

HOUSE BILL REPORT

HB 1647

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to providing incentives for hydrogen and the alternative fuels marketplace.

Brief Description: Providing incentives for hydrogen and the alternative fuels marketplace.

Sponsors: Representatives B. Sullivan, Morris, Chase, Williams, Sells, Linville and Simpson.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/15/05, 2/22/05 [DPS].

Brief Summary of Substitute Bill

- Provides tax incentives for alternative fuel vehicles, alternative fuel vehicle fueling or refueling equipment, and alternative fuel.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Sarah Dylag (786-7109).

Background:

Alternative Fuel Vehicles

A variety of alternative fuel vehicles are commercially available. They include 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.

Business and Occupation Tax

The business and occupation (B&O) tax is Washington's major business tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

Retail Sales and Use Tax

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. Sales tax revenue is deposited in the State General Fund.

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. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

Summary of Substitute Bill:

Business and Occupation Tax Credits

Alternative Fuel Vehicles

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation for a portion of the cost of acquiring business vehicles that are alternative fuel vehicles. The vehicles may be owned or leased for a period of at least three years. A new alternative fuel vehicle is defined as a motor vehicle that operates exclusively on natural gas, hydrogen, a blend of hydrogen and natural gas, electricity, or is powered by fuel cells.

The amount of the credit is based on the vehicle tonnage. If the vehicle is less than 10,000 pounds, the credit is 30 percent of the cost or \$5,000, whichever is less. If the vehicle is greater than 10,000 pounds, the credit is 30 percent of the cost or \$25,000, whichever is less. The credit is capped at \$500,000. 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 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Conversion Costs

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation for conversion costs to modify motor vehicles to use natural gas, hydrogen, a blend of natural gas and hydrogen, liquefied petroleum gas, or electricity. The credit is provided if the vehicles are exclusively used in business operations and if the conversion is performed on a vehicle or engine for which a United States Environmental Protection Agency certificate of conformity or a certificate from the California Air Resources Board has been issued.

The amount of the credit is based on the vehicle tonnage. If the vehicle is less than 10,000 pounds, the credit is 80 percent of the conversion cost or \$5,000, whichever is less. If the

vehicle is greater than 10,000 pounds, the credit is 80 percent of the conversion cost or \$25,000, whichever is less.

The credit is capped at \$250,000. 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 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Fueling Machinery and Equipment

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation for machinery or equipment used directly for dispensing natural gas, hydrogen, a blend of natural gas and hydrogen, or electricity into a motor vehicle. Credit is also provided for services rendered to construct, install, repair, clean, decorate, alter, or improve the machinery and equipment and for tangible personal property that becomes an ingredient or component of the machinery and equipment.

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 will not be open to the public, the credit amount is 25 percent of the cost of the facility, not to exceed \$250,000. The maximum credit for a calendar year is capped at \$2 million. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Fuel

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation equal to 10 cents per gallon of natural gas, hydrogen, a blend of natural gas and hydrogen, biodiesel fuel, or alcohol fuel used in motor vehicles used exclusively in business operations. Where a blend of biodiesel fuel and petroleum diesel fuel is used, only the biodiesel fuel portion of the blend shall be eligible for credit. The credit is capped at \$200,000. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Reporting

Provides that a person claiming B&O tax credit must file an annual survey prescribed by the Department of Revenue.

Business and Occupation Tax Deduction

In computing B&O tax obligation, a deduction is provided for retail sale of natural gas, hydrogen, or blend of natural gas and hydrogen for use in a motor vehicle.

Retail Sales and Use Tax Exemption

A retail sales and use tax exemption applies to sales of natural gas vehicle fueling or refueling appliances and associated accessories, or to services rendered to install the appliances and accessories.

Substitute Bill Compared to Original Bill:

The substitute bill makes technical changes to maintain consistency with current tax provisions and provides that a person claiming B&O tax credit must file an annual survey prescribed by the Department of Revenue.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: (In support) This bill is part of a package of bills whose goal is to provide a short term push to new industries in the state. There is no one alternative that is perfect and no one alternative that will replace all of the petroleum used. These are targeted incentives, with caps. There are performance measures and sunset dates. The incentives build on what already exists and are consistent with the Governor's executive order.

Hydrogen is the fuel of the future and there are hurdles to getting infrastructure in place for hydrogen. These incentives will help with the hurdles.

Testimony Against: (With concerns) Granting special incentives to alternative fuels is a point of concern. All fuels should compete on a level playing field. If the purpose of the bill is to clean up the environment, a performance specification for emissions should be established and all fuels should be allowed to compete. Diesel will be changing in June of 2006 and ultra-low sulfur diesel will be required.

Persons Testifying: (In support) Representative B. Sullivan, prime sponsor; Linda Graham, Puget Sound Clean Cities Coalition; Jim Armstrong, Spokane County Conservation District; Lyle Rudensey, University of Washington; John Plaza, Seattle Biodiesel; Steve Lough, Seattle Electric Vehicle Association; and Dan Clarkson, Promethius Energy Company.

(Opposed with concerns) Bill Kidd, Washington State Petroleum Association.

Persons Signed In To Testify But Not Testifying: (In support) Carrie Dolwick.