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## Transportation Committee

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### HB 2613

**Brief Description:** Modifying retail sale and use tax exemptions for certain clean alternative fuel and electrically powered vehicles.

**Sponsors:** Representatives Condotta, Reykdal, Manweller, Fitzgibbon, Muri, MacEwen, Magendanz, Stokesbary and Haler.

#### Brief Summary of Bill

- Modifies eligibility for the retail sales and use tax exemption for certain clean alternative fuel vehicles by extending it to all qualifying vehicles irrespective of their sales price or fair market value.
- Limits the retail sales and use tax exemption for qualifying vehicles to the first \$35,000 of the selling price or fair market value of these vehicles.

**Hearing Date:** 2/1/16

**Staff:** Jennifer Harris (786-7143).

#### **Background:**

##### Retail Sales and Use Taxes.

A "retail sale" is defined as any sale, lease, or rental for any purpose other than for resale, sublease, or subrent. With respect to tangible personal property, "use" is defined as the first act within the state by which the taxpayer takes or assumes dominion or control over the article of tangible personal property (as a consumer) and includes installation, storage, withdrawal from storage, distribution, or any other act preparatory to subsequent actual use or consumption within the state. The current retail sales and use tax rate levied by the state is 6.5 percent.

##### Tax Exemption.

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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.*

As of July 15, 2015, a retail sales and use tax exemption is provided for new passenger cars, light duty trucks, and medium duty passenger vehicles that: (1) have a selling price plus trade-in property value or that have a fair market value of \$35,000 or less, and (2) are either exclusively powered by a clean alternative fuel or use at least one method of propulsion that is capable of being reenergized by an external source of electricity and are capable of traveling at least 30 miles using only battery power. Typical applications of this exemption are for electric vehicles and plug-in hybrid vehicles. The tax exemption threshold is not lowered for vehicles purchased or leased when a vehicle is traded in to offset the purchasing cost or lease payments. This exemption expires July 1, 2019.

Prior to July 1, 2015, a retail sales and use tax exemption was available for new passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel for the full selling price or fair market value of the vehicle; this earlier exemption remains applicable to leases with lease agreements that were signed before July 1, 2015. This prior exemption took effect in 2005.

#### Account Transfer.

At the end of each quarter, the State Treasurer is required to transfer from the Multimodal Transportation Account to the General Fund the amount that would otherwise have been deposited into the General Fund if not for this tax exemption.

#### Alternative Fuel Vehicles.

As of July 2015, there were 9,216 battery electric vehicles and 12,930 plug-in hybrid vehicles registered in the state. Of these, a total of 2,337 were purchased and 2,174 were leased in the preceding 12 months.

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

##### Tax Exemption.

The retail sales and use tax exemption for certain clean alternative fuel and electrically powered vehicles is extended to all such vehicles irrespective of their sales price or fair market value and is limited to the first \$35,000 of the selling price or the fair market value of these vehicles. The tax exemption threshold is not lowered for vehicles purchased or leased when a vehicle is traded in to offset the purchasing cost or lease payments.

The complete retail sales and use tax exemption for lease agreements for applicable vehicles signed prior to July 1, 2015, remains in place. Lease agreements for applicable vehicles signed on or after July 15, 2015, and before July 1, 2016, are eligible for the exemption in place at the time the lease agreement was signed, *i.e.*, are only eligible for an exemption if they have an adjusted fair market value of \$35,000 or less.

##### Account Transfer.

The requirement remains in place for the amount in retail sales and use taxes that would otherwise be generated if not for this exemption to be transferred from the Multimodal Transportation Account to the General Fund.

Tax Preference Performance Statement.

The bill includes a tax preference performance statement as required by law because it extends a current tax preference. As stated in the performance statement, the public policy objective of this exemption is to increase the use of clean alternative fuel vehicles in Washington.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2016.