

FINAL BILL REPORT

2ESHB 2778

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Synopsis as Enacted

Brief Description: Modifying retail sales and use tax exemption criteria for certain clean alternative fuel vehicles.

Sponsors: House Committee on Transportation (originally sponsored by Representatives Fey, Orcutt, Clibborn, McBride, Moscoso, Hickel, Stambaugh, Bergquist, Tharinger and Tarleton).

House Committee on Transportation
Senate Committee on Transportation

Background:

Retail Sales and Use Taxes.

A "retail sale" is defined as any sale, lease, or rental for any purpose other than for resale, sublease, or subrent. With respect to tangible personal property, "use" is defined as the first act within the state by which the taxpayer takes or assumes dominion or control over the article of tangible personal property (as a consumer) and includes installation, storage, withdrawal from storage, distribution, or any other act preparatory to subsequent actual use or consumption within the state. The retail sales and use tax rate levied by the state is 6.5 percent.

Tax Exemption Qualifications.

As of July 15, 2015, a retail sales and use tax exemption is provided for new passenger cars, light duty trucks, and medium duty passenger vehicles that (1) have a selling price plus trade-in property value or that have a fair market value of \$35,000 or less and (2) are either exclusively powered by a clean alternative fuel or use at least one method of propulsion that is capable of being reenergized by an external source of electricity and are capable of traveling at least 30 miles using only battery power. Typical applications of this exemption are for electric vehicles and plug-in hybrid vehicles.

Qualification Expiration.

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

To qualify for this exemption, a vehicle must be purchased or the lease agreement signed prior to July 1, 2019.

Earlier Exemptions.

Prior to July 1, 2015, a retail sales and use tax exemption was available for new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel for the full selling price or fair market value of the vehicle; this earlier exemption remains applicable to leases with lease agreements that were signed before July 1, 2015. This prior exemption took effect in 2005.

Account Transfer.

At the end of each quarter, the State Treasurer is required to transfer from the Multimodal Transportation Account to the General Fund the amount that would otherwise have been deposited into the General Fund if not for this tax exemption.

Tax Preference Performance Statement.

A tax preference performance statement for the clean alternative fuel and electrically powered vehicle tax exemption is included as required by law. The public policy objective of this exemption is to increase the use of clean alternative fuel and electrically powered vehicles in Washington. The Joint Legislative and Audit Review Committee must periodically evaluate the number of these vehicles titled in the state.

Summary:

Tax Exemption Qualification.

The retail sales and use tax exemption is modified for certain clean alternative fuel and electrically powered vehicles by increasing the tax exemption threshold to a vehicle's base model Manufacturer's Suggested Retail Price (MSRP) of \$42,500 or less. Tax exemption eligibility is capped at \$32,000 per eligible vehicle.

The Department of Licensing (DOL) is required to maintain a list of the models that may qualify for this exemption and to determine the lowest MSRP for each model for the purpose of establishing whether the model qualifies for the exemption based on its MSRP. The DOL must also determine the cumulative number of qualifying vehicles titled in Washington on or after July 15, 2015, and provide this information to the Department of Revenue (DOR) by the end of the fifth working day of each month.

Qualification Expiration.

To qualify for this exemption, a vehicle must be purchased or the lease agreement signed by the end of the month following the month in which the DOL determines that 7,500 vehicles eligible for the exemption have been titled in the state since July 15, 2015, and in which the DOL provides notification of this fact to the DOR. The DOR must post notice of the expiration date of the exemption on its website as soon as can practically be done after

receiving notification from the DOL. If 7,500 qualifying vehicles have not been titled by June 30, 2019, no additional vehicles will be permitted to qualify after that date.

Leased vehicles that qualified for the exemption before its expiration will continue to receive the tax exemption for all lease payments due through the life of the lease.

Earlier Exemptions.

The complete retail sales and use tax exemption for lease agreements for applicable vehicles signed prior to July 1, 2015, remains in place. Lease agreements for applicable vehicles signed on or after July 15, 2015, and before July 1, 2016, are eligible for the exemption in place at the time the lease agreement was signed, *i.e.*, are eligible for an exemption if they have an adjusted fair market value of \$35,000 or less.

Reporting Requirement.

Beginning on the last day of July 2016 and every six months thereafter, the DOR must report to the transportation committees of the Legislature the number of vehicles eligible for the exemption that have been titled in the state and the amount of state retail sales and use taxes exempted.

Tax Preference Performance Statement.

A tax preference performance statement is included as required by law. The public policy objective of this exemption is to increase the use of clean alternative fuel and electrically powered vehicles in Washington. The Joint Legislative and Audit Review Committee must periodically evaluate the number of these vehicles titled in the state.

Votes on Final Passage:

House 65 32

First Special Session

House 66 29

Senate 28 15

Effective: July 1, 2016