

The Efficient Vehicle Leadership Act of 2009

Overview.

It is widely agreed that consumers undervalue efficiency when purchasing new vehicles. The Efficient Vehicles Leadership Act would remedy this market failure by establishing a Fuel Performance Rebate/Fee system. A consumer purchasing a new vehicle with greater fuel efficiency than the applicable CAFE standard will receive a Fuel Performance Rebate, in an amount proportionate to the new vehicle's excess fuel efficiency above CAFE. The consumer could claim the Fuel Performance Rebate as a refundable income tax credit, or can elect to transfer the credit to the auto dealer, who will apply the rebate to reduce the purchase price. Starting in the program's third year, the Act will also assess a similarly calculated Fuel Performance Fee on a vehicle that is less efficient than CAFE, as an excise tax on the manufacturer. Calculating the rebates and fees based on the CAFE standard allows them to net out, meaning that once the Fuel Performance Fees take effect, the system becomes approximately revenue neutral.

Advantages of this approach.

- Self-adjusting and complementary with CAFE. Studies have shown that consumers do not fully value efficiency when they purchase a new vehicle, so manufacturers have little incentive to make their vehicles more efficient than is required for compliance with the CAFE standard. By providing a purchase incentive, the Fuel Performance Rebate can correct for this problem, and lead manufacturers to produce fleets that exceed the CAFE average and turn over-compliance with CAFE into a competitive advantage. The CAFE standard will increase according to the schedule announced by the EPA and NHTSA, providing continued upward pressure on efficiency.
- Market driven. Rebate and fee amounts for each model of vehicle are determined by comparing its fuel efficiency to the CAFE standard appropriate for its size. The Fuel Performance Rebate and Fee system thereby gives manufacturers a uniform incentive to increase efficiency in all car classes, rather than attempt to offset one vehicle model's inefficiency through sales of other efficient models (as under CAFE). Manufacturers may sell whichever type of vehicle they believe consumers wish to buy, but have a uniform incentive to include advanced efficiency across their entire line. Since people tend to drive their SUVs as much as others do their subcompact vehicles, this results in a higher net oil savings.
- Technology neutral. The past several years has seen a mushrooming in new tax credits for certain kinds of fuel-efficient vehicles. Those credits are tied to specific vehicle designs, such as hybrid, plug-in electric, and fuel cell vehicles. The Tax Code, however, does not self-update to reflect technological advancement, which means that Congress will always be playing catch up with the latest technologies. Moreover, Congress should also be incentivizing the purchase of highly efficient *conventional* vehicles.

Summary of the Efficient Vehicle Leadership Act proposal

- *Rebates begin in 2010, fees start with model year 2013:* Implementing the rebates as soon as possible will provide additional stimulus to the auto industry and encourage an immediate increase in overall fuel efficiency. Delaying the onset of the fees will allow manufacturers needed time to adjust their product plans to the new economics of efficiency.
- *Rebates available as tax credit or at the point of sale:* Consumers may elect either to claim the credit on their tax return or transfer the credit to the dealer who, in turn, must make the credit's full value available at the time of sale.
- *Rebate and fee amounts:* When fully implemented, the rebates and fees will be calculated by multiplying the difference between the vehicle's fuel economy (in gallons per mile) and the applicable CAFE standard by a prescribed amount. The base multiplier is \$1500, but vehicles that are 50% more or less than CAFE will have their difference multiplied by \$2500, and those that are 75% more or less efficient are multiplied by \$3500. This 3-tiered structure creates an enhanced incentive for the most fuel-efficient vehicles that mirrors current incentives for hybrids and electric vehicles, and increased penalties for those with the worst fuel efficiency. Estimated rebates show relatively fuel-efficient vehicles such as the Honda Civic and Ford Focus receiving rebates of about \$1,000 under full program implementation. The Ford Escape Hybrid would be eligible for a rebate of around \$2,500 and purchasers of the highly efficient Toyota Prius would receive about \$4,000. At its rated mileage of 100 MPG, a rebate for the Chevy Volt would nearly \$8,000 while a Hummer H3 would be assessed a fee of about \$2,500.
- *In time, replaces existing vehicle efficiency incentives and taxes:* Existing incentives for fuel-efficient vehicles are allowed to sunset naturally, and purchasers are allowed to choose which of the applicable incentives yields them the greatest benefit. This replaces a patchwork of technology-specific tax credits with a continuing efficiency incentive. When implemented, the fees will replace the "gas-guzzler tax" that is currently in place and only applies to cars. To enhance the fuel performance incentive system's transparency to consumers, car dealers would be required, as under the gas-guzzler tax, to display the amount of the excise tax or rebate on the window sticker.