Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HB 314
Fiscal Note Number:
() Publish Date:

Identifier: HB314-DOR-TAX-02-21-14
Title: PASSENGER VEHICLE RENTAL TAX
Sponsor: THOMPSON
Requester: (H)Transportation

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	746.0		746.0	746.0			
Travel							
Services	47.0		47.0	47.0			
Commodities							
Capital Outlay	500.0						
Grants & Benefits							
Miscellaneous							
Total Operating	**1,293.0**	**0.0**	**793.0**	**793.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

1004 Gen Fund	1,293.0		793.0	793.0			
Total	**1,293.0**	**0.0**	**793.0**	**793.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time	10.0		10.0	10.0			
Part-time							
Temporary							

Change in Revenues	***		***	***	***	***	***

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/14

Why this fiscal note differs from previous version:

Initial fiscal note.

Prepared By: Johanna Bales, Deputy Director
Phone: (907)269-6628
Division: Tax
Date: 02/21/2014 06:15 PM
Approved By: Angela M. Rodell, Commissioner
Date: 02/24/14
Agency: Department of Revenue

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** HB 314

2014 LEGISLATIVE SESSION

Analysis

Bill Language:

This bill makes significant changes to the vehicle rental tax on passenger vehicles as follows: **(1)** Vehicles rented for longer than 30 days would be exempt from the tax (current law states that vehicles rented for more than 90 days are exempt from the tax); **(2)** allows contract renewals and extensions to be combined when determining if the rental period exceeds 30 days (current regulation does not allow contracts to be combined, however, DOR has a proposed regulation, currently out for public comment, that would exempt contract renewals and extensions from the tax as long as the initial contract exceeds 90 days), **(3)** exempts vehicles with a GVWR greater than 6,500 pounds used to transport personal or commercial equipment or property from the rental tax (current law states that vehicles with a GVWR greater than 8,500 pounds used to transport personal property are exempt from the rental tax), **(4) c**ontains a retroactive provision whereby the changes identified above would be retroactive to January 1, 2004 (the original enactment date of the vehicle rental tax), and **(5) c**ontains transition language that would require DOR to adopt regulations that provide a means to reimburse taxpayers for all taxes paid on rentals that would be exempt from the tax based on the changes this bill would make to the tax program and requires DOR to provide public notice regarding potential refunds under this bill.

Revenues:

There will be a reduction in vehicle rental tax collected in the future for future vehicle rental contracts. DOR also expects a further reduction in vehicle rental tax during the first three years after the effective date of the act to reimburse taxpayers the tax that was paid during the previous 10 years. It is difficult for DOR to estimate the revenue impact on the state as a result of this legislation as DOR does not have detailed information from vehicle rental contracts which would allow DOR to currently determine how many rental contracts over the last 10 years would meet the new exemption criteria and, therefore, be eligible for a refund. Since January 1, 2004, DOR has collected approximately $80 million in revenue (an average of $8 million a year). Based on limited vehicle rental tax data from audits, DOR estimates that no more than 10% of total vehicle rental contracts would meet the new criteria and, therefore, no more than $8 million would be reimbursed and future vehicle rental revenue would decrease by no more than $800,000 each year. In addition, DOR would be required to pay interest on the amount of tax collected. Interest is estimated to be no more than $6 million in total. Current vehicle rental tax is deposited into a subaccount of the general fund which can be appropriated for tourism marketing.

Expenditures:

This bill would require DOR to publicly notice the changes to the vehicle rental tax and establish a program whereby DOR would refund vehicle rental taxes to taxpayers whose vehicle rental contracts met the new exemption criteria established in this legislation. It is important to note that the vehicle rental tax is levied on the customer that rented the vehicle and not the company that collected and remitted the tax. Although there were only 116 companies in FY 2013 that collected and remitted the tax, the DOR estimates that there were between 150,000 to 200,000 customers that rented vehicles in Alaska from January 1, 2004 through December 31, 2013 whose rental contracts met the new criteria and would be due a refund. Based on the language in this bill, DOR would need to establish a program to identify and reimburse these 150,000 to 200,000 taxpayers. The department believes that it would need an additional 10 Tax Technician II positions at a cost of $74,600 with associated service costs of $4,700 per position each year to process the estimated 150,000 to 200,000 refund claims submitted by taxpayers. The department would also need to establish a system to track the refund claims to ensure that only valid claims are made and that there are no duplicate claims. The department expects a system to do this would cost approximately $500,000.

Regulations:

Under the provisions of this bill, the department would be required to adopt regulations to provide a means by which taxes collected would be reimbursed and interest would be paid to those taxpayers whose rentals would be exempt under the new criteria established in this bill.