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CS FOR HOUSE BILL NO. 271(W&M)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Offered:
Referred:

Sponsor(s): REPRESENTATIVE KOTT

A BILL

FOR AN ACT ENTITLED

"An Act levying and providing for the collection and administration of excise taxes on passenger vehicle and recreational vehicle rentals; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** AS 43 is amended by adding a new chapter to read:

Chapter 52. Vehicle Rental Taxes.

Sec. 43.52.010. Levy of passenger vehicle rental tax. There is imposed an excise tax on the charge for the lease or rental of a passenger vehicle made in this state if the lease or rental of the passenger vehicle does not exceed a period of 90 consecutive days.

Sec. 43.52.020. Rate of passenger vehicle rental tax. The rate of the tax levied in AS 43.52.010 is 10 percent of the amount charged for the lease or rental of the passenger vehicle.

Sec. 43.52.030. Levy of recreational vehicle rental tax. There is imposed an excise tax on the charge for the lease or rental of a recreational vehicle made in this state if the lease or rental of the recreational vehicle does not exceed a period of 90 consecutive days.

Sec. 43.52.040. Rate of recreational vehicle rental tax. The rate of the tax levied in AS 43.52.030 is three percent of the amount charged for the lease or rental of the recreational vehicle.

Sec. 43.52.050. Liability for payment of vehicle rental taxes. (a) The taxes imposed by this chapter are due and payable to the department

(1) by the person who provides the leased or rented vehicle; and

(2) in the manner and at the times required by the department by regulation.

(b) Nothing in this section prohibits a person who provides a leased or rented vehicle from collecting the tax due from the person leasing or renting the vehicle if the amount of the tax is stated separately from the amount charged for the lease or rental.

Sec. 43.52.060. Applicability of the tax. The provisions of this chapter apply to a passenger vehicle whether or not the vehicle is registered and licensed in this state.

or recreational

Sec. 43.52.070. Relationship to municipal levies. The taxes imposed by this chapter are in addition to taxes that may be imposed on vehicle rentals by a municipality under AS 29.45.

Sec. 43.52.080. Administration of tax. (a) The department shall administer the taxes imposed by this chapter and may adopt necessary regulations.

(b) The proceeds of the vehicle rental taxes imposed by this chapter shall be deposited into a special vehicle rental tax account in the general fund.

(c) The legislature may appropriate the actual balance of the vehicle rental tax account for tourism development and marketing. This section is not intended to create a dedicated fund.

Sec. 43.52.099. Definitions. In this chapter,

(1) "passenger vehicle" means a motor vehicle as defined in AS 28.40.100 that is driven or moved on a highway or other public right-of-way in the state, but does not include

(A) a commercial motor vehicle as that term is defined in

AS 28.40.100;

(B) emergency or fire equipment that is necessary to the preservation of life or property;

(C) a farm vehicle that is controlled and operated by a farmer, used to transport agricultural products, farm machinery, or farm supplies to or from that farmer's farm, not used in the operations of a common or contract motor carrier, and used within 150 miles of the farmer's farm; or

(D) a recreational vehicle;

(2) "recreational vehicle" means

(A) a motor vehicle or trailer for recreational dwelling purposes;

(B) a motor home or other vehicle with a motor home body style;

(C) a one-piece camper vehicle; and

(D) any other self-propelled vehicle with living quarters.

(3) "tax" means the excise tax levied under this chapter on the charge made for the rental of a passenger vehicle.

* Sec. 2. TRANSITIONAL PROVISIONS: REGULATIONS. Notwithstanding sec. 4 of this Act, the Department of Revenue may proceed to adopt regulations necessary to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date set out in sec. 4 of this Act.

* Sec. 3. Section 2 of this Act takes effect immediately under AS 01.10.070(c).

* Sec. 4. Except as provided in sec. 3 of this Act, this Act takes effect July 1, 2003.

LEGISLATIVE RESEARCH REPORT

MARCH 28, 2003

REPORT NUMBER 03.178

VEHICLE RENTAL INCOME IN ANCHORAGE

PREPARED BY CHERIE NIENHUIS, LEGISLATIVE ANALYST

You asked about rental car income for the cities of Anchorage, Fairbanks, and Juneau. Specifically, you wished to know how much revenue the rental car industry generates on a monthly basis in each of these cities.

Contacts in Juneau and in Fairbanks could not provide us with this information. Fairbanks does not collect a sales tax, and therefore, would have no official access to this information. Although the City and Borough of Juneau does levy a sales tax on car rentals, they are unable to disaggregate the tax paid on rentals from the tax paid by those same agencies for other services they provide.

The Municipality of Anchorage does not have a sales tax, but in 2000, it authorized a tax of 8% on the fees and costs charged to persons renting vehicles in the municipality.[1] The city's Finance Department provided information about gross "fees and costs" reported by rental car agencies since the tax began in 2000. Anchorage Municipal code defines "fees and costs" as the following:

> Fees and costs means the value of all charges incurred by the renter, other than the tax prescribed by this chapter, for the use of a motor vehicle, regardless of whether paid in the form of money, property, or services, except for only the following items if separately stated on the rental contract or other document invoicing payment:
>
> 1. Fees from the sale of automobile liability insurance, loss damage waiver insurance, and personal accident insurance;
>
> 2. Parking tickets;

[1] Anchorage Municipal Code Chapter 12 Section 45 authorizes the vehicle rental tax; the code provides for some tax ceilings and exceptions.

3. The amount of any sales tax, so-called "luxury tax", consumer excise tax, gross receipts tax, or other similar tax imposed by the United States, the State of Alaska, or the Municipality;

4. Payments received by the rental agency from the renter or the renter's insurance provided for damage to a motor vehicle when the damage was incurred during the rental period;

5. Personal property other than items that are permanently affixed to the motor vehicle. Personal property does not include pickup truck shells or campers mounted on the motor vehicle, or trailers designed, constructed, or used primarily for dwelling;

6. The amount of the concession fee paid to the Ted Stevens Anchorage International Airport; and

7. Fueling charges.[2]

The Anchorage Department of Finance records gross fees and costs for rental car agencies on a quarterly basis. The vehicle rental tax is approximately 8% of these fees and costs, as shown in Table 1 below.[3]

Table 1: Total Fee and Costs, and Vehicle Rental Taxes Paid, Municipality of Anchorage, Since Tax Inception, 2000 (in thousands)

	2000		2001		2002	
	Total Fees and Costs	Vehicle Rental Taxes Collected	Total Fees and Costs	Vehicle Rental Taxes Collected	Total Fees and Costs	Vehicle Rental Taxes Collected
1st Quarter	n/a	n/a	$ 6,370.5	$ 476.9	$ 6,266.7	$ 468.4
2nd Quarter	n/a	n/a	$ 13,896.9	$ 1,092.4	$ 14,530.5	$ 1,123.5
3rd Quarter	n/a	n/a	$ 29,792.1	$ 2,300.6	$ 29,961.9	$ 2,319.8
4th Quarter	$ 6,326.7	$ 460.4	$ 6,637.2	$ 500.3	$ 6,796.3	$ 488.1
Totals	**$ 6,326.7**	**$ 460.4**	**$ 56,696.7**	**$ 4,370.2**	**$ 57,555.4**	**$ 4,399.8**

Source: Municipality of Anchorage, Department of Finance, (907) 343-6686.

We also include, as Attachment A, a brief summary of the potential revenue and impacts of a state tax on vehicle rentals, as prepared by the Alaska Department of Revenue in February of this year.

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

[2] Anchorage Municipal Code Chap 45 Section 12.010.

[3] Neva Harnish of the Municipality of Anchorage Department of Finance explained that there are items included in the gross fees and costs that are not taxed; therefore, tax computations will not exactly equal 8 percent.

Attachment A

"Proposed Revenues," Prepared by
the Alaska Department of Revenue,
February, 2003

Proposed Revenues

BRIEF DESCRIPTION: Tax on vehicle rentals.

DEPARTMENT AND PROGRAM NAME: Department of Revenue.

SUMMARY: The state could impose a tax on vehicle rentals, either a flat per-rental fee or a percentage tax (much like a sales tax). Anchorage already imposes an 8% tax, with Cordova at 6% and Yakutat at 4%.

WHO WILL PAY? Anyone who rents a vehicle, although the state would need to decide if the tax also applies to RVs, trailers and commercial rentals, too, such as heavy equipment. And would the tax apply to leases, or only short-term rentals of less than (for example) 30 days?

ESTIMATED REVENUE EXPECTED: Each 1% tax on rentals would raise approximately $500,000 to $600,000 per year. This assumes the vehicle rental business in Alaska is a $50 million to $60 million a year industry, and it also assumes that long-term vehicle and commercial leases would be exempt from the tax. The revenue could start flowing to the state by January 1 of the year after passage, to allow time to set up a tax collection program, forms and software.

ESTIMATED COST TO COLLECT: The department estimates the cost of running a vehicle rental tax program at approximately $125,000 to $150,000 per year.

WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL? Department of Community and Economic Development.

WHO WILL SUPPORT THIS BILL? No one specific, unless the state shared the revenue with the airports or communities.

WHO WILL OPPOSE THIS BILL? Probably car rental agencies and perhaps Bush Alaskans who travel frequently to Anchorage or Fairbanks for shopping, business, medical needs or leisure, and who rent vehicles.

CONTACT FOR MORE INFORMATION:

Name: Commissioner Bill Corbus or Deputy Commissioner Larry Persily

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Email: bill_corbus@revenue.state.ak.us, larry_persily@revenue.state.ak.us

Table 2
Rental Car Tax
State-by-State Comparison[1]

