

ANALYSIS OF HB 1030

AGRICULTURE AND ECOLOGY COMMITTEE

FEBRUARY 6, 2001

- Provides a business and occupational tax credit of: 1) 25 percent of a clean alternative fuels vehicle purchase price; 2) amounts paid for financial assistance provided to school districts, transit agencies, and local governments for public transit; and, 3) between 25 percent and 50 percent of expenses incurred in the development of the alternative fuel and electric vehicle infrastructure.
- Exempts clean alternative fuels vehicles from the state sales tax.
- Exempts clean alternative fuels vehicles from the state use tax.
- Reduces the fuel tax on alternative fuels from 23 cents to 11.5 cents per gallon.

Background:

Alternate fuel vehicles operate with fuels other than petroleum-based gasoline and diesel. The United States Department of Energy recognizes eight categories of alternative fuels: methanol, denatured ethanol, natural gas, liquified petroleum gas (propane), hydrogen, coal-delivered liquid fuels, fuels derived from biological materials (biodiesel), and electricity. Each of these alternative fuels results in a reduction of ozone-forming tailpipe emissions. The U.S. Department of Energy's Alternative Fuel Data Center reports that in 2001 seven automobile manufactures will combine to offer for sale in the United States 38 vehicle models that are capable of running on alternative fuels. These models will include compact cars, sedans, vans, sports utility vehicles, and pickup trucks. The same source reports that currently the state of Washington has 122 registered alternative vehicle refueling sites, more than 38 other U.S. states.

In order to encourage the use of nonpolluting fuels, Washington provides an exemption from the special fuel tax for vehicles using cleaner burning fuels, such as natural gas or propane. Instead of charging a tax at the refueling center, Washington requires the owners of natural gas-powered vehicles to purchase a decal from the Department of Licensing. The fee for the decal is determined by a statutorily set schedule, multiplied by the motor vehicle fuels tax

rate in cents per gallon and divided by twelve cents. This formula results in fees ranging from \$86.25 to \$479.16 depending on the weight of the vehicle. Dealers selling natural gas are not allowed to dispense the fuel into vehicles not bearing a current annual decal.

Summary:

Tax incentives are created in four Washington excise tax categories: Business and Occupation, Retail Sales, Use, and Motor Vehicle Fuel.

- 1) Business and Occupation Tax: Employers taxable under the Business and Occupation (B&O) Tax are allowed a tax credit for 1) the purchase or lease of a new clean alternative fuel vehicle, if the vehicle is used in connection with a business operation; 2) providing financial assistance for the purchase or lease of a clean alternative fuel vehicle used for public transit by school districts, transit agencies, or local governments; and 3) the development of the alternative fuel and electric vehicle infrastructure. An employer who purchases a clean alternative fuel vehicle weighing less than 12,000 pounds is entitled to a tax credit amounting to the lesser of 25 percent of the vehicle's cost or \$5,000. An employer who purchases a clean alternative fuel vehicle weighing over 12,000 pounds is entitled to a tax credit amounting to the lesser of 25 percent of the vehicle's cost or \$20,000. Employers providing financial assistance for public transit are eligible to be credited for their amounts paid, and developers of the alternative fuel and electric vehicle infrastructure are eligible to be credited for 50 percent of their expenses incurred for systems open to the public, and 25 percent of their expenses incurred for systems not open to the public. All B&O tax credits are subject to an annual limit and may only be taken once quarterly. The Department of Revenue is required to maintain a running total of all B&O tax credits claimed for alternative fuel vehicles and disallow any claims causing the tabulation to exceed five million dollars in any calendar year.
- 2) Retail Sales Tax: Washington's retail sales tax is not imposed on the purchase or lease of clean alternative fuel vehicles.
- 3) Use Tax: Washington's use tax is not imposed on the purchase or lease of clean alternative fuel vehicles.
- 4) Motor Vehicle Fuel Tax: Instead of the standard motor vehicle fuel tax of 23 cents per gallon, alternative fuels will be taxed 11.5 cents per gallon. A refund is available for taxes paid on alternative fuels not used in a motor vehicle licensed to be operated over and along public highways.

The definition of a clean alternative fuel vehicle— includes a vehicle that operates solely on alternative fuels, a hybrid vehicle powered by an electric and gasoline-powered motor, and a

fuel cell vehicle. Alternative fuel– is defined as natural gas, propane, hydrogen, electricity, fuels containing at least 85 percent ethanol, and fuels containing at least 20 percent biodiesel.

The provisions of this act expire on December 31, 2009. Beginning in 2004, the Washington State University energy program is to make biannual reports to the legislature evaluating the effectiveness of the tax credits in improving air quality and increasing the use of clean alternative fuel vehicles.

Appropriation: None.

Fiscal Note: None requested.

Effective Date: January 1, 2002.