FINAL BILL REPORT
SHB 2884

C 29 L 16
Synopsis as Enacted

Brief Description: Modifying the business and occupation tax and public utility tax credits for alternative fuel commercial vehicles.

Sponsors: House Committee on Transportation (originally sponsored by Representatives Clibborn, Fey and Moscoso).

House Committee on Transportation
House Committee on Finance
Senate Committee on Transportation

Background:

Business and Occupation Tax.
Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the cost of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. There are multiple exemptions, deductions, and credits to reduce the B&O tax liability for specific taxpayers and business industries.

Public Utility Tax.
The public utility tax (PUT) is applied to gross income derived from operation of public and privately owned utilities, including the general categories of transportation, communications, and the supply of energy and water. The PUT is in lieu of the B&O tax. The applicable PUT rate depends upon the specific utility activity.

Business and Occupation Tax and Public Utility Tax Credits for Alternative Fuel Commercial Vehicles.
In the 2015 session, the Legislature enacted new credits under the B&O tax and PUT for alternative fuel commercial vehicle acquisitions or conversions. For the acquisition of a alternative fuel commercial vehicle, a business or utility may take a credit equal to 50 percent of the incremental cost of a clean alternative fuel vehicle, above the cost of a comparable conventionally-fueled vehicle, or $5,000, whichever is less. Clean alternative fuels are

defined to include electricity, dimethyl ether, hydrogen, methane, natural gas, liquefied natural gas, compressed natural gas, and propane. For the conversion of a conventionally-fueled vehicle to a clean alternative fuel, a business or utility may take a credit equal to 30 percent of the costs of converting the vehicle or $25,000, whichever is less. A business or utility is limited to an annual maximum of $250,000 in credits or the amount of credit associated with 25 vehicles, whichever is less. To claim the credit, an applicant must submit to the Department of Revenue several pieces of information, including a vehicle quote, the type of alternative fuel to be used, and the incremental cost of the system, among others. The maximum amount of credit that may be claimed statewide is $6 million annually under both the B&O tax and the PUT. Amounts claimed represent reduced revenues to the State General Fund; however, the credits include provisions that transfer an equivalent amount of funding from the Multimodal Transportation Account to the State General Fund to offset the reductions.

The alternative fuel commercial vehicle tax credits explicitly exclude credit for leased vehicles.

<u>Tax Preference Performance Statement</u>.
In 2013 legislation was enacted that requires all new tax preference legislation to include a tax preference performance statement. Tax preferences include deductions, exemptions, preferential tax rates, and tax credits. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee to evaluate the efficacy of the tax preference. The 2015 legislation that created the alternative fuel commercial vehicle tax credits also included a tax preference performance statement.

Summary:

The tax credits under the B&O tax and the PUT for alternative fuel commercial vehicle acquisitions are modified to allow credits for vehicles that are acquired by lease. The amount of credit is equal to the amount of credit that may be claimed for a vehicle acquired outright, the lesser of 50 percent of the incremental cost or $5,000, multiplied by a lease reduction factor. The lease reduction factor is equal to the ratio of: (1) the difference in the gross capitalized cost, or the agreed-upon value of the vehicle at the beginning of the lease, and the residual or lease-end value, to (2) the agreed-upon value of the vehicle at the beginning of the lease.

The person claiming the credit for the lease of an alternative fuel commercial vehicle must be the lessee. To claim the credit, in addition to other information required under law, the applicant must provide a copy of the lease contract that includes the adjusted capitalized cost and the residual value. A credit may be earned for leased vehicles from July 1, 2016, through January 1, 2021.

The tax preference performance statement for the 2015 legislation that created the alternative fuel commercial vehicle tax credits is modified to refer to the statutes in which the credits are codified.

Votes on Final Passage:

House	98	0
Senate	48	0

Effective: June 9, 2016