"The Voice of the American Auto Rental Industry"

ACRA

AMERICAN CAR RENTAL ASSOCIATION

February 14, 2025

Delegate Vanessa E. Atterbeary, Chair
House Committee on Ways & Means
130 Taylor House Office Building
Annapolis, MD 21401

Oppose HB 0898 Taxed

Dear Chairwoman Atterbeary:

The American Car Rental Association (ACRA) opposes HB 0898, which repeals the sales excise tax exemption for rental car companies that purchase vehicles exclusively to place them in the stream of commerce, thus mandating double taxation upon rental car consumers. The bill also imposes an additional 3.5% tax on rental transactions, raising the total taxation to XX%. This legislation is punitive and would make Maryland the only state in the country to disallow this exemption. Therefore, we respectfully request the committee reject this legislation.

About ACRA
ACRA is the national representative for over 98% of our nation's car rental industry. ACRA's membership comprises of over 300 car rental companies, including all of the brands you would recognize such as Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, Sixt and Thrifty; as well as many system licensees and franchisees, mid-size, regional and independent, and smaller operators. ACRA members have over 2.1 million registered vehicles in service in the United States, with fleets ranging in size from ten cars to one million cars and employ over 160,000 workers at rental locations in nearly every county across the nation. Many of these companies operate within the State of Maryland.

Eliminating the sales excise tax exemption on vehicles purchased and placed into service exclusively for short-term motor vehicle rental by rent-a-car (RAC) operators violates long-standing economic and tax policy by taxing wholesale inputs while also taxing consumers at the retail level. Currently in Maryland, and in all otherstates, RAC's are treated just like any other retailer where the wholesale purchase is not taxed because sales excise taxes will be collected on the revