
SUBSTITUTE SENATE BILL 6440

State of Washington

63rd Legislature

2014 Regular Session

By Senate Transportation (originally sponsored by Senators King, Eide, and Kline)

READ FIRST TIME 02/07/14.

1 AN ACT Relating to imposing transportation taxes and fees on
2 compressed natural gas and liquefied natural gas used for
3 transportation purposes; amending RCW 82.38.030, 82.38.075, 82.80.010,
4 82.80.110, 82.80.120, 82.47.010, 46.16A.060, 46.37.467, 82.04.310,
5 82.04.120, 82.12.022, 82.14.230, 35.21.870, and 82.14.030; adding a new
6 section to chapter 82.16 RCW; creating new sections; and providing an
7 effective date.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 NEW SECTION. **Sec. 1.** It is the intent of the legislature to
10 appropriately tax natural gas, the sale of compressed natural gas, or
11 liquefied natural gas, for use as transportation fuel by a motor
12 vehicle. Current practice taxes natural gas as a traditional home
13 heating or electric generation fuel while not taking into account the
14 benefits of natural gas use as a transportation fuel. This act is
15 intended to clarify for future use the appropriate taxation of natural
16 gas, when used as a transportation fuel, in a manner similar to
17 gasoline and diesel. In addition, this act is intended to establish a
18 comprehensive method of taxation that treats all entities engaged in
19 the business of manufacturing and selling natural gas as a

1 transportation fuel identically, regardless of whether the taxpayer is
2 a gas distribution business or not, so as to prevent any particular
3 entity from receiving a competitive advantage by this act. Use of
4 compressed natural gas or liquefied natural gas will provide
5 environmental benefits to the citizens of Washington and spur economic
6 development across the state.

7 **Sec. 2.** RCW 82.38.030 and 2013 c 225 s 103 are each amended to
8 read as follows:

9 (1) There is levied and imposed upon fuel licensees a tax at the
10 rate of twenty-three cents per each gallon of fuel(~~(, or each one~~
11 ~~hundred cubic feet of compressed natural gas)~~), measured at standard
12 pressure and temperature.

13 (2) Beginning July 1, 2003, an additional and cumulative tax rate
14 of five cents per each gallon of fuel(~~(, or each one hundred cubic feet~~
15 ~~of compressed natural gas)~~), measured at standard pressure and
16 temperature is imposed on fuel licensees. This subsection (2) expires
17 when the bonds issued for transportation 2003 projects are retired.

18 (3) Beginning July 1, 2005, an additional and cumulative tax rate
19 of three cents per each gallon of fuel(~~(, or each one hundred cubic~~
20 ~~feet of compressed natural gas)~~), measured at standard pressure and
21 temperature is imposed on fuel licensees.

22 (4) Beginning July 1, 2006, an additional and cumulative tax rate
23 of three cents per each gallon of fuel(~~(, or each one hundred cubic~~
24 ~~feet of compressed natural gas)~~), measured at standard pressure and
25 temperature is imposed on fuel licensees.

26 (5) Beginning July 1, 2007, an additional and cumulative tax rate
27 of two cents per each gallon of fuel(~~(, or each one hundred cubic feet~~
28 ~~of compressed natural gas)~~), measured at standard pressure and
29 temperature is imposed on fuel licensees.

30 (6) Beginning July 1, 2008, an additional and cumulative tax rate
31 of one and one-half cents per each gallon of fuel(~~(, or each one~~
32 ~~hundred cubic feet of compressed natural gas)~~), measured at standard
33 pressure and temperature is imposed on fuel licensees.

34 (7) Taxes are imposed when:

35 (a) Fuel is removed in this state from a terminal if the fuel is
36 removed at the rack unless the removal is by a licensed supplier or

1 distributor for direct delivery to a destination outside of the state,
2 or the removal is by a fuel supplier for direct delivery to an
3 international fuel tax agreement licensee under RCW 82.38.320;

4 (b) Fuel is removed in this state from a refinery if either of the
5 following applies:

6 (i) The removal is by bulk transfer and the refiner or the owner of
7 the fuel immediately before the removal is not a licensed supplier; or

8 (ii) The removal is at the refinery rack unless the removal is to
9 a licensed supplier or distributor for direct delivery to a destination
10 outside of the state, or the removal is to a licensed supplier for
11 direct delivery to an international fuel tax agreement licensee under
12 RCW 82.38.320;

13 (c) Fuel enters into this state for sale, consumption, use, or
14 storage, unless the fuel enters this state for direct delivery to an
15 international fuel tax agreement licensee under RCW 82.38.320, if
16 either of the following applies:

17 (i) The entry is by bulk transfer and the importer is not a
18 licensed supplier; or

19 (ii) The entry is not by bulk transfer;

20 (d) Fuel enters this state by means outside the bulk transfer-
21 terminal system and is delivered directly to a licensed terminal unless
22 the owner is a licensed distributor or supplier;

