Eric Luedtke
14th Legislative District
Montgomery County

Ways and Means Committee

Subcommittees
Chair, Finance Resources

The Maryland House of Delegates
6 Bladen Street, Room 222
Annapolis, Maryland 21401
301-858-3110 · 410-841-3110
800-492-7122 *Ext.* 3110
Eric.Luedtke@house.state.md.us

THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

SPONSOR TESTIMONY

House Bill 795 - Gross Receipts Tax on Short-Term Lease or Rental of Heavy Equipment - Alterations

Madame Chair, Members of the Ways and Means Committee,

Since legislation was passed in 2010, the short-term lease or rental of heavy equipment has not been subject to the personal property tax. Instead, Senate Bill 685 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 dross 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 lead to 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 back for any overpayments.

Heavy equipment is extremely mobile and is moved to wherever there is demand to rent it. 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.

For these reasons, House Bill 785 seeks to exempt the government from the tax on rentals of heavy equipment and repeals the annual true up reporting requirement to counties where heavy equipment rental businesses are located. It is my belief that this will bring fairness and efficiency to the gross receipts tax. I thank the committee for your consideration and request a favorable report.

Sincerely,

Eric Luedtke

Delegate Eric Luedtke