

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 26, 2015

1:01 p.m.

MEMBERS PRESENT

Senator Peter Micciche, Chair
Senator Click Bishop, Vice Chair
Senator Mike Dunleavy
Senator Dennis Egan

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

SENATE BILL NO. 66

"An Act relating to the passenger and recreational vehicle rental taxes; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 66

SHORT TITLE: PASSENGER & REC. VEHICLE RENTAL TAX

SPONSOR(S): SENATOR(S) GIESSEL

03/04/15	(S)	READ THE FIRST TIME - REFERRALS
03/04/15	(S)	TRA, FIN
03/24/15	(S)	TRA AT 1:00 PM BUTROVICH 205
03/24/15	(S)	Heard & Held
03/24/15	(S)	MINUTE(TRA)
03/26/15	(S)	TRA AT 1:00 PM BUTROVICH 205

WITNESS REGISTER

FORREST WOLFE, staff to Senator Giessel
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Commented on SB 66.

RANDY JOHNSON, owner

Tyler Rentals, Inc.
Ketchikan, Alaska
POSITION STATEMENT: Supported SB 66.

JOHN COOK, Chief Financial Officer (CFO)
Airport Equipment Rentals, Inc.
Fairbanks, Alaska
POSITION STATEMENT: Supported CSSB 66.

KATHRYN THOMAS, Director
Community Relations and Business Development
Alaska Pacific Leasing
Kenai, Alaska
POSITION STATEMENT: Supported SB 66.

ACTION NARRATIVE

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CHAIR PETER MICCICHE called the Senate Transportation Standing Committee meeting to order at 1:01 p.m. Present at the call to order were Senators Egan, Dunleavy, and Chair Micciche.

SB 66-PASSENGER & REC. VEHICLE RENTAL TAX

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CHAIR MICCICHE announced SB 66 to be up for consideration [version 29-LS0470\E was before the committee].

SENATOR DUNLEAVY moved to adopt committee substitute (CS) SB 66(), version 29-LS0470\I, as the working document.

CHAIR MICCICHE objected for discussion purposes.

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FORREST WOLFE, staff to Senator Giessel, Alaska State Legislature, Juneau, Alaska, said this legislation further clarifies that a statute passed in 2003 intended to place a tax on vehicles rented by tourists visiting the state so that they would share in the cost of wear and tear their driving inflicts on Alaska's roads. It was quite clear that the tax was intended to be imposed on the tourism industry and visitors from out of state. However, this did not prevent unintended consequences from happening.

He explained that over the years, the statute had been further clarified by exempting taxi cabs, motorcycles and U-Hauls rental trucks. And in 2013, a full decade after the original

legislation was passed, the Department of Revenue (DOR) began attempting to retroactively apply an overzealous and misguided interpretation of the statute to the rentals or leases of industry vehicles and equipment for transactions not related to tourism in any way.

This interpretation affected Alaskan businesses that were doing business with one another in industries like mining, forestry, oil and gas, and construction, and whose vehicles operated primarily on non-state maintained roads and areas.

MR. WOLFE said that Chris Knauss, former legislative staffer who worked on the original legislation in 2003, states in a letter in their packets, that the intent was for this tax to be applied to companies like Avis, Hertz, Alamo, and Dollar rental car companies.

He explained that SB 66 reduces the length of an exempt rental for passenger vehicles from 90 to 28 days while maintaining the 90-day period for recreational vehicles such as motor homes. It also further defines the types of vehicles that will be exempt from the tax as well as those that will not. Passing SB 66 will prevent these companies from misguided and overzealous taxation and more explicitly define the law in accordance with the intent of the original legislation.

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SENATOR BISHOP joined the committee.

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CHAIR MICCICHE, finding no questions, opened public testimony.

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RANDY JOHNSON, owner, Tyler Rentals, Inc., Ketchikan, Alaska, supported SB 66. He said Tyler Rental had been in business for 36 years and they operate from five locations in Southeast Alaska and employ more than 50 Alaskans. Their core business is focused on renting tools and equipment to the construction, mining, and timber industries. Although a majority of their home business consists of construction equipment, they rent pickups to support contractors' needs throughout Southeast Alaska. A large percentage of them are for the long term and support remote mining operations such as Kensington and Greens Creek mines, which are not on the highway system.

Just last year they became aware of the rental vehicle tax from another Alaska-based equipment rental company. They did some

investigation and learned that the intent was not to apply this tax to their type of rental activity. For instance, the majority of their business is providing equipment and pickup rentals to construction and resource extraction companies versus tourism. They believe the CS goes a long way to better defining the application of this tax.

