
Transportation Committee

HB 2778

Brief Description: Modifying retail sales and use tax exemption criteria for certain clean alternative fuel vehicles.

Sponsors: Representatives Fey, Orcutt, Clibborn, McBride, Moscoso, Hickel, Stambaugh, Bergquist, Tharinger and Tarleton.

Brief Summary of Bill

- Modifies the retail sales and use tax exemption for certain clean alternative fuel and electrically powered vehicles by increasing the tax exemption threshold to a \$37,000 selling price or fair market value.
- Adds an alternative method of qualification for the retail sales and use tax exemption by increasing the tax exemption threshold to a \$42,500 selling price or fair market value when either the vehicle's battery has an energy capacity of 30 kilowatt hours (KWh) or greater or when the vehicle's driving range using only battery power is 100 miles or greater.
- Includes an inflation adjustment factor that raises the exemption thresholds by \$500 at the start of each calendar year beginning in 2017.

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

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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.

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. "Sales price" and "fair market value" include the value of trade-in property of like kind. 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.

This bill modifies the retail sales and use tax exemption for certain clean alternative fuel and electrically powered vehicles by: (1) increasing the tax exemption threshold to a \$37,000 selling price or fair market value, and (2) increasing the tax exemption threshold to a \$42,500 selling price or fair market value when (a) the vehicle's battery has an energy capacity of 30 kilowatt hours (KWh) or greater or (b) the vehicle's driving range using only battery power is 100 miles or greater. 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.

An inflation adjustment factor raises the exemption threshold by \$500 at the start of each calendar year beginning in 2017.

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.

This bill retains the requirement 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. The performance statement is identical to the one in place for the current tax exemption.

Appropriation: None.

Fiscal Note: Available.

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