

Department of Revenue Fiscal Note

Revised

Bill Number: 1986 HB	Title: Vehicles for rental/tax	Agency: 140-Department of Revenue
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Part I: Estimates

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No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax	32,500,000	50,800,000	83,300,000	107,800,000	116,000,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	(70,000)	(100,000)	(170,000)	(220,000)	(230,000)
GF-STATE-State 01 - Taxes 58 - Motor Vehicle Excise	1,500,000	2,350,000	3,850,000	4,980,000	5,360,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax	50,000	80,000	130,000	170,000	180,000
Total \$	33,980,000	53,130,000	87,110,000	112,730,000	121,310,000

Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.7		0.4		
Account					
GF-STATE-State 001-1	100,800		100,800		
Total \$	100,800		100,800		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

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If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

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Capital budget impact, complete Part IV.

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Requires new rule making, complete Part V.

Legislative Contact: Tracey Taylor	Phone: 603-786-7152	Date: 02/14/2025
Agency Preparation: Victor Crosetti	Phone: 603-534-1554	Date: 03/04/2025
Agency Approval: Marianne McIntosh	Phone: 603-534-1505	Date: 03/04/2025
OFM Review: Megan Tudor	Phone: (603) 890-1722	Date: 03/14/2025

Request # 1986-3-3

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Note: This fiscal note reflects a revision to the revenue impacts and replaces fiscal note number 1986-2.

CURRENT LAW:

Vehicles purchased solely for rental or leasing without an operator are considered purchases for resale and exempt from retail sales and use taxes.

PROPOSAL:

Beginning October 1, 2025, vehicles purchased exclusively for rental or leasing without an operator are assessed retail sales tax.

EFFECTIVE DATE:

The bill takes effect 90 days after the final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS

- This estimate assumes the intent of the bill is that sales of motor vehicles to car rental companies for use in retail car rentals are subject to sales or use tax. The language in this bill will be amended to reflect the intent. An amended fiscal note will be prepared to reflect the actual language of the bill if the bill is not amended once referred out of committee.
- This estimate includes passenger cars and recreational vehicles (RV).
- National car rental market data represents a proportional average of vehicles the Washington rental car industry purchases. We estimate 23,200 new vehicles will be purchased for rental starting in fiscal year 2026.
- The annual growth rate of rental car purchases reflects the Economic and Revenue Forecast Council's November 2024 sales and use taxes forecast.
- Local revenue estimates use the statewide average local sales and use taxes rate of 3.00%.
- We estimate 125 RVs purchased for rental starting in the fiscal year 2026.
- The average new vehicle price is \$30,000, and \$50,000 for an RV.
- Demand for RV rentals continues to increase. This estimate assumes a growth of 7.4% per year.
- The Department of Revenue (department) receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenue impacts for the state and a two-month delay in revenue impacts for local jurisdictions.
- This proposal applies to sales of motor vehicles for use on or after October 1, 2025, and impacts eight months of state collections and seven months of local collections in fiscal year 2026.
- Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Additionally, local governments may also receive a portion of state sales and use taxes. Under this legislation, the amount of revenue shared with tribes and local governments may increase.

DATA SOURCES

- Economic and Revenue Forecast Council, November 2024 forecast
- Repairer Driven News. "Car rental industry has second record-breaking year for revenue."
- Business Plans. "What Are the Operating Expenses Of An Auto Rental Company."
- RV Industry Association, Historical RV Data

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REVENUE ESTIMATES

This bill increases state revenues by an estimated \$34 million in the eight months of impacted collections in fiscal year 2026, and by \$53.1 million in fiscal year 2027, the first full year of impacted collections. This bill also increases local revenues by an estimated \$13.1 million in the seven months of impacted collections in fiscal year 2026, and by \$23.5 million in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 33,980
FY 2027 -	\$ 53,130
FY 2028 -	\$ 55,310
FY 2029 -	\$ 57,420
FY 2030 -	\$ 59,510
FY 2031 -	\$ 61,800

Local Government, if applicable (cash basis, \$000):

FY 2026 -	\$ 13,100
FY 2027 -	\$ 23,500
FY 2028 -	\$ 24,500
FY 2029 -	\$ 25,400
FY 2030 -	\$ 26,300
FY 2031 -	\$ 27,300

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- This bill affects 800 taxpayers.
- Taxpayers will pay sales tax on their purchases of motor vehicles.

