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## Transportation Committee

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### HB 1396

**Brief Description:** Incentivizing the use of alternative fuel commercial use vehicles with tax preferences.

**Sponsors:** Representatives Clibborn, Orcutt, Fey, Zeiger, Fitzgibbon, Farrell, Tarleton, Peterson, McBride, Gregerson and Goodman.

#### Brief Summary of Bill

- Exempts from sales and use taxes the purchase or conversion of vehicles powered by clean alternative fuels.
- Provides a credit against business and occupation tax and public utility tax equal to a portion of the purchase or conversion of a vehicles powered by clean alternative fuels.

**Hearing Date:** 2/4/15

**Staff:** Andrew Russell (786-7143).

#### **Background:**

##### Sales and Use Taxes.

Washington collects a retail sales tax equal to 6.5 percent of the cost of any tangible personal property that is sold in the state. Motor vehicles sold in the state are subject to an additional 0.3 percent retail sales tax. The proceeds of this additional tax are directed to the Multimodal Transportation Account. Alternatively, Washington collects a use tax on tangible personal property, unless the retail sales tax was applied to the sale of the tangible personal property to the present user. The use tax is assessed at a rate equal to the applicable retail sales tax. Local authorities may impose additional sales or use taxes.

##### Business and Occupation Tax.

Washington collects a business and occupation tax measured as percentage of the value of products, gross proceeds of sales, or gross income of the business. The applicable business and

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occupation rate depends upon the classification of the business activity, but the rates range from 0.13 percent to 3.3 percent. Additionally, certain activities qualify for a credit against a taxpayer's business and occupation tax liability. Cities and towns may also impose a business and occupation tax, which is generally capped at 0.2 percent of gross receipts or gross income.

#### Public Utility Tax.

Washington collects a public utility tax measured as a percentage of the gross income of the business. The applicable public utility tax rate depends upon the type of business activity, but it ranges from 0.642 percent to 5.029 percent. Additionally, public utility taxpayers may qualify for a number of credits against their tax liability. Finally, cities and towns may also impose a public utility, and this rate is capped at 6 percent, unless a majority of the voters in the jurisdiction approve a higher rate.

#### **Summary of Bill:**

#### Sales and Use Tax.

New and qualifying used commercial vehicles that are principally powered by clean alternative fuel are exempt from state sales and use taxes. Additionally, the costs of modifying a vehicle to allow the propulsion units to be principally powered by a clean alternative fuel are exempt from sales and use taxes. Quarterly, the State Treasurer must transfer an amount equal to the value of the sales and use tax exemption from the Multimodal Transportation Account to the General Fund. A "clean alternative fuel" is defined as "electricity, gasohol with at least 20 percent denatured alcohol content, hydrogen, hythane, methane, methanol, natural gas, liquefied natural gas, compressed natural gas, or propane." Additionally, a "qualifying used commercial vehicle" is defined as a vehicle with an odometer reading of less than 30,000 miles, that is less than two years old, and is being sold for the first time after being modified.

#### Business and Occupation Tax and Public Utility Tax.

Entities that are subject to the business and occupation tax or the public utility tax are eligible to receive a credit against their tax liability. This tax credit is equal to the lesser of \$25,000 or 15 percent of the purchase price of a new or qualifying used commercial vehicle that is principally powered by clean alternative fuel. Additionally, a tax credit is available for the cost of converting a commercial vehicle to be principally powered by clean alternative fuel. This credit is equal to the lesser of \$25,000 or 30 percent of the cost of converting the vehicle. These credits are available on a first-in-time basis; however, the total credits to a person or company may not exceed \$250,000 per calendar year, and the total credits issued under this program may not exceed \$6 million in a calendar year. Quarterly, the State Treasurer must transfer an amount equal to the value of the business and occupation tax or the public utility tax credit from the Multimodal Transportation Account to the General Fund.

#### Tax Preference Performance Statement.

The Legislature declares that the policy objective of this Act is to increase sales of commercial vehicles that use clean alternative fuels by 10 percent by 2026. To measure the effectiveness of these exemptions, the Joint Legislative Audit and Review Committee, using data provided from the Department of Licensing, must evaluate the changes in the use of such vehicles in Washington.

**Appropriation:** None.

**Fiscal Note:** Requested on February 2, 2015.

**Effective Date:** The bill takes effect on January 1, 2016.