

2-26-97 W. & M. Colander  
3-12-97 Do Pass

SENATE FILE 222  
BY COMMITTEE ON WAYS AND  
MEANS

(SUCCESSOR TO SSB 64.1)

Passed Senate, Date 3/4/97 (p. 475) Passed House, Date 4/9/97 (p. 1094)  
Vote: Ayes 49 Nays 0 Vote: Ayes 98 Nays 0  
Approved April 18, 1997

A BILL FOR

1 An Act relating to the use tax on motor vehicle leasing.  
2 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 222

1 Section 1. Section 423.4, subsection 16, Code 1997, is  
2 amended by adding the following new unnumbered paragraph:

3 NEW UNNUMBERED PARAGRAPH. A lessor may maintain the  
4 exemption from use tax under this subsection for a qualifying  
5 lease that terminates at the conclusion or prior to the  
6 contracted expiration date, if the lessor does not use the  
7 vehicle for any purpose other than for lease. Once the  
8 vehicle is used by the lessor for a purpose other than for  
9 lease, the exemption from use tax under this subsection no  
10 longer applies and, unless there is an exemption from the use  
11 tax, use tax is due on the fair market value of the vehicle  
12 determined at the time the lessor uses the vehicle for a  
13 purpose other than for lease, payable to the department. If  
14 the lessor holds the vehicle exclusively for sale, use tax is  
15 due and payable on the purchase price of the vehicle at the  
16 time of purchase pursuant to this chapter.

17 Sec. 2. Section 423.7A, subsections 1, 2, and 4, Code  
18 1997, are amended to read as follows:

19 1. The tax imposed upon the use of leased vehicles subject  
20 to registration under chapter 321, with gross vehicle weight  
21 ratings of less than sixteen thousand pounds, excluding  
22 motorcycles and motorized bicycles, which are leased by a  
23 lessor licensed pursuant to chapter 321F for a period of  
24 twelve months or more shall be paid by the owner of the  
25 vehicle to the county treasurer or state department of  
26 transportation from whom the registration receipt or  
27 certificate of title is obtained. A registration receipt for  
28 a vehicle subject to registration or issuance of a certificate  
29 of title shall not be issued until the tax is paid in the  
30 initial instance. Tax on the lease transaction that does not  
31 require titling or registration of the vehicle shall be  
32 remitted to the department. Tax and the reporting of tax due  
33 to the department shall be remitted on or before fifteen days  
34 from the last day of the month that the vehicle lease tax  
35 becomes due. Failure to timely report or remit any of the tax

1 when due shall result in a penalty and interest being imposed  
2 on the tax due pursuant to sections 423.18 and 423.23.

3 2. The amount subject to tax shall be computed on each  
4 separate lease transaction by ~~multiplying the number of months~~  
5 ~~of the lease by the monthly~~ taking the total of the lease  
6 payments, plus the down payment, less any manufacturer's  
7 rebate and excluding all of the following:

8 a. Title fee.

9 b. Registration fees.

10 c. Vehicle lease tax pursuant to this section.

11 d. Federal excise taxes attributable to the sale of the  
12 vehicle to the owner or to the lease of the vehicle by the  
13 owner.

14 e. Optional service or warranty contracts subject to tax  
15 pursuant to section 422.43, subsection 6.

16 f. Insurance.

17 g. Manufacturer's rebate.

18 h. Refundable deposit.

19 i. Finance charges, if any, on items listed in paragraphs  
20 "a" through "h".

21 If any or all of the items in paragraphs "a" through "i" are  
22 excluded from the taxable lease price, the owner shall  
23 maintain adequate records of the amounts of those items. If  
24 the parties to a lease enter into an agreement providing that  
25 the tax imposed under this statute is to be paid by the lessee  
26 or included in the monthly lease payments to be paid by the  
27 lessee, the total cost of the tax shall not be included in the  
28 computation of lease price for the purpose of taxation under  
29 this section. The county treasurer or, the state department  
30 of transportation, or the department of revenue and finance  
31 shall require every applicant for a registration receipt for a  
32 vehicle subject to tax under this section to supply  
33 information as the county treasurer or director deems  
34 necessary as to the date of the lease transaction, the lease  
35 price, and other information relative to the lease of the

1 vehicle.

2 4. If the lease is terminated prior to the termination  
3 date contained in the lease agreement, no refund shall be  
4 allowed for tax previously paid ~~on-the-monthly-rental-payments~~  
5 under this section, except as provided in section 322G.4.

6 EXPLANATION

7 Section 423.4, subsection 16, was enacted in 1996 to  
8 provide an exemption from use tax for vehicles purchased for  
9 lease qualifying under section 423.7A. The current language  
10 of that exemption indicates that once a lessor has met the  
11 qualifications for exemption under the statute, the exemption  
12 is maintained regardless of how the vehicle is subsequently  
13 used by the lessor. In addition, the statute also provides  
14 that if a vehicle subject to lease does not meet the  
15 qualifications under the statute, then use tax is due on the  
16 vehicle. The statute does not provide a period of time to  
17 allow the vehicle to be released. Accordingly, section 423.4,  
18 subsection 16, is amended to assist in the administration of  
19 the tax by providing that the use tax exemption may be  
20 retained as long as the lessor does not use the vehicle for  
21 any purpose other than for lease.

22 Section 423.7A is amended to allow for the department of  
23 revenue and finance to receive tax under section 423.7A in  
24 instances where tax is due on the lease, but the transaction  
25 creating the tax does not require registration or titling of  
26 the vehicle subject to the lease.

27 Section 423.7A is also amended to provide that certain  
28 items shall not be included in the computation of the lease  
29 price. These items include title and registration fees,  
30 federal excise taxes, insurance, manufacturer's rebates, and  
31 refundable deposits. The amendment of this section also sets  
32 forth that when the parties to a lease agree to include the  
33 tax in the lease payments to be paid by the lessee, the total  
34 of the use tax shall not be included in the computation of  
35 total lease price. Instead, the cost of the tax shall only be

1 reflected as part of the monthly lease payments. Providing an  
2 exclusion of the tax in the computation of total lease price  
3 in this situation will assist in the computation of the tax  
4 and auditing of lessor records.

5 The bill also provides that if a lease is terminated prior  
6 to the termination date, no use tax paid is refundable except  
7 in the case the lease is terminated under the defective motor  
8 vehicle (lemon law) statute.

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**SENATE FILE 222  
FISCAL NOTE**

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A fiscal note for Senate File 222 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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Senate File 222 relates to the way in which leased cars are taxed. Legislation approved during the 1996 Legislative Session replaced the motor vehicle use tax imposed on leased vehicles with a lease tax. The lease tax under current law is equal to 5.0% of the sum of the lease payments plus the down payment.

Since the sum of the lease payments includes items such as warranties, federal excise tax, registration and title fees, and the lease tax itself, the 5.0% lease tax is applied to these items as well. Senate File 222 would remove these items from the tax base used to determine the amount of tax owed, effective for leases undertaken on or after July 1, 1997.

**ASSUMPTIONS**

This estimate is based on the assumptions provided in the Barents Group report cited in the sources section of this fiscal note. There is an additional assumption that the cost of fees, warranties, and the other non-lease tax items average \$300 per automobile. The average lease tax is assumed to be approximately \$500 per automobile.

**FISCAL IMPACT**

Senate File 222 is expected to result in a decrease in revenues to the Road Use Tax Fund of approximately \$550,000 in FY 1998 and subsequent fiscal years.

**SOURCES**

The Effect of Alternate Methods of Taxation of Leased Vehicles on Iowa Use Tax Revenues, Barents Group LLC of KPMG Peat Marwick LLP, January 31, 1995.

