

SENATE BILL REPORT

SB 6685

As Reported By Senate Committee On:
Natural Resources, Energy & Water, February 6, 2004

Title: An act relating to providing incentives to reduce air pollution and improve energy security through the use of alternative fuel vehicles.

Brief Description: Providing incentives to reduce air pollution and improve energy security through the use of alternative fuel vehicles.

Sponsors: Senators Murray and Kline.

Brief History:

Committee Activity: Natural Resources, Energy & Water: 2/5/04, 2/6/04 [DP-WM].
Ways & Means: 2/9/04.

SENATE COMMITTEE ON NATURAL RESOURCES, ENERGY & WATER

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Morton, Chair; Hewitt, Vice Chair; Hale, Hargrove, Honeyford and Oke.

Staff: Richard Rodger (786-7461)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Catherine Suter (786-7442)

Background: A variety of alternative fuel vehicles are commercially available, including passenger vehicles, light-duty trucks, vans, buses, and heavy-duty vehicles. These vehicles operate using fuels other than petroleum based gasoline and diesel fuels. Federal tax incentives are available for the purchase of alternative fuel vehicles and the development of refueling and recharging facilities.

To encourage the use of nonpolluting fuels, Washington provides an alternate fee schedule for natural gas or propane in lieu of the special fuel tax, based on the gross tonnage of the vehicle. The annual fee schedule ranges from \$45 to \$250 and is adjusted based on changes in the motor vehicle fuel tax rate which is currently \$.28 per gallon for liquid fuel or per cubic feet for gaseous fuel.

The business and occupation (B&O) tax is imposed on the gross receipts of business activities conducted within the state.

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used.

Summary of Bill: Four tax incentives are provided, primarily to businesses, to encourage the use of alternative fuel vehicles and electric vehicles.

1. A B&O tax credit may be taken by a business for a portion of the cost of acquiring alternative fuel vehicles exclusively for the business. The vehicles must be owned by the business, or leased for a minimum period of three years, and used exclusively for business operations. The amount of the credit is 30 percent of the cost of an alternative fuel vehicle, or \$5,000, whichever is less, for vehicles under 10,000 pounds. For vehicles 10,000 pounds or more, the credit is 30 percent of the cost of the vehicle or \$25,000, whichever is less. Alternative fuel vehicles for purposes of this credit are vehicles that operate exclusively on natural gas, hydrogen, electricity, or are powered by fuel cells. The credit is capped annually at \$500,000 per individual taxpayer claiming the credit. The amount of credit taken in a reporting period may not exceed the amount of B&O tax that the taxpayer is required to pay. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015.
2. A B&O tax credit may be taken by a business for costs to acquire and install alternative fuel and electric vehicle recharging equipment. Alternative fuel includes natural gas and hydrogen. The credit amount is based on 50 percent of the costs incurred, at facilities open to the public, not to exceed \$500,000. If the facilities are not open to the public, the credit amount is 25 percent of the cost of the facility not to exceed \$250,000. The maximum annual credit is capped at \$2 million per individual taxpayer. No credit may be taken for expenditures occurring after January 1, 2015.
3. A sales and use tax exemption is allowed for machinery, equipment, and services used in the retail sale of natural gas, hydrogen vehicle fuels, or a blend of natural gas and hydrogen fuel, and for the recharging of electric vehicles.
4. A sales and use tax exemption is allowed on sales of alternative fuel vehicles.

Appropriation: None.

Fiscal Note: Requested on February 2, 2004.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2004.

Testimony For: The tax incentives proposed by this bill are needed to encourage a full range of options to help solve a large range of problems. There is no one answer to the environmental issues we face and it is necessary to seek solutions in many areas; for example, different solutions are necessary to meet the needs of the variety of sizes and ranges of vehicles on the roads. This bill provides important incentives for developing additional natural gas dispensing stations. Next to electric vehicles, natural gas vehicles are the cleanest vehicles on the roads. Because of the high cost of developing these facilities, no company

wants to undertake the project unless they have already lined up an anchor tenant. This bill will provide the incentives to make new facilities publically viable.

Testimony Against: The state's efforts should be focused on providing incentives for the purchase of hybrid electric vehicles. This bill promotes fuels without regard to vehicle technology or minimum fuel efficiency standards. Hybrid vehicles will reduce green house gasses much more effectively than vehicles using these fuels.

Testified: Linda Graham, Puget Sound Clean Cities Coalition (pro); Jim Armstrong, Spokane Conservation District (pro); Keith Hall, Clean Energy (pro); Donna Ewing, League of Women Voters (con).