	State Rental Tax	State Sales Tax		Local Rental Tax	Local Sales Tax		Effective Tax	
State	Tax Rate[2]	Applicable	Tax Rate	Maximum Local Rate[2, 3]	Applicable	Local Rate	Maximum Effective Tax	Rank
Illinois[4]	5.000%	No	6.250%	18.500%	Yes	up to 2%	31.750%	1
Arizona[3]	5.000%	Yes	5.000%	17.300%	Yes	up to 2.5%	29.800%	2
Massachusetts[5]	0.000%	Yes	5.000%	20.600%	N.A.	N.A.	25.600%	3
Texas[3]	10.000%	No	6.250%	13.000%	No	up to 2%	23.000%	4
Louisiana[3]	3.000%	Yes	4.000%	10.250%	Yes	up to 5%	22.250%	5
Washington[3]	5.900%	Yes	6.500%	7.000%	Yes	up to 2.1%	21.500%	6
Nevada[3]	6.000%	Yes	6.500%	8.000%	Yes	up to 0.5%	21.000%	7
North Carolina[3]	8.000%	No	4.000%	10.000%	Yes	up to 2.5%	20.500%	8
Colorado[3]	0.000%	Yes	2.900%	11.460%	Yes	up to 5%	19.360%	9
North Dakota[3]	3.000%	Yes	5.000%	10.000%	No	up to 1.75%	18.000%	10
Indiana[3]	0.000%	Yes	5.000%	13.000%	N.A.	N.A.	18.000%	11
Oregon[3]	0.000%	N.A.	N.A.	18.000%	N.A.	N.A.	18.000%	11
Utah	6.500%	Yes	4.750%	3.000%	Yes	up to 3.35%	17.600%	13
California[3]	0.000%	Yes	7.000%	8.000%	Yes	up to 2.5%	17.500%	14
Minnesota[3]	6.200%	Yes	6.500%	3.500%	Yes	up to 1%	17.200%	15
Georgia[3]	0.000%	Yes	4.000%	11.000%	Yes	up to 2%	17.000%	16
Virginia[3]	8.000%	No	4.500%	7.000%	Yes	up to 2%	17.000%	16
New Jersey[3]	0.000%	Yes	6.000%	10.000%	N.A.	N.A.	16.000%	18
New Mexico	9.000%	Yes	5.000%	N.A.	Yes	up to 1.9375%	15.938%	19
Nebraska	4.500%	Yes	5.000%	4.000%	Yes	up to 1.5%	15.000%	20
Oklahoma	6.100%	Yes	4.500%	N.A.	Yes	up to 4%	14.600%	21
Arkansas	5.500%	No	5.125%	5.000%	Yes	up to 4%	14.500%	22
Dist. of Columbia[3]	10.000%	No	5.750%	4.000%	N.A.	N.A.	14.000%	23
New York	5.000%	Yes	4.000%	N.A.	Yes	up to 4.25%	13.250%	24
Ohio	0.000%	Yes	5.000%	6.000%	Yes	up to 2%	13.000%	25
Pennsylvania	6.000%	Yes	6.000%	N.A.	Yes	1%	13.000%	23
Rhode Island	6.000%	Yes	7.000%	N.A.	N.A.	N.A.	13.000%	25
Wisconsin	3.000%	Yes	5.000%	4.000%	Yes	up to 0.6%	12.600%	28
Alabama	8.000%	No	4.000%	N.A.	Yes	up to 4%	12.000%	29
Florida	4.100%	Yes	6.000%	0.000%	Yes	up to 1.5%	11.600%	30
Maryland	11.500%	No	5.000%	N.A.	N.A.	N.A.	11.500%	31
South Dakota	5.500%	Yes	4.000%	N.A.	Yes	up to 2%	11.500%	32
Connecticut	5.000%	Yes	6.000%	N.A.	N.A.	N.A.	11.000%	33
South Carolina	5.000%	Yes	5.000%	N.A.	Yes	up to 1%	11.000%	33
Tennessee	2.000%	Yes	6.000%	N.A.	Yes	up to 2.75%	10.750%	35
Kansas	3.500%	Yes	4.900%	0.000%	Yes	up to 2%	10.400%	36
Wyoming	4.000%	Yes	4.000%	N.A.	Yes	up to 2%	10.000%	37
Hawaii	6.000%	Yes	4.000%	N.A.	N.A.	N.A.	10.000%	37
Maine	10.000%	No	5.000%	N.A.	N.A.	N.A.	10.000%	37
Kentucky	0.000%	Yes	6.000%	3.000%	N.A.	N.A.	9.000%	40
Mississippi	6.000%	Yes	3.000%	N.A.	N.A.	N.A.	9.000%	40
Michigan	0.000%	Yes	6.000%	2.000%	N.A.	N.A.	8.000%	42
New Hampshire	8.000%	N.A.	N.A.	N.A.	N.A.	N.A.	8.000%	42
Missouri	0.000%	Yes	4.225%	N.A.	Yes	up to 3.75%	7.975%	44
Idaho	0.000%	Yes	5.000%	N.A.	Yes	up to 2%	7.000%	45
Iowa	0.000%	Yes	5.000%	0.000%	Yes	up to 1%	6.000%	46
Alaska	0.000%	N.A.	N.A.	N.A.	Yes	up to 6%	6.000%	47
Vermont	0.000%	Yes	5.000%	N.A.	Yes	1%	6.000%	47
West Virginia	0.000%	Yes	6.000%	N.A.	N.A.	N.A.	6.000%	47
Montana[6]	0.000%	N.A.	N.A.	N.A.	Yes	up to 3%	3.000%	50
Delaware	1.920%	N.A.	N.A.	N.A.	N.A.	N.A.	1.920%	51

	State Rental Tax
Mean	5.948%
Median	5.900%
Maximum	11.500%
Minimum	1.920%

	Effective Tax
Mean	13.874%
Median	13.000%
Maximum	31.750%
Minimum	1.920%

[1] Sources: The National Conference of State Legislatures July 1999, "Travel and Tourism a Legislator's Guide"; Federal Tax Administrators, and National Car Rental for select states. Sources do *not* coincide for every state.

[2] Per day charges are converted to percentages using $50.00 as a base price before surcharges and taxes

[3] Maximum local tax include additional off-airport car rental fees;
AZ-7%, CA-8%, CO-5.96%, DC-4%, GA-8%, IN-7%, LA-5%, MN-3.5%, NV-8%, NJ-10%, NC-5%, ND-10%, OR-4%, TX-8%, VA-7%, WA-4%

[4] Maximum local tax includes transit taxes (16.5% in Chicago)

[5] Maximum local tax includes 20.6% surcharge that is *only* assessed in Boston

[6] Resort tax

Prepared by the Montana Department of Revenue and Updated in 2002