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UnitedRentals.com

Testimony before the Senate Budget & Taxation Committee

Briefing on SB 724

March 9, 2022

Dear Chair Guzzone, Vice-Chair Rosapepe and Members of the Senate Budget & Taxation Committee:

Thank you for the opportunity to testify before you regarding SB 724. My name is Ed Noonan and I am the Director of Government Affairs for United Rentals. We are an equipment rental business with a significant presence in the state.

We support SB724 and believe that the technical corrections recommended in the bill follow sound tax policy. Specifically, the bill provides an exemption from the rental gross receipts tax for governments and government agencies. It doesn't make a lot of sense to have local governments pay a tax and then have it go right back to them. The bill also removes an onerous true-up process that is administratively burdensome for both taxpayers and Counties.

With the changes proposed here, Maryland will follow several other states with similar statutes. Those states include Colorado, Indiana, North Carolina, Oregon, South Carolina, Virginia, Washington, and Wyoming.

We urge your support in passing this important piece of legislation and I am available to answer any questions.

Respectively Submitted:

Edward Noonan
Director – Government Affairs
United Rentals, Inc.

Testimony Senate Budget and Taxation JWM 3-7-2022.

Uploaded by: John McClelland

Position: FAV

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Testimony before the Senate Budget and Taxation Committee

Briefing on SB 724

March 9, 2022

Dear Chair Guzzone, Vice Chair Roaspepe and Members of the Budget and Taxation Committee:

Thank you for the opportunity to testify before you regarding SB 724. My name is John McClelland, and I am the vice president for government affairs and chief economist at the American Rental Association (ARA).

On behalf of all ARA members in Maryland, I am here today to speak in favor of SB 724.

The bill amends previous legislation passed in 2010. Since that time, state and local governments have increased their use of rental as a procurement method for equipment. Many procurement professionals have questioned why they were subject to the rental gross receipts tax since they are exempt from sales and other taxes given their status as government entities. We do not disagree with the premise. Our only concern is that if we amend language to add the exemption for government agencies, we also need to repeal or remove the true-up provision currently in statute, so the rental businesses are not having to pay the tax on their behalf.

We believe that making these changes will remove a significant administrative burden for everyone. Because the current true-up process is not a guaranteed revenue source for local governments, we believe the fiscal impact would be marginal because the revenues raised by the tax are received by the entities that would be exempt from paying the tax I the provisions of SB 724are implemented.

The American Rental Association has worked in several other states to pass similar measures and all of them grant governments and government agencies exemptions from the tax and none of them today have any true-up process in place.

We will continue to work with MACCO and any other stakeholders to address any concerns. We urge your support in passing this important piece of legislation and I am available to answer any questions.

Respectively Submitted:

John W. McClelland Ph.D.

SB724 King Sponsor Testimony.pdf

Uploaded by: Senator Nancy King

Position: FAV

Nancy J. King
Legislative District 39
Montgomery County

Majority Leader

Budget and Taxation Committee

Chair
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SPONSOR STATEMENT

Senate Bill 724 - Gross Receipts Tax on Short-Term Lease or
Rental of Heavy Equipment –Alterations

March 9, 2022

Mister Chairman and Members of the Budget & Taxation Committee,

In 2010 the legislature passed Senate Bill 685 which removed a personal property tax from the short-term lease or rental of heavy equipment. Instead of a personal property tax, the 2010 legislation required that these leases are subject to a 2% gross receipts tax. In order to ensure that local jurisdictions were not missing out on tax revenue as a part of this change, Senate 685 also created a "true up" to ensure that rental companies are required to make up the difference should less revenue be collected through the gross receipts tax than would otherwise be collected through the personal property tax.

As time has gone on, issues have arisen with this agreement. Before 2010, local governments were not responsible for paying the personal property taxes on these agreements. However, under current law local jurisdictions are not exempt from the gross receipts tax. Frustratingly for local governments, the gross receipts tax is due even if the heavy equipment is rented to the government all year long.

Beyond this burden on local governments, the true up has also proven to be inefficient. The process only looks at one physical rental location at a time and does not take a state-wide view, which leads to distortions. This could result in a business with several locations in the state having a net overage paid state-wide but having to pay a true-up to the counties where they may have been short. This creates a punitive policy since there is no mechanism to refund the company for any overpayments.

Heavy equipment is extremely mobile and is routinely moved to respond to rental demand. The gross receipts tax captures the economic activity at each rental location where the traditional personal property tax did not. Any differences in the true-up is primarily a timing issue where equipment moved from one jurisdiction to another during the course of a year. In addition, distortions are also created when you have an acquisition of a new business or closure of an existing business. Given variations in revenue from one year to the next, it's hard to determine whether jurisdictions would experience a loss of revenue.

Senate Bill 724 will exempt the government from the tax on rental of heavy equipment and repeals the annual true up reporting requirement to counties where heavy equipment rental businesses are located. This change will bring fairness and efficiency to the gross receipts tax and so I respectfully request a favorable report on Senate Bill 724.