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**Finance Committee**

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**HB 1986**

**Brief Description:** Providing a retail sales and use tax exemption for the purchase of electric bicycles and related cycling equipment.

**Sponsors:** Representatives Shewmake, Doglio, Fey and Lovick.

**Brief Summary of Bill**

- Provides a sales and use tax exemption for the purchase of new electric bicycles and related cycling equipment.
- Caps the statewide value of exempt sales at \$500,000.

**Hearing Date:** 2/21/19

**Staff:** Rachelle Harris (786-7137).

**Background:**

Retail Sales and Use Tax.

Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use tax applies to the value of property, digital product, or service when used in this state. The state, all counties, and all cities levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent; local sales and use tax rates vary from 0.5 percent to 3.9 percent, depending on the location.

Electric Bicycles.

Electric bicycles are two or three-wheeled cycles with a saddle, fully operative pedals for human propulsion, and an electric motor. The electric motor must have a power output of no more than 750 watts. There are three classes of electric bicycles in state law:

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- Class one: in which the motor provides assistance only when the rider is pedaling and ceases to provide assistance when the bicycle reaches the speed of 20 miles per hour (mph);
- Class two: in which the motor may be used exclusively to propel the bicycle and is not capable of providing assistance when the bicycle reaches the speed of 20 mph; or
- Class three: in which the motor provides assistance only when the rider is pedaling and ceases to provide assistance when the bicycle reaches the speed of 28 mph and is equipped with a speedometer.

There are various restrictions on the operation location of electric bicycles according to class.

#### Tax Preference Performance Statement.

State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

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

Sales of new electric bicycles and up to \$200 in related cycling equipment are exempt from the sales and use tax. The exemption expires on the earlier of:

1. May 1, 2025; or
2. The date that \$500,000 in total retail sales tax exemptions for electric bicycles and related cycling equipment have been granted.

Related cycling equipment includes accessories commonly associated with bicycle ownership such as helmets, bicycle locks, fenders, and lights, when purchased as part of the same transaction as an electric bicycle.

The Department of Revenue (DOR) must post quarterly balance reports on their website that includes an estimated expiration date for the exemption. If the remaining balance of the exemptions available is less than \$10,000, the DOR must publish a notification on its website. The DOR must also provide written notice of the expiration of the exemption to various parties.

A TPPS is provided identifying the tax preference as one intended to provide direct tax relief and to encourage citizens to own and use electric bicycles. The JLARC is directed review the number of electric bicycles purchased in Washington. If the amount of electric bicycle purchases increases by 25 percent compared to the number of purchases made in calendar year 2018, the legislature intends to extend the expiration date of the preference.

**Appropriation:** None.

**Fiscal Note:** Requested on February 13, 2019.

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