23 (e) Fuel is sold or removed in this state to an unlicensed entity
24 unless there was a prior taxable removal, entry, or sale of the fuel;

25 (f) Blended fuel is removed or sold in this state by the blender of
26 the fuel. The number of gallons of blended fuel subject to tax is the
27 difference between the total number of gallons of blended fuel removed
28 or sold and the number of gallons of previously taxed fuel used to
29 produce the blended fuel;

30 (g) Dyed special fuel is used on a highway, as authorized by the
31 internal revenue code, unless the use is exempt from the fuel tax;

32 (h) Dyed special fuel is held for sale, sold, used, or is intended
33 to be used in violation of this chapter;

34 (i) Special fuel purchased by an international fuel tax agreement
35 licensee under RCW 82.38.320 is used on a highway; and

36 (j) Fuel is sold by a licensed fuel supplier to a fuel distributor
37 or fuel blender and the fuel is not removed from the bulk transfer-
38 terminal system.

1 **Sec. 3.** RCW 82.38.075 and 2013 c 225 s 110 are each amended to
2 read as follows:

3 (1) To encourage the use of nonpolluting fuels, an annual license
4 fee in lieu of the tax imposed by RCW 82.38.030 is imposed upon the use
5 of liquefied natural gas, compressed natural gas, or propane used in
6 any motor vehicle. The annual license fee must be based upon the
7 following schedule and formula:

8	VEHICLE TONNAGE (GVW)	FEE
9	0 - 6,000	\$45
10	6,001 - 10,000	\$45
11	10,001 - 18,000	\$80
12	18,001 - 28,000	\$110
13	28,001 - 36,000	\$150
14	36,001 and above	\$250

15 (2) To determine the annual license fee for a registration year,
16 the appropriate dollar amount in the schedule is multiplied by the fuel
17 tax rate per gallon effective on July 1st of the preceding calendar
18 year and the product is divided by 12 cents.

19 ~~(3) ((The department, in addition to the resulting fee, must charge~~
20 ~~an additional fee of five dollars as a handling charge for each license~~
21 ~~issued.~~

22 ~~(4))~~ The vehicle tonnage fee must be prorated so the annual
23 license will correspond with the staggered vehicle licensing system.

24 ~~((5) A decal or other identifying device issued upon payment of~~
25 ~~the annual fee must be displayed as prescribed by the department as~~
26 ~~authority to purchase this fuel.~~

27 ~~(6))~~ (4) Commercial motor vehicles registered in a foreign
28 jurisdiction under the provisions of the international registration
29 plan are subject to the annual fee.

30 (5) Motor vehicles registered in a foreign jurisdiction, except
31 those registered under the international registration plan under
32 chapter 46.87 RCW, are exempt from this section.

33 ~~((Persons selling or dispensing natural gas or propane may not sell~~
34 ~~or dispense this fuel for their own use or the use of others into tanks~~

1 of vehicles powered by this fuel which do not display a valid decal or
2 other identifying device.

3 ~~(7))~~ (6) Vehicles registered in jurisdictions outside the state of
4 Washington are exempt from this section.

5 ~~((8))~~ (7) Any person selling or dispensing liquefied natural gas,
6 compressed natural gas, or propane into the tank of a motor vehicle
7 powered by this fuel, except as prescribed in this chapter, is subject
8 to the penalty provisions of this chapter.

9 **Sec. 4.** RCW 82.80.010 and 2013 c 225 s 641 are each amended to
10 read as follows:

11 (1) ~~((For purposes of this section*))~~ The definitions in this
12 subsection apply throughout this section unless the context clearly
13 requires otherwise.

14 (a) "Distributor" means every person who imports, refines,
15 manufactures, produces, or compounds motor vehicle fuel and special
16 fuel as defined in RCW 82.38.020~~((, respectively,))~~ and sells or
17 distributes the fuel into a county~~((,))~~.

18 (b) "Person" has the same meaning as in RCW 82.04.030.

19 (2) Subject to the conditions of this section, any county may levy,
20 by approval of its legislative body and a majority of the registered
21 voters of the county voting on the proposition at a general or special
22 election, additional excise taxes equal to ten percent of the statewide
23 ~~((motor vehicle fuel tax rate under RCW 82.38.030 on each gallon of~~
24 ~~motor vehicle fuel))~~ fuel tax rates under RCW 82.38.030 on motor
25 vehicle fuel and special fuel as defined in RCW 82.38.020 and on each
26 gallon of special fuel as defined in RCW 82.38.020 sold within the
27 boundaries of the county. Vehicles paying an annual license fee under
28 RCW 82.38.075 are exempt from the county fuel excise tax. An election
29 held under this section must be held not more than twelve months before
30 the date on which the proposed tax is to be levied. The ballot setting
31 forth the proposition must state the tax rate that is proposed. The
32 county's authority to levy additional excise taxes under this section
33 includes the incorporated and unincorporated areas of the county. The
34 additional excise taxes are subject to the same exceptions and rights
35 of refund as applicable to other motor vehicle fuel and special fuel
36 excise taxes levied under chapter 82.38 RCW. The proposed tax may not
37 be levied less than one month from the date the election results are

1 certified by the county election officer. The commencement date for
2 the levy of any tax under this section must be the first day of
3 January, April, July, or October.

4 (3) The local option motor vehicle fuel tax on (~~each gallon of~~)
5 motor vehicle fuel and on (~~each gallon of~~) special fuel is imposed
6 upon the distributor of the fuel.

7 (4) A taxable event for the purposes of this section occurs upon
8 the first distribution of the fuel within the boundaries of a county to
9 a retail outlet, bulk fuel user, or ultimate user of the fuel.

10 (5) All administrative provisions in chapters 82.01, 82.03, and
11 82.32 RCW, insofar as they are applicable, apply to local option fuel
12 taxes imposed under this section.

13 (6) Before the effective date of the imposition of the fuel taxes
14 under this section, a county must contract with the department of
15 revenue for the administration and collection of the taxes. The
16 contract must provide that a percentage amount, not to exceed one
17 percent of the taxes imposed under this section, will be deposited into
18 the local tax administration account created in the custody of the
19 state treasurer. The department of revenue may spend money from this
20 account, upon appropriation, for the administration of the local taxes
21 imposed under this section.

22 (7) The state treasurer must distribute monthly to the levying
23 county and cities contained therein the proceeds of the additional
24 excise taxes collected under this section, after the deductions for
25 payments and expenditures as provided in RCW 46.68.090(1) (a) and (b)
26 and under the conditions and limitations provided in RCW 82.80.080.

27 (8) The proceeds of the additional excise taxes levied under this
28 section must be used strictly for transportation purposes in accordance
29 with RCW 82.80.070.

30 (9) A county may not levy the tax under this section if they are
31 levying the tax in RCW 82.80.110 or if they are a member of a regional
32 transportation investment district levying the tax in RCW 82.80.120.

33 **Sec. 5.** RCW 82.80.110 and 2013 c 225 s 642 are each amended to
34 read as follows:

35 (1) (~~For purposes of this section:~~) The definitions in this
36 subsection apply throughout this section unless the context clearly
37 requires otherwise.

1 (a) "Distributor" means every person who imports, refines,
2 manufactures, produces, or compounds motor vehicle fuel and special
3 fuel as defined in RCW 82.38.020(~~(, respectively,)~~) and sells or
4 distributes the fuel into a county(~~(+)~~).

5 (b) "Person" has the same meaning as in RCW 82.04.030.

6 (2) For purposes of dedication to a regional transportation
7 investment district plan under chapter 36.120 RCW, subject to the
8 conditions of this section, a county may levy additional excise taxes
9 equal to ten percent of the statewide (~~(motor vehicle fuel tax rate~~
10 ~~under RCW 82.38.030 on each gallon of motor vehicle fuel as defined in~~
11 ~~RCW 82.38.020 and on each gallon of special fuel)~~) fuel tax rates under
12 RCW 82.38.030 on motor vehicle fuel and special fuel as defined in RCW
13 (~~(82.32.020 [82.38.020])~~) 82.38.020 sold within the boundaries of the
14 county. The additional excise tax is subject to the approval of the
15 county's legislative body and a majority of the registered voters of
16 the county voting on the proposition at a general or special election.
17 An election held under this section must be held not more than twelve
18 months before the date on which the proposed tax is to be levied. The
19 ballot setting forth the proposition must state that the revenues from
20 the tax will be used for a regional transportation investment district
21 plan. The county's authority to levy additional excise taxes under
22 this section includes the incorporated and unincorporated areas of the
23 county. Vehicles paying an annual license fee under RCW 82.38.075 are
24 exempt from the county fuel excise tax. The additional excise taxes
25 are subject to the same exceptions and rights of refund as applicable
26 to other motor vehicle fuel and special fuel excise taxes levied under
27 chapter 82.38 RCW. The proposed tax may not be levied less than one
28 month from the date the election results are certified by the county
29 election officer. The commencement date for the levy of any tax under
30 this section will be the first day of January, April, July, or October.

31 (3) The local option motor vehicle fuel tax on (~~each gallon of~~)
32 motor vehicle fuel and on (~~each gallon of~~) special fuel is imposed
33 upon the distributor of the fuel.

34 (4) A taxable event for the purposes of this section occurs upon
35 the first distribution of the fuel within the boundaries of a county to
36 a retail outlet, bulk fuel user, or ultimate user of the fuel.

37 (5) All administrative provisions in chapters 82.01, 82.03, and

1 82.32 RCW, insofar as they are applicable, apply to local option fuel
2 taxes imposed under this section.

3 (6) Before the effective date of the imposition of the fuel taxes
4 under this section, a county must contract with the department of
5 revenue for the administration and collection of the taxes. The
6 contract must provide that a percentage amount, not to exceed one
7 percent of the taxes imposed under this section, will be deposited into
8 the local tax administration account created in the custody of the
9 state treasurer. The department of revenue may spend money from this
10 account, upon appropriation, for the administration of the local taxes
11 imposed under this section.

