

DESCRIPTION OF S. 1887

Relating to

TAX CREDIT FOR INSTALLATION OF SAFETY AIRBAGS
IN NEW AUTOMOBILES AND EXCISE TAX ON SALE
OF NEW AUTOMOBILES WITHOUT SAFETY AIRBAGS

Scheduled for a Hearing

Before the

Subcommittee on Taxation and Debt Management

of the

Senate Committee on Finance

on

January 28, 1982

Prepared by the Staff

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CONTENTS

	<u>Page</u>
Introduction	
I. Summary of the Bill	
II. Description of the Bill	
A. Tax credit to automobile manufacturers for installation of safety airbags	
B. Excise tax on automobiles without safety airbags	
C. Revenue effect	

INTRODUCTION

The Senate Finance Subcommittee on Taxation and Debt Management has scheduled a hearing on S. 1887 (introduced by Senator Danforth) on January 28, 1982. The bill deals with allowing automobile manufacturers a refundable tax credit for the installation of safety airbags in 1984 and later model automobiles, as well as imposing an excise tax on sales of 1984 and later model automobiles without safety airbags.

The first part of the document is a summary of the bill. The second part is a description of the bill, including present law, issues, explanation of provisions and effective dates. The third part presents the estimated revenue effects.

I. SUMMARY OF THE BILL

No income tax credit is allowed under present law exclusively for the manufacture of an automobile on which an automatic safety airbag has been installed, nor is a manufacturers excise tax imposed on the sale of an automobile because it has not been equipped with an automatic safety airbag. The Internal Revenue Code does not include any taxes or tax credits that are intended to encourage the installation of any specific automotive safety equipment.

S. 1887 would allow a \$300 refundable income tax credit to a manufacturer for the domestic manufacture of each passenger automobile on which an automatic safety airbag has been installed by the manufacturer. The credit would apply to the manufacture of automobiles for the 1984 model year or any later model year.

In addition, the bill would impose a \$300 manufacturers excise tax on the sale or first lease of a passenger automobile by a manufacturer, producer, or importer, if an automatic safety airbag has not been installed on the automobile. This excise tax would apply to the sale or lease of automobiles for the 1984 model year or any later model year. The tax would not apply to sales for further manufacture, export, or use as supplies for vessels or aircraft. If a taxpayer acquires (and begins to use within one year of the first sale for use) an automobile on which this excise tax was imposed, the income tax basis of the automobile would be reduced by the amount of the excise tax.

II. DESCRIPTION OF THE BILL

A. Tax Credit to Automobile Manufacturers for Installation of Safety Airbags

Present Law

No income tax credit is allowed in present law exclusively for the manufacture of an automobile, however it has been equipped. The Internal Revenue Code does not include any taxes or tax credits that are intended to encourage the installation of any specific automotive safety equipment.

The earned income credit (Code sec. 43) and credits for payment of certain taxes (secs. 31 and 39) are refundable to a taxpayer to the extent they exceed the taxpayer's income tax liability (computed before reduction for these credits and after allowable reductions for other credits). All other income tax credits provided under present law are nonrefundable.

Issues

The principal issues are whether an income tax credit should be allowed for the domestic manufacturer of an automobile because it has been equipped with an automatic safety airbag and whether this credit should be refundable.

Explanation of Provision

The bill provides that a \$300 refundable income tax credit would be allowed to a manufacturer for the domestic manufacture of

each passenger automobile on which an automatic safety airbag has been installed by the manufacturer. For the credit to be allowed, the airbag would have to meet the requirements of section 126 of the National Traffic and Motor Vehicle Safety Act of 1966.

For purposes of this provision, the terms "passenger automobile" and "manufacturer" ^{1/} have the meanings given them by sections 501(2) and 501(8), respectively, of the Motor Vehicle Information and Cost Savings Act.

In addition, the provision would authorize the Secretary of the Treasury to assess a taxpayer for the amount of a safety airbag credit that was erroneously allowed.

Effective Date

This provision would apply to the manufacture of automobiles for the 1984 model year or any later model year.

B. Excise Tax on Automobiles Without Safety Airbags

Present Law

Under present law, a manufacturers excise tax is imposed on the sale or first lease of an automobile by a manufacturer, producer or importer, if the automobile does not meet prescribed fuel economy standards (a "gas guzzler tax") (Code secs. 4064 and 4217). A sale to a State or local government or to a nonprofit educational organization for its exclusive use, generally exempt from manufacturers excise taxes, is not exempt from the gas guzzler tax (sec. 4221). If a taxpayer acquires (and begins to use within one year of the first sale for use) an automobile on which this excise tax was imposed, the income tax basis of the automobile is reduced by the amount of the excise tax (sec. 1016(d)).

Present law does not impose a manufacturers excise tax on the sale of an automobile because it has not been equipped with an automatic safety airbag or any other passenger safety device.

Issue

The principal issue is whether the sale of a passenger automobile should be subject to a manufacturers excise tax if it has not been equipped with an automatic safety airbag.

^{1/} An amendment to the definition of "manufacturer" may be required to limit the credit to domestically manufactured automobiles.

Explanation of Provision

The bill would impose a \$300 manufacturers excise tax on the sale or first lease of a passenger automobile by a manufacturer, producer or importer, if a qualified automatic safety airbag has not been installed on the automobile. For purposes of this provision, a safety airbag and passenger automobile have the same meaning as they do for purposes of the income tax credit that this bill would provide. (See description in sec. IIA, above)

This excise tax would not apply to sales for further manufacture, export, or use as supplies for vessels or aircraft. As in the case of the gas guzzler tax, a sale to a State or local government or to a nonprofit educational organization would not be exempt from the safety airbag tax. Also, as in the case of the gas guzzler tax, the income tax basis of the automobile would be reduced by the amount of the safety airbag tax when a taxpayer acquires (and begins to use within one year of the first sale for use) an automobile on which the airbag tax was imposed.

Effective Date

This provision would apply to the sale of passenger automobiles for the 1984 model year or any later model year.

C. Revenue Effect

After domestic automobile manufacturers have designed automobile and production lines to equip each vehicle with an automatic safety airbag, the tax and credit would result in an estimated net reduction in budget receipts of \$2 billion in each fiscal year.