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FISCAL IMPACT REPORT

SPONSOR:	Silva	DATE TYPED:	02/10/03	HB	101
SHORT TITLE	E: Motor Vehicle or Tra	iler Lease		SB	

ANALYST: Hayes

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
	NFI				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

<u>Responses Received From</u> Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 101 adds a section to Chapter 66, Article 3, NMSA 1978 regarding lease agreements for a motor vehicle or trailer. The new material states that a lease agreement does not create a sale or security interest merely because the agreement allows the lease price to be adjusted upward or downward with respect to the amount realized by the Lessor upon the sale or disposition of the vehicle

Effective date of the provisions of this bill is July 1, 2003.

Significant Issues

1. The bill states that if the sale or "other disposition" of a leased vehicle results in more or less money that the original "lease price" for the vehicle or trailer, then the dollar profit or loss will not create a security interest for the Lessor.

2. The intent of this legislation is somewhat unclear. <u>Possible example</u>: A traveler rents a vehicle while visiting New Mexico, signs a lease agreement for the vehicle (as required by rental car agencies), but drives extra miles or leases the vehicle for more days than the original lease. The

House Bill 101 -- Page 2

result would be extra fees charged to the traveler and more profit to the rental car agency. Given that the lease agreement price has been adjusted upward in this scenario, how does it interface with this legislation if the Lessor later sells the vehicle?

TECHNICAL ISSUES

"Lease agreement" needs to be defined.

POSSIBLE QUESTIONS

- 1. If this bill is enacted, what would be the consequence to the consumer? To the Lessor?
- 2. Provide a real-life example of how a price "adjustment" of a leased vehicle currently creates a security interest to a Lessor. What are the tax consequences? Why does an adjustment in the lease price create a "sale" under current law?
- 3. How does this bill remedy the perceived problem?

CMH/njw