



[HF 664](#) – Sales and Use Tax Exemptions, Subsidiaries (LSB1208HV)
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Fiscal Note Version – New

Description

[House File 664](#) does the following:

- Exempts vehicles leased between affiliates from the fee for new registration when the new registration has been paid by the lessor prior to the lease.
- Exempts the lease or rental of personal property between affiliates from the sales and use tax when a sales tax, use tax, or fee for new registration for a vehicle has been paid by an affiliate on the personal property prior to such lease or rental.

The Bill defines “affiliate” as an entity that directly or indirectly controls, is controlled with or by, or is under common control with another entity. The Bill takes effect upon enactment and applies retroactively to January 1, 2015, for leases or rentals occurring on or after that date. However, refunds are not authorized under the Bill.

Background

Under current law, vehicle rentals are subject to a 6.0% sales or use tax plus a 5.0% vehicle rental excise tax. Leases or rentals of tangible personal property (not including vehicles) are subject to sales or use tax. Vehicle leases are subject to a fee for new registration but exempt from the sales or use tax and the rental excise tax. A fee for new registration is 5.0% of the sales or lease price of a vehicle at the time of registration. “Lease” is defined in Iowa Code section [321F.1](#) as a written agreement providing for the leasing of a motor vehicle for a period of more than 60 days.

Assumptions

Vehicle Rentals

- Growth trends in future fiscal years are based on Consumer Price Index estimated increases of 2.0% from FY 2024 to FY 2028.
- According to Iowa Code section [423C.3\(1\)](#), anything not taxable under Iowa Code chapter [423](#) (Streamlined Sales and Use Tax) is also not taxable under Iowa Code chapter [423C](#) (Automobile Rental Excise Tax). Therefore, the rental excise tax will also be exempt when the vehicle rental between affiliates is exempt from the sales and use tax.
- According to the Department of Revenue, it is assumed that companies with transactions that would be exempt under the Bill are companies in industries that would likely lease vehicles and other business equipment to affiliate businesses with annual taxable sales of \$1.0 million or more in FY 2019 through FY 2022. On average, there are 260 such companies with filed tax returns during those years with an estimated \$1.1 billion in taxable sales in the aggregate for FY 2023. It is assumed that 2.0%, or \$22.1 million, of these total taxable sales represent transactions among affiliated businesses that will be exempt under the Bill. **Table 1** includes the taxable sales that are assumed to be exempt from sales/use tax and the rental excise tax from FY 2024 to FY 2028.

Table 1 — Assumed Taxable Vehicle Rentals in FY 2024 — FY 2028
(in millions)

Fiscal Year	Taxable Rental Sales
FY 2024	22.5
FY 2025	23.0
FY 2026	23.4
FY 2027	23.9
FY 2028	24.4

- It is assumed that all taxable rental sales in **Table 1** are vehicle rentals and that the organization renting the vehicle to an affiliate has already paid an initial registration fee on the vehicle.
- Secure an Advanced Vision for Education (SAVE) refunds are 1.0% of taxable expenditures. Local option sales tax (LOST) distributions are estimated to be 0.095% of taxable expenditures.
- For the purposes of this **Fiscal Note**, it is assumed that all organizations are currently paying the sales/use tax and rental excise tax for vehicle rentals between affiliates.

Vehicle Leases

- Growth trends in future fiscal years are based on Consumer Price Index estimated increases of 2.0% from FY 2024 to FY 2028.
- The fee for new registration is paid by the lessor at the time of initial vehicle purchase. This fee will continue to be paid and is unchanged under the Bill. It is assumed that the lessor has paid an initial vehicle registration for all vehicles exempt under the Bill.
- In FY 2022, there were approximately 68,000 vehicles newly registered to an organization. 1.0%, or 680, of these vehicles may be leases between affiliates and exempt from the fee for new registration annually under the Bill.
- The average new vehicle registration fee paid by organizations in FY 2022 was \$1,251. Counties retain \$1 for every new vehicle registration pursuant to Iowa Code section [321.152](#). The amount per new registration exempt under the Bill is \$1,250.
- Revenue collected from fees for new registration is deposited into the Road Use Tax Fund (RUTF).
- For the purposes of this **Fiscal Note**, it is assumed that all organizations are currently paying the fee for new registration for leased vehicles between affiliates.

Fiscal Impact

[House File 664](#) would reduce revenues to the General Fund, SAVE, LOST, and the RUTF by the estimated amounts listed in **Table 2** below.

Table 2 — Fiscal Impact of House File 664
(in millions)

	<u>General Fund*</u>	<u>SAVE</u>	<u>LOST</u>	<u>RUTF</u>
FY 2024	\$ -2.3	\$ -0.2	\$ -0.2	\$ -0.9
FY 2025	-2.3	-0.2	-0.2	-0.9
FY 2026	-2.3	-0.2	-0.2	-0.9
FY 2027	-2.4	-0.2	-0.2	-0.9
FY 2028	-2.4	-0.2	-0.2	-1.0

*General Fund impact includes 100.0% of the rental excise tax decrease as rental excise tax receipts are not apportioned to SAVE.

Sources

Department of Transportation
Department of Revenue

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.