

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 271(W&M)  
 (H) Publish Date: 4/24/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Passenger Vehicle Rental Tax BRU Revenue Operations  
 Component Tax Division  
 Sponsor Representative Kott  
 Requester House Ways and Means Committee Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	55.0	55.0	55.0	55.0	55.0	55.0
Travel	5.0	2.0	2.0	2.0	2.0	2.0
Contractual	25.0	12.0	12.0	12.0	12.0	12.0
Supplies	3.0	1.0	1.0	1.0	1.0	1.0
Equipment	8.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>96.5</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>5,000.0</b>	<b>7,500.0</b>	<b>7,500.0</b>	<b>7,500.0</b>	<b>7,500.0</b>	<b>7,500.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	96.5	70.0	70.0	70.0	70.0	70.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>96.5</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

See attached pages for discussion of this legislation, and the revenue estimate and operating costs.

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Phone 465-5469  
 Date/Time 4/16/03 7:46 PM  
 Date 4/16/2003

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**SECTIONAL ANALYSIS**

**Section 1** amends AS 43 by adding a new chapter establishing a passenger vehicle rental tax.

AS 43.52.010 imposes a tax on the lease or rental of a passenger vehicle, but not on commercial vehicles. Leases or rentals on passenger vehicles that exceed 90 consecutive days also would be exempt.

A commercial motor vehicle is defined in state statute as a motor vehicle with a gross weight rating exceeding 26,000 pounds, or a motor vehicle that is designed to transport more than 15 passengers including the driver, or is used to transport hazardous materials under the Hazardous Materials Transportation Act, or a combination of a motor vehicle and at least one other vehicle that is used on a highway or vehicular way to transport passengers or property.

The bill could be understood in this section to require that the passenger vehicle be manufactured in Alaska. We certainly would interpret the words "made in this state" on Lines 7 and 8 of Page 1 to refer back to "charge" rather than to the immediately preceding word "vehicle." However, to make it clear, we would suggest an amendment to read:

"There is imposed an excise tax on the [CHARGE FOR THE] lease or rental of a passenger vehicle [MADE] in this state if the lease or rental [OF THE PASSENGER VEHICLE] does not exceed a period of 90 consecutive days.

AS 43.52.020 provides that the tax is 15% of the amount charged for the lease or rental of the passenger vehicle. We interpret the "amount charged" to refer to the agreed base rental rate to be charged (daily rate plus mileage charges), which would exclude discounts and municipal and other taxes and fees.

AS 43.52.030 imposes the tax on the lessor, and the tax must be remitted as required by the department in regulation. The department anticipates it will require the filing of quarterly returns due on the last day of the month following each quarter, with payment in full due with the returns.

AS 43.52.040 provides that the tax applies to leases and rentals in the state without regard to whether the passenger vehicle is registered or licensed in the state.

AS 43.52.050 provides that the tax is in addition to municipal taxes on passenger vehicle rentals.

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AS 43.52.060 gives the department the authority to adopt regulations to administer the tax and requires the money to be deposited into a special account in the General Fund. The Legislature may appropriate the money for tourism development and marketing.

AS 43.52.099 defines the term "passenger vehicle" and "tax".

**Section 2** provides that the Department may adopt regulations to implement this Act.

**Section 3** makes section 2 effective immediately.

**Section 4** provides that the actual tax would start July 1, 2003.

**OVERALL ANALYSIS**

This legislation would impose a 15% tax on the rental of motor vehicles, predominantly passenger cars and trucks, but also motorcycles. Trucks that do not fall within the commercial vehicle classification would be subject to the tax. This would likely include some of the smaller trucks leased by self-service moving companies.

The tax would apply to recreational vehicles. The department interprets the legislation to apply to RV's because most RV's would not be classified as commercial motor vehicles unless they had a gross vehicle weight rating (GVWR) exceeding 26,000 pounds or were designed to carry more than 15 passengers. The GVWR is the weight specified by the manufacturer as the maximum weight that the chassis is designed to handle. While there are higher-end RV's that easily exceed the 26,000-pound GVWR threshold, we would not expect those RV's to be used in a rental business.

The department also interprets the legislation not to apply to the rental of "Fifth Wheels" or "Tagalongs" or similar vehicles that are trailed or towed behind a motor vehicle. Under the bill, a passenger vehicle is a motor vehicle and a motor vehicle is a self-propelled vehicle.

Passenger vehicles leased for more than 90 consecutive days are exempt from the tax. This would exclude passenger cars leased by individuals and businesses for long-term use as an alternative to the purchase of a vehicle. The department, however, interprets the bill to require that the rental must actually run for 91 consecutive days to be exempt. A long-term lease that is cancelled, for example, after 45 days would result in the application of the tax to the rental.

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**OPERATING EXPENDITURES**

The Department of Revenue (DOR) anticipates additional costs for administering the provisions of this bill. There are more than 100 businesses that rent out cars and RV's across Alaska. We envision that this tax would be paid quarterly, which would mean between 400 and 500 tax returns during the year, of which several might involve questions, audits or additional work, and perhaps enforcement and collection efforts.

The Department expects it will need the equivalent of one full-time employee to handle the accounting and collections, taxpayer service and compliance work associated with this tax. In addition, we would expect to conduct taxpayer outreach and education efforts to help start this new program.

In addition to the outreach and education effort, the Department would need to move quickly to set up this new tax program for July 1, 2003, and would use the additional contractual funds requested in Fiscal 2004 to pay for setting up a computer program for tracking payments.

**REVENUE ESTIMATE**

The Department estimates the passenger car rental business in Alaska totals about \$50 million per year. Therefore, each 1% tax on rentals would raise approximately \$500,000 per year, and the 15% tax in this legislation would raise an estimated \$7.5 million per year for the state. The revenue in the first year of the program, Fiscal 2004, is estimated at \$5 million because the state would receive just three quarterly tax payments in the first year, and would miss out on the start of the tourism season in May and June 2003.

For comparison purposes, Anchorage imposes an 8% tax on vehicle rentals, with Cordova at 6% and Yakutat at 4%.