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JOHN COOK, Chief Financial Officer (CFO), Airport Equipment Rentals, Inc., Fairbanks, Alaska, supported CSSB 66 (). He said they are one of the largest equipment rental and leasing companies in Alaska, but incidental to that they rent vehicles to support oil field services and construction on the North Slope and to construction companies primarily working on civil projects for the Department of Transportation and Public Facilities (DOTPF) throughout Alaska. Although it doesn't take care of everything, this CS takes care of a lot of ambiguities that exist today.

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KATHRYN THOMAS, Director, Community Relations and Business Development, Alaska Pacific Leasing, Kenai, Alaska, supported SB 66. She said Alaska Pacific Leasing is a family-owned company that is actively managed by third and fourth generation Alaskans. For over 30 years it has supplied Alaska's construction, oil, gas, mining, engineering and resource development industries with vehicles and equipment.

She said many leasing businesses have operated for years providing vehicles under a long term lease period of 90 days or more and not collected the tax. The initial correspondence from the Department of Revenue (DOR) in 2003/05 specifically addressed car rental agencies and targeted passenger vehicle rentals; it simply defined that the vehicle rental tax is not levied on leased or rentals that exceed 90 days.

As the process of asking for legislation in 2015 was started, she said there was concern that once again only a small segment of the vehicle leasing issue was being fixed and perhaps they should look a little further down the road. With that in mind, they also looked at defining "commercial, industrial and resource development" for the tax rules as that is the essence of Alaska businesses doing business with other Alaska businesses. She said would also like to see SB 66 more clearly define "commercial and construction use."

The State of Alaska has an easily accessed licensing process which can be used and applied for tax purposes and exemptions. "Commercial and industrial use" can be defined by a simple requirement to provide verification of a valid Alaska occupational and professional license, which can be specified to include which commercial businesses are applicable, such as engineers, land surveyors, construction contractors or if the equipment is used on a resource project, the end user must be licensed for the primary business of mining, which could then include oil and gas operations on the North Slope and Cook Inlet.

MS. THOMAS said that vehicle leases and rentals in the state are layered and varied and that development takes place in remote areas during short construction seasons and in many cases are on an as needed basis.

SB 66 still needs to clarify exemption of rentals from tax a second time even if it has already been collected under an initial rental agreement. Vehicles may be billed on a daily rate in commercial construction and industrial work and there should be clear rules of tax and exemption for it. The tax rules should also be clear for electrical contractors working for industry, rural electric associations and telephone utilities that are billing by day rates. In addition, engineers, geologists and surveyors bill daily for pickup and crew trucks. Many remote locations require the need to rent a truck from a support contractor who has transported vehicles to remote locations. The statute should be clarified to avoid multiple instances of taxation or double taxation for the same day.

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MS. THOMAS said it would also be helpful to the industry to use a 20-day monthly billing cycle for tax period increments, as no month has just 30 days.

She said the original 2003 legislation looked to gross vehicle weight to define the size vehicles and set parameters for the tax rules, but manufacturers are constantly redesigning vehicles and the leasing companies customers respond to the cost of fuel by looking for more efficiency and lower costs. So, the gross vehicle weight may not be the most effective definition to use.

She pointed out that there is great concern that companies contracting with industry will receive no legislative relief by continuing to ask for a reduction in the gross vehicle weight, because of the fiscal note analysis for SB 66. The Department of

Revenue (DOR) says they don't have enough detailed information from vehicle rental contracts to determine how many rentals will meet the new exemption criteria. In the next line they say, "However, based on limited vehicle tax data from audits, DOR estimates that 10-15 percent of total vehicle rental contracts may meet the new criteria and therefore, vehicle rental tax revenues are estimated to decrease by \$800 thousand to \$1.2 million."

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What isn't clear is that the referenced tax data is from the audits the leasing industry has been protesting and is still reviewing or if it is information from audits of companies that normally work in the passenger vehicle arena of the airport-type companies. Either way, it may be an apple to oranges comparison and not a fair way to ask them to all make a decision on gross vehicle weight.

MS. THOMAS said it is only fair that this fiscal note information be clear, because the reduction in gross vehicle weight was important to companies leasing in Southeast Alaska, Southcentral and would accommodate the Cook Inlet oil field. At 8,500 gross vehicle weight the North Slope is easily accommodated.

She said they understand the concern to see large SUVs, cargo vans, recreational vehicles fairly taxed for passenger use and tourism and it's difficult to define rules when some of the same equipment is used for industrial and commercial applications. That is why they encourage clearly defining "industrial and commercial use" as it may prove more definitive than gross vehicle weight.

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CHAIR MICCICHE asked her if she communicated with the sponsor about her issues.

MS. THOMAS answered no, but she would.

CHAIR MICCICHE removed his objection and finding no further objections, said CSSB 66(), version I, was adopted. He held SB 66 in committee and kept public testimony open.

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CHAIR MICCICHE adjourned the Senate Transportation Standing Committee meeting at 1:22 p.m.