12 (7) The state treasurer must distribute monthly to the county
13 levying the tax as part of a regional transportation investment plan,
14 after the deductions for payments and expenditures as provided in RCW
15 46.68.090(1) (a) and (b).

16 (8) The proceeds of the additional taxes levied by a county in this
17 section, to be used as a part of a regional transportation investment
18 plan, must be used in accordance with chapter 36.120 RCW, but only for
19 those areas that are considered "highway purposes" as that term is
20 construed in Article II, section 40 of the state Constitution.

21 (9) A county may not levy the tax under this section if they are a
22 member of a regional transportation investment district that is levying
23 the tax in RCW 82.80.120 or the county is levying the tax in RCW
24 82.80.010.

25 **Sec. 6.** RCW 82.80.120 and 2013 c 225 s 643 are each amended to
26 read as follows:

27 (1) (~~For purposes of this section:~~) The definitions in this
28 subsection apply throughout this section unless the context clearly
29 requires otherwise.

30 (a) "Distributor" means every person who imports, refines,
31 manufactures, produces, or compounds motor vehicle fuel and special
32 fuel as defined in RCW 82.38.020(~~(, respectively,)~~) and sells or
33 distributes the fuel into a county(~~(,)~~).

34 (b) "Person" has the same meaning as in RCW 82.04.030;

35 (c) "District" means a regional transportation investment district
36 under chapter 36.120 RCW.

1 (2) A regional transportation investment district under chapter
2 36.120 RCW, subject to the conditions of this section, may levy
3 additional excise taxes equal to ten percent of the statewide motor
4 vehicle fuel tax rate under RCW 82.38.030 on each gallon of motor
5 vehicle fuel as defined in RCW 82.38.020 and on each gallon of special
6 fuel as defined in RCW 82.38.020 sold within the boundaries of the
7 district. The additional excise tax is subject to the approval of a
8 majority of the voters within the district boundaries. Vehicles paying
9 an annual license fee under RCW 82.38.075 are exempt from the
10 district's fuel excise tax. The additional excise taxes are subject to
11 the same exceptions and rights of refund as applicable to other motor
12 vehicle fuel and special fuel excise taxes levied under chapter 82.38
13 RCW. The proposed tax may not be levied less than one month from the
14 date the election results are certified. The commencement date for the
15 levy of any tax under this section will be the first day of January,
16 April, July, or October.

17 (3) The local option motor vehicle fuel tax on (~~each gallon of~~)
18 motor vehicle fuel and on (~~each gallon of~~) special fuel is imposed
19 upon the distributor of the fuel.

20 (4) A taxable event for the purposes of this section occurs upon
21 the first distribution of the fuel within the boundaries of the
22 district to a retail outlet, bulk fuel user, or ultimate user of the
23 fuel.

24 (5) All administrative provisions in chapters 82.01, 82.03, and
25 82.32 RCW, insofar as they are applicable, apply to local option fuel
26 taxes imposed under this section.

27 (6) Before the effective date of the imposition of the fuel taxes
28 under this section, a district must contract with the department of
29 revenue for the administration and collection of the taxes. The
30 contract must provide that a percentage amount, not to exceed one
31 percent of the taxes imposed under this section, will be deposited into
32 the local tax administration account created in the custody of the
33 state treasurer. The department of revenue may spend money from this
34 account, upon appropriation, for the administration of the local taxes
35 imposed under this section.

36 (7) The state treasurer must distribute monthly to the district
37 levying the tax as part of the regional transportation investment

1 district plan, after the deductions for payments and expenditures as
2 provided in RCW 46.68.090(1) (a) and (b).

3 (8) The proceeds of the additional taxes levied by a district in
4 this section, to be used as a part of a regional transportation
5 investment district plan, must be used in accordance with chapter
6 36.120 RCW, but only for those areas that are considered "highway
7 purposes" as that term is construed in Article II, section 40 of the
8 state Constitution.

9 (9) A district may only levy the tax under this section if the
10 district is comprised of boundaries identical to the boundaries of a
11 county or counties. A district may not levy the tax in this section if
12 a member county is levying the tax in RCW 82.80.010 or 82.80.110.

13 **Sec. 7.** RCW 82.47.010 and 1998 c 176 s 85 are each amended to read
14 as follows:

15 ~~((The definitions set forth in this section shall apply throughout
16 this chapter unless the context clearly requires otherwise.~~

17 ~~(1) "Motor vehicle fuel" has the meaning given in RCW 82.36.010.~~

18 ~~(2) "Special fuel" has the meaning given in RCW 82.38.020.~~

19 ~~(3) "Motor vehicle" has the meaning given in RCW 82.36.010.))~~

20 For purposes of this chapter, unless the context clearly requires
21 otherwise, "fuel," "motor vehicle fuel," "special fuel," and "motor
22 vehicle" have the meaning given in RCW 82.38.020.

