

# HOUSE BILL REPORT

## HB 1892

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### As Reported by House Committee On: Transportation

**Title:** An act relating to repealing the deduction for handling losses of motor vehicle fuel.

**Brief Description:** Repealing the deduction for handling losses of motor vehicle fuel.

**Sponsors:** Representatives Fey, Clibborn, Farrell, Moscoso, Tarleton, Ormsby and Bergquist.

#### **Brief History:**

##### **Committee Activity:**

Transportation: 2/16/15, 2/25/15 [DPS].

#### **Brief Summary of Substitute Bill**

- Repeals the handling loss deduction from the motor vehicle fuel tax.

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### HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Clibborn, Chair; Farrell, Vice Chair; Fey, Vice Chair; Moscoso, Vice Chair; Bergquist, Gregerson, McBride, Moeller, Morris, Ortiz-Self, Riccelli, Sells, Takko and Tarleton.

**Minority Report:** Do not pass. Signed by 11 members: Representatives Orcutt, Ranking Minority Member; Hargrove, Assistant Ranking Minority Member; Harmsworth, Hayes, Kochmar, Pike, Rodne, Shea, Wilson, Young and Zeiger.

**Staff:** Jerry Long (786-7306).

#### **Background:**

The motor vehicle fuel tax was established in 1921. Licensed fuel suppliers, distributors, and importers are allowed a handling loss deduction on motor vehicle fuel, but not on special fuels such as diesel. The deductions are as follows: 0.25 percent for a motor vehicle fuel supplier acting as a distributor; and 0.30 percent for all other licensees.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

For licensees required to file tax reports, the handling loss deduction is required to be reported on tax reports filed with the Department of Licensing. For motor vehicle fuel distributors, the handling loss deduction is required to be shown on the invoice provided to the motor vehicle fuel distributor by the seller.

Beginning in 1939 fuel distributors could deduct 1 percent of the volume of motor vehicle fuel before computing the fuel tax to be remitted to the state. Originally, this was to account for losses the distributors sustained through evaporation and handling. In 1951 the Legislature reduced the handling loss deduction to 0.25 percent and deleted the term evaporation from the statute, leaving handling losses as the rationale for the deduction. In 1999 the point of taxation changed from the distributor level to the terminal rack. That legislation maintained the handling loss deduction for suppliers acting as distributors at 0.25 percent and increased the handling loss deduction for distributors and importers to 0.30 percent.

In 2008 the Joint Legislative Audit and Review Committee (JLARC) reviewed this exemption (JLARC Report 09-4: 2008 Expedited Tax Preference Performance Reviews) and recommended that the Legislature terminate the motor fuel handling loss deduction. Their recommendation was based on today's Department of Ecology (DOE) regulations concerning the methods and equipment used in the distribution of fuel, which are stricter than they were in 1939 or 1951. In Washington, gasoline vapor emissions are regulated by either the DOE or one of seven clean air agencies through gas station inspections.

In January 2015 the JLARC issued a report which addressed gasoline vapors that escape when fueling motor vehicles. There are now three types of vapor recovery systems used to minimize vapor emissions during the transfer of gasoline at a gas station. A Stage 1 vapor recovery system is used during the transfer of gasoline from a tanker to a gasoline station's underground storage tank. A Stage 2 system captures vapors while refueling a vehicle. Like Stage 2 systems, motor vehicle manufacturers have been installing Onboard Refueling Vapor Recovery (ORVR) systems that also capture vapors during the refueling of vehicles. These systems are installed inside the motor vehicle's fuel tank. The ORVR systems were phased in starting in 1998 and, by 2006, 99 percent of all new vehicles were equipped with the ORVR systems.

There are 85 licensed fuel suppliers, 53 licensed fuel importers, and 77 licensed fuel distributors.

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### **Summary of Substitute Bill:**

The handling loss deduction from the motor vehicle fuel tax is repealed.

The substitute bill provides the technical provision that if either House Bill 1993 or Senate Bill 5297 is enacted, which would postpone the consolidation of the fuel tax statutes (Substitute House Bill 1883) enacted in 2013 from July 1, 2015, to July 1, 2016, then the appropriate fuel tax handling loss statute would be repealed based on either scenario.

**Substitute Bill Compared to Original Bill:**

The substitute bill provides the technical provision that if either House Bill 1993 or Senate Bill 5297 is enacted, which would postpone the consolidation of the fuel tax statutes (Substitute House Bill 1883) enacted in 2013 from July 1, 2015, to July 1, 2016, then the appropriate fuel tax handling loss statute would be repealed based on either scenario.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect on August 1, 2015, except section 2, relating to motor vehicle fuel handling losses, which contains a contingency clause and takes effect only if either House Bill 1993 or Senate Bill 5297 is enacted by June 30, 2015.

**Staff Summary of Public Testimony:**

(In support) This has been a reoccurring bill. There are adequate laws on the books to protect the environment with today's vapor and emission technology. The handling loss allowance has no benefits to distributors with the new fuel delivery technologies in place. This has a positive impact to the Transportation Budget. There is Stage 1 containment when the tanker places the load of fuel into the tank and with the new vapor systems built into the cars now for vapor containment and emissions. The DOE is also looking at discontinuing Stage 2 requirements between the vehicle and the gas pump with the new technology in the vehicles. It has made those requirements obsolete.

(Opposed) None.

**Persons Testifying:** Representative Fey, prime sponsor.

**Persons Signed In To Testify But Not Testifying:** None.