

HOUSE BILL REPORT

HB 2823

As Reported by House Committee On:
Technology, Telecommunications & Energy
Finance

Title: An act relating to providing incentives to reduce air pollution and improve energy security through the use of alternative fuel vehicles.

Brief Description: Providing incentives to reduce air pollution and improve energy security through the use of alternative fuel vehicles.

Sponsors: Representatives Sullivan, Cooper, Hunt, Upthegrove, Linville, Murray, Simpson, G., Chase and Kagi.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 1/30/04, 2/4/04 [DPS];
Finance: 2/9/04, 2/10/04 [DP2S(w/o sub TTE)].

Brief Summary of Second Substitute Bill

- Provides tax incentives to encourage the use of hydrogen fuel vehicles and electric powered vehicles.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Blake, Bush, Hudgins, Kirby, McMorris, Romero, Tom, Wallace and Wood.

Minority Report: Do not pass. Signed by 2 members: Representatives Delvin and McMahan.

Staff: Pam Madson (786-7166).

Background:

A variety of alternative fuel vehicles are commercially available. They include passenger vehicles, light-duty trucks, vans, buses and heavy-duty vehicles. These vehicles operate using fuels other than petroleum based gasoline and diesel fuels.

Federal tax incentives are available for the purchase of alternative fuel vehicles and the development of refueling and recharging facilities. To encourage the use of nonpolluting fuels, Washington provides an alternate fee schedule for natural gas or propane in lieu of the special fuel tax, based on the gross tonnage of the vehicle. The annual fee schedule ranges from \$45 to \$250 and is adjusted based on changes in the motor vehicle fuel tax rate which is currently \$0.28 per gallon for liquid fuel or per cubic feet for gaseous fuel.

Business and Occupation Tax. The business and occupation (B&O) tax is Washington's major business tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

Retail Sales and Use Taxes. The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

A number of tax incentives include accountability provisions. The principal components of these provisions are disclosure requirements and enforcement mechanisms.

Summary of Substitute Bill:

Tax incentives are provided to encourage the use of alternative fuel vehicles and electric vehicles.

Beginning on the effective date of this act, a tax credit may be taken by a business against its B&O tax obligation for a portion of the cost of acquiring business vehicles that are alternative fuel vehicles. The vehicles may be owned or leased for a minimum period of three years by the business. The amount of the credit is 30 percent of the cost of an alternative fuel vehicle, or \$5,000, whichever is less, for vehicles under 10,000 pounds. For vehicles 10,000 pounds or more, the credit is 30 percent of the cost of the vehicle or \$25,000, whichever is less. Alternative fuel vehicles for purposes of this credit are vehicles that operate exclusively on natural gas, propane, hydrogen, electricity or are

powered by fuel cells.

The credit is capped at \$500,000 per individual taxpayer claiming the credit. The amount of credit taken in a reporting period may not exceed the amount of B&O tax that the taxpayer is required to pay. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015.

Beginning on the effective date of this act, a tax credit may be taken by a business against its B&O tax obligation for costs to acquire and install alternative fuel and electric vehicle recharging equipment. Alternative fuel includes natural gas propane and hydrogen. No credit may be taken for expenditures occurring after January 1, 2015.

The credit amount is based on 50 percent of the costs incurred at facilities open to the public not to exceed \$500,000. If the facilities will not be open to the public, the credit amount is 25 percent of the cost of the facility not to exceed \$250,000. The maximum credit for a calendar year is capped at \$2 million per individual taxpayer claiming the credit.

A sales and use tax exemption is allowed for machinery, equipment, and services used in the retail sale of natural gas, propane, hydrogen vehicle fuels, or a blend of natural gas and hydrogen fuel, and for the recharging of electric vehicles.

An accountability goal is provided to determine when the tax incentives are successful. The tax incentives have met the goal when the total number of alternative fuel and electric vehicles exceeds 5 percent of the total number of vehicles registered in Washington.

Substitute Bill Compared to Original Bill:

The substitute bill provides a goal in terms of numbers of alternative fuel vehicles relative to all vehicles registered in Washington that determines when the goal of the tax incentives has been met.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2004.

Testimony For: This bill is an extension of bringing in a family of alternative fuels. Energy independence for North America is very important as a policy. The Olympic Committee is proposing the idea of a hydrogen highway. Fueling stations would be developed for people traveling to the Olympics. This bill will work well with these other

efforts. Last year a package of bills were passed related to biodiesel and ethanol. This year's package expands the range of options. All the different fuels have different properties and pollutants. A goal is to move away from dependence on foreign oil. No one fuel can accomplish this. There is a need to have different fuels for different types of vehicles and for the different ways we use vehicles. There is no one answer. There are significant barriers. We need more fueling stations but the stations won't be built until there is a market. The cost at this point is greater and will be until the market develops. This bill addresses both sides of the equation. The budget impacts are limited because of the caps on the incentives as well as the expiration date of the incentives. In developing fueling stations, private development looks for customers to serve, like a government fleet, and then builds the facility to meet the demand. This bill will help get stations started without a customer group signing on. It will help offset costs. Private companies will invest if there is an incentive to do so. Hydrogen will only become a viable fuel as we learn how to deal with gaseous fuels.

(With concerns) This may not be the best way to go with tax incentives at this time. Hybrid electric vehicles will do more for reducing emissions and we should focus our limited tax incentives on hybrid vehicles where it will do the most good.

Testimony Against: None.

Persons Testifying: (In support) Representative Sullivan, prime sponsor; Linda Graham, Puget Sound Clean Cities Coalition; and Keith Hall, Clean Energy.

(With concerns) Donna Ewing, League of Women Voters of Washington.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology, Telecommunications & Energy. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Cairnes, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Conway, Morris, Roach and Santos.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Telecommunications & Energy:

The second substitute bill removes natural gas and liquified petroleum gas (propane) from the tax incentives for alternative fuels.

Appropriation: None.

Fiscal Note: Requested on second substitute on February 10, 2004.

Effective Date of Second Substitute Bill: The bill takes effect on July 1, 2004.

Testimony For: This bill extends tax exemptions for alternative fuels that are similar to those already available for biodiesel. Biodiesel doesn't work for all vehicles. Alternative fuel vehicles need fueling stations. The bill has caps on the exemptions, an expiration date, and a performance measure.

Testimony Against: None.

Persons Testifying: (In support) Linda Graham, Puget Sound Clean Cities Coalition.

Persons Signed In To Testify But Not Testifying: None.