23 NEW SECTION. **Sec. 8.** A new section is added to chapter 82.16 RCW
24 to read as follows:

25 (1) The provisions of this chapter do not apply to sales by a gas
26 distribution business of:

27 (a) Compressed natural gas or liquefied natural gas, where the
28 compressed natural gas or liquefied natural gas is to be sold or used
29 as transportation fuel; or

30 (b) Natural gas from which the buyer manufactures compressed
31 natural gas or liquefied natural gas, where the compressed natural gas
32 or liquefied natural gas is to be sold or used as transportation fuel.

33 (2) The exemption is available only when the buyer provides the
34 seller with an exemption certificate in a form and manner prescribed by
35 the department. The seller must retain a copy of the certificate for
36 the seller's files.

1 (3) For the purposes of this section, "transportation fuel" means
2 fuel for the generation of power to propel a motor vehicle as defined
3 in RCW 46.04.320, a vessel as defined in RCW 88.02.310, or a locomotive
4 or railroad car.

5 **Sec. 9.** RCW 46.16A.060 and 2011 c 114 s 6 are each amended to read
6 as follows:

7 (1) The department, county auditor or other agent, or subagent
8 appointed by the director may not issue or renew a motor vehicle
9 registration or change the registered owner of a registered vehicle for
10 any motor vehicle required to be inspected under chapter 70.120 RCW,
11 unless the application for issuance or renewal is: (a) Accompanied by
12 a valid certificate of compliance or a valid certificate of acceptance
13 issued as required under chapter 70.120 RCW; or (b) exempt, as
14 described in subsection (2) of this section. The certificates must
15 have a date of validation that is within twelve months of the assigned
16 registration renewal date. Certificates for fleet or owner tested
17 diesel vehicles may have a date of validation that is within twelve
18 months of the assigned registration renewal date.

19 (2) The following motor vehicles are exempt from emission test
20 requirements:

21 (a) Motor vehicles that are less than five years old or more than
22 twenty-five years old;

23 (b) Motor vehicles that are a 2009 model year or newer;

24 (c) Motor vehicles powered exclusively by electricity, propane,
25 compressed natural gas, liquefied natural gas, or liquid petroleum gas;

26 (d) Motorcycles as defined in RCW 46.04.330 and motor-driven cycles
27 as defined in RCW 46.04.332;

28 (e) Farm vehicles as defined in RCW 46.04.181;

29 (f) Street rod vehicles as defined in RCW 46.04.572 and custom
30 vehicles as defined in RCW 46.04.161;

31 (g) Used vehicles that are offered for sale by a motor vehicle
32 dealer licensed under chapter 46.70 RCW;

33 (h) Classes of motor vehicles exempted by the director of the
34 department of ecology; and

35 (i) Hybrid motor vehicles that obtain a rating by the environmental
36 protection agency of at least fifty miles per gallon of gas during city

1 driving. For purposes of this section, a hybrid motor vehicle is one
2 that uses propulsion units powered by both electricity and gas.

3 (3) The department of ecology (~~shall~~) must provide information to
4 motor vehicle owners:

5 (a) Regarding the boundaries of emission contributing areas and
6 restrictions established under this section that apply to vehicles
7 registered in such areas; and

8 (b) On the relationship between motor vehicles and air pollution
9 and steps motor vehicle owners should take to reduce motor vehicle
10 related air pollution.

11 (4) The department of licensing (~~shall~~) must:

12 (a) Notify all registered motor vehicle owners affected by the
13 emission testing program that they must have an emission test to renew
14 their registration;

15 (b) Adopt rules implementing and enforcing this section, except for
16 subsection (2)(e) of this section, as specified in chapter 34.05 RCW.

17 (5) A motor vehicle may not be registered, leased, rented, or sold
18 for use in the state, starting with the model year as provided in RCW
19 70.120A.010, unless the vehicle:

20 (a) Has seven thousand five hundred miles or more; or

21 (b)(i) Is consistent with the vehicle emission standards and carbon
22 dioxide equivalent emission standards adopted by the department of
23 ecology; and

24 (ii) Has a California certification label for all emission
25 standards, and carbon dioxide equivalent emission standards necessary
26 to meet fleet average requirements.

27 (6) The department of licensing, in consultation with the
28 department of ecology, may adopt rules necessary to implement this
29 section and may provide for reasonable exemptions to these
30 requirements. The department of ecology may exempt public safety
31 vehicles from meeting the standards where the department finds that
32 vehicles necessary to meet the needs of public safety agencies are not
33 otherwise reasonably available.

34 **Sec. 10.** RCW 46.37.467 and 1995 c 369 s 23 are each amended to
35 read as follows:

36 (1) Every automobile, truck, motorcycle, motor home, or off-road
37 vehicle that is fueled by an alternative fuel source (~~shall~~) must

1 bear a reflective placard issued by the national fire protection
2 association indicating that the vehicle is so fueled. Violation of
3 this subsection is a traffic infraction.

