Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 1503

Brief Description: Establishing an alternative fuel vehicle retail sales and use tax exemption for lower-income individuals.

Sponsors: Representatives Wylie, Duerr, Stonier and Pollet.

Brief Summary of Bill

- Provides a sales and use tax exemption for alternative fuel vehicles sold or leased for $25,000 or less to individuals who qualify for the earned income tax credit.

Hearing Date: 2/17/21

Staff: Rachelle Harris (786-7137).

Background:

Alternative Fuel Vehicle Sales and Use Tax Exemption.
A partial retail sales and use tax exemption for alternative fuel vehicles was in place between January 2009 and the end of May 2018, and was reinstated in August 2019. The current version is a partial retail sales and use tax exemption for passenger cars, light duty trucks, and medium duty passenger vehicles that are either exclusively powered by a clean alternative fuel or capable of traveling at least 30 miles using only battery power.

To qualify, new vehicles must have a sales price or fair market value of $45,000 or less, and used vehicles must have a sales price or fair market value of $30,000 or less. Both purchased and leased vehicles are eligible.

For new vehicles, the amount of the sale that is exempt decreases over time:

- Between August 1, 2019, and July 31, 2021, up to $25,000 is exempt.
- Between August 1, 2021, and July 31, 2023, up to $20,000 is exempt.
- Between August 1, 2023, and July 31, 2025, up to $15,000 is exempt.

For used vehicles, the maximum amount eligible for the tax exemption is $16,000 from August 1, 2019, to July 31, 2025.

The qualification period for this tax exemption ends July 31, 2025. Leases for vehicles that qualify for this tax exemption may maintain eligibility through July 31, 2028.

"Clean alternative fuel" is defined as natural gas, propane, hydrogen, or electricity, when used in a motor vehicle that met California motor vehicle emission standards and Washington State Department of Ecology rules.

At the end of each quarter, the State Treasurer is required to transfer from the Electric Vehicle Account (EV Account) to the State General Fund (GF-S) the amount that would otherwise have been deposited in the GF-S if not for this tax exemption. The Department of Revenue (DOR) must provide a report to the Legislature by every six months providing certain specified information related to the use of this tax exemption.

<u>Earned Income Tax Credit</u>.
The Earned income Tax Credit (EITC) is a federal refundable tax credit for individuals with low to moderate income. Qualified individuals receive a credit on their federal tax return. The size of an individual's benefit from the EITC depends on the recipient's income, marital status, and number of children. The credit amount is a fixed percentage of earnings that increases with each dollar earned until it reaches a maximum level and then begins to phase out at higher income levels. The EITC is refundable, meaning it can exceed an individual's income tax liability.

To be eligible for the federal EITC, an individual must either be of any age and have at least one qualifying child or be between the ages of 25 to 64 with no qualifying children. Claimants must be either a United States citizen or a resident alien and have a valid social security number (SSN). For the purposes of the EITC, "earned income" includes wages, salaries, tips, and other employee compensation, plus net earnings from self-employment for the taxable year. A person is not eligible for the EITC if their aggregate amount of disqualified income such as interest, dividends, or capital gain income exceeds $3,500 in the taxable year.

For tax year 2020, in order to qualify for the EITC, an individual's adjusted gross income (AGI) must be less than:

- $15,820 ($21,710 for married filing jointly) with no qualifying children;
- $41,756 ($47,646 for married filing jointly) with have one qualifying child;
- $47,440 ($53,330 for married filing jointly) with have two qualifying children; or
- $50,594 ($56,844 for married filing jointly) with three or more qualifying children.

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:

An additional retail sales and use tax exemption is established for alternative fuel vehicles. For a qualifying buyer or lessee, as of October 1, 2021, clean alternative fuel vehicles and all hybrid vehicles sold or leased for $25,000 or less are exempt from retail sales and use tax. The exemption applies to new or used passenger cars, light duty trucks, and medium duty passenger vehicles. To qualify, the buyer or lessee must be eligible for and granted the EITC.

The qualification period end date is October 1, 2028. Lease payments made for leases signed prior to the qualification period end date may continue to be eligible for this tax exemption until October 1, 2031.

A qualifying person must submit an application for an exemption certificate to the DOR and present the certificate to the vehicle seller, or as required by the Department of Licensing (DOL) for use tax. A qualifying person is eligible for a tax refund if an exemption certificate is not used and the retail sales or use tax is paid.

The seller must keep records necessary for the DOR to verify eligibility, and a person claiming the exemption must also submit certain specified information to the DOR. The DOR must follow reporting requirements consistent with the current alternative fuel tax exemption.

The DOL must provide information on the availability of the tax exemption to increase public awareness that includes details related to how and when it is claimed and to assist individuals in determining their eligibility. The DOL must maintain and publish a list of qualifying vehicles.

The DOR must report every six months to the transportation committees of the Legislature on the total number of vehicles that qualified for the exemption, the dollar amount of taxes exempted, and estimates of future costs of leased vehicles that qualified for the exemption.

On a quarterly basis, the State Treasurer must transfer from the EV Account to the GF-S reimbursement for the revenue foregone as a result of this tax exemption.

A TPPS identifies the public policy objective of exemption to provide financial incentives for lower-income individuals to purchase or lease alternative fuel vehicles to increase the use of these vehicles by those who otherwise might not be able to afford them. To measure the effectiveness of this tax exemption, the JLARC must evaluate the number of clean alternative fuel vehicles titled in the state with information provided by the DOL and DOR, and any other information it deems necessary.

The exemption expires October 1, 2031.

Appropriation: None.

Fiscal Note: Requested on February 9, 2021.

Effective Date: The bill takes effect on October 1, 2021.