FINAL BILL REPORT
ESSB 6440

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Synopsis as Enacted

Brief Description: Concerning compressed natural gas and liquefied natural gas used for transportation purposes.

Sponsors: Senate Committee on Transportation (originally sponsored by Senators King, Eide and Kline).

Senate Committee on Transportation
House Committee on Finance

Background: Transportation Taxes and Fees. Under current law there is a motor vehicle fuel tax of $0.375 per gallon imposed on motor vehicle fuel and special fuel. In order to encourage the use of nonpolluting fuels, there is an annual license fee in lieu of the motor vehicle fuel tax on vehicles powered by natural gas and propane. The annual license fee in lieu of motor vehicle fuel tax is based on the weight of the vehicle and the current motor fuel tax rate, which is currently between $140.00 and $781.25 plus a $5 handling fee.

Public Utility Tax (PUT). Income from utility operations is taxed under the PUT and is in lieu of the business and occupation (B&O) tax. Different rates apply depending upon the specific utility activity. The current rate, including permanent surtaxes, for the distribution of natural gas is 3.852 percent. Additionally, cities are authorized to impose PUT at a rate of 6 percent.

Business and Occupation (B&O) Tax. There is a B&O tax on certain business activities, including manufacturing, retailing, or wholesaling. A B&O tax is imposed on manufacturing businesses equal to 0.484 percent of the gross income of the business. A city may also impose a B&O tax, which is generally capped at 0.2 percent of gross income.

Sales and Use Tax. Machinery and equipment used by a manufacturer as part of a manufacturing activity is exempt from state and local sales and use taxes.

Brokered Natural Gas Use Tax. The state imposes a use tax on the privilege of using certain items in the state not otherwise subject to state sales tax. A specific use tax applies to the use of natural gas at a rate equal to the PUT. Cities and counties may also impose a use tax on the use of certain items, including natural gas. A use tax imposed by a local jurisdiction on natural gas is equal to the local PUT imposed within the jurisdiction.

Summary: Transportation Taxes and Fees. The annual license fee in lieu of the motor vehicle fuel tax is clarified to include vehicles that are powered by liquefied natural gas and compressed natural gas. Additionally, vehicles that are registered as part of the international registration plan would be subject to a prorated share of the annual license fee in lieu of the motor vehicle fuel tax.

Other State and Local Taxes. The compression or liquefaction of natural gas by a gas distribution business that is used as transportation fuel is considered a manufacturing activity. Liquefied natural gas and compressed natural gas that are manufactured, sold, or used as transportation fuel by a gas distribution business are exempt from state and local PUTs and instead are subject to fuel taxes if it is used in a motor vehicle, or state and local sales and use taxes otherwise. The gross receipts of a gas distribution business that are exempt from the PUT are subject to the state B&O tax at the manufacturing rate of 0.484 percent and local B&O taxes of up to 0.2 percent.

The existing sales and use tax exemption that a gas distribution business is eligible for on machinery and equipment that is used in the production of compressed natural gas and liquefied natural gas for transportation purposes is changed to a refund. A gas distribution business may not apply for the refund until July 1, 2017, at which time they would be eligible for a refund for the prior two years. After that time the gas distribution business may apply for refunds quarterly. The refund is available to gas distribution businesses until July 1, 2028, after which time they are not eligible for a refund or an exemption.

The state and local brokered natural gas use tax does not apply where a consumer uses the gas as a transportation fuel.

The existing export exemptions from fuel tax and sales tax on liquefied natural gas and compressed natural gas for private and common carriers that operate by water in interstate or foreign commerce is limited to 90 percent of the fuel that is transported or consumed out of state. Proceeds from the additional revenue derived from the narrowed export exemption are transferred from the General Fund-State to the Motor Vehicle Fund and used to support Washington State Ferries and other state highway system needs.

The provisions of the act are identified as a tax preference with the following public policy objectives:

- promoting job creation and positive economic development;
- lowering carbon dioxide, sulfur dioxide, nitrogen dioxide, and particulate emissions; and
- securing optimal liquefied natural gas pricing for the Washington State ferry system and other public entities.

Utility Companies. A gas distribution business that serves both private and public customers operating marine vessels must provide liquefied natural gas to the Washington State ferry system and other public customers at a rate that is not higher than the rate that is charged to the private customer.

Other Provisions. The Department of Licensing must convene a stakeholder workgroup of industry stakeholders and other stakeholders as deemed necessary to:

- evaluate the existing annual license fee in lieu of fuel tax to determine a fee that more closely represents the average consumption of vehicles by weight and to make recommendations to the transportation committees of the Legislature by December 1, 2014, on an updated fee schedule; and
- develop a transition plan to move vehicles powered by liquefied natural gas and compressed natural gas from the annual license fee in lieu of fuel tax to the fuel tax. The transition plan must incorporate stakeholder feedback and must include draft legislation and cost and revenue estimates. The transition plan must be submitted to the transportation committees of the Legislature by December 1, 2015.

The Department of Revenue must convene a stakeholder workgroup to examine the appropriate level and manner of taxing liquefied natural gas used for marine vessel transportation and report back to the Legislature by December 1, 2025.

Vehicles powered by liquefied natural gas are added to the list of vehicles that are exempt from motor vehicle emission control inspections.

Transportation fuels include fuels used in motor vehicles, vessels, locomotives, and railroad cars.

Votes on Final Passage:

Senate	40	7	
House	87	11	(House amended)
Senate	43	6	(Senate concurred)

Effective: July 1, 2015