4 (2) As used in this section "alternative fuel source" includes
5 propane, compressed natural gas, liquefied natural gas, liquid
6 petroleum gas, or any chemically similar gas but does not include
7 gasoline or diesel fuel.

8 (3) If a placard for a specific alternative fuel source has not
9 been issued by the national fire protection association, a placard
10 issued by the chief of the Washington state patrol, through the
11 director of fire protection, shall be required. The chief of the
12 Washington state patrol, through the director of fire protection,
13 (~~shall~~) must develop rules for the design, size, and placement of the
14 placard which (~~shall~~) remains effective until a specific placard is
15 issued by the national fire protection association.

16 **Sec. 11.** RCW 82.04.310 and 2007 c 58 s 1 are each amended to read
17 as follows:

18 (1) This chapter (~~shall~~) does not apply to any person in respect
19 to a business activity with respect to which tax liability is
20 specifically imposed under the provisions of chapter 82.16 RCW
21 including amounts derived from activities for which a deduction is
22 allowed under RCW 82.16.050. The exemption in this subsection does not
23 apply to sales of natural gas, including compressed natural gas and
24 liquefied natural gas, by a gas distribution business, if such sales
25 are exempt from the tax imposed under chapter 82.16 RCW as provided in
26 section 8 of this act.

27 (2) This chapter does not apply to amounts received by any person
28 for the sale of electrical energy for resale within or outside the
29 state.

30 (3)(a) This chapter does not apply to amounts received by any
31 person for the sale of natural or manufactured gas in a calendar year
32 if that person sells within the United States a total amount of natural
33 or manufactured gas in that calendar year that is no more than twenty
34 percent of the amount of natural or manufactured gas that it consumes
35 within the United States in the same calendar year.

36 (b) For purposes of determining whether a person has sold within
37 the United States a total amount of natural or manufactured gas in a

1 calendar year that is no more than twenty percent of the amount of
2 natural or manufactured gas that it consumes within the United States
3 in the same calendar year, the following transfers of gas are not
4 considered to be the sale of natural or manufactured gas:

5 (i) The transfer of any natural or manufactured gas as a result of
6 the acquisition of another business, through merger or otherwise; or

7 (ii) The transfer of any natural or manufactured gas accomplished
8 solely to comply with federal regulatory requirements imposed on the
9 pipeline transportation of such gas when it is shipped by a third-party
10 manager of a person's pipeline transportation.

11 **Sec. 12.** RCW 82.04.120 and 2011 c 23 s 3 are each amended to read
12 as follows:

13 (1) "To manufacture" embraces all activities of a commercial or
14 industrial nature wherein labor or skill is applied, by hand or
15 machinery, to materials so that as a result thereof a new, different or
16 useful substance or article of tangible personal property is produced
17 for sale or commercial or industrial use, and includes:

18 (a) The production or fabrication of special made or custom made
19 articles;

20 (b) The production or fabrication of dental appliances, devices,
21 restorations, substitutes, or other dental laboratory products by a
22 dental laboratory or dental technician;

23 (c) Cutting, delimiting, and measuring of felled, cut, or taken
24 trees; (~~and~~)

25 (d) Crushing and/or blending of rock, sand, stone, gravel, or ore;
26 and

27 (e) The production of compressed natural gas or liquefied natural
28 gas for use as a transportation fuel as defined in section 8 of this
29 act.

30 (2) "To manufacture" does not include:

31 (a) Conditioning of seed for use in planting; cubing hay or
32 alfalfa;

33 (b) Activities which consist of cutting, grading, or ice glazing
34 seafood which has been cooked, frozen, or canned outside this state;

35 (c) The growing, harvesting, or producing of agricultural products;

36 (d) Packing of agricultural products, including sorting, washing,

1 rinsing, grading, waxing, treating with fungicide, packaging, chilling,
2 or placing in controlled atmospheric storage;

3 (e) The production of digital goods;

4 (f) The production of computer software if the computer software is
5 delivered from the seller to the purchaser by means other than tangible
6 storage media, including the delivery by use of a tangible storage
7 media where the tangible storage media is not physically transferred to
8 the purchaser; and

9 (g) Except as provided in subsection (1)(e) of this section, any
10 activity that is integral to any public service business as defined in
11 RCW 82.16.010 and with respect to which the gross income associated
12 with such activity: (i) Is subject to tax under chapter 82.16 RCW; or
13 (ii) would be subject to tax under chapter 82.16 RCW if such activity
14 were conducted in this state or if not for an exemption or deduction.

15 (3) With respect to wastewater treatment facilities:

16 (a) "To manufacture" does not include the treatment of wastewater,
17 the production of reclaimed water, and the production of class B
18 biosolids; and

19 (b) "To manufacture" does include the production of class A or
20 exceptional quality biosolids, but only with respect to the processing
21 activities that occur after the biosolids have reached class B
22 standards.