FIRST YEAR COSTS:

The department will incur total costs of \$100,800 in fiscal year 2026. These costs include:

Labor Costs – Time and effort equate to 0.72 FTE.

- Create a special notice and update relevant information on the department's website.
- Amend one administrative rule.
 - Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
 - Examine accounts and make corrections as necessary.
 - Answer additional phone calls and counter inquiries from businesses, individuals, and accountants regarding tax questions and tax return preparation.
 - Meet with tribes with revenue-sharing compact agreements to discuss changes that would be appropriate to preserve the intended benefits of the negotiated compact.

Object Costs - \$9,800.

- Travel expenses for meetings with compacting tribes.

SECOND YEAR COSTS:

The department will not incur costs in fiscal year 2027.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail**III. A - Expenditures by Object Or Purpose**

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.7		0.4		
A-Salaries and Wages	57,500		57,500		
B-Employee Benefits	20,800		20,800		
E-Goods and Other Services	9,900		9,900		
G-Travel	9,800		9,800		
J-Capital Outlays	2,800		2,800		
Total \$	\$100,800		\$100,800		

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
EMS BAND 4	135,635	0.0		0.0		
EMS BAND 5	158,451	0.0		0.0		
EXCISE TAX EX 3	66,012	0.1		0.1		
MGMT ANALYST4	78,468	0.1		0.1		
TAX INFO SPEC 1	47,988	0.1		0.1		
TAX POLICY SP 2	80,460	0.1		0.0		
TAX POLICY SP 3	91,068	0.1		0.1		
TAX POLICY SP 4	98,040	0.1		0.1		
WMS BAND 2	101,410	0.0		0.0		
WMS BAND 3	115,352	0.1		0.1		
Total FTEs		0.7		0.4		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact**IV. A - Capital Budget Expenditures**

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Request # 1986-3-3

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the standard process to amend WAC 458-20-211, titled: "Leases or rentals of tangible personal property, bailments."

This rulemaking would affect vehicle rental companies.



Ten-Year Analysis

Bill Number 1986 HB	Title Vehicles for rental/tax	Agency 140 Department of Revenue
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This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☐ **Indeterminate Cash Receipts**

Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	Fiscal Year 2034	Fiscal Year 2035	2026-35 TOTAL
Business & occupation tax	001	(70,000)	(100,000)	(110,000)	(110,000)	(110,000)	(120,000)	(120,000)	(130,000)	(130,000)	(140,000)	(1,140,000)
Motor vehicle sales tax	001	1,500,000	2,350,000	2,440,000	2,540,000	2,630,000	2,730,000	2,830,000	2,940,000	3,050,000	3,170,000	26,180,000
Retail sales tax	001	32,500,000	50,800,000	52,900,000	54,900,000	56,900,000	59,100,000	61,300,000	63,600,000	66,100,000	68,600,000	566,700,000
Retail sales tax	553	50,000	80,000	80,000	90,000	90,000	90,000	100,000	100,000	110,000	110,000	900,000
Total Retail sales tax		32,550,000	50,880,000	52,980,000	54,990,000	56,990,000	59,190,000	61,400,000	63,700,000	66,210,000	68,710,000	567,600,000
Total		33,980,000	53,130,000	55,310,000	57,420,000	59,510,000	61,800,000	64,110,000	66,510,000	69,130,000	71,740,000	592,640,000
Biennial Totals		87,110,000	112,730,000	121,310,000	130,620,000	140,870,000	592,640,000					

Narrative Explanation (Required for Indeterminate Cash Receipts)

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Agency Preparation: Victor Crosetti	Phone: 360-534-1554	Date: 3/4/2025 5:12:35 pm
Agency Approval: Marianne McIntosh	Phone: 360-534-1505	Date: 3/4/2025 5:12:35 pm
OFM Review:	Phone:	Date: