



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

June 30, 2016

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

Effective July 15, 2015 – June 30, 2016

The sales and use tax exemptions were amended effective July 1, 2016. For more information see our special notice, [Changes to Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions](#).

The exemptions from sales and use tax on the purchase of new clean alternative fuel vehicles provided by RCW [82.08.809](#) and [82.12.809](#) was extended from July 15, 2015, to June 30, 2016. In addition, the following changes were made to the exemptions:

- There is a \$35,000 cap on eligible vehicles either sold or leased
- The exemptions now apply to certain new plug-in hybrids
- Used fleet vehicles no longer qualify for the sales or use tax exemptions
- Vehicles purchased or leased from July 1, 2015, through July 14, 2015, are not eligible for the exemptions

(See Second Engrossed Substitute [Senate Bill \(2ESSB\) 5987](#), sections 407-409 (Chapter 44, 2015 Laws 3rd Special Session)).

Eligible vehicle sales and leases

The exemptions apply to:

- New passenger cars, light duty trucks, and medium duty passenger vehicles exclusively powered by a clean alternative fuel.
- New plug-in hybrid passenger cars, light duty trucks, and medium duty passenger vehicles that can travel at least 30 miles on battery power alone.

In addition:

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- The selling price or fair market value at the inception of the lease may not exceed \$35,000.
- Eligible vehicles must be delivered to the buyer or lessee on or after July 15, 2015, and before July 1, 2016.
- Leases entered into before July 1, 2015, of qualified clean alternative fuel vehicles that were exempt from sales tax prior to July 1 will continue to be exempt from sales tax without regard to the \$35,000 cap through the expiration of the new exemption effective July 1, 2016. See our special notice, [Changes to Clean Alternative Fuel Vehicles and Plug-In Hybrids Sales/Use Tax Exemptions](#).
- The exemption also applies to the Motor Vehicle Sales/Use Tax of 0.3 percent.

\$35,000 cap

The exemptions are limited to vehicles sold for \$35,000 or less, or vehicles that are leased and have a fair market value of \$35,000 or less at the start of the lease.

What can the dealer deduct to determine if the vehicle is more than \$35,000?

Dealers **may not** deduct the following:

- The value of any trade-in vehicle on vehicles sold or leased; or
- The amount of any federal tax credit that may accrue to the lessor.

Dealers **may** deduct the following (if separately stated):

- True discounts offered by the seller to the buyer as long as the seller is not reimbursed by a third party (other than the value of any trade-in vehicle);
- Interest, financing, and carrying charges related to credit extended to the purchaser;
- Dealer document service fees (up to \$150); and
- Licensing fees collected by the dealer and paid to the Department of Licensing (DOL).

For qualified leased vehicles, fair market value (FMV) includes:

- The agreed upon value or price of the vehicle*
- Dealer installed equipment and accessories (see below)

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- Destination/shipping fees
- Dealer retail services purchased by the lessee that alter or improve the vehicle (VIN etching, paint protection, etc.)

FMV excludes reasonable charges for:

- Lease acquisition fee
- Assumption fee
- Lien fee
- Personal property tax
- Rent charge
- Title search fee
- UCC search fee
- Auto debit fee
- Excess mileage fee
- Excess wear and tear
- Maintenance fee
- Lease extension fee
- Other fees charged by the lessor as part of the cost to lease the vehicle
- Document service fee
- Licensing fees collected by the dealer for DOL

** The price of the vehicle must be reasonable for the type of vehicle. The Department reserves the right to review lease agreements if the agreed upon value of the vehicle is reduced below the \$35,000 cap and other lease fees (lease acquisition fee, rent charge, etc.) are increased to offset the reduced value of the vehicle.*

Are charges for accessories exempt from sales tax?

Accessories purchased as part of the purchase of a qualifying vehicle are exempt from sales tax, if the selling price or fair market value of the vehicle, including the charge for the accessories, does not exceed \$35,000.

Accessories purchased and installed after the buyer takes delivery of the vehicle are subject to retail sales tax, but not motor vehicle sales/use tax. These charges are not included in determining whether the vehicle exceeds the \$35,000 cap amount.

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. Nor are these charges included in determining whether the vehicle exceeds the \$35,000 cap amount unless they are required

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(not optional) as part of the sale or lease.

Vehicle sales or leases between July 1–14, 2015 are taxable

The exemptions do not apply to vehicle sales and leases in which the buyer or lessee originally took delivery of the vehicle from July 1 through July 14. Sales tax applies to the selling price and all lease payments for leases originated during this time period, including any lease payments made on or after July 15, 2015.

How do dealers document the sales tax exemption?

Automobile dealers must keep records to verify that the vehicle sold or leased was an eligible clean alternative fuel vehicle or plug-in hybrid vehicle as defined in this notice. The records must also show that the sale or lease took place during the qualifying time period (July 15, 2015, to June 30, 2016) and the selling price of the vehicle or fair market value of the lease did not exceed \$35,000.

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.

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

Qualifying new vehicles purchased outside Washington during the qualifying time periods are exempt from use tax. With proper documentation, the Department of Revenue will issue a Declaration of Use Tax for the buyer to present to DOL during registration, which will indicate that the purchase is exempt from use tax and motor vehicle use tax (0.3 percent). To obtain a Declaration of Use Tax, visit one of our local offices listed under [Contact Us](#) on the top of our home page at dor.wa.gov.

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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
- is not a vehicle which has been sold, bargained, exchanged, given away, or titletransferred 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?

- For bill information, see Second Engrossed Substitute [Senate Bill \(2ESSB\) 5987](#), sections 407-409, (Chapter 44, 2015 Laws 3rd Special Session).
- For more information regarding this exemption, visit our [Tax Incentives website](#) and select Renewable Energy/Green Incentives.
- For general tax questions, call our Telephone Information Center at 1-800-647-7706.

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