F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 1/21/07
SPONSOR B. Lujan **LAST UPDATED** **HB** 203

SHORT TITLE Leased Vehicle Surcharge Exemptions **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($1,500.0)	($1,500.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Blue Ribbon Tax Reform Report 2003

Response Received
Department of Transportation (DOT)

SUMMARY

Synopsis of Bill

House Bill 203 exempts cars rented as replacements from the leased vehicle surcharge. The current law does not make a distinction between short term rentals that are for pleasure/vacation/business and those rented because of an accident or malfunction. HB203 would require a person renting a vehicle to sign a statement that the rental is a replacement for a vehicle that is being repaired, serviced or replaced. The exemption would apply to a dealer or repair facility that leases a car on behalf of the client. HB 203 is similar to a proposal considered by the 2003 Blue Ribbon Tax Reform Commission (BRTRC).

The effective date is July 1, 2007.

FISCAL IMPLICATIONS

The BRTRC report estimated that the exempting replacement rentals paid for by insurance companies would cost the general fund $900 thousand. HB 203's more expansive definition increases the impact on the general fund to $1.5 million.

SIGNIFICANT ISSUES

The administration of collecting and validating statements from individuals may be onerous if the burden lies with the rental agency. The Department of Transportation describes the pitfalls of this type of program:

> Experience with other similar provisions of law relating to a purchasers' statement regarding the intended tax-exempt use of a product has proven to be subject to substantial abuse. There would be little or no possibility of compliance or audit review, and leasing companies might well suggest to the customer how they might save a few dollars by signing a statement.

ADMINISTRATIVE IMPLICATIONS

Taxation and Revenue Department would be required to verify and validate the returns but there is no provision in the bill for the rental car company to retain and share the statements with TRD. It may also prove to be to cumbersome to audit as well as costly compared to the amount of the credit.

OTHER SUBSTANTIVE ISSUES

DOT provided this summary of BRTRC:

- *Summary of Blue Ribbon Commission Testimony (2003):*

The industry suggested that the Leased Vehicle Surcharge may impose an undue burden on state residents. The Leased Vehicle Surcharge was initially imposed with the thought of exporting the tax burden to tourists, who were assumed to be the predominate users of rental cars. In the case of "replacement car rentals" (rentals to replace a vehicle while it is being repaired), state residents are generally the users of those rental cars**. Insurance companies cover the cost of replacement rentals at an agreed upon daily price, but the renter of the vehicle is generally required to pay the Leased Vehicle Surcharge.** Since replacement rentals may often be required for an extended period of time, the surcharge may impose an annoying tax burden on residents who expected their insurance would cover the costs. Industry representatives report that 7 states currently exempt "replacement car rentals" from similar taxes or surcharges – Maryland, Oklahoma, Indiana, Louisiana, Rhode Island, Utah, and Wisconsin

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