

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

February 25, 2008
3:03 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mark Neuman, Vice Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

Representative Jay Ramras

COMMITTEE CALENDAR

HOUSE BILL NO. 413

"An Act extending the termination date for the Real Estate Commission; and providing for an effective date."

- MOVED HB 413 OUT OF COMMITTEE

HOUSE BILL NO. 379

"An Act relating to educational requirements for licensure as a certified public accountant."

- MOVED HB 379 OUT OF COMMITTEE

HOUSE BILL NO. 350

"An Act providing for an amount to be deducted and retained for collecting and submitting the vehicle rental tax."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 413

SHORT TITLE: EXTENDING THE REAL ESTATE COMMISSION

SPONSOR(s): LABOR & COMMERCE

02/20/08	(H)	READ THE FIRST TIME - REFERRALS
02/20/08	(H)	L&C, FIN

02/25/08 (H) L&C AT 3:00 PM CAPITOL 17

BILL: HB 379

SHORT TITLE: CPA EDUCATION REQUIREMENTS

SPONSOR(S): REPRESENTATIVE(S) HAWKER

02/19/08 (H) READ THE FIRST TIME - REFERRALS
02/19/08 (H) L&C, FIN
02/25/08 (H) L&C AT 3:00 PM CAPITOL 17

BILL: HB 350

SHORT TITLE: VEHICLE RENTAL TAX COLLECTION

SPONSOR(S): REPRESENTATIVE(S) HARRIS

02/04/08 (H) READ THE FIRST TIME - REFERRALS
02/04/08 (H) L&C, FIN
02/25/08 (H) L&C AT 3:00 PM CAPITOL 17

WITNESS REGISTER

ELEANOR WOLFE, Staff
to Representative Kurt Olson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 413 on behalf of the prime sponsor, the House Labor and Commerce Committee.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented auditor findings and recommendations and answered questions on HB 413.

REPRESENTATIVE MIKE HAWKER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as the prime sponsor of HB 379.

MAX MERTZ, CPA; Chair
Board of Public Accountancy
Division of Corporations, Business, and Professional Licensing
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on HB 379.

PETE FELLMAN, Staff
to Representative John Harris
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on behalf of the prime sponsor of HB 350, Representative John Harris.

JOHANNA BALES, Deputy Director
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions on HB 350.

GARY ZIMMERMAN,
General Manager
Avis Rent A Car (AVIS)
Anchorage, Alaska

POSITION STATEMENT: Testified on HB 350.

JIM POLYEFKO, General Manager
National and Alamo Car Rental
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 350.

CRAIG FLOYD, Co-owner
Thrifty Car Rental; Dollar Car Rental Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 350.

DARYL BENNETT, Owner
Great Alaskan Holidays
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 350.

LEON MCKEAN, General Manager
Great Alaskan Holidays
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 350.

LYNN ZEILER, Representative
Budget Rent-A-Car (Budget)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 350.

WAYNE MARTIN, Employee
ABC Motor Homes
Palmer, Alaska

POSITION STATEMENT: Testified in support of HB 350.

JOHN COOK, Legislative Director
Alaska Auto Dealers Association
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 350.

ACTION NARRATIVE

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at [3:03:51 PM](#). Representatives Gardner, Buch, Neuman, and Olson were present at the call to order. Representatives Gatto and LeDoux arrived as the meeting was in progress.

HB 413-EXTENDING THE REAL ESTATE COMMISSION

[3:04:13 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 413, "An Act extending the termination date for the Real Estate Commission; and providing for an effective date."

ELEANOR WOLFE, Staff, to Representative Kurt Olson, Alaska State Legislature, explained that HB 413 would extend the Real Estate Commission until June 30, 2016.

[3:04:49 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, stated that the audit recommends extending the termination date of the Real Estate Commission until June 30, 2016. The report contained several recommendations. Although one recommendation is more related to finance, she pointed out one fiscal change that affected the recommendation to increase license fees. The auditors concluded the field audit work in May and recommended increasing fees. However, due to subsequent fiscal activity, it is no longer a valid recommendation. The board is licensing and regulating real estate professionals in a manner to serve the public. The division recommends extending the termination date of the Real Estate Commission.

[3:06:06 PM](#)

REPRESENTATIVE BUCH inquired as to recommendation two, which identified that a board member had been appointed to the

commission without having met the professional experience requirements.

MS. DAVIDSON explained that the audit identified that the experience requirement for board member was not met. The statute requires three years of experience and the board member only had two years of experience at the time of appointment. The division addressed a recommendation to the governor's office, who agreed all members of the board should meet statutory requirements and appreciated the division bringing this matter to their attention. She offered that the passage of time has remedied the problem.

REPRESENTATIVE BUCH inquired as to whether any legislation passed during the time period when the board member was not eligible to serve, or were any decisions made that are moot.

MS. DAVIDSON answered that all formal actions taken by the board would have to be reviewed to determine if the individual's vote mattered. The auditors did not find anything in particular, she related, but that brings up the core of the problem.

[3:08:25 PM](#)

REPRESENTATIVE GARDNER referred to the audit's prior findings with respect to the Real Estate Surety Fund (RESF). She inquired as to whether pending legislation that would replace the surety fund with a recovery fund would be in keeping with the division's recommendations.

MS. DAVIDSON offered she is aware that there is a bill before the legislature, but that she has not done in-depth review of it. In the course of audit, the auditors reviewed the RESF with reference to whether it duplicates activities. The division's concern is whether there is private insurance available for approximately the same value that is available to members. Of 11 western states surveyed, seven states had surety funds and did not require professional liability insurance, she noted. Another two states did not have surety funds nor required professional liability insurance. The remaining two states did not have surety funds but did require professional liability. Annual premiums on these Errors and Omissions (E&O) insurance policies can range from \$500 to \$5,000 for coverage equal to or more than the coverage provided by the RESF. The auditors did not find a ready market for that type of insurance for the same cost. If you increase the cost to the licensees, that cost is typically passed on to consumers, she opined. The sunset

legislation surrounds public interest. Thus, the auditors examined duplicate activity and concluded there is none. She reaffirmed she has not reviewed pending legislation that affects the RESF.

REPRESENTATIVE GARDNER inquired as to whether the surety fund is the recourse when the claim is not an error or omission, but is the result of fraud or misrepresentation.

[3:12:02 PM](#)

MS. DAVIDSON answered that the division examined the cost of a surety bond and cost of E&O insurance as a benchmark.

CHAIR OLSON noted that HB 413 extends the Real Estate Commission. Another bill, HB 357 -CLAIMS AGAINST REAL ESTATE LICENSEES is currently before the House Labor and Commerce Standing Committee, but is being held pending additional committee work on issues, he noted. He offered to have Ms. Davidson testify on the other bill when HB 357 is heard.

[3:12:43 PM](#)

MS. DAVIDSON, in response to Representative Neuman, stated that board membership information is posted to the Department of Commerce, Community, & Economic Development web site, as well as individual professionals who are licensed. However, she was uncertain whether their credentials are also listed. In further response to Representative Neuman, Ms. Davidson offered that the governor's office, Boards and Commissions would have information. Additionally, confirmation hearings are held on appointees to boards, so there may be credential information contained in the committee minutes. She explained that the Real Estate Commission licenses and regulates the occupation, but that there are also professional organizations.

[3:15:30 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 413.

[3:15:48 PM](#)

REPRESENTATIVE NEUMAN moved to report HB 413 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 413 was reported from the House Labor and Commerce Standing Committee.

3:16:02 PM

The committee took an at-ease from 3:16 p.m. to 3:18 p.m.

HB 379-CPA EDUCATION REQUIREMENTS

3:18:08 PM

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 379, "An Act relating to educational requirements for licensure as a certified public accountant."

