NANCY J. KING
Legislative District 39
Montgomery County

MAJORITY LEADER

Budget and Taxation Committee

Chair
Education, Business and
Administration Subcommittee

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

James Senate Office Building
11 Bladen Street, Room 120
Annapolis, Maryland 21401
301-858-3686 · 410-841-3686
800-492-7122 *Ext.* 3686
Fax 301-858-3670 · 410-841-3670
Nancy.King@senate.state.md.us

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.