

HOUSE BILL REPORT

HB 1396

As Reported by House Committee On: Transportation

Title: An act relating to incentivizing the use of alternative fuel commercial use vehicles with tax preferences.

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 History:

Committee Activity:

Transportation: 2/4/15, 4/14/15 [DPS].

Brief Summary of Substitute Bill

- Establishes a credit against the business and occupation tax and public utility tax equal to a portion of the purchase or conversion price of a vehicle powered by clean alternative fuels.
- Provides limits on such credits, including per-person limits, a \$6 million annual statewide limit, and limits based upon the vehicle weight.
- Requires a transfer from the Multimodal Transportation Account to the General Fund equal to the amount of credits taken each quarter.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 25 members: Representatives Clibborn, Chair; Farrell, Vice Chair; Fey, Vice Chair; Moscoso, Vice Chair; Orcutt, Ranking Minority Member; Hargrove, Assistant Ranking Minority Member; Bergquist, Gregerson, Harmsworth, Hayes, Kochmar, McBride, Moeller, Morris, Ortiz-Self, Pike, Riccelli, Rodne, Sells, Shea, Takko, Tarleton, Wilson, Young and Zeiger.

Staff: Andrew Russell (786-7143).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

Business and Occupation Tax.

Washington collects a business and occupation (B&O) tax measured as a percentage of the value of products, gross proceeds of sales, or gross income of the business. The applicable B&O 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 B&O tax liability. Cities and towns may also impose a B&O tax, which is generally capped at 0.2 percent of gross receipts or gross income.

Public Utility Tax.

Washington collects a public utility tax (PUT) measured as a percentage of the gross income of the business. The applicable PUT 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 PUT, and this rate is capped at 6 percent, unless a majority of the voters in the jurisdiction approve a higher rate.

Summary of Substitute Bill:

Business and Occupation Tax and Public Utility Tax.

Entities that are subject to the B&O tax or the PUT are eligible to receive a credit against their tax liability. This tax credit is equal to 50 percent of the incremental cost above that of a comparable conventionally fueled vehicle for the purchase of a new or qualifying used commercial vehicle that is principally powered by clean alternative fuel. Such credits are also subject to a per-credit cap and an annual cap, both based upon the vehicle's weight. 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, a person's credits are limited to the lesser of 25 vehicles or \$250,000 per calendar year. Additionally, the total credits issued under this program may not exceed \$6 million in a calendar year. A credit earned during one calendar year may be carried over to be credited against taxes earned in the subsequent calendar year, but may not be carried over a second year.

To claim a credit, a person must apply to the Department of Revenue (DOR) and provide necessary information, including an unexecuted copy of the order for the vehicle, type of alternative fuel to be used, incremental cost, and gross weight of the vehicle. Within 15 days of receiving an application, the DOR must notify an applicant if tax credits are available. Within 15 days of receiving such notice from the DOR, the applicant must provide notice of intent to claim a credit along with additional information, including a copy of the order of the vehicle and the anticipated date of delivery. Within 15 days of receiving such notice, the DOR must notify an applicant of approval or denial of the application. Finally, within 15 days of receipt of the vehicle, an applicant must provide a copy of the factory build sheet, the vehicle identification number, the incremental cost, and attestations from the buyer and seller

that the incremental cost only includes the costs necessary for the vehicle to run on an alternative fuel.

Quarterly, the State Treasurer must transfer an amount equal to the value of the B&O tax or the PUT 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 to 10 percent of commercial vehicle sales 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.

Substitute Bill Compared to Original Bill:

The original bill provided an exemption from sales and use taxes for the purchase, use, or conversion of a commercial vehicle principally powered by a clean alternative fuel, which is not included in the substitute bill. Additionally, the substitute bill caps tax credits against the state B&O tax and PUT, including providing caps based upon the weight of the vehicle, in addition to those included in the original bill. The substitute bill caps such tax credits based upon the incremental cost of the vehicle, while the original bill calculated the cap as a percentage of the total cost of the vehicle. The original bill included only a per-person cap on credits of \$250,000, while the substitute bill adds a per-person cap on credits of 25 vehicles. The substitute bill clarifies the steps that an applicant and the DOR must undertake in applying for and approving tax credits, while the original bill required that a person only electronically file with the DOR all returns, forms, and any other information required by the DOR. Finally, the tax performance preference of the substitute bill indicates that the objective of the act is to increase sales of commercial vehicles that use clean alternative fuels to 10 percent of commercial vehicle sales by 2026, while the original bill indicated the objective was to increase sales of such vehicles by 10 percent by 2026.

Appropriation: None.

Fiscal Note: Available. New fiscal note on substitute bill requested on April 15, 2015.

Effective Date of Substitute Bill: The bill takes effect on January 1, 2016.

Staff Summary of Public Testimony:

(In support) Providing incentives on commercial vehicles adopting clean alternative fuels will help in bringing down the cost of the vehicles and bringing down emissions. Providing incentives on the conversions and new purchases will take care of the fuel-side of the issue.

Alternative fuels provide benefits in powering commercial vehicles, but the incremental cost of these vehicles can be between \$50,000 and \$80,000 more than a diesel tractor. The transportation sector is a large source of greenhouse gases in Washington, and incentives for

alternative fuel vehicles is a more efficient approach than a low carbon fuel standard. The commercial market provides the greatest benefit to reducing emissions. Businesses that are very dependent on petroleum face problems due to volatile oil prices and pollution created by the vehicles.

Industry is supportive of the policy and the incentive dollars that go along with it. This policy will have a huge greenhouse gas reduction benefit, but one cost has not been considered so far—industry will have to make investments in their shops and mechanics to be able to handle alternative fuel vehicles. This bill is the right idea at the right time because it protects the environment, helps the economy, and enhances energy security. It also uses incentives rather than mandates favoring individual fuels. This bill levels the playing field and lets the best fuel work for the best application. This bill signals the state's support for alternative fuels and allows businesses to plan in advance.

This bill provides a level playing field, allowing consumers to choose the best fuel for their application. There are benefits to alternative fuels and, while their use is growing, they are still a small part of the mix and haven't reached a market size where economies of scale have taken over, so incentives like these are helpful.

This bill provides good policy, but it should be expanded to include the transportation of people along with the other commercial purposes. Public entities and public fleets should also be eligible to enjoy these incentives.

(Opposed) None.

Persons Testifying: Representative Clibborn, prime sponsor; Mike Ennis, Association of Washington Business; Krystal Fizer, United Parcel Service; Larry Pursley, Washington Trucking Association; Michael Transoe, Pierce County Chamber of Commerce and Waste Connections; John Bush, Blue Star Gas; Ben Hemson, Northwest Gas Association; J. J. McCoy, Seattle Electric Vehicle Association; Ryan Kenny, Clean Energy; Nathan Fitzgerald, Pacific Propane Gas Association; Nancy Atwood, Puget Sound Energy; Scott Dewees, Western Washington Clean Cities Coalition; and Steve Salins, Shuttle Express.

Persons Signed In To Testify But Not Testifying: None.