



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JULY 21, 2010

## Clean Alternative Fuel and High Mileage Hybrid Vehicles – Sales and Use Tax Changes

### Background

Substitute Senate Bill (SSB) 6712, Chapter 11, Laws of 2010, Sections 2 and 3 extend the sale and use tax exemptions provided by RCW 82.08.809 and 82.12.809 on purchases of clean alternative fuel vehicles from January 1, 2011 to July 1, 2015.

In addition, the bill expands the exemptions to include certain qualifying used passenger cars, light duty trucks, and medium duty passenger vehicles, which were modified after their initial purchase, with an EPA certified conversion to be exclusively powered by a clean alternative fuel. This portion of the bill was effective July 13, 2010.

### High mileage hybrid vehicles

The sales and use tax exemption on certain high mileage hybrid vehicles provided by RCW 82.08.813 and 82.12.813 was repealed effective August 1, 2009 by ESSB 6170, section 801. However, the exemption from Motor Vehicle Sales/Use Tax (0.3%) on purchases of new hybrid vehicles is in effect until January 1, 2011.

### Qualifying vehicles

New passenger cars, light duty trucks, and medium duty passenger vehicles that:

1. are powered exclusively by a clean alternative fuel (see definitions below) such as natural gas, propane, hydrogen or electric; or
2. utilize hybrid technology and have an Environmental Protection Agency (EPA) estimated highway gasoline mileage rating of at least 40 m.p.g.

The exemption from sales and use tax for qualifying clean alternative fuel vehicles includes the Motor Vehicle Sales/Use Tax (0.3%).

The exemption for qualifying hybrid vehicles is only for the Motor Vehicle Sales/Use Tax (0.3%) after July 31, 2009.

### Delivery dates

Qualifying **clean alternative fuel vehicles** must be delivered on or after January 1, 2009, and before July 1, 2015.

Qualifying **hybrid vehicles** must be delivered on or after January 1, 2009, and before August 1, 2009 to be eligible for the full sales and use tax exemption.

Qualifying hybrid vehicles delivered after July 31, 2009, and before January 1, 2011, are only eligible for exemption from the Motor Vehicle Sales/Use Tax (0.3%).

“*Delivery*” means that registration and titling must take place during the qualifying time period and that the purchaser must take possession of the vehicle during the qualifying time period.

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Any payment or deposit made toward the purchase of a qualifying vehicle before the January 1, 2009, effective date qualifies for the tax exemption, as long as the vehicle is delivered during the qualifying time period.

### **Leased vehicles**

The sales tax exemption also applies to leases of new vehicles during the qualifying time period if all other requirements are met. The sales and use tax exemption applies to amounts due between January 1, 2009, and the expiration date of the exemption on new vehicles that are registered, titled, and delivered to the lessee between:

- January 1, 2009, and July 31, 2009, for hybrid vehicles; and
- January 1, 2009, and July 1, 2015, for clean alternative fuel vehicles.

*Example:* C leases a new qualifying hybrid vehicle that is registered, titled, and delivered on December 30, 2008. The lease of this vehicle does not qualify for the sales tax exemption because registration, titling, and delivery occur prior to the effective date of January 1, 2009.

*Example:* B leases a new clean alternative fuel vehicle that is delivered, registered, and titled on June 1, 2009. All lease payments are exempt from sales tax and Motor Vehicle Sales/Use Tax (0.3%) until the exemption expires July 1, 2015.

### **Conversions to new vehicles**

A “conversion” refers to the alteration of a non-qualifying vehicle into a qualifying vehicle. The qualifying vehicle must be exclusively powered by clean alternative fuel or utilize hybrid technology that has a United States Environmental Protection Agency estimated highway gasoline mileage rating of at least 40 miles per gallon.

Conversions made to new vehicles that meet all the requirements for the sales tax exemption qualify for the exemption only if the conversion is completed before the sale takes place. Conversions that take place after the purchase of a vehicle do not qualify for the sales tax exemption.

*Example:* D purchases a new non-qualifying vehicle from a dealer and, as a condition of purchase, has it converted to use natural gas. The conversion will meet the conditions of a clean alternative fuel vehicle (see definition below). The conversion takes place within the effective dates and before registration, titling, or before D takes possession of the car. The vehicle qualifies for the exemption.

In this case, the dealer hires a third party shop to convert the vehicle. The dealer gives the third party shop a copy of its reseller permit for the conversion kit, other necessary materials, and labor.

The dealer selling the vehicle to D must keep records to show the non-qualifying vehicle and subsequent conversion meets all conditions of this exemption.

### **Conversions to used vehicles (effective July 13, 2010)**

Effective July 13, 2010, the sales and use tax does not apply to purchases of qualifying used passenger cars, light duty trucks, and medium duty passenger vehicles, which were modified after their initial purchase, with an EPA certified conversion to be exclusively powered by a clean alternative fuel.

“Qualifying used passenger cars, light duty trucks, and medium duty passenger vehicles” means vehicles that:

- Are part of a fleet of at least five vehicles, all owned by the same person;
- Have an odometer reading of less than 30,000 miles;
- Are less than two years past their original date of manufacture; and
- Are being sold for the first time after modification.

**Accessories**

Accessories qualify for the sales tax exemption only if they are components of the qualifying vehicle at the time of purchase. Accessories purchased after the qualifying vehicle is purchased are subject to retail sales tax.

**Extended warranties, maintenance agreements, repair services**

The sales and use tax exemption do not apply to extended warranties, maintenance agreements, and replacement parts and/or repair services. These items continue to be subject to retail sales tax or use tax.

**Seller’s responsibilities**

The seller must keep records to verify eligibility of this exemption.

**Out of state purchases of qualified vehicles**

Qualifying vehicles purchased outside the state of Washington during the qualified time period are exempt from use tax. With proper documentation, the Department of Revenue will issue a Declaration of Use Tax for the purchaser to present to the Department of Licensing during registration.

**Definitions**

“*Clean alternative fuel*” means natural gas, propane, hydrogen, or electricity, when used as a fuel in a motor vehicle that meets the California motor vehicle emission standards in Title 13 of the California code of regulations, effective January 1, 2005, and the rules of the Washington State Department of Ecology. See RCW 82.08.809 (3) and 82.12.809 (2).

“*Gross vehicle weight rating*” is the value specified by the manufacturer as the maximum design loaded weight of a single vehicle. See WAC 173-423-040 (4).

“*Hybrid technology*” means propulsion units powered by both electricity and gasoline.

“*Light duty truck*” is any vehicle certified to the standards in Title 13, CCR, section 1961 (a)(1) rated at 8,500 pounds gross vehicle weight or less, and any other motor vehicle rated at 6,000 pounds gross vehicle weight or less, which is designed primarily for the purposes of transportation of property or is a derivative of such vehicle, or is available with special features enabling off-street or off-highway operation and use. See WAC 173-423-040 (8).

*“Medium duty passenger vehicle”* is any medium duty vehicle with a gross vehicle weight rating of less than 10,000 pounds that is designed primarily for the transportation of persons. The medium duty passenger vehicle definition does not include any vehicle which:

- (a) Is an “incomplete truck,” i.e., is a truck that does not have the primary load carrying device or ciner attached; or
- (b) Has a seating capacity of more than 12 persons; or
- (c) Is designed for more than nine persons in seating rearward of the driver’s seat; or
- (d) Is equipped with an open cargo area of 72.0 inches in interior length or more.  
A covered box not readily accessible from the passenger compartment will be considered an open cargo area for the purpose of this definition. See WAC 173-423-040 (9).

*“Model year”* is the manufacturer’s annual production period which includes January 1 of a calendar year. If the manufacturer has no annual production period, “model year” is the calendar year. In the case of any vehicle manufactured in two or more stages, the time of manufacture shall be the date of completion of the chassis. See WAC 173-423-040 (10).

*“New motor vehicle”* is any motor vehicle that:

- (a) Is self-propelled;
- (b) Is required to be registered and titled under Title 46 RCW;
- (c) Has not been previously titled to a retail purchaser or lessee; and
- (d) Is not a vehicle which has been sold, bargained, exchanged, given away, or title transferred from the person who first took title to it from the manufacturer or first importer, dealer, or agent of the manufacturer or importer, and used the vehicle so it is “secondhand.” See RCW 46.70.011 and 46.04.660.

The model year of the vehicle does not determine whether it meets the definition of “new motor vehicle.”

**For more  
information**

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