
Transportation Committee

HB 2753

Brief Description: Imposing motor vehicle fuel taxes on compressed natural and liquefied natural gas used for transportation purposes.

Sponsors: Representatives Clibborn and Roberts.

Brief Summary of Bill

- Adds liquefied natural gas and compressed natural gas to the fuel tax provisions, including the local options and border county tax areas.
- Clarifies that the license-fee-in-lieu-of-fuel-tax arrangement applies to the use of liquefied natural gas and compressed natural gas.
- Exempts liquefied natural gas and compressed natural gas from the state public utility tax when they are sold or used for transportation purposes.
- Imposes the business and operating tax on the sale of liquefied natural gas and compressed natural gas when such sales qualify for the exemption from the public utility tax.
- Expands the definition of "manufacturing" relating to the business and occupation tax to include the production liquefied natural gas and compressed natural gas to be used for transportation fuel.

Hearing Date: 2/6/14

Staff: Andrew Russell (786-7143).

Background:

Motor Vehicle Fuel Tax (RCW 82.38 and RCW 82.80).

Washington imposes a tax on fuel and natural gas when, among other times, the fuel is either removed from a terminal, removed from a refinery, or enters the state for sale, consumption, use, or storage. Currently, Washington imposes a total tax of 37.5 cents on each gallon of fuel and 100 cubic feet of natural gas. Furthermore, a county may impose an additional tax equal to 10

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percent of the statewide fuel tax. Alternatively, a county may impose this additional tax for a regional transportation investment district plan, and a regional transportation investment district may levy an additional tax equal to 10 percent of the statewide fuel tax. Finally, cities and towns within 10 miles of an international border, and transportation benefit districts crossing an international border, may impose an additional tax of up to 1 cent per gallon of fuel.

Generally, the terminal operator is liable for paying any such taxes. Taxes are not imposed, however, on the sale of natural gas or propane for use in a motor vehicle. Instead, the vehicle owner must pay an annual license fee in lieu of the fuel tax.

Public Utility Tax (RCW 82.16).

The state imposes a tax on public utility businesses for the privilege of operating a public utility business within the state. For gas distribution businesses, the tax is equal to 3.852 percent of the gross income of the business. Furthermore, cities and towns may impose an additional tax on such businesses equal to a maximum of 6 percent. If an entity is taxed as a public utility, it is exempt from Washington's business and occupation tax.

Business and Occupation Tax (RCW 82.04).

Washington imposes a business and occupation tax on certain business activities, including acting as a manufacturer, retailer, or wholesaler. A manufacturer is one who undertakes activities of a commercial or industrial nature applying labor or skill to materials so that a different or useful substance or article of personal property is produced for sale or use. A business and occupation tax is imposed on manufacturing businesses equal to 0.484 percent of the gross income of the business. A city may also impose a business and occupation tax, which is generally capped at 0.2 percent of gross income.

Use Tax (RCW 82.12 and 82.14).

The state imposes a use tax on the privilege of using certain items in the state not otherwise subject to state sales tax. A specific use tax applies to the use of natural gas, and the tax is equal to the public utility tax imposed under RCW 82.16. Local authorities may also impose a use tax on the use of certain items, including natural gas. A use tax imposed by local authorities on natural gas is equal to the local public utility tax imposed within the jurisdiction.

Summary of Bill:

Compressed and liquefied natural gas are included in the fuel tax provisions, imposing a total tax of 37.5 cents on each equivalent amount of gas. The tax is imposed on every 1.5 gallons of liquefied natural gas and 127 cubic feet of compressed natural gas. Local authorities and border tax areas retain their powers to impose a supplemental tax on the sale of compressed and liquefied natural gas. Additionally, compressed and liquefied natural gas are added to the provision regarding an annual license fee in lieu of the fuel tax.

Entities that sell compressed and liquefied natural gas to be used for transportation purposes are exempt from the state public utility tax; however, those entities are subject to the state business and occupation tax. A local public utility tax may be imposed on the sale of compressed and liquefied natural gas to be used for transportation purposes and may not exceed the greater of either business and occupation tax imposed by the local jurisdiction, if any, or 0.2 percent.

Additionally, the production of compressed and liquefied natural gas to be used as transportation fuel is added as a type of manufacturing for state business and occupation tax purposes.

The use of compressed and liquefied natural gas for transportation purposes is exempt from state and local use taxes that apply specifically to the use of natural gas.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2015.