23 **Sec. 13.** RCW 82.12.022 and 2011 c 174 s 304 are each amended to
24 read as follows:

25 (1) A use tax is levied on every person in this state for the
26 privilege of using natural gas or manufactured gas, including
27 compressed natural gas and liquefied natural gas, within this state as
28 a consumer.

29 (2) The tax must be levied and collected in an amount equal to the
30 value of the article used by the taxpayer multiplied by the rate in
31 effect for the public utility tax on gas distribution businesses under
32 RCW 82.16.020. The "value of the article used" does not include any
33 amounts that are paid for the hire or use of a gas distribution
34 business as defined in RCW 82.16.010(2) in transporting the gas subject
35 to tax under this subsection if those amounts are subject to tax under
36 that chapter.

1 (3) The tax levied in this section does not apply to the use of
2 natural or manufactured gas delivered to the consumer by other means
3 than through a pipeline.

4 (4) The tax levied in this section does not apply to the use of
5 natural or manufactured gas if the person who sold the gas to the
6 consumer has paid a tax under RCW 82.16.020 with respect to the gas for
7 which exemption is sought under this subsection.

8 (5)(a) The tax levied in this section does not apply to the use of
9 natural or manufactured gas by an aluminum smelter as that term is
10 defined in RCW 82.04.217 before January 1, 2017.

11 (b) A person claiming the exemption provided in this subsection (5)
12 must file a complete annual report with the department under RCW
13 82.32.534.

14 (6) The tax imposed by this section does not apply to the use of
15 natural gas, compressed natural gas, or liquefied natural gas, if the
16 consumer uses the gas for transportation fuel as defined in section 8
17 of this act.

18 (7) There is a credit against the tax levied under this section in
19 an amount equal to any tax paid by:

20 (a) The person who sold the gas to the consumer when that tax is a
21 gross receipts tax similar to that imposed pursuant to RCW 82.16.020 by
22 another state with respect to the gas for which a credit is sought
23 under this subsection; or

24 (b) The person consuming the gas upon which a use tax similar to
25 the tax imposed by this section was paid to another state with respect
26 to the gas for which a credit is sought under this subsection.

27 ((+7)) (8) The use tax imposed in this section must be paid by the
28 consumer to the department.

29 ((+8)) (9) There is imposed a reporting requirement on the person
30 who delivered the gas to the consumer to make a quarterly report to the
31 department. Such report must contain the volume of gas delivered, name
32 of the consumer to whom delivered, and such other information as the
33 department may require by rule.

34 ((+9)) (10) The department may adopt rules under chapter 34.05 RCW
35 for the administration and enforcement of sections 1 through 6, chapter
36 384, Laws of 1989.

1 **Sec. 14.** RCW 82.14.230 and 2010 c 127 s 5 are each amended to read
2 as follows:

3 (1) The governing body of any city, while not required by
4 legislative mandate to do so, may, by resolution or ordinance for the
5 purposes authorized by this chapter, fix and impose on every person a
6 use tax for the privilege of using natural gas or manufactured gas in
7 the city as a consumer.

8 (2) The tax is imposed in an amount equal to the value of the
9 article used by the taxpayer multiplied by the rate in effect for the
10 tax on natural gas businesses under RCW 35.21.870 in the city in which
11 the article is used. The "value of the article used," does not include
12 any amounts that are paid for the hire or use of a natural gas business
13 in transporting the gas subject to tax under this subsection if those
14 amounts are subject to tax under RCW 35.21.870.

15 (3) The tax imposed under this section does not apply to the use of
16 natural or manufactured gas if the person who sold the gas to the
17 consumer has paid a tax under RCW 35.21.870 with respect to the gas for
18 which exemption is sought under this subsection.

19 (4) There is a credit against the tax levied under this section in
20 an amount equal to any tax paid by:

21 (a) The person who sold the gas to the consumer when that tax is a
22 gross receipts tax similar to that imposed pursuant to RCW 35.21.870 by
23 another municipality or other unit of local government with respect to
24 the gas for which a credit is sought under this subsection; or

25 (b) The person consuming the gas upon which a use tax similar to
26 the tax imposed by this section was paid to another municipality or
27 other unit of local government with respect to the gas for which a
28 credit is sought under this subsection.

29 (5) The use tax imposed must be paid by the consumer. The
30 administration and collection of the tax imposed is pursuant to RCW
31 82.14.050.

32 (6) The tax authorized by this section does not apply to the use of
33 natural gas, compressed natural gas, or liquefied natural gas, if the
34 consumer uses the gas for transportation fuel as defined in section 8
35 of this act.

36 **Sec. 15.** RCW 35.21.870 and 1984 c 225 s 6 are each amended to read
37 as follows:

1 (1) No city or town may impose a tax on the privilege of conducting
2 an electrical energy, natural gas, steam energy, or telephone business
3 at a rate which exceeds six percent unless the rate is first approved
4 by a majority of the voters of the city or town voting on such a
5 proposition.

