2000 model year city fuel economy for the vehicle's inertia weight class, as determined by the EPA;
    - (ii) provides at least 20% of the maximum available power; and
    - (iii) has received a certificate that such vehicle meets or exceeds the Bin 5 Tier II emission level established in regulations prescribed by the Administrator of the Environmental Protection Agency under section 202(i) of the Clean Air Act for that make and model year vehicle; or
  - (3) a fuel cell vehicle that achieves at least 200 percent of the average 2000 model year city fuel economy for the vehicle's inertia weight class, as determined by the EPA.

(D) For purposes of (C) above:

- (1) An electric vehicle is defined as a vehicle which is:
  - (i) operated solely by use of a battery or battery pack, or
  - (ii) powered primarily through the use of an electric battery or battery pack using a flywheel or capacitor which stores energy produced by an electric motor through regenerative braking to assist in vehicle operation,.
- (2) A hybrid electric vehicle is defined as a vehicle which:
  - (A) which draws propulsion energy from onboard sources of stored energy which are both—
    - (i) an internal combustion or heat engine using combustible fuel, and
    - (ii) a rechargeable energy storage system,
- (3) A fuel cell vehicle is propelled by power derived from one or more cells converting chemical energy directly into electricity by combining oxygen with hydrogen fuel which is stored on board the vehicle in any form and may or may not require reformation prior to use,
- (4) 'Maximum available power' means the maximum power available from the battery or other electrical storage device, during a standard 10 second pulse power test divided by the sum of the battery or other electrical storage device and the SAE net power of the heat engine.

This provision only applies to vehicles that are titled and registered in the state on or after [DATE OF IMPLEMENTATION], but before [SUNSET DATE].

(D) The Secretary of [IMPLEMENTING AGENCY], in close consultation with the [HEAD OF REVENUE ADMINISTRATION] shall develop and adopt regulations needed to implement the sales tax reductions provided in sections (A) and (B) of this legislation. These regulations shall include specific provisions to verify that individual purchases are eligible for these sales tax reductions and to track the number of products qualifying for sales tax reductions by product category. The Secretary shall also develop a program to publicize the availability of these sales tax reductions to consumers and product wholesalers and retailers. Three years after the start of the program, the Secretary shall submit to the legislature a report evaluating the effectiveness of the sales tax reduction program in promoting purchases of efficient products and including recommendations for modifying the program to make it more effective in achieving this purpose.

(F) The Director of the Motor Vehicle Administration, in close consultation with the Secretary of [IMPLEMENTING AGENCY], shall develop and adopt regulations needed to implement the sales tax reductions provided in section (C) of this legislation. These regulations shall include specific provisions to verify that individual purchases are eligible for these sales tax reductions and to track the number of products qualifying for sales tax reductions by product category. The Director shall also develop a program to publicize the availability of these sales tax reductions to consumers and product wholesalers and retailers. Three years after the start of the program, the Director shall submit to the legislature a report evaluating the effectiveness of the sales tax reduction program in promoting purchases of efficient vehicles and including recommendations for modifying the program to make it more effective in achieving this purpose.