
**Technology, Energy &
Communications Committee**

HB 1647

Brief Description: Providing incentives for hydrogen and the alternative fuels marketplace.

Sponsors: Representatives B. Sullivan, Morris, Chase, Williams, Sells, Linville and Simpson.

Brief Summary of Bill

- Provides tax incentives for alternative fuel vehicles, alternative fuel vehicle fueling or refueling equipment, and alternative fuel.

Hearing Date: 2/15/05

Staff: Sarah Dylag (786-7109).

Background:

Alternative Fuel Vehicles

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.

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 Tax

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.

Summary of Bill:

Business and Occupation Tax Credits

Alternative Fuel Vehicles

Beginning on July 1, 2005, 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 period of least three years. A new alternative fuel vehicle is defined as a motor vehicle that operates exclusively on natural gas, hydrogen, a blend of hydrogen and natural gas, or is powered by fuel cells.

The amount of the credit is based on the vehicle tonnage. If the vehicle is less than 10,000 pounds, the credit is 30 percent of the cost or \$5,000, whichever is less. If the vehicle is greater than 10,000 pounds, the credit is 30 percent of the cost or \$25,000, whichever is less.

The credit is capped at \$500,000. 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 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Conversion Costs

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation for conversion costs to modify motor vehicles to use natural gas, hydrogen, a blend of natural gas and hydrogen, liquefied petroleum gas, or electricity. The credit is provided if the vehicles are exclusively used in business operations and if the conversion is performed on a vehicle or engine for which a United States Environmental Protection Agency certificate of conformity or a certificate from the California Air Resources Board has been issued.

The amount of the credit is based on the vehicle tonnage. If the vehicle is less than 10,000 pounds, the credit is 80 percent of the conversion cost or \$5,000, whichever is less. If the vehicle is greater than 10,000 pounds, the credit is 80 percent of the conversion cost or \$25,000, whichever is less.

The credit is capped at \$250,000. 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 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Fueling Machinery and Equipment

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation for machinery or equipment used directly for dispensing natural gas, hydrogen, a blend of natural

gas and hydrogen, or electricity into a motor vehicle. Credit is also provided for services rendered in respect to construct, install, repair, clean, decorate, alter, or improve the machinery and equipment and for tangible personal property that becomes an ingredient or component of the machinery and equipment.

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. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Fuel

Beginning on July 1, 2005, a tax credit may be taken by a business against its B&O tax obligation equal to 10 cents per gallon of natural gas, hydrogen, a blend of natural gas and hydrogen, biodiesel fuel, or alcohol fuel used in motor vehicles used exclusively in business operations. Where a blend of biodiesel fuel and petroleum diesel fuel is used, only the biodiesel fuel portion of the blend shall be eligible for credit. The credit is capped at \$200,000. Unused credit may be carried over from year to year. No credit may be claimed for expenditures occurring after January 1, 2015 or after January 1 of the year following the first calendar year in which there are 10 alternative fuel retail motor vehicle refueling facilities constructed after the effective date of the act, whichever is earlier.

Business and Occupation Tax Deduction

In computing B&O tax obligation, a deduction is provided for retail sale of natural gas, hydrogen, or blend of natural gas and hydrogen for use in a motor vehicle.

Retail Sales and Use Tax Exemption

A retail sales and use tax exemption applies to sales of natural gas vehicle fueling or refueling appliances and associated accessories, or to services rendered in installing the appliances and accessories.

Appropriation: None.

Fiscal Note: Requested on February 18, 2005.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2005.