

# HOUSE BILL REPORT

## HB 2884

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### As Reported by House Committee On: Transportation

**Title:** An act relating to modifying the business and occupation tax and public utility tax credits for alternative fuel commercial vehicles.

**Brief Description:** Modifying the business and occupation tax and public utility tax credits for alternative fuel commercial vehicles.

**Sponsors:** Representatives Clibborn, Fey and Moscoso.

#### **Brief History:**

##### **Committee Activity:**

Transportation: 2/1/16, 2/4/16 [DPS].

#### **Brief Summary of Substitute Bill**

- Allows the leasing of alternative fuel commercial vehicles to qualify for a tax credit program.

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### HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 22 members: Representatives Clibborn, Chair; Farrell, Vice Chair; Fey, Vice Chair; Moscoso, Vice Chair; Orcutt, Ranking Minority Member; Hargrove, Assistant Ranking Minority Member; Harmsworth, Assistant Ranking Minority Member; Bergquist, Gregerson, Hayes, Hickel, McBride, Morris, Ortiz-Self, Pike, Riccelli, Rossetti, Sells, Shea, Stambaugh, Tarleton and Young.

**Staff:** Mark Matteson (786-7145).

#### **Background:**

##### Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the cost of doing business. The tax is imposed on the gross receipts from all

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business activities conducted within the state. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Current law authorizes multiple exemptions, deductions, and credits to reduce the B&O tax liability for specific taxpayers and business industries.

#### Public Utility Tax.

The public utility tax (PUT) is applied to gross income derived from operation of public and privately owned utilities, including the general categories of transportation, communications, and the supply of energy and water. The PUT is in lieu of the B&O tax. The applicable public utility tax rate depends upon the specific utility activity.

#### Business and Occupation Tax and Public Utility Tax Credits for Alternative Fuel Commercial Vehicles.

In the 2015 session, the Legislature enacted new credits under the B&O tax and PUT for alternative fuel commercial vehicle acquisitions or conversions. For the acquisition of a alternative fuel commercial vehicle, a business or utility may take a credit equal to 50 percent of the incremental cost of a clean alternative fuel vehicle, above the cost of a comparable conventionally-fueled vehicle, or \$5,000, whichever is less. Clean alternative fuels are defined to include electricity, dimethyl ether, hydrogen, methane, natural gas, liquefied natural gas, compressed natural gas, and propane. For the conversion of a conventionally-fueled vehicle to a clean alternative fuel, a business or utility may take a credit equal to 30 percent of the costs of converting the vehicle or \$25,000, whichever is less. A business or utility is limited to an annual maximum of \$250,000 in credits or the amount of credit associated with 25 vehicles, whichever is less. To claim the credit, an applicant must submit to the Department of Revenue several pieces of information, including a vehicle quote, the type of alternative fuel to be used, and the incremental cost of the system, among others. The maximum amount of credit that may be claimed statewide is \$6 million annually under both the B&O tax and the PUT. Amounts claimed represent reduced revenues to the State General Fund; however, the credits include provisions that transfer an equivalent amount of funding from the Multimodal Transportation Account to the State General Fund to offset the reductions.

The alternative fuel commercial vehicle tax credits explicitly exclude credit for leased vehicles.

#### Tax Preference Performance Statement.

In 2013 legislation was enacted which requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference, and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. The 2015 legislation that created the alternative fuel commercial vehicle tax credits also included a tax preference performance statement.

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

The tax credits under the B&O tax and the PUT for alternative fuel commercial vehicle acquisitions are modified to allow credits for vehicles that are acquired by lease. The amount of credit is equal to the amount of credit that may be claimed for a vehicle acquired outright, the lesser of 50 percent of the incremental cost or \$5,000, multiplied by a lease reduction factor. The lease reduction factor is equal to the ratio of: (1) the difference in the gross capitalized cost, or the agreed-upon value of the vehicle at the beginning of the lease, and the residual or lease-end value, to (2) the agreed-upon value of the vehicle at the beginning of the lease.

The person claiming the credit for the lease of an alternative fuel commercial vehicle must be the lessee. To claim the credit, in addition to other information required under current law, the applicant must provide a copy of the lease contract that includes the adjusted capitalized cost and the residual value. A credit may be earned for leased vehicles from July 1, 2016, through January 1, 2021.

The tax preference performance statement for the 2015 legislation that created the alternative fuel commercial vehicle tax credits is modified to refer to the statutes in which the credits are codified.

**Substitute Bill Compared to Original Bill:**

The substitute bill corrects an error in terminology.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The Association of Washington Business (AWB) believes that commercial fleets and the use of alternative fuels are the best way of reducing greenhouse gases in the transportation industry. Excluding the lease of alternative fuel vehicles was not an intentional oversight in the tax credit legislation passed last year, and the AWB views this as a friendly modification to the incentive program.

With the cost of a new over-the-road truck exceeding \$150,000, more trucking companies are choosing lease options to save on capital costs. A natural gas engine system adds \$60,000 to \$80,000 to the price of a class "A" truck. The Washington Trucking Association supports the modification of the incentive program to allow credits for leases in order to facilitate conversions within the industry to clean alternative fuels.

In the past year, Blue Star Gas has installed a dozen publicly accessible refueling sites featuring clean domestically-produced propane autogas, serving primarily commercial fleets

in the Puget Sound area. This legislation would remove a roadblock in the incentive legislation from last year, with respect to leased vehicles.

(Opposed) The Western Clean Cities Coalition (Coalition) supports the spirit of this measure. However, the Coalition is concerned that the bill language would allow multiple credits to be taken with respect to the same vehicle, which would make less credit available to more vehicles. The Coalition also believes the definition of commercial vehicle is too narrow, excluding vehicles that are used, say, for the transportation of people. It could be changed to allow credit for all privately-owned commercial vehicles.

**Persons Testifying:** (In support) Mike Ennis, Association of Washington Business; Sheri Call, Washington Trucking Association; Darren Engle, Blue Star Gas; and Mel Sorenson, Pacific Propane Gas Association.

(Opposed) Scott Dewees, Western Washington Clean Cities Coalition.

**Persons Signed In To Testify But Not Testifying:** None.