

SENATE BILL REPORT

SB 5916

As Reported By Senate Committee On:
Water, Energy & Environment, March 1, 2005
Ways & Means, March 7, 2005

Title: An act relating to tax incentives for clean and alternative fuel vehicles.

Brief Description: Providing tax incentives for clean and alternative fuel vehicles.

Sponsors: Senators Schmidt, Esser, Finkbeiner and Benson.

Brief History:

Committee Activity: Water, Energy & Environment: 2/22/05, 3/1/05 [DPS-WM, DNP].
Ways & Means: 3/7/05 [DP2S, w/oRec].

SENATE COMMITTEE ON WATER, ENERGY & ENVIRONMENT

Majority Report: That Substitute Senate Bill No. 5916 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Poulsen, Chair; Rockefeller, Vice Chair; Fraser, Pridemore and Regala.

Minority Report: Do not pass.

Signed by Senators Morton, Ranking Minority Member; Honeyford and Mulliken.

Staff: William Bridges (786-7424)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5916 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Zarelli, Ranking Minority Member; Brandland, Fairley, Hewitt, Kohl-Welles, Parlette, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller and Thibaudeau.

Minority Report: That it be referred without recommendation.

Signed by Senator Schoesler.

Staff: Dean Carlson (786-7305)

Background: Any number of alternative energy sources are used to power motor vehicles, including hydrogen, electricity, natural gas, and propane. These fuels are sometimes called "clean fuels" because they emit less hydrocarbons, and the hydrocarbons they do emit are less toxic and less likely to form ozone.

The legislature is currently considering the adoption of California motor vehicle emission standards for passenger cars, light duty trucks, and medium duty passenger vehicles. Under Senate Bill 5397 and House Bill 1397, the California standards will apply to motor vehicles with a model year of 2009 and later.

Sales tax is imposed on retail sales of most items of tangible personal property and some services. The use tax is imposed on the same privilege of using tangible personal property or services in instances where the sales tax does not apply. Sales and use taxes are levied by the state, counties, and cities, and total rates vary from 7 to 8.9 percent. An additional 0.3 percent applies to the sale or lease of motor vehicles.

The state also imposes a tax on the use of an item in this state when the acquisition of the item has not been subject to the sales tax. The use tax rate is equal to the retail sales tax rate multiplied by the market value of the item used.

Summary of Second Substitute Bill: Tax exemptions are created for new motor vehicles that use clean alternative fuels. The following activities are exempt from the sales and use tax:

- Selling or using new cars and trucks. The sale or use of new passenger cars, light duty trucks, and medium duty passenger vehicles, which are exclusively powered by a clean alternative fuel.
- Selling or using new hybrid cars and trucks. The sale or use of new passenger cars, light duty trucks, and medium duty passenger vehicles, which utilize hybrid technology and have a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least forty miles per gallon.

"Clean alternative fuel" means natural gas, propane, hydrogen, or electricity, when used as fuel in a motor vehicle that meets the California motor vehicle emission standards in Title 13 of the California code of regulations, effective January 1, 2005, and the rules of the Washington State Department of Ecology.

The bill takes effect on January 1, 2009, and expires on January 1, 2011. If Senate Bill 5397 (2005) or House Bill 1397 (2005) is not enacted, the bill is void in its entirety.

Second Substitute Bill Compared to Substitute Bill: The effective date of the bill is shortened from July 1, 2008 until December 31, 2010, to be January 1, 2009 to December 31, 2010. The exemption applies to both the state and local sales and use tax and not just the state portion of the tax.

Substitute Bill Compared to Original Bill: Most sales and use tax exemptions relating to clean alternative fuels are removed. It is clarified that eligible motor vehicles are new passenger cars, light duty trucks, and medium duty passenger vehicles. The definition of "clean alternative fuel" is changed to mean certain fuels used in motor vehicles that meet California motor vehicle emission standards and Washington Department of Ecology rules. It is clarified that the tax exemptions only apply to the state's portion of the sales & use tax. An effective date and an expiration date is added. A null and void clause is added.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Committee/Commission/Task Force Created: No.

Effective Date: January 1, 2009.

Testimony For (Water, Energy & Environment): This bill will encourage auto sales in the state and generate related economic activity. It will also promote the use of high-gas mileage vehicles and reduce air pollution. The bill is revenue neutral because the generation of new economic activity will offset the reduction in excise and use tax revenues.

Testimony Against (Water, Energy & Environment): None.

Who Testified: (Water, Energy & Environment) PRO: Senator Schmidt, prime sponsor.

Testimony For (Ways & Means): Since these are the most clean vehicles and give us the most benefit, a short term tax incentive would be good to put more of them on the road.

Testimony Against (Ways & Means): Petroleum companies are inventing cleaner types of diesel and other fuels. We feel that instead of having the exemption apply to types of vehicles, it should apply to a specific performance standard of the vehicle.

Who Testified (Ways & Means): PRO: Mike Ryherd, Puget Sound Clean Air Agency.

CON: Greg Hanon, Western States Petroleum Association.