



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JUNE 19, 2009

*(REVISED SPECIAL NOTICE – effective August 1, 2009)
Important changes to the hybrid vehicle sales and use tax exemption*

Sales and Use Tax Exemptions for Certain High Mileage Hybrid and Clean Alternative Fuel Vehicles

Engrossed Substitute Senate Bill (ESSB) 6170, section 801 repeals the sales tax and use tax exemption allowed on purchases of qualifying hybrid vehicles effective August 1, 2009. Under section 802 of ESSB 6170, the exemption from the Motor Vehicle Sales/Use Tax (.3%) on purchases of new hybrid vehicles remains in effect until January 1, 2011.

There is no change to the sales tax and use tax exemptions allowed for the purchase of qualifying new vehicles that use clean alternative fuels, such as natural gas, propane, hydrogen or electricity. This exemption is effective from January 1, 2009 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 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 (.3%). The exemption for qualifying hybrid vehicles is only for the Motor Vehicle Sales/Use Tax (.3%) after July 31, 2009.

Delivery Date:

Qualifying **clean alternative fuel vehicles** must be delivered on or after January 1, 2009, and before January 1, 2011.

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 (.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.

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.

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Example: M goes to a local vehicle dealer to purchase a qualified hybrid vehicle with a mileage rating of 40 m.p.g. on November 1, 2008. M is aware of the state sales tax exemption for a hybrid vehicle and purchases a vehicle with the agreement that the car will not be licensed, registered, or delivered until January 2, 2009. M pays a \$3,000 deposit on the vehicle and will pay the remainder upon delivery.

The vehicle dealer places an order for the hybrid car on November 2, 2008, and receives the car in the dealer lot on December 12, 2008. The dealer holds the car and does not register or title it until January 2, 2009. M picks the car up on January 2, 2009, and pays the balance owing. No sales tax is due because registration, titling, and delivery of the vehicle occurred after the effective dates.

Example: N goes to a Washington dealer to purchase a qualified light duty truck that is exclusively powered by a clean alternative fuel on December 29, 2010. However, the model N wants is not available in Washington, so the dealer orders it from a dealer in another state. N pays cash for the truck the day it is ordered, even though the truck will be delivered from outside of Washington. N is aware of the state sales tax exemption and expects to qualify for the exemption. The truck does not arrive at the Washington dealer until January 2, 2011, at which time it is licensed, registered, or delivered to N. N owes sales tax on the purchase because delivery did not occur during the effective dates of the exemption.

Leased Vehicles:

The sales tax exemption also applies to leases of new vehicles during the qualifying time period if all other requirements are met. 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 January 1, 2011 for clean alternative fuel vehicles, qualify for the retail sales tax exemption only for amounts due between January 1, 2009, and the expiration date of the exemption.

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 qualified hybrid vehicle that is delivered, registered, and titled on June 1, 2009. All lease payments before July 31, 2009 are exempt from sales tax. Sales tax, including Motor Vehicle Sales Tax, is due on all payments after August 1, 2009.

Conversions:

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 resale certificate for the conversion kit, other necessary materials, and labor.

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

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, replacement parts and/or 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 Responsibilities:

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

Out of state purchases:

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.

Important 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. See RCW 82.08.813 (3) and 82.12.813 (2).

“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 container 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 is self-propelled and 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 “used vehicle” as defined by RCW 46.04.660. See RCW 46.70.011.

“Passenger car” is any motor vehicle designed primarily for transportation of persons and having a design capacity of 12 persons or less. See WAC 173-423-040 (13).

“Used motor vehicle” is 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 so used as to have become what is commonly known as “secondhand” within the ordinary meaning thereof. See RCW 46.04.660.