

HOUSE BILL REPORT

HB 2653

As Reported by House Committee On: Transportation

Title: An act relating to modifying the alternative fuel vehicle sales and use tax exemptions for the purposes of expanding the exemptions and amending related provisions.

Brief Description: Modifying the alternative fuel vehicle sales and use tax exemptions for the purposes of expanding the exemptions and amending related provisions.

Sponsors: Representatives Fey, Orcutt and McBride.

Brief History:

Committee Activity:

Transportation: 1/29/18, 1/31/18 [DP].

Brief Summary of Bill

- Extends the alternative fuel vehicle retail sales and use tax exemption termination date to June 30, 2021.
- Eliminates the possibility of early termination of the exemption based on the number of qualifying vehicles titled in the state.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: Do pass. Signed by 21 members: Representatives Clibborn, Chair; Fey, Vice Chair; Wylie, Vice Chair; Orcutt, Ranking Minority Member; Harmsworth, Assistant Ranking Minority Member; Chapman, Gregerson, Hayes, Kloba, Lovick, McBride, Morris, Ortiz-Self, Pellicciotti, Pike, Riccelli, Stambaugh, Tarleton, Valdez, Van Werven and Young.

Minority Report: Do not pass. Signed by 3 members: Representatives Hargrove, Assistant Ranking Minority Member; Irwin and Shea.

Staff: Jennifer Harris (786-7143).

Background:

Tax Exemption Qualification.

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.

A retail sales and use tax exemption is provided for new passenger cars, light duty trucks, and medium duty passenger vehicles that: (1) have a selling price plus trade-in property value or that have a base model Manufacturer's Suggested Retail Price (MSRP) of \$42,500 or less; and (2) are either exclusively powered by a clean alternative fuel or use at least one method of propulsion that is capable of being reenergized by an external source of electricity and are capable of traveling at least 30 miles using only battery power. Tax exemption eligibility is capped at \$32,000 per eligible vehicle.

The Department of Licensing (DOL) is required to maintain a list of the models that may qualify for this exemption and to determine the lowest MSRP for each model for the purpose of establishing whether the model qualifies for the exemption based on its MSRP. The DOL must also determine the cumulative number of qualifying vehicles titled in Washington on or after July 15, 2015, and to provide this information to the Department of Revenue (DOR) by the end of the fifth working day of each month.

Qualification Expiration.

To qualify for this exemption, a vehicle must be purchased or a lease agreement signed by the end of the month following the month in which the DOL determines that 7,500 vehicles eligible for the exemption have been titled in the state since July 15, 2015, and in which the DOL provides notification of this fact to the DOR. The DOR must post notice of the expiration date of the exemption on its website as soon as can practically be done after receiving notification from the DOL. If 7,500 qualifying vehicles have not been titled by June 30, 2019, no additional vehicles will be permitted to qualify after that date. Leased vehicles that qualified for the exemption before its expiration will continue to receive the tax exemption for all lease payments due through the life of the lease.

Lease agreements for vehicles that were eligible for an exemption signed on or after July 15, 2015, and before July 1, 2016, are required to have an adjusted fair market value of \$35,000 or less at the time the lease agreement was signed to maintain the exemption. A complete retail sales and use tax exemption for lease agreements signed prior to July 1, 2015, is in place for those vehicles.

As of December 31, 2017, 6,448 vehicles eligible for the exemption had been titled in the state since July 15, 2015. In 2017, 3,753 vehicles titled in the state were eligible for the exemption. In 2017, on average, approximately 310 vehicles that were eligible for this exemption were titled in the state per month.

Reporting Requirement.

Beginning on the last day of July 2016 and every six months thereafter, the DOR must report to the transportation committees of the Legislature the number of vehicles eligible for the exemption that have been titled in the state and the amount of state retail sales and use taxes exempted.

Tax Preference Performance Statement.

The public policy objective of this exemption is to increase the use of clean alternative fuel and electrically powered vehicles in Washington. The Joint Legislative and Audit Review Committee must periodically evaluate the number of these vehicles titled in the state.

Summary of Bill:

Qualification Expiration.

To qualify for the alternative fuel vehicle retail sales and use tax exemption, a vehicle must be purchased or the lease agreement signed by June 30, 2021. The possibility of early termination of the exemption based on the number of qualifying vehicles titled in the state is removed.

Reporting Requirement.

The semi-annual reporting requirement by the DOR to the transportation committees of the Legislature is eliminated. The DOR is no longer required to report to the Legislature the number of vehicles eligible for the exemption that have been titled in the state and the amount of state retail sales and use taxes exempted.

Tax Preference Performance Statement.

The tax preference performance statement currently in law is restated to apply to the longer term of the retail sales and use tax exemption.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This tax incentive might expire sooner than was anticipated. To avoid disrupting sales, it makes the most sense to retain the current criteria. This is a carbon reduction effort that is working. This has been a very successful program, which provides tax incentives to some but not all alternative fuel vehicles. By extending the tax incentive, the momentum for these vehicle purchases can continue. It is important to keep the vehicle range requirement high, so that the industry can get to a point where the range is far enough and the price is low enough that people will opt to purchase these vehicles without this tax incentive.

Greater numbers of alternative fuel vehicles are being sold as the number of models available continues to increase. General Motors has many electric vehicles currently in development. Georgia eliminated its tax incentive, and went from having the highest percentage of electric

vehicles to having among the lowest. This incentive is an important tool to get more electric vehicles on the road. The introduction of the tax incentive resulted in doubling the rate of alternative fuel vehicle sales.

Electric vehicles are cheaper to operate and make lower emission vehicles affordable; however, incentives are needed to sell these vehicles. For the state to reach its 2020 emissions goals, this incentive is needed. Currently, air pollution has a major impact on lowering life expectancy in some areas of the state, and motor vehicles are the largest source of air pollution in the state. It is estimated that beginning around 2020, electric vehicles will be cost-competitive with gas vehicles. This extension of the tax incentive would bridge the gap in time until that occurs.

(Opposed) The underlying policy behind this tax exemption is not problematic. However, using the Multimodal Transportation Account (account) to fund it limits the funding otherwise available to transit. This account is funded through certain fees and permits that can only be raised so much, which limits the amount the account has available. The need for regional mobility grants already exceeds the amount available. The same is true for Pedestrian and Bicycle Program grants, as well as for Safe Routes to School grants, for which there is four times a greater need than there are funds available. This tax incentive creates an equity issue, since transit is more important to households of lower income than higher income households.

(Other) This tax exemption is succeeding as an incentive on the purchase of these vehicles. An extension will allow it to continue to deliver meaningful change.

Persons Testifying: (In support) Representative Fey, prime sponsor; Representative Orcutt; John Bush, Blue Star Gas; Joanna Grist, Forth; Becky Bogard, General Motors; Vlad Gutman-Britten, Climate Solutions; Charles Knutson, Office of the Governor; Stu Clark, Department of Ecology; Michael Transue, Washington Association of Global Automakers; and Mike Ennis, Association of Washington Business.

(Opposed) Michael Shaw, Washington State Transit Association; Alex Alston, Washington Bikes; and Bryce Yadon, Futurewise and Transportation Choices Coalition.

(Other) Michael Breish, Northwest Energy Coalition.

Persons Signed In To Testify But Not Testifying: None.