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, stated that HB 379 adds transitional language to correct a problem that resulted from passage of HB 274 in 2006, which was a rewrite of the Certified Public Accountant's (CPA) licensure statutes. Once the statutes were applied to the actual practice, some imperfections arose. The omnibus bill that passed the legislature in 2006 moved Alaska much closer to the national standards for CPAs. Previously in the state, a person could become licensed as a CPA by obtaining an accounting degree at an accredited university, working for two years under the supervision of a licensed CPA, and passing the qualifying examination. However, prior to passage of HB 274 in 2006, people could get licensed without first obtaining an undergraduate degree in accounting. Thus, a person with an undergraduate degree, other than accounting, could meet the other requirements, including passage of the uniform public accounting examination, but was also required to work for three years under the supervision of a licensed CPA. The bill neglected to phase out those people who acquired a degree other than accounting, such as in finance, who planned on using the three years of experience to become a CPA. Thus, the bill would essentially "grandfather in" people who received their baccalaureate degrees prior to January 1, 2008. Those seeking licensure as CPAs, who receive their baccalaureate degree after January 1, 2008, will be required to have a degree in accounting. He related that this change is wholly supported by the Alaska Board of Public Accountancy.

3:22:12 PM

REPRESENTATIVE LEDOUX inquired as to whether people with a degree such as paleontology or biology seek CPA licensure.

REPRESENTATIVE HAWKER answered that it is possible, but that the individual would still have to pass the stringent national exam.

REPRESENTATIVE HAWKER in response to Representative Neuman, explained that the board could provide a specific interpretation of baccalaureate degrees including foreign degrees that would be considered as equivalent.

[3:25:42 PM](#)

MAX MERTZ, CPA, Chair, Board of Public Accountancy, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community, & Economic Development (DCCED), in response to Representative LeDoux, explained that people with non-business degrees generally return to college to take the requisite hours in accounting courses prior to taking the qualifying examination. He opined it would be very difficult to pass the CPA exam without a foundation in accounting. The board supported phasing out the three year experience option in order to ensure that the person taking the exam holds a baccalaureate degree in accounting.

[3:26:34 PM](#)

MR. MERTZ, in response to Representative Gatto, offered that certification is valid, subject to biennial renewal which includes continuing education for CPAs. Once the CPA examination is taken, it does not have to be taken again. However, a licensee can elect to place their license into inactive status. When the licensee decides to reactivate his/her license, they would be required to pay back registration fees and meet continuing education requirements of 120 hours. In further response to Representative Neuman, Mr. Mertz explained the baccalaureate equivalency relates largely to foreign candidates. Since many countries do not have baccalaureate degrees, candidates submit their foreign degree to one of several organizations that evaluate it against the U.S. baccalaureate degree for equivalency. The organization provides the candidate with a certificate of equivalency, which is accepted by the board. In further response to Representative Neuman, Mr. Mertz advised that the foreign candidate must still pass the national qualifying CPA exam.

[3:29:19 PM](#)

CHAIR OLSON, after first determining no one wished to testify, closed public testimony on HB 379.

[3:30:09 PM](#)

REPRESENTATIVE GARDNER moved to report HB 379 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 379 was reported from the House Labor and Commerce Standing Committee.

[3:30:41 PM](#)

The committee took an at-ease from 3:30 p.m. to 3:33 p.m.

HB 350-VEHICLE RENTAL TAX COLLECTION

[3:33:32 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 350, "An Act providing for an amount to be deducted and retained for collecting and submitting the vehicle rental tax."

[3:33:47 PM](#)

PETE FELLMAN, Staff, to Representative John Harris, Alaska State Legislature, said that HB 350 is an effort to help vehicle rental businesses with a 3 percent rebate of the ten percent state vehicle rental tax. He explained that most car rental businesses use credit cards that charge a fee. The businesses must fill out paperwork to collect and remit the vehicle rental tax on behalf of the state. The purpose of HB 350 is to offer a rebate to all vehicle rental agencies, but in particular, to assist the "mom and pop" businesses that rent vehicles to tourists.

MR. FELLMAN pointed out that 110 businesses currently collect and remit the vehicle rental tax. He posed three scenarios to explain how many businesses would be affected by HB 350, depending on the maximum quarterly vehicle rental tax that could be retained by businesses. He explained if the cap for the rebate was set at \$1,000 per year, 27 businesses would remit the full tax and 83 would retain 3 percent of the tax collected. The small businesses would benefit from HB 350. If the cap for the tax rebate was changed to \$2,000 per year, 13 businesses would remit the full tax and 97 would retain 3 percent of the tax collected. Finally, if the cap for the rebate was changed to \$5,000 per year, 8 businesses would remit the full tax, and

102 businesses would retain 3 percent of the tax collected. The original bill did not set a cap on the amount of the tax rebate.

[3:37:06 PM](#)

MR. FELLMAN, in response to Representative Gatto, explained that the proposed committee substitute would cap the tax rebate at \$1,000 per quarter. In that scenario, 10 taxpayers would remit the full tax collected and 100 would retain 3 percent of the vehicle tax collected on behalf of the state.

[3:39:02 PM](#)

The committee took an at-ease from 3:39 p.m. to 3:41 p.m.

[3:41:53 PM](#)

REPRESENTATIVE NEUMAN moved to adopt CSHB 350, labeled 25-LS1363\C, Bullock, 2/22/08, as the working document. There being no objection, Version C was before the committee.

[3:42:14 PM](#)

REPRESENTATIVE LEDOUX asked whether Mr. Fellman could provide a list of all taxes levied on small businesses by the state. She noted her interest in which taxes small businesses collect on behalf of the state. She read a list of taxes from a list provided by Representative Gardner, such as the bed tax and game tax. She further inquired as to any other rebates that are offered on taxes collected by businesses on behalf of the state.

MR. FELLMAN explained that there are two types of taxes that businesses remit, an excise tax and an income tax. He pointed out that an excise tax is collected on behalf of the state, whereas the other is an income tax. He further explained that there is a "no timely filing credit" and a "timely filing credit." A no timely filing credit means there is not any tax [rebate allowed], such as the alcohol tax, or commercial passenger vessel tax. However, taxes such as the cigarette tax allow businesses a timely filing credit.

REPRESENTATIVE LEDOUX inquired as to whether a rebate should be offered on all taxes that businesses collect for the state instead of attempting to single out the vehicle rental tax.

MR. FELLMAN speculated that some businesses incur more expenses when collecting some taxes, particularly when credit cards are

used, so the timely filing credit provides relief for the businesses. In further response to Representative LeDoux, Mr. Fellman explained that vehicle rental cards require a credit card, but that other businesses have other options.

[3:47:09 PM](#)

REPRESENTATIVE GARDNER inquired as to the total tax rate for motor fuel taxes and tobacco taxes, since the sponsor statement lists that 1 percent of the motor fuel taxes can be deducted and retained.

MR. FELLMAN offered to provide information on the total tax. He noted that the timely filing fee for the tobacco tax is set at .4 percent and timely filing fees for the tire tax is set at 5 percent with a \$900 cap on the rebate. In further response to Representative Gardner, Mr. Fellman answered that while motor fuel taxes are often paid by credit card, the motorist often remits a check or cash, but credit cards are used for vehicle rentals.

[3:49:11 PM](#)

REPRESENTATIVE GARDNER opined that the actual cost to a merchant for tax collection is minimal once their collection system is set up.

REPRESENTATIVE BUCH related his understanding that hunting and fishing licensing vendors retain a portion, perhaps 3 percent, of the amount collected to offset the overhead. He inquired as to whether the fishing and hunting license fees are also considered an excise tax.

MR. FELLMAN surmised that the dealer remits an excise tax. He was uncertain of the amount, but offered to provide the information to the committee.

[3:51:33 PM](#)

MR. FELLMAN, in response to Representative Gatto, surmised that the parking facility tax, airport tax, Anchorage municipal tax, and the state tax are all part of the 10 percent state tax assessed.

REPRESENTATIVE GATTO pointed out that some of the taxes collected are not ones collected on behalf of the state. Thus, if a rebate were given to the business for all the taxes

collected, the business would receive a rebate on some taxes collected for other entities.

[3:52:31 PM](#)

REPRESENTATIVE LEDOUX asked for clarification on the distinction between businesses that use credit cards and those that don't use credit cards.

MR. FELLMAN answered that car rental agencies are not required to use a credit card by statute. However, most vehicle rental agencies have a company policy that the person must use a credit card.

REPRESENTATIVE LEDOUX related her understanding is that while a credit card is required at the time of rental, that upon returning the car, the person could remit cash. She surmised that the process is similar to one used by hotels such that the hotel requires a credit card during the check in process, but when a person checks out, the hotel will accept other forms of payment.

[3:55:05 PM](#)

MR. FELLMAN, in response to Representative Neuman, offered to provide a listing of taxes, rebates, and timely filing credit amounts for the committee. In further response to Representative Neuman, Mr. Fellman offered to provide the committee with the composition of the ten percent tax.

MR. FELLMAN explained that the tourism industry businesses brought this matter to the prime sponsor's attention. This bill is intended to aid small businesses involved in tourism and to help foster tourism. In response to Chair Olson, Mr. Fellman related his understanding that other states do not offer similar rebates on vehicle rental taxes.

[3:59:43 PM](#)

REPRESENTATIVE NEUMAN inquired as to whether municipalities offer timely filing credits to businesses.

JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue (DOR), said is not aware of any municipalities offering timely filing credits to businesses. She explained that other states provide timely filing credits for businesses. She further explained that when a business has the fiduciary

responsibility to collect taxes on behalf of a third party and remit it to the state, that it is not an uncommon practice to offer a credit. She responded to earlier questions raised, including that the vehicle rental tax was effective on January 1, 2004. The tire fee was enacted during the same legislative session, and was effective in September 2003. A timely filing credit is a method the division uses to compensate the businesses for their fiduciary responsibilities. She related that the department anticipated that vehicle rental agencies would be eligible for a timely filing credit, but that the legislature did not offer it. She offered that the trend is to compensate businesses and offer timely filing credits. The alcohol tax and other taxes are long standing taxes. She noted that the tobacco taxes require businesses to spend more time in the collection process. While she was uncertain whether municipalities offer credits, she noted that some municipalities use state law to craft their ordinances. She opined that the Municipality of Anchorage modeled its cigarette tax credit on state law.

CHAIR OLSON related his understanding that the Kenai Peninsula Borough also offers a rebate on sales tax.

[4:02:50 PM](#)

REPRESENTATIVE GATTO posed a scenario in which a dealer sells tires four at a time, and collects a \$2.50 state fee per tire, compared to state fuel set at 8 cents a gallon. He opined that the rebate should be calculated differently based on the actual time needed to collect the tax on behalf of the state. The amount of time taken to collect various taxes varies, and in some instances may require hand entries on the bill of sale and other instances the tax is automatically calculated by computer. Thus, the total amount of time the business spends collecting the tax varies. He opined that car rental taxes are computed generated too, based on the type of vehicle the client rents.

MS. BALES answered that the intent of the timely filing credit is to compensate businesses for processing the tax collection such as filling out the state's paperwork and tracking the specific tax. She posed a scenario that a state worker is exempt from the vehicle rental tax. The car rental tax must retain paperwork, so there is more recordkeeping for the business. She opined that the tire tax, vehicle rental tax, and the motor fuel tax are similar, with respect to the additional paperwork businesses must complete. She also noted that businesses receive timely filing credit for collecting motor

fuel taxes. She explained that of 29 taxpayers who remit alcohol taxes, 6 to 10 large distributors pay 90 percent of the alcohol taxes. Whereas, the tire and vehicle rental industry is comprised of 100 to 200 businesses, many of whom are small businesses who are burdened with the additional work to collect and remit the vehicle rental taxes.

[4:06:28 PM](#)

REPRESENTATIVE GATTO referred to a letter in the committee packet from Mr. Bennett, Great Alaskan Holidays that states it keeps 5 percent, up to \$900 per quarter as a reward for remitting fees in a timely manner. He noted the letter also mentions that MasterCard charges his company a fee of 1.85 percent. He surmised that the amount that businesses retain varies seems to depend on the commodity.

MS. BALES acknowledged that Representative Gatto points out an anomaly. She opined that someone should review all the taxes the state collects and determine what amount to compensate companies for collecting taxes on behalf of the state. She pointed out that the timely filing credit only applies to the 10 percent state excise tax and does not apply to a variety of other fees or taxes assessed for car rentals including the 4 percent facility fee.

[4:08:36 PM](#)

REPRESENTATIVE GATTO referred to the title of the CS for HB 350 which read, "An Act providing for an amount to be deducted and retained for collecting and submitting the vehicle rental tax." He referred to the bill, which read:

On page 1, line 5,

(c) A person required to collect and pay the tax
to the department under (a) of this section ...

REPRESENTATIVE GATTO noted that there is not any reference to clarify that HB 350 refers to only the state portion of taxes collected.

MS. BALES explained that subsection (a) refers to the State of Alaska vehicle rental tax.

[4:09:39 PM](#)

REPRESENTATIVE NEUMAN referred to page 1, line 5, and inquired as to whether the bill should read "business" instead of "person."

MR. FELLMAN answered that he could pose that question for the legal drafter to answer and perhaps clarify.

MS. BALES, in response to a request by Representative Neuman, offered to provide a list of taxes collected on behalf of the state and any timely filing credits offered.

[4:11:39 PM](#)

REPRESENTATIVE GATTO referred to subsection (a) of AS 43.52.050, which he noted refers back to AS 43.52.010 which states, "an excise tax", and inquired as to whether that is limited to a state tax.

MS. BALES explained there are many excise taxes, but the way the statute is set up is to only apply to the state's rental car tax and no other taxes.

[4:13:08 PM](#)

GARY ZIMMERMAN, General Manager, Avis Rent A Car (AVIS), stated that AVIS has businesses that operate throughout Alaska and employ over 100 employees throughout Alaska. He recalled testifying several years ago about the financial hardship that imposing a vehicle rental tax would have on individual businesses. He urged support for HB 350 for reimbursement for collecting the vehicle rental tax. Being a tax collector for the state costs AVIS money, with indirect and direct costs associated with collecting the vehicle rental tax, he opined. He noted that direct costs include credit card transaction fees, which range from 2 to 3 percent. Last year AVIS collected over \$1.2 million in tax revenue from customers which resulted in a direct cost of \$25,000. Thus, AVIS is not in favor of a \$1,000 cap. Indirect costs for AVIS include upgrades to computers, time to process payments, and countless hours to train employees so they can explain to customers the difference between the state and municipal fees and taxes and exemptions. Other taxing authorities provide for similar timely filing credit, he opined. The City of Kenai and the City of Skagway reimburse AVIS 5 percent of the taxes collected by AVIS. He concluded that collecting the tax costs businesses money. He urged the committee to consider and pass legislation to lessen that burden.

[4:15:52 PM](#)

MR. ZIMMERMAN, in response to Representative Gatto, answered that the rates charged varies by transaction and credit card company. In further response to Representative Gatto, Mr. Zimmerman agreed that each rental car agency pays the same rate to use the credit card services. He pointed out that when a vehicle rental car agency raises its rates to compensate for the credit card fee, that the increase is also taxed. Ultimately, the company absorbs the cost to collect the tax. He posed a scenario in which the company would raise its rate by \$1, and of that 10 cents would reflect the vehicle rental tax.

[4:17:25 PM](#)

REPRESENTATIVE LEDOUX inquired as to whether a customer must use a credit card at the time they remit payment.

MR. ZIMMERMAN answered that AVIS requires a credit card be used at the time of the initial transaction unless the customer prearranged some other type of payment. However, the customer can remit cash or travelers check at the time the rental car is returned.

[4:18:12 PM](#)

JIM POLYEFKO, General Manager, National and Alamo Car Rental, agreed with Mr. Zimmerman's testimony. He offered that in 2007, his company collected approximately \$900,000 in vehicle rental taxes. He offered that credit card fees range between 2 to 3 percent, depending on the company. Additionally, costs are incurred with annual state audits, when conducted, as well as for labor costs. He urged the committee to support HB 350 without a cap to allow a 3 percent rebate to companies to offset expenses. He opined that companies should not be treated differently due to their size as all companies are in the business of renting vehicles.

[4:19:53 PM](#)

REPRESENTATIVE NEUMAN related his understanding that the bonding authority on parking garage at the Ted Stevens Anchorage International Airport benefitted rental car companies since they can fuel and clean their cars on site. He inquired as to whether the ten percent tax is applied throughout the state.

MR. POLYEFKO related that he could not answer for other cities, only on the ten percent state vehicle rental tax as a stand alone excise tax. In further response to Representative Neuman, Mr. Polyefko answered that separate fees are assessed on a per day basis to assist in paying for the facility at the airport.