6 (2)(a) If a city or town is imposing a rate of tax under subsection
7 (1) of this section in excess of six percent on April 20, 1982, the
8 city or town shall decrease the rate to a rate of six percent or less
9 by reducing the rate each year on or before November 1st by ordinances
10 to be effective on January 1st of the succeeding year, by an amount
11 equal to one-tenth the difference between the tax rate on April 20,
12 1982, and six percent.

13 (b) Nothing in this subsection prohibits a city or town from
14 reducing its rates by amounts greater than the amounts required in this
15 subsection.

16 (3) Voter approved rate increases under subsection (1) of this
17 section (~~shall~~) may not be included in the computations under this
18 subsection.

19 (4) No city or town may impose a tax on the privilege of conducting
20 a natural gas business with respect to sales that are exempt from the
21 tax imposed under chapter 82.16 RCW as provided in section 8 of this
22 act at a rate higher than its business and occupation tax rate on the
23 sale of tangible personal property or, if the city or town does not
24 impose a business and occupation tax on the sale of tangible personal
25 property, at a rate greater than .002.

26 **Sec. 16.** RCW 82.14.030 and 2008 c 86 s 101 are each amended to
27 read as follows:

28 (1) The governing body of any county or city, while not required by
29 legislative mandate to do so, may, by resolution or ordinance for the
30 purposes authorized by this chapter, impose a sales and use tax in
31 accordance with the terms of this chapter. Such tax (~~shall~~) must be
32 collected from those persons who are taxable by the state under
33 chapters 82.08 and 82.12 RCW, upon the occurrence of any taxable event
34 within the county or city as the case may be. (~~Except as provided in~~
35 ~~RCW 82.14.230,~~) This sales and use tax (~~shall~~) does not apply to
36 natural or manufactured gas, except for natural gas that is used as a
37 transportation fuel as defined in section 8 of this act. The rate of

1 such tax imposed by a county (~~shall be~~) is five-tenths of one percent
2 of the selling price (in the case of a sales tax) or value of the
3 article used (in the case of a use tax). The rate of such tax imposed
4 by a city (~~shall~~) may not exceed five-tenths of one percent of the
5 selling price (in the case of a sales tax) or value of the article used
6 (in the case of a use tax). However, in the event a county imposes a
7 sales and use tax under this subsection, the rate of such tax imposed
8 under this subsection by any city therein (~~shall~~) may not exceed four
9 hundred and twenty-five one-thousandths of one percent.

10 (2) In addition to the tax authorized in subsection (1) of this
11 section, the governing body of any county or city may by resolution or
12 ordinance impose an additional sales and use tax in accordance with the
13 terms of this chapter. Such additional tax (~~shall~~) must be collected
14 upon the same taxable events upon which the tax imposed under
15 subsection (1) of this section is imposed. The rate of such additional
16 tax imposed by a county (~~shall be~~) is up to five-tenths of one
17 percent of the selling price (in the case of a sales tax) or value of
18 the article used (in the case of a use tax). The rate of such
19 additional tax imposed by a city (~~shall be~~) is up to five-tenths of
20 one percent of the selling price (in the case of a sales tax) or value
21 of the article used (in the case of a use tax). However, in the event
22 a county imposes a sales and use tax under the authority of this
23 subsection at a rate equal to or greater than the rate imposed under
24 the authority of this subsection by a city within the county, the
25 county (~~shall~~) must receive fifteen percent of the city tax. In the
26 event that the county imposes a sales and use tax under the authority
27 of this subsection at a rate which is less than the rate imposed under
28 this subsection by a city within the county, the county shall receive
29 that amount of revenues from the city tax equal to fifteen percent of
30 the rate of tax imposed by the county under the authority of this
31 subsection. The authority to impose a tax under this subsection is
32 intended in part to compensate local government for any losses from the
33 phase-out of the property tax on business inventories.

34 NEW SECTION. **Sec. 17.** The department of licensing must convene a
35 work group that includes, at a minimum, representatives from the
36 department of transportation, the trucking industry, manufacturers of

1 compressed natural gas and liquefied natural gas, and any other
2 stakeholders as deemed necessary, for the following purposes:

3 (1) To evaluate the annual license fee in lieu of fuel tax under
4 RCW 82.38.075 to determine a fee that more closely represents the
5 average consumption of vehicles by weight and to make recommendations
6 to the transportation committees of the legislature by December 1,
7 2014, on an updated fee schedule.

8 (2) To develop a transition plan to move vehicles powered by
9 liquefied natural gas, compressed natural gas, and propane from the
10 annual license fee in lieu of fuel tax to the fuel tax under RCW
11 82.38.030. The transition plan must incorporate stakeholder feedback
12 and must include draft legislation and cost and revenue estimates. The
13 transition plan must be submitted to the transportation committees of
14 the legislature by December 1, 2015.

15 NEW SECTION. **Sec. 18.** This act is not subject to RCW 82.32.805
16 and 82.32.808.

17 NEW SECTION. **Sec. 19.** Sections 2 through 16 and 18 of this act
18 take effect July 1, 2015.

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