

(H. B. 3969)

**(No. 204-2012)**

(Approved August 23, 2012)

## **AN ACT**

To amend subsection (e) of Section 3030.03 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” for the purpose of increasing the excise tax refund granted for the purchase of cleaner vehicles that are propelled by electric power, hydrogen or alternative renewable fuels, hybrid, or plug-in hybrid electric vehicles; and for other related purposes.

### **STATEMENT OF MOTIVES**

Article VI, Section 19 of the Constitution establishes that it shall be the public policy of the Government of Puerto Rico “to conserve, develop, and use its natural resources in the most effective manner possible for the general welfare of the community...” For such reason, since 1952 the Government has had the obligation of promoting the sustainable development of the Island.

Our planet has been affected by the excess of greenhouse gases emitted into the atmosphere every day. Much has been said about the possible solutions to reduce the emission of these gases. One option is to promote the acquisition of vehicles that are more efficient and friendlier to the environment. There are various new technologies that represent options for the reduction of the carbon dioxide emissions, known as CO<sub>2</sub>, which are produced by vehicles with an internal combustion engine when they are propelled by fossil fuels such as gasoline or diesel. Faced with this situation, there is a global consensus that electric vehicles, as well as other technologies such as plug-in vehicles, are a real and effective

option to reduce environmental pollution and to help us reduce our dependence on oil at a time when market fluctuations have created a serious expense problem for our government and its citizenry.

There is a large number of vehicles in Puerto Rico; therefore, it is necessary to initiate a process towards zero emission sustainable transport by promoting the use of electric vehicles (hereinafter EVs) that do not produce any emissions, or produce less pollutants, such as plug-in hybrid electric vehicles (hereinafter PHEVs) and hybrid electric vehicles (hereinafter HEVs), among other technologies which are being developed such as fuel cell vehicles (hereinafter FCVs) and vehicles that use alternative renewable fuels.

An EV is a vehicle that is propelled by electric power and does not produce any kind of emissions to the environment. The battery can be charged in various ways including the use of 120 volt or 240 volt home charging equipment, and 240 volt or 480 volt rapid charging stations in public or private locations. These vehicles also have a partial self-recharge system with a generator that makes use of the kinetic energy produced when breaking, or by using solar panels. These types of vehicles have the following advantages: 1) they do not emit any CO<sub>2</sub> or other greenhouse gases; 2) they produce less noise pollution when operated; 3) electric recharging is less costly than the purchase of gasoline or diesel, which translates to better range for the cost; 4) they do not use any environment contaminating oils like combustion engines and/or conventional transmissions; and 5) they do not have an exhaust system since they do not produce any air pollution.

EV technology is mass produced and offers a real reduction in CO<sub>2</sub> emissions produced by vehicles with internal combustion engines. In conjunction with the steps taken towards electric power production from renewable sources, it represents a viable solution for zero emission transportation.

An HEV is a vehicle that combines a conventional combustion engine with an electric engine with regenerated and rechargeable energy. Conventional fossil fuel is usually the main power source, while the other source could be electricity, among others. HEVs have the following advantages over conventional vehicles: 1) they emit less air pollution because they consume less fuel; 2) they save energy because heat engines consume less fuel than a conventional engine; and 3) they produce less noise.

There are different types of hybrid vehicles and the two most well-known are conventional hybrid electric vehicles (HEV) and plug-in hybrid electric vehicles (PHEV) (which are connected to an electric power source to charge the battery). In some conventional hybrids, the electric motor is only used by itself when starting and decelerating. To charge itself, the battery uses the unnecessary energy produced by the combustion engine when braking. They are classified as gasoline vehicles by the industry and the Environmental Protection Agency, EPA, due to the fact that they only use gasoline as their primary power source. Plug-in hybrids are more modern and similar to electric vehicles. PHEVs have both the electric motor and the combustion engine connected to the wheels and use the electric motor more often, except when they need more power or when the battery is depleted. The battery in these vehicles is charged with a 120 volt to 240 volt electric power plug for three or four hours while the vehicle is stationary. They also have an internal mechanism whereby the battery is self-recharged with a generator that derives power from the combustion engine.

Compared to conventional vehicles, plug-in hybrids (PHEVs) reduce air pollution, oil and fossil fuel dependence, and greenhouse gas emissions that contribute to said pollution. These benefits originate from the fact that plug-in hybrids (PHEVs) do not depend exclusively on fossil fuels when operating, as long as the battery has been recharged using electric power. Furthermore, plug-in

hybrids (PHEVs) with flexible fuel engines that use sustainable biofuels (such as the ethanol produced from sugar cane, among others) can result in additional reduction in greenhouse gas emissions.

There is legislation in Puerto Rico that promotes the purchase and use of alternative or combined energy vehicles. Act No. 83-2010 amended Section 2016A of Act No. 120-1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” to grant a refund of up to two thousand dollars (\$2,000) for the purchase of vehicles propelled by alternative or combined energy such as electric vehicles, plug-in hybrids, and hybrids, among others. This provision was included in Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico” (CRIPNP, Spanish acronym). In this manner, a tax relief that stimulates our economy and encourages the protection of our environment is provided for the benefit of Puerto Rican consumers.

In spite of the good intentions behind said legislation, there is a factor in the vehicle market that has made it difficult for our citizens to enjoy the aforementioned refund and for the sales of these types of vehicles to increase. Traditionally, HEVs have a high price due to the cost of the battery production process, and because the parts and technology used to equip them are more expensive than what is used in the production of vehicles with internal combustion engines. This can be seen clearly when comparing the price of a vehicle with a gasoline engine with a similar EV, HEV, or PHEV. The price difference can range from \$5,000 to over \$10,000. The higher price of EVs and HEVs is an obstacle for the purchase and selling of said vehicles. Although consumers would eventually recover their investment in EVs, PHEVs, or HEVs by savings in gasoline, the high price of these vehicles make them inaccessible for most of the population. Therefore, it is necessary to create a mechanism to promote the use of these

technologies that significantly contribute to solving the problem of environmental pollution.

While there is consensus in the fact that the higher price of an EV, PHEV, or EV is recoverable during the lifespan of the vehicle, the truth is that consumers rarely choose to make such a high initial investment in this type of vehicle, even when counting on a subsequent refund, because most vehicles purchased are financed and the higher purchase price affects the monthly payments throughout the financing period. Therefore, considering a tax benefit on the excise tax on EVs, PHEVs, or HEVs would allow for these vehicles to be offered at a lower price, which in turn would affect the financing by reducing the monthly payments made by the consumers. This would make these technologies which eliminate or reduce gas emissions and have a lower cost of ownership because of the benefits they offer more accessible to consumers.

This Act grants several refunds that would be implemented as follows: the refund granted for HEVs and PHEVs shall not exceed 65% percent of the excise tax and shall not be greater than \$8,000 from July 1, 2012 through June 30, 2013; from July 1, 2013 through June 30, 2014, it shall not exceed 50% of the excise tax and shall not be greater than \$6,000; from July 1, 2014 through June 30, 2015, it shall not exceed 40% of the excise tax and shall not be greater than \$4,000; from July 1, 2015 and henceforth it shall not be less than \$2,000. In the case of EVs, shall be completely exempt from excise taxes through 2016. In 2016, the Legislative Assembly may conduct an evaluation on the effects these incentives have had, as well as their availability and desirability to determine whether to grant them for additional periods of time.

Likewise, this Act allows the Department of the Treasury to transfer the refund granted for the purchase of an EV, PHEV, or EV to the financial institution that provides the financing for the purchase of the aforementioned vehicles, provided the buyer requests it.

With this measure this government administration reaffirms its commitment to protecting our natural resources to the fullest, in order to ensure the well-being of future Puerto Rican generations by establishing an energy public policy that guarantees citizens the development of renewable and sustainable electric energy in the Island. This measure also reduces the price of EVs, PHEVs, and HEVs making them more accessible to the budgets of a larger group of consumers, and shall provide a relief to the pockets of Puerto Rican consumers, in addition to those provided by the lower taxes established in the CRIPNP. Moreover, it shall enable Puerto Ricans to transport themselves consuming less gasoline, and helping to combat air pollution and oil dependence.

***BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:***

Section 1.- Subsection (e) of Section 3030.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3030.03.- Excise Tax Refund for Vehicles Propelled by Combined or Alternative Energy

...

(e) The refunds provided in this Section shall be granted as follows:

1. Electric Vehicles: a full refund of the corresponding excise tax for the vehicle within this category when bought on or before June 30, 2016.
2. A refund shall be granted for the total amount of excise taxes paid for plug-in hybrid electric vehicles and conventional hybrid electric vehicles when the total amount of the excise tax is \$2,000 or less.

3. The refund for plug-in hybrid electric vehicles and conventional hybrid electric vehicles when the excise tax paid is greater than \$2,000 shall not exceed the following amounts:

a) 65% of the excise tax, this refund shall never exceed \$8,000 or be less than \$2,000, from July 1, 2012 through June 30, 2013;

b) 50% of the excise tax, this refund shall never exceed \$6,000 or be less than \$2,000, from July 1, 2013 through June 30, 2014;

c) 40% of the excise tax, this refund shall never exceed \$4,000 or be less than \$2,000, from July 1, 2014 through June 30, 2015; and

d) 25% of the excise tax, this refund shall never be less than \$2,000, from July 1, 2015 and thereafter.

4. The incentives proposed in this Section shall be available up to June 30, 2016. On that date, the Legislative Assembly shall conduct an evaluation on the effects these incentives have had, as well as their availability and desirability to determine whether they should be granted for additional terms.

5. The Department may transfer the refund established herein to the financial institution which financed the purchase of the vehicle at the request of the buyer.

(f) ...”

#### Section 2.- Reports

The Department of the Treasury shall conduct an evaluation of the benefits of the implementation of this Act and shall submit a report to the Governor and the Legislative Assembly not later than August 30, 2014. Said report shall contain the findings, recommendations, and conclusions relating to the benefits provided under this Act, as well as a thorough analysis of the feasibility of implementing similar incentives through excise tax exemption mechanisms for the importer of the vehicle.

Not later than February 29, 2016, the Department of the Treasury shall submit a report to the Governor and the Legislative Assembly of Puerto Rico to inform them the number of electric vehicles, plug-in hybrid electric vehicles, and conventional hybrid electric vehicles that have benefitted from the incentives herein provided, the economic impact of the exemptions established herein, as well as any other recommendation.

Section 3.- Severability Clause

If any clause, paragraph, article, section, subsection, or part of this Act were held to be unconstitutional by a competent court, the holding to such effect shall not affect, impair, or invalidate the rest of the Act. The effect thereof shall be limited to the clause, paragraph, article, section, subsection, or part thereof held to be unconstitutional.

Section 4.- This Act shall take effect immediately after its approval.



## CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 204-2012 (H. B. 3969)** of the **7<sup>th</sup> Regular Session** of the **16<sup>th</sup> Legislative Assembly of Puerto Rico**:

**AN ACT** to amend subsection (e) of Section 3030.03 of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," for the purpose of increasing the excise tax refund granted for the purchase of cleaner vehicles that are propelled by electric power, hydrogen or alternative renewable fuels, hybrid, or plug-in hybrid electric vehicles; and for other related purposes.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 5<sup>th</sup> day of February, 2016.

Juan Luis Martínez Martínez  
Director