

SENATE BILL REPORT

SB 5325

As of February 4, 2015

Title: An act relating to incentivizing the use of alternative fuel commercial use vehicles with tax preferences.

Brief Description: Incentivizing the use of alternative fuel commercial use vehicles with tax preferences.

Sponsors: Senators King, Hobbs, Litzow, Liias, Fain and Ericksen.

Brief History:

Committee Activity: Transportation: 2/04/15.

SENATE COMMITTEE ON TRANSPORTATION

Staff: Amanda Cecil (786-7429)

Background: Sales and Use Tax. The state, most cities, and all counties levy retail sales and use taxes upon most articles of tangible personal property, digital products, and some services. The state sales and use tax rate is 6.5 percent, which is deposited into the state general fund. There is an additional sales and use tax of 0.3 percent on the sale of motor vehicles that is deposited into the Multimodal Transportation Account and used for transportation purposes. Local sales and use tax rates vary from 0.5 percent to 3.1 percent, depending on the location.

Business & Occupation (B&O) Tax and Public Utility Tax (PUT). B&O tax is a gross receipts tax that is levied on the value of products, gross proceeds of sales, or gross income of the business. B&O tax rates vary by type of business. PUT is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The tax is in lieu of the B&O tax. PUT rates vary by the service provided between 0.642 percent and 5.029 percent of the service provided.

Summary of Bill: Sales and Use Tax. New and qualifying used commercial vehicles that are principally powered by clean alternative fuel are exempt from state and local sales and use taxes. Quarterly, the Treasurer transfers an amount equal to the value of the sales and use tax exemption from the Multimodal Transportation Account to the general fund.

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.

B&O Tax and PUT. A person or company that is subject to the B&O tax or PUT is eligible to receive credit against the B&O tax or PUT for the lesser of \$25,000 or 15 percent of the purchase price of a new or qualifying used commercial vehicle that is principally powered by clean alternative fuel or the lesser of \$25,000 or 30 percent of the cost of converting a commercial vehicle to be principally powered by clean alternative fuel. The total credits to a person or company may not exceed \$250,000 per calendar year. Total credits issued under this program may not exceed \$6 million in a calendar year and are available on a first-in-time basis. Quarterly, the Treasurer transfers an amount equal to the value of the B&O tax and PUT credit from the Multimodal Transportation Account to the general fund.

Definitions. For the purposes of the sales and use tax exemption and the B&O tax and PUT credits the following definitions apply:

- Commercial vehicles are those purchased by a private business and used exclusively in the transportation of commodities, merchandise, produce, refuse, freight, or animals, and that is displaying a Washington State license plate.
- A qualifying used commercial vehicle is a vehicle that has been modified after initial sale with an EPA-certified conversion that allows the propulsion to be powered by clean alternative fuel, has an odometer reading of less than 30,000 miles, is less than two years past the original date of manufacture, and is being sold for the first time after modification.
- Clean alternative fuel includes electricity, gasohol with at least 20 percent denatured alcohol content, hydrogen, hythane, methane, methanol, natural gas, liquefied natural gas, compressed natural gas, or propane.

Tax Preference Statement. These tax preferences expire ten years after the date of enactment. A tax preference statement is made that identifies an intended policy outcome of increasing sales of commercial vehicles that use clean alternative fuel by 10 percent by 2026. If the policy outcome is met, it is stated that the Legislature intends to extend the tax preference.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2016

Staff Summary of Public Testimony: PRO: Alternative fuel commercial vehicles cost about \$50,000 to \$80,000 more than conventional vehicles. Incentives provide a better mechanism to meet Washington's carbon-reduction goals than the punitive programs like those that are being advanced by the Governor. These incentives will help advance the alternative fuel market. Natural gas is the future of the trucking industry but there are some issues that have to be addressed. The program is very small and could be directed toward heavy vehicles to limit participation. This exemption should also be opened up to nonprofit and governmental entities and passenger vehicles including vehicles that transport passengers. Alternative fuel vehicles are about five years behind conventional vehicles and tax incentives like this will help develop this market. This incentivizes the use of the abundant sources of domestically produced fuels. As written it will accelerate the adoption

of all alternative fuels without picking winners and losers. Passage of this bill would signal Washington's continued support of the alternative fuel market place.

Persons Testifying: PRO: Larry Pursley, WA Trucking Assns.; JJ McCoy, Mark Schiller, Seattle Electric Vehicle Assn.; Jeremy Smithson, EV Support, Puget Sound Solar LLC; John Bush, Blue Star Gas; Ben Hemson, NW Gas Assn.; Nathan Fitzgerald, Pacific Propane Gas Assn.; Michael Ennis, Assn. of WA Business; Kristal Fiser, UPS; Michael Transue, Pierce County Chamber of Commerce, Waste Connections; Ryan Kenny, Clean Energy; Nancy Atwood, Puget Sound Energy; Steve Marshall, Center for Alternative Transportation and Energy Solutions; Isaac Kastama, WA Business Alliance.