Maryland Senate Budget and Taxation Committee
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SB573 – Sales and use Tax Short-Term Rental Vehicles and Peer to Peer Car Sharing Rate Alteration and Sunset Repeal – **UFAVORABLE**

Background:

In 2018, the Maryland legislature enacted SB743, a ground-breaking piece of legislation that marked the first thorough and modern peer-to-peer car sharing regulatory framework in the country. The legislation outlined the rules under which a peer-to-peer car sharing platform might operate in Maryland while properly protecting the interests and outlining obligations of car owner host customers, driving guest customers, the insurance industry and the peer-to-peer car sharing platform providers.

Peer-to-peer car sharing is conducted between a car owner and a guest customer who meet on an online platform and make arrangement to share a car. The platform does not own any cars, and the host makes all the decisions about what car to share, how the key exchange will work, how many miles the guest can drive, pricing, delivery and any extras. The platform charges a percentage of the transaction, often around 25%, and provides the insurance protections required by the law.

This business model is fundamentally different than the rental car company model. The rental car industry owns millions of cars obtained at discounted wholesale rates. In Maryland, the rental car industry pays zero sales tax on the purchase of those cars – a tax exemption benefit worth over $76 million a year to the rental car industry. The rental car industry also pays no license and registration fees for those cars, as that entire cost is passed onto the consumer in the form of a Vehicle License Fee (VLF) added to the daily rate of the car at checkout. At $0.56 per day per car, the rental car industry increases their profits by $5 million a year by passing those fees onto their customers who believe that fee is another tax going to the government.

Maryland residents who share cars on peer-to-peer car sharing platforms do not enjoy any of those financial benefits, because every single one has paid sales tax on the purchase of the car and paid to title and register the car in the State of Maryland. Turo estimates that their customers have paid over $11 million in sales tax to the State when purchasing the cars they share on the platform.

The sales tax and the VLF are just two vivid examples of how these completely different these industries are. Maryland simply underscored these differences in enactment of the legislation in 2018.

Another difference between the two industries can be found in the costs of the consumer protections and liabilities and insurance obligations associated with the two different businesses. Insurance purchased by the peer-to-peer car sharing platform for their customers can cost as much as 60% of the final car sharing price. Contrast this with the car rental industry who only maintains a minimum amount of insurance nearly no liability. These costs of doing business are starkly different – and should factor into how the State of Maryland proceeds with respect to the transaction tax.

Lawmakers on the Senate Finance Committee in 2018 may recall the contentious debate about the transaction/sales tax – with the rental car industry pushing for "parity" on the tax and claiming peer-to-peer car sharing taxes must be taxed identically to rental car at 11.5%. The peer-to-peer car sharing industry, pointing out the millions of dollars in sales tax exemptions that are not extended to their customers, claimed it was inappropriate to tax identically and offered to facilitate the collection and payment of the state standard sales tax of 6%.

Unfortunately, in 2018 the rental car industry continued to oppose this plan until they secured an 8% tax to be placed on peer-to-peer transactions in exchange for their neutrality on the legislation. There was no substance to that figure, no data to back it up, no explanation about how it arrived at that rate. Given the all the work that went into the bill that year, the committee took the path of least resistance – granting the rental car industry what they wanted and codified the 8% rate. However, this 8% rate is scheduled to sunset in June 2020.

Where does that leave us today? The disproportionately high rate of 8% has had a chilling effect on the peer-to-peer car sharing industry in Maryland, especially when considering the rapid growth of the business in neighboring states of Pennsylvania, New Jersey and Virginia. The business is growing in all markets, but Maryland's growth 5-10 points slower than neighboring markets. The only difference between the markets is this very high tax.

The negative effect of too-high taxes on the growth of an emerging industry was documented recently in a report from the State of Colorado Department of Transportation, "2019 Emerging Mobility Impact Study.[1]" This 99-page study compares elasticity of demand by consumers of peer-to-peer car sharing and consumers of rental cars. It determined that while the rental car industry enjoys high inelasticity – that is, consumers will rent from them regardless of increased prices – the opposite is true for peer-to-peer car sharing. The study found the nascent industry suffers from very elastic demand – meaning that at higher consumer prices, the consumer will abandon peer-to-peer and obtain temporary use of a car from a rental car company. Certainly, this backs up what Turo has directly experienced in Maryland, a significant slowing of growth of the new peer-to-peer car sharing industry.

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[1] *2019 Emerging Mobility Impact Study.* State of Colorado Department of Transportation and Colorado Energy Office, November 2019. https://www.codot.gov/library/studies/emerging-mobility-impact-study/emis-documents/2019-emis-report.pdf

It is very important that the legislature factor inelasticity into their calculations of estimated revenue to be raised by the peer-to-peer car sharing industry via a transaction tax. Too high of a rate risks putting the brakes on growth, thus undermining the future of programs the tax collection is meant to support. Government programs that count on the revenue one year, may see those funds diminish or dry up over time.

Finally, it is important to note that in 2018 and to date, no traditional rental car company owns or operates a peer-to-peer car sharing business of any kind. A few operate fleet-owned car sharing, which is essentially a rental car business where the customer does not access the car at a rental car company-owned facility, but instead access the car from a corporate-managed parking space.