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**Finance Committee**

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**HB 1441**

**Brief Description:** Exempting high gas mileage vehicles from sales and use tax.

**Sponsors:** Representatives Linville, Chase, Nixon, Sullivan, Anderson, Wood and Morrell.

**Brief Summary of Bill**

- Exempts the purchase or acquisition of a new motor vehicle from retail sales and use taxes, if the purchase or acquisition takes place at a dealership within the state, and if the vehicle's average gas mileage is at least twice the national average.

**Hearing Date:** 2/4/03

**Staff:** Mark Matteson (786-7145).

**Background:**

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent. As of December 2002, local rates levied range from 0.5 percent to 2.4 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state that were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Retail sales and use taxes apply to everything within the tax base that is not specifically exempt. A requirement for some exemptions is that the buyer present the seller with an affidavit or certificate demonstrating proof that the buyer is eligible for the exemption.

Purchases of motor vehicles, which include cars, light trucks, motorcycles, and other vehicles that are self-propelled, are subject to the retail sales and use taxes. Vehicle dealers are required to record and maintain for at least five years certain information pertaining to the purchase. This record includes information pertaining to the license and title, purchaser, vehicle, dealer, and the transaction.

The Federal Environmental Protection Agency publishes annually the fuel efficiencies of new passenger vehicles in a guide called the *Fuel Economy Guide*. The data within the guide is oriented toward consumers, and is distinct from the Corporate Average Fuel Economy (CAFE) values. The CAFE values are required by federal law and are used to determine whether manufacturers meet fuel economy standards, and are calculated by a separate method than that used for fuel efficiencies of new passenger vehicles. For calendar 2001, the national average fuel economy for new passenger cars was 24.2 miles per gallon. There are two passenger cars for which the fuel economy is more than twice this level: the Honda Insight and the Toyota Prius. In addition, many motorcycles and scooters also have fuel economies that are at least twice the national average.

**Summary of Bill:**

Purchases and acquisitions of new motor vehicles, if the purchase or acquisition occurs at the dealer's place of business within Washington State, are exempt from retail sales and use taxes, if they meet certain fuel economy requirements. To be eligible, the vehicle must have an average gas mileage that is at least twice the national average gas mileage for passenger cars, as last determined by the Environmental Protection Agency. New motor vehicles that are potentially eligible include cars, trucks, motorcycles, and other self-propelled vehicles.

In addition to the purchase transaction information that a vehicle dealer is required to maintain, the Department of Revenue may require dealers to record and maintain information that would verify eligibility of the purchaser for the purposes of the exemption. In lieu of requiring the dealer to maintain such additional information, the department may require a dealer to submit verification information at the time that the dealer remits sales tax collections to the department.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect ninety days after adjournment of session in which bill is passed.