
**Technology, Telecommunications
& Energy Committee**

HB 2823

Brief Description: Providing incentives to reduce air pollution and improve energy security through the use of alternative fuel vehicles.

Sponsors: Representatives Sullivan, Cooper, Hunt, Upthegrove, Linville, Murray, Simpson, G., Chase and Kagi.

Brief Summary of Bill

- Provides tax incentives to encourage the use of alternative fuel vehicles and electric powered vehicles.

Hearing Date: 1/30/04

Staff: Pam Madson (786-7166).

Background:

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. To encourage the use of nonpolluting fuels, Washington provides an alternate fee schedule for natural gas or propane in lieu of the special fuel tax, based on the gross tonnage of the vehicle. The annual fee schedule ranges from \$45 to \$250 and is adjusted based on changes in the motor vehicle fuel tax rate which is currently \$.28 per gallon for liquid fuel or per cubic feet for gaseous fuel.

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 Taxes. 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:

Tax incentives are provided to encourage the use of alternative fuel vehicles and electric vehicles.

Beginning on the effective date of this act, 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 minimum period of three years by the business. The amount of the credit is 30 percent of the cost of an alternative fuel vehicle, or \$5,000, whichever is less, for vehicles under 10,000 pounds. For vehicles 10,000 pounds or more, the credit is 30 percent of the cost of the vehicle or \$25,000, whichever is less. Alternative fuel vehicles for purposes of this credit are vehicles that operate exclusively on natural gas, propane, hydrogen, electricity or are powered by fuel cells.

The credit is capped at \$500,000 per individual taxpayer claiming the credit. 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.

Beginning on the effective date of this act, a tax credit may be taken by a business against its B&O tax obligation for costs to acquire and install alternative fuel and electric vehicle recharging equipment. Alternative fuel includes natural gas propane and hydrogen. No credit may be taken for expenditures occurring after January 1, 2015.

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 per individual taxpayer claiming the credit.

A sales and use tax exemption is allowed for machinery, equipment, and services used in the retail sale of natural gas, propane, hydrogen vehicle fuels, or a blend of natural gas and hydrogen fuel, and for the recharging of electric vehicles.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect on July 1, 2004.