[4:22:25 PM](#)

CRAIG FLOYD, Co-owner, Thrifty Car Rental; Dollar Car Rental, stated that his business is a family business that has grown considerably over the years. The additional taxes create a burden and the companies need relief, he opined. Our costs for credit card discount fees vary, but the overall average about 2.65 percent, he noted. He estimated that it takes his accounting office approximately 7.5 hours a week and approximately \$29,000 annually to administer and collect taxes. He urged committee members to support HB 350 without the \$1,000 cap. He agreed with previous car rental testifiers, Mr. Zimmerman and Mr. Polyefko.

[4:23:54 PM](#)

DARYL BENNETT, Owner, Great Alaskan Holidays, stated that his business is a "mom and pop" operation that started with four motor homes 23 years ago and it is now the largest motor home rental in Alaska. Last year he employed 30 people year round and approximately 75 employees during the peak season. In the past four years, he has collected in excess of \$500,000 in vehicle rental taxes. He echoed earlier testimony that credit card discount fees vary. He noted that the fees range from 1.85 percent for a MasterCard with no awards associated with it to 2.3 percent for others. However, he noted that these are percentages that he has negotiated so there is not consistency or any correlation between his fees and other car rental agencies. His accounting department entered 18,000 entries in the last 4 years, which is quite a bit of effort, he opined. He supports the rebate to assist his company in offsetting costs it incurs to collect the vehicle rental tax on behalf of the state. He opposed capping the rebate to \$1,000. He pointed out that in January through March, and October through December he does not have any rentals. Thus, he would receive a \$2,000 rebate for the year, which is "a drop in the bucket," he opined.

[4:27:04 PM](#)

LEON MCKEAN, General Manager, Great Alaskan Holidays, stated that as an employee of Great Alaskan, he supports HB 350 without

a cap. Originally, collecting the vehicle rental tax was a way to assess travelers to Alaska. He echoed and supported Mr. Bennett's testimony.

[4:28:11 PM](#)

LYNN ZEILER, Representative, Budget Rent-A-Car (Budget), echoed earlier testimony with respect to the cost associated with credit cards. She noted that Budget requires customers use credit cards. She noted her staff obtains information and receives training in order to be able to offer information to customers who come from all over the world. Their accountant oversees the audits and reports to ensure compliance. She urged the committee to support HB 350.

[4:29:53 PM](#)

WAYNE MARTIN, Employee, ABC Motor Homes, stated that ABC Motor Homes has been in business for over 20 years. He related that he supports HB 350. He urged the committee to move HB 350 forward without a cap, since its intent is to relieve a burden to businesses. He explained that he does not mind collecting the vehicle rental tax on behalf of the state, but a small rebate will help businesses. He echoed earlier testimony that it is not just a computer function and state auditors monitor the tax collection.

[4:31:22 PM](#)

JOHN COOK, Legislative Director, Alaska Auto Dealers Association, offered his support for HB 350 without a cap. In 2004, the vehicle rental tax was instituted. Car dealers installed costly modifications to software. Dealers were required to pay tax for warranty repairs, but the manufacturer did not reimburse any taxes paid until the legislature fixed that problem last year. He echoed earlier testimony on credit card fees, but noted that modifications to computer software, or manual calculations needed to account for the vehicle rental tax is burdensome. He opined that businesses that sell fishing and hunting licenses receive a 7.5 percent rebate.

[4:33:52 PM](#)

MR. COOK, in response to Representative Gatto, explained that most dealership packages are not specifically designed for rental vehicles, so modifications are necessary. Additionally, rentals from the service department are partially covered by

warranty. The system is not designed to break out the portion that is exempted, which requires cumbersome reconciliations, he offered.

[4:35:13 PM](#)

MR. FELLMAN, in response to Representative Neuman, explained that without a cap on the rebate, the fiscal note shows that the state would lose \$255,000 in revenue.

CHAIR OLSON, in response to Representative Neuman explained that the state collects 10 percent of the gross revenues for vehicle rental taxes, so it is fairly easy for the state to monitor the tax.

REPRESENTATIVE NEUMAN pointed out the relatively small amount of the cost of a fishing license, at \$25, as compared to a vehicle rental which often is \$500, so that 3 percent is considerably more.

MR. FELLMAN, in response to Representative LeDoux, explained that the vehicle rental tax rebate being considered is 3 percent of the 10 percent tax imposed by the state.

[4:38:42 PM](#)

[HB 350 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:38 p.m.