(LSB 2411SV, JAM)

FILED MARCH 4, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR

Drake, Chair  
Douglas  
Vilsack

Succeeded By  
(SF) HF 222

SSB

H.1  
Ways & Means

SENATE FILE

BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL  
REQUESTED BY DRAKE)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

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## SENATE FILE 222

## AN ACT

RELATING TO THE USE TAX ON MOTOR VEHICLE LEASING.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 423.4, subsection 16, Code 1997, is amended by adding the following new unnumbered paragraph:

NEW UNNUMBERED PARAGRAPH. A lessor may maintain the exemption from use tax under this subsection for a qualifying lease that terminates at the conclusion or prior to the contracted expiration date, if the lessor does not use the vehicle for any purpose other than for lease. Once the vehicle is used by the lessor for a purpose other than for lease, the exemption from use tax under this subsection no longer applies and, unless there is an exemption from the use tax, use tax is due on the fair market value of the vehicle determined at the time the lessor uses the vehicle for a purpose other than for lease, payable to the department. If the lessor holds the vehicle exclusively for sale, use tax is due and payable on the purchase price of the vehicle at the time of purchase pursuant to this chapter.

Sec. 2. Section 423.7A, subsections 1, 2, and 4, Code 1997, are amended to read as follows:

1. The tax imposed upon the use of leased vehicles subject to registration under chapter 321, with gross vehicle weight ratings of less than sixteen thousand pounds, excluding motorcycles and motorized bicycles, which are leased by a lessor licensed pursuant to chapter 321F for a period of twelve months or more shall be paid by the owner of the vehicle to the county treasurer or state department of transportation from whom the registration receipt or certificate of title is obtained. A registration receipt for a vehicle subject to registration or issuance of a certificate of title shall not be issued until the tax is paid in the initial instance. Tax on the lease transaction that does not

require titling or registration of the vehicle shall be remitted to the department. Tax and the reporting of tax due to the department shall be remitted on or before fifteen days from the last day of the month that the vehicle lease tax becomes due. Failure to timely report or remit any of the tax when due shall result in a penalty and interest being imposed on the tax due pursuant to sections 423.18 and 423.23.

2. The amount subject to tax shall be computed on each separate lease transaction by ~~multiplying the number of months of the lease by the monthly~~ taking the total of the lease payments, plus the down payment, less any manufacturer's rebate and excluding all of the following:

- a. Title fee.
  - b. Registration fees.
  - c. Vehicle lease tax pursuant to this section.
  - d. Federal excise taxes attributable to the sale of the vehicle to the owner or to the lease of the vehicle by the owner.
  - e. Optional service or warranty contracts subject to tax pursuant to section 422.43, subsection 6.
  - f. Insurance.
  - g. Manufacturer's rebate.
  - h. Refundable deposit.
  - i. Finance charges, if any, on items listed in paragraphs "a" through "h".
- If any or all of the items in paragraphs "a" through "i" are excluded from the taxable lease price, the owner shall maintain adequate records of the amounts of those items. If the parties to a lease enter into an agreement providing that the tax imposed under this statute is to be paid by the lessee or included in the monthly lease payments to be paid by the lessee, the total cost of the tax shall not be included in the computation of lease price for the purpose of taxation under this section. The county treasurer or the state department of transportation, or the department of revenue and finance shall require every applicant for a registration receipt for a vehicle subject to tax under this section to supply

information as the county treasurer or director deems necessary as to the date of the lease transaction, the lease price, and other information relative to the lease of the vehicle.

4. If the lease is terminated prior to the termination date contained in the lease agreement, no refund shall be allowed for tax previously paid on-the-monthly-rental-payments under this section, except as provided in section 322G.4.

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MARY E. KRAMER  
President of the Senate

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RON J. CORBETT  
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 222, Seventy-seventh General Assembly.

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MARY PAT GUNDERSON  
Secretary of the Senate

Approved April 18, 1997

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TERRY E. BRANSTAD  
Governor