

# HOUSE BILL REPORT

## ESHB 1809

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### As Passed Legislature

**Title:** An act relating to tax credits for clean alternative fuel commercial vehicles.

**Brief Description:** Concerning tax credits for clean alternative fuel commercial vehicles.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Fey, Orcutt and McBride).

#### Brief History:

##### Committee Activity:

Finance: 2/7/17, 2/14/17 [DPS].

##### Floor Activity:

Passed House: 3/1/17, 97-1.

Passed Senate: 4/10/17, 42-6.

Passed Legislature.

#### Brief Summary of Engrossed Substitute Bill

- Expands the definition of vehicles eligible for the clean alternative fuel commercial vehicle credit to include vehicles that provide commercial services and qualifying vehicles that transport passengers.
- Increases the mileage and manufacturing date limits for qualifying used commercial vehicles.
- Quintuples the credit amount allowed per vehicle.
- Modifies application requirements.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Condotta, Dolan, Pollet, Springer, Stokesbary, Wilcox and Wylie.

**Staff:** Richelle Geiger (786-7139).

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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.*

## **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. 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. Current law authorizes 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 Occupational Tax and Public Utility Tax Credits for Alternative Fuel Commercial Vehicles.

The B&O tax and PUT credits are available to businesses that use alternative fuel commercial vehicles to transport commodities, merchandise, produce, refuse, freight, or animals. The credit is earned on the purchase, conversion, or lease of an eligible vehicle.

Clean alternative fuels are defined as electricity, dimethyl ether, hydrogen, methane, natural gas, liquefied natural gas, compressed natural gas, and propane. Qualifying used commercial vehicle is defined as a vehicle with an odometer reading of less than 30,000 miles and is less than two years past the original manufacturing date.

To claim the credit, an applicant must submit several pieces of information, including a vehicle quote, the type of alternative fuel to be used, and the incremental cost of the system to the Department of Revenue (Department). Applicants must then notify the Department of their intent to claim the credit. The anticipated delivery date of the vehicle must be within 120 days of the applicant's notice of intent to claim the credit. Applicants must file an application for each vehicle.

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. The maximum credit amount per vehicle is \$5,000, \$10,000, or \$20,000, based on the gross weight of the vehicle. 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.

### Tax Preference Performance Statement.

In 2013 the Legislature passed Engrossed Substitute Senate Bill (ESSB) 5882, which requires tax preference legislation enacted, expanded, or extended after August 1, 2013, to include a tax preference performance statement. Additionally, ESSB 5882 also establishes an

automatic 10-year expiration date for new tax preference if an alternative expiration date is not provided in the new tax preference legislation.

**Summary of Engrossed Substitute Bill:**

The definition of "eligible vehicles" is expanded to include vehicles exclusively used to provide commercial services and vehicles transporting passengers. All commercial vehicles that provide transportation to passengers must operate within Washington between fixed points or over a regular route.

The mileage and manufacturing date limits for qualifying used commercial vehicles are increased to 450,000 miles and 10 years past the original manufacturing date. The amount of credit allowed per vehicle is quintupled for each vehicle weight class.

Applicants can file for credits for multiple cars on one application. The anticipated delivery date of the vehicle must be within one year of the applicant's notice of intent to claim the credit.

The tax preference performance statement for the alternative fuel commercial vehicle tax credit program is amended to apply to this act. The act expires on January 1, 2022.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2018.

**Staff Summary of Public Testimony:**

(In support) The alternative fuel commercial vehicle tax credit program was part of the transportation budget negotiation in 2015. The credit program is currently underutilized and the intent of the bill is to encourage more adoption of the program. The bill is supported by both the business community and environmental advocates.

The program under current law has narrow eligibility requirements. The application process is challenging for taxpayers submitting applications for a fleet of vehicles, as the program requires one application for each vehicle. The bill expands the definition of a commercial vehicle to allow vehicles used for commercial use and shuttle vehicles to qualify for the incentive. The increase of maximum mileage and age for eligible converted vehicles is reasonable and reflects the reality of vehicle usage prior to a conversion.

The bill does not increase state funding for the program.

(Opposed) None.

**Persons Testifying:** Mike Ennis, Association of Washington Business; Darren Engle, Blue Star Gas; Mel Sorensen, Pacific Propane Gas Association; and Vlad Gutman-Britten, Climate Solutions.

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