

# SENATE BILL REPORT

## SB 5663

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As Reported by Senate Committee On:  
Ways & Means, February 23, 2024

**Title:** An act relating to abandoned vehicles sold at auctions conducted by registered tow truck operators.

**Brief Description:** Concerning abandoned vehicles sold at auctions conducted by registered tow truck operators.

**Sponsors:** Senators Warnick, Dozier, Fortunato, Short and Wagoner.

**Brief History:**

**Committee Activity:** Ways & Means: 3/09/23, 3/16/23 [DPS, w/oRec]; 2/20/24, 2/23/24 [DP2S, w/oRec].

**Brief Summary of Second Substitute Bill**

- Modifies the excise taxation of abandoned vehicles sold at auction by a tow truck operator.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 5663 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Robinson, Chair; Mullet, Vice Chair, Capital; Nguyen, Vice Chair, Operating; Wilson, L., Ranking Member, Operating; Gildon, Assistant Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Dhingra, Hunt, Keiser, Muzzall, Pedersen, Randall, Saldaña, Torres, Van De Wege, Wagoner and Wellman.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Hasegawa.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

**Staff:** Jeffrey Mitchell (786-7438)

**Background:** Business and Occupation Tax. Washington levies the business and occupation (B&O) tax on gross income from Washington-based business activity. The tax rate varies by classification. For retailing activities, the tax rate is 0.471 percent.

Retail Sales and Use Taxes. 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 taxes applies to the value of property, digital product or service when used in this state. The state, most cities and all counties 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 3.0 percent, depending on the location.

Towing and storage services are subject to retail sales tax and retailing B&O tax.

Sellers must collect an additional sales tax of 0.3 percent of the selling price of each motor vehicle. If a seller does not collect the sales tax, then a buyer must pay an additional use tax of 0.3 percent when registering the vehicle with the Department of Licensing. Revenue from the additional 0.3 percent tax is deposited in the multimodal transportation account.

Tow Truck Operators. A tow truck operator (operator) may apply a lien against the sale of an abandoned vehicle in the amount of charges for towing and storage plus the associated retail sales tax. The operator must try to make the sale via public auction. If there is no successful bidder, the operator must sell the vehicle to a licensed vehicle wrecker, hulk hauler or scrap processor.

When sale proceeds are less than the lien, an operator may back out the retail sales tax from the proceeds to arrive at the taxable measure of the towing and storage services subject to the retailing B&O and retail sales tax. When the sale proceeds are greater than the lien, an operator may not back out the retail sales tax from the proceeds to arrive at the taxable measure of the towing and storage services subject to the retailing B&O and retail sales tax. However, in either case, an operator uses a portion of the sales proceeds to pay the retail sales tax, instead of charging the buyer .

When the proceeds of an auction sale exceed the amount necessary to satisfy the towing and storage lien this results in surplus funds. An operator must remit these amounts to the DOL.

If a vehicle buyer registers the vehicle with the Department of Licensing, use tax will be owed on the full purchase price.

Tax Preference Review Requirements. State law provides 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. Legislation that establishes or expands a tax preference must include a tax preference performance statement that identifies the public policy objective of the preference, as well as specific metrics the Joint Legislative Audit and Review Committee (JLARC) can use to review the effectiveness of the preference in achieving its stated public policy objectives. Tax preferences must be reviewed by JLARC at least once every ten years, unless state statute requires otherwise. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided or the tax preference is exempt from expiration. To assist the Legislature in its evaluation of economic development-related tax preferences, taxpayer beneficiaries are required to file annual tax preference performance reports detailing wages and employment of the taxpayer as well as tax savings from the tax preference.

**Summary of Bill (Second Substitute):** Gross proceeds from the sale of an abandoned vehicle are taxed as a sale of a vehicle instead of the sale of towing and storage services. The transaction is subject to the retail sales tax, the additional 0.3 percent sales and use tax on vehicles, and retailing B&O tax. Sales tax would be collected by the operator from the buyer and remitted to the Department of Revenue unless the vehicle is purchased at wholesale. Therefore, an operator would no longer use a portion of the sales proceeds to pay the retail sales tax.

For the retailing B&O tax, an operator may deduct from the taxable amount any surplus funds.

The new tax preference performance provisions do not apply to this bill.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Second Substitute):**

- Adds intent language specifying that licensed auto wreckers, scrap processors, and hulk haulers generally make wholesale purchases of abandoned vehicles from registered tow truck operators and therefore would not owe sales tax on the purchase of abandoned vehicles.
- Updates the effective date to January 1, 2025.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on January 1, 2025.

**Staff Summary of Public Testimony (Regular Session 2023):** *The committee*

*recommended a different version of the bill than what was heard.* PRO: This bill will provide clarity and fairness to vehicle auction sales. Towers are currently unsure whether to follow the rules of DOR or DOL.

CON: This bill creates a problem for records. There are many issues that need to be solved before this bill can be moved forward.

**Persons Testifying:** PRO: Senator Judy Warnick, Prime Sponsor; Kris Zachary, Burns Towing; Paul Bressi, Nisqually Towing; Peter Lukevich, Towing Recovery Association of Washington (TRAW).

OTHER: Steve Ewing, Dept. of Revenue.

**Persons Signed In To Testify But Not Testifying:** No one.

**Staff Summary of Public Testimony (Regular Session 2024):** *The committee recommended a different version of the bill than what was heard.* PRO: After a lot of effort, this bill should work for the towing industry. This bill will provide clarity and certainty to the towers of Washington. This straightforward and clear approach will help towers meet their tax obligations. We thought we had fixed the problem legislatively several years ago but it turned out that confusion remained. This bill will clear up the confusion that has existed for a number of years.

OTHER: The bill makes worthwhile corrections to how tow truck operators are taxed on abandoned vehicles. This is a follow-up to a bill from five years ago. The Department of Revenue and tow truck operators determined that additional work was necessary to ensure a fair tax structure on the sale of abandoned vehicles. It ensures that sales tax is only paid once.

**Persons Testifying:** PRO: Senator Judy Warnick, Prime Sponsor; Kris Zachary, Burns Towing; Paul Bressi, Nisqually Towing; Peter Lukevich, Towing Recovery Association of Washington (TRAW).

OTHER: Steve Ewing, Dept. of Revenue.

**Persons Signed In To Testify But Not Testifying:** No one.