

**ALASKA STATE LEGISLATURE**  
**SENATE TRANSPORTATION STANDING COMMITTEE**

February 17, 2011

12:58 p.m.

**MEMBERS PRESENT**

Senator Albert Kookesh, Chair  
Senator Joe Thomas, Vice Chair  
Senator Dennis Egan  
Senator Linda Menard

**MEMBERS ABSENT**

Senator Charlie Huggins

**COMMITTEE CALENDAR**

SENATE BILL NO. 19

"An Act excluding motorcycles and motor-driven cycles from the passenger vehicle rental tax."

- MOVED SB 19 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 19

SHORT TITLE: PASSENGER VEHICLE RENTAL TAX

SPONSOR(s): SENATOR(s) FRENCH

|          |     |                                 |
|----------|-----|---------------------------------|
| 01/19/11 | (S) | PREFILE RELEASED 1/7/11         |
| 01/19/11 | (S) | READ THE FIRST TIME - REFERRALS |
| 01/19/11 | (S) | TRA, FIN                        |
| 02/17/11 | (S) | TRA AT 1:00 PM BUTROVICH 205    |

**WITNESS REGISTER**

ANDY MODEROW, Staff to Senator French  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Introduced SB 19 on behalf of the sponsor.

JOHANNA BALES, Deputy Director  
Tax Division  
Department of Revenue  
Juneau, AK

**POSITION STATEMENT:** Commented on SB 19 on behalf of DOR.

NANCY HULL

Alaska Motorcycle Adventures,

**POSITION STATEMENT:** Testified in support of SB 19.

PHILIP FREEMAN, Motoquest

**POSITION STATEMENT:** Testified in support of SB 19.

BARRY MADISON

House of Harley Davidson

**POSITION STATEMENT:** Testified in support of SB 19.

#### **ACTION NARRATIVE**

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**CHAIR ALBERT KOOKESH** called the Senate Transportation Standing Committee meeting to order at 1: p.m. Senators Menard, Egan, Thomas, and Kookesh were present at the call to order.

#### **SB 19-PASSENGER VEHICLE RENTAL TAX**

CHAIR KOOKESH announced the consideration of

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ANDY MODEROW, staff to Senator French, sponsor of SB 19, read the sponsor statement into the record as follows:

SB 19 will remove the 10 percent tax on motorcycle rentals. With our short summer and the economic benefits of independent tourism, the legislature should support this emerging industry.

Motorcycle tourism brings independent travelers to our small businesses and restaurants. While cruise ships ensure that large hotels are full, motorcycle travelers go off the beaten path, traveling to remote bed and breakfasts or staying in smaller hotels. In contrast to RV renters (who pay a smaller 3 percent rental tax), motorcycle riders are more likely to eat at restaurants, since it is difficult to cook a meal in one's motorcycle.

With a short rental season, plenty of challenges exist for Alaskan businesses that rent motorcycles. On top of the seven or eight winter months where rental income isn't earned, fleet storage adds to the cost of doing business in Alaska. These factors increase the

price of rentals, making it difficult to draw in customers. Adding a 10 percent state tax makes renting motorcycles even more challenging for rental businesses.

Passing this legislation corrects the accidental inclusion of motorcycles to our existing rental vehicle tax. In 2003, the legislature passed a motor vehicle rental tax for rental cars. No talk of motorcycles was placed on the record after that time. Also illustrating that point, the Department of Revenue didn't even collect the tax until several years after the law became effective.

MR. MODEROW pointed out that Section 1 adjusts the definition of passenger vehicle in the transportation tax statute, not in the motor vehicle title. Page 2, lines 11-12, effectively adds motorcycles and motor-driven cycles to the exemption that's currently in the taxation law.

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REPRESENTATIVE THOMAS asked if car rental agencies wouldn't express some of the same concerns.

MR. MODEROW agreed that many the arguments would be similar, but one difference is that motorcycles cannot travel on icy roads so the window during which they can be leased out is much shorter.

