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## Finance Committee

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### HB 1769

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

**Sponsors:** Representatives Springer and Low.

**Brief Summary of Bill**

- Provides that the sale of an abandoned vehicle is not taxed as the sale of towing and storage services.
- Imposes the wholesaling business and occupation (B&O) tax, when a business purchases an abandoned vehicle at wholesale.
- Applies retail sales tax, the motor vehicle sales tax, and the retailing B&O tax for a consumer purchase of an abandoned vehicle.

**Hearing Date:** 2/20/25

**Staff:** Tracey Taylor (786-7152).

**Background:**

Retail Sales and Use Tax.

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 are not collected when the user acquires the property, digital product, or service, then use tax applies to the value of property, digital product, or service when used in this state.

The state, all counties, and all cities 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 4.1 percent, depending

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on the location.

### Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Businesses must pay the B&O tax even though they may not have any profits or may be operating at a loss.

A taxpayer may have more than one B&O tax rate, depending on the types of activities conducted. Major B&O tax rates are 0.471 percent for retailing; 0.484 percent for manufacturing and wholesaling; and 1.5 percent (businesses with taxable income of less than \$1 million) or 1.75 percent (businesses with taxable income of \$1 million or more) for services and for activities not classified elsewhere. There are many specialized B&O tax rates and preferential rates that apply to specific business activities.

In addition, a taxpayer may be eligible to utilize other tax preferences, including credits and deductions, to reduce their tax liability. For example, a taxpayer engaging in activities subject to different B&O tax rates may be eligible for a Multiple Activities Tax Credit. A taxpayer may also be eligible for a small business credit that will either eliminate or reduce their B&O tax liability. The credit is \$160 per month for taxpayers that report at least 50 percent or greater of their total B&O taxable amount under service and other activities, real estate brokers, and contests of chance and \$55 per month for all other businesses, multiplied by the number of months in the reporting period. The amount of the credit available phases out based on the business's gross receipts.

A business does not have to file an annual B&O tax return if the business does not owe other taxes or fees to the Department of Revenue and has annual gross proceeds of sales, gross income, or value of products for all B&O tax classifications of less than \$125,000 per year.

### Abandoned Vehicles Sold at Public Auction.

Impounds, or the taking and holding of a vehicle in legal custody without the consent of the owner, may only be performed by registered tow truck operators (RTTOs). When a vehicle is impounded, an RTTO must send an impound notice to the legal owner, based on information received from law enforcement.

After a vehicle is held in impound for more than 120 hours it is considered abandoned, and an RTTO must file an abandoned vehicle report (AVR) with the Department of Licensing (DOL). In response to the AVR, DOL provides information to the RTTO regarding the owner of the vehicle, and the RTTO must send, by certified mail, a notice of custody and sale to the owner. If the vehicle remains unclaimed, the RTTO must conduct a sale at public auction. Vehicles may be claimed by their legal owners any time before the start of the auction, upon payment of towing and storage charges.

RTTOs collect towing and storage charges on abandoned vehicles via a lien against the sale of

the vehicle at auction. If the vehicle sale proceeds are less than the lien, the remaining charges owed to the RTTO are sent to a collection agency for recovery of the deficient claim. Retail sales and use tax and retailing B&O tax does not apply to an abandoned vehicle sold by an RTTO to a successful bidder at public auction, or, if there is no successful bidder, to a licensed vehicle wrecker, hulk hauler, or scrap processor. The exemption does not apply to use taxes that may be imposed on an abandoned vehicle by any consumer or any other applicable taxes imposed on automobile towing and storage services provided by an RTTO. These exemptions expire January 1, 2030.

Tax Preference Performance Statement.

Tax preferences confer reduced tax liability upon a designated class of taxpayers. These include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. There are over 700 tax preferences. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement (TPPS) that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee (JLARC) can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after 10 years unless an alternative expiration date is provided.

**Summary of Bill:**

The definition of "sale" for B&O and sales and use tax purposes is changed to include the sale of an abandoned vehicle. When a business purchases an abandoned vehicle at wholesale, the wholesaling B&O rate will apply. An RTTO may deduct any surplus funds from the taxable amount. The gross proceeds of an abandoned vehicle are not taxed as a sale of towing and storage services.

When a consumer purchases an abandoned vehicle, retail sales tax, the motor vehicle sales tax, and the retailing B&O tax will apply.

The legislature finds that licensed auto wreckers, scrap processors, and hulk haulers generally make wholesale purchases of abandoned vehicles from RTTOs and would not owe sales tax, notwithstanding the act, and it is not the intent of the Legislature to change this tax treatment.

The act is exempt from the requirements of the TPPS, a JLARC review and the automatic 10-year expiration.

The previous expiration dates for the underlying statute are repealed.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2026.