



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

June 23, 2016

Changes to Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions

Summary

The sales and use tax exemptions on sales or leases of new clean alternative fuel vehicles or certain plug-in hybrids have been changed. The changes begin with sales made or lease agreements signed on or after July 1, 2016 ([RCW 82.08.809](#) and [82.12.809](#)).

The changes include:

- The \$35,000 cap on the selling price or fair market value no longer applies.
- Only those vehicles that, at the time of sale or lease, have a manufactured suggested retail price for the lowest base model of not more than \$42,500 qualify for the exemptions.
- The exemptions only apply to up to \$32,000 of a vehicle's selling price or the total lease payments made plus the selling price of the leased vehicle if the original lessee purchases the leased vehicle before the exemption expires.
- The exemption's expiration date is contingent on the number of qualified vehicles titled in Washington on or after July 15, 2015.

Second Engrossed Substitute House Bill ([2ESHB](#)) 2778, Chapter 32, 2016 1st Special Session.

Eligible vehicle sales and leases beginning July 1, 2016

The sales and use tax exemptions apply to:

- New passenger cars, light duty trucks, and medium duty passenger vehicles which are:
 - exclusively powered by a clean alternative fuel or
 - plug-in hybrids that can travel at least 30 miles on battery power alone
- Vehicles whose lowest base model has a manufacturer's suggested retail price of \$42,500 or

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less, as determined by the Department of Licensing (DOL)

- Up to \$32,000 of the selling price or total lease payments plus the selling price of the leased vehicle if the original lessee purchases the leased vehicle before the exemption expires
- Eligible vehicles delivered to the buyer or lessee on or after July 1, 2016, and before the exemptions expire (see below)
- If the sales or lease is exempt from sales tax, it is also exempt from the Motor Vehicle Sales/Use Tax of 0.3 percent

What about sales and leases prior to July 1, 2016?

- Leases of clean alternative fuel vehicles that were exempt from sales tax prior to July 1, 2015, will continue to be fully exempt from sales tax until the exemptions expire without regard to the value of the vehicle or total of lease payments
- Sales of clean alternative fuel vehicles and qualified plug-in hybrids delivered to the buyer on or after July 15, 2015, and before July 1, 2016, are exempt from sales or use tax if the selling price plus trade-in amount is \$35,000 or less. For more information, see our Special Notice, [New Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions](#)
- Leases of qualified vehicles entered into on or after July 15, 2015, and before July 1, 2016, are exempt from sales or use tax if the fair market value is \$35,000 or less. For more information, see our Special Notice, [New Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions](#)

How do I know which vehicles qualify for the exemptions beginning July 1, 2016?

- DOL has published a list of qualified vehicles on its website at: <http://www.dol.wa.gov/vehicleregistration/altfuel exemptions.html>
- DOR has a link to DOL's list on its [Tax Incentives web page](#) under *Renewable Energy/ Green Incentives > Clean Alternative Fuel and Plug-In Hybrid Vehicles – Sales/Use Tax Exemptions*
- The list will be reviewed by DOL every six months and updated as needed until the exemptions expire

Will the list include neighborhood electric vehicles or other similar electric vehicles?

Certain neighborhood electric vehicles, medium-speed electric vehicles, and all-terrain electric vehicles can qualify as “passenger cars, light duty trucks, and medium duty passenger vehicles” if, at the time of sale, the vehicle is capable of operating upon a public highway and meets the other requirements of [RCW 82.08.809](#) and [RCW 82.12.809](#).

DOL’s list includes the makes and models of these types of electric vehicles that have previously qualified for the sales/use tax exemption. If you feel that a vehicle qualifies for the sales and use tax exemptions, but does not appear on DOL’s list, please contact the Department of Licensing at (360) 902-3770 or titles@dol.wa.gov.

Can trade-in amounts be deducted when calculating the selling price?

Yes, dealers should first deduct any trade-in amount negotiated with the buyer before applying the \$32,000 sales tax exemption to the purchase.

If the vehicle’s selling price is more than \$32,000, do I owe sales or use tax?

Yes, the dealer must collect sales tax and motor vehicle sales tax (0.3%) on that portion of the total selling price that exceeds \$32,000.

Persons that purchased vehicles outside Washington and did not pay Washington sales tax will owe use tax and motor vehicle use tax (0.3%) on that portion of the selling price that exceeds \$32,000.

If the total lease payments exceed \$32,000, do I owe sales or use tax?

Yes, the lessor must collect sales tax and motor vehicle sales tax (0.3%) from the lessee on those lease payments that come due when the total of the lease payments exceeds \$32,000. If the original lessee chooses to purchase the leased vehicle before the exemption expires, the lessee will owe sales tax and motor vehicle sales tax (0.3%) on the portion of the vehicle’s purchase price plus total lease payments that exceeds \$32,000.

When do the sales and use tax exemptions expire?

The sales and use tax exemptions will expire on whichever of these comes first:

- When the total number of qualifying vehicles titled in Washington on or after July 15, 2015, reaches 7,500 vehicles or
- On July 1, 2019

“Qualifying vehicle” means a vehicle qualifying for the sales or use tax exemption in which the sale was made or lease agreement signed on or after July 15, 2015.