SENATOR MENARD asked where the opposition is coming from.

MR. MODEROW replied he isn't aware of any opposition. For perspective, he noted that the vehicle rental tax brings in about \$7.3 million.

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SENATOR THOMAS commented that it probably costs more than \$12,000 to collect the tax.

MR. MODEROW replied that's a good observation.

SENATOR EGAN reported that the City and Borough of Juneau (CBJ) does not oppose the bill since it relates to a state tax and wouldn't affect CBJ finances.

SENATOR MENARD mentioned the possibility of offsetting the revenue drop using something similar to the vanity plate program, but making it available only to motorcycles.

MR. MODEROW replied they're happy to consider any options the committee would like to pursue.

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JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue (DOR), said DOR has had concerns with the handful of companies that rent motorcycles. She agreed that it's difficult to identify the rental portion of the motorcycle when the tax is levied because most of companies offer package deals that include things like a guide, for example. The tax is intended to apply only to the rental portion, not the tourism portion. She noted that the Municipality of Anchorage also has a vehicle rental tax and motorcycles are exempt.

SENATOR THOMAS said if it's difficult to identify what the tax is applicable to, how will you know if there's a savings to the customer.

MS. BALES explained that the vehicle tax is an add-on tax so there would be 10 percent tax added to whatever the rental company charges. When DOR contacted these motorcycle rental companies, many weren't aware that they were subject to the tax and hadn't collected it. They're set up where they're not collecting the tax even though it's a line item on their invoice.

SENATOR THOMAS commented that it was really hard to identify when it wasn't collected.

MS. BALES agreed.

SENATOR MENARD asked if a similar bill was introduced last year.

MS. BALES replied this isn't a new concept.

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NANCY HULL, Alaska Motorcycle Adventures, said she is testifying in strong support of SB 19 because the current law allows for a very open interpretation. In 2003, when HB 271 became law, motorcycles weren't discussed. Small businesses like hers have a very high rate structure to cover insurance in a very short season. She said she generally charges \$150-\$240 per day, which means that a customer on the high end could pay \$24 tax per day. If someone rents a motorcycle for 5 days, the tax would be about \$125. She noted that last summer a couple rented 2 motorcycles

for 11 days and their tax was \$386. This is opposed to \$115 in tax if they had rented an RV.

She also pointed out that motor home rentals qualify for a number of exemptions for things like dishware, car seats, and GPS devices, but motorcycle rentals don't qualify for similar exemptions because they weren't specifically listed in the law. She noted that her customers travel to remote areas of the state and they support small local businesses that see few tourists.

MS. HULL asked the committee to address motorcycles with specific language so that her customers are treated fairly.

SENATOR THOMAS calculated that 800 rental days at \$15 would be \$12,000. He asked if the business is really that small.

MS. HULL agreed it's not a lot of money, but it is a lot when it's spread across just 125 customers.

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PHILIP FREEMAN, Motoquest, said we have the shortest rental season in the world and it's difficult to make a living. Adding a 10 percent tax to the rates they must charge is abysmal. He asked the committee to consider the motorcycle in the transportation bill.

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BARRY MADISON, House of Harley Davidson, said they weren't aware of the tax when they started their business. When they read the law it became clear that motorcycles weren't considered when it was written, but they weren't excluded either. Their rental rate is \$200-\$250 a day and if they had to add the tax they'd probably lose customers. They employ one person part time year around and two people during the summer, but they couldn't afford it if they had to pay the tax.

CHAIR KOOKESH closed public testimony and stated that he intended to move the bill. He asked the will of the committee.

SENATOR THOMAS commented that the tax is a minor source of revenue predominantly because it's not collected.

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SENATOR THOMAS moved to report SB 19 from committee with individual recommendations and attached fiscal note(s).

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There being no further business to come before the committee,  
Chair Kookesh adjourned the meeting at 1:20 p.m.