DOL will keep count of the number of qualifying vehicles titled in Washington since July 15, 2015, and notify DOR when that count reaches 7,500. The exemptions will expire at the end of the month following the month DOR is notified by DOL that the limit has been reached. If by the 5th business day of May 2019, DOL has not notified DOR that the limit has been reached, the sales and use tax exemptions will expire July 1, 2019.

How will I know when the exemptions expire?

DOR will post the expiration date to its [Tax Incentives web page](#) under *Renewable Energy/Green Incentives > Clean Alternative Fuel and Plug-In Hybrid Vehicles – Sales/Use Tax Exemptions*.

Do I owe sales or use tax on lease payments after the expiration of the sales tax exemption?

- Lease payments on all leased vehicles that qualified for the exemption on or after July 1, 2016, and before the exemption expired will continue to be exempt for the remainder of the lease agreement up to total lease payments of \$32,000.
- If a person leased a qualifying vehicle on or after July 1, 2016, and chooses to purchase the leased vehicle before the exemption expires, the selling price of the leased vehicle is exempt from sales or use tax on that portion of the \$32,000 remaining after the total of the lease payments is subtracted.
- The purchase of a leased vehicle by the original lessee is subject to tax on the full purchase price, if the sales agreement is entered into after the exemptions expire.
- Vehicles delivered to the buyer or lease agreements signed after the exemptions expire are subject to sales or use tax on the total selling price or lease payments.

Are charges for accessories exempt from sales tax?

Accessories or equipment bought as part of the purchase or lease of a qualifying vehicle are part of the purchase or lease of the vehicle and may be included when claiming the sales tax exemption of up to \$32,000.

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Accessories purchased separate from the purchase of the vehicle are subject to retail sales or use tax, but not motor vehicle sales/use tax. These charges are not part of the vehicle's original selling price and are therefore not eligible for the sales or use tax exemptions.

Accessories installed after the lessee signs the agreement that are separately billed to the lessee (not part of the lease payments) are subject to sales or use tax.

Are charges for extended warranties, maintenance agreements, and repair services exempt from sales and use tax?

The sales and use tax exemptions do not extend to the purchase of extended warranties, maintenance agreements, replacement parts, or repair services. These items continue to be subject to retail sales or use tax. However, these charges are not subject to motor vehicle sales/use tax.

How do dealers and lessors document the sales tax exemption?

For sales made or leases signed on or after July 1, 2016, automobile dealers and lessors must keep records to verify all the following:

- the vehicle sold or leased was on the list of qualified vehicles published by the Department of Licensing at the time of sale or lease
- the exemption granted did not exceed \$32,000 of the selling price or total lease payments
- the sale or lease took place on or after July 1, 2016 and prior to the exemption expiring

For sales made or leases signed on or after July 15, 2015 and before July 1, 2016, automobile dealers and lessors must keep records as provided in our Special Notice, [New Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions](#).

How do dealers complete their tax returns?

When reporting the sale to the Department of Revenue, dealers using our e-file system must claim the sales tax exemption as a deduction under Retail Sales Tax section of the return and then enter the amount of the deduction under "*Sales of new clean fuel vehicles.*" Dealers that file on paper should itemize the retail sales tax exemption as a deduction under "*Other*" and then write in "*Sales of new clean fuel vehicles.*"

The dealer will still owe retailing business and occupation (B&O) tax on the gross income from the sale or lease.

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How do I claim the use tax exemption on qualified new vehicles purchased outside the state?

When registering your vehicle in Washington, you will need to provide your purchase documents and any other documents necessary for DOL or a DOL subagent to verify your exemption and determine if you owe any use tax on the purchase price.

Qualifying new vehicles purchased outside Washington during the qualifying time period are exempt from sales and use tax on \$32,000 of the purchase price. You may deduct any trade-in amount negotiated between you and the seller when determining the final purchase price. If the vehicle's purchase price is more than \$32,000, you owe sales tax and motor vehicle sales tax (0.3%) on that portion of the price that exceeds \$32,000. If the dealer does not collect the sales tax due, you will pay use tax directly to DOL when registering your vehicle in Washington.

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.

"Light duty truck" is any 2000 and subsequent model motor vehicle certified to the standards in Title 13, California Code of Regulations, 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:

- Is an "incomplete truck," i.e., is a truck that does not have the primary load carrying device or container attached; or
- Has a seating capacity of more than twelve persons; or
- Is designed for more than nine persons in seating rearward of the driver's seat; or
- 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).

"New motor vehicle" is any motor vehicle that:

- Is self-propelled;
- Is required to be registered and titled under Title 46 RCW;
- Has not been previously titled to a retail purchaser or lessee; and

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- 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.”

“Passenger car” is any motor vehicle designed primarily for transportation of persons and having a design capacity of twelve persons or less. See WAC 173-423-040(13).

“Plug-in hybrid” as used in this notice means a new vehicle that uses at least one method of propulsion that is capable of being reenergized by an external source of electricity. To be eligible for the exemptions, the vehicle must be capable of traveling at least thirty miles using only battery power.

Need assistance?

- Bill information: see *Second Engrossed Substitute House Bill (2ESHB) 2778, Chapter 32, 2016 1st Special Session*.
- Exemption questions: visit the Department’s [Tax Incentives web page](#) and select Renewable Energy/Green Incentives.
- General tax questions: call our Telephone Information Center at 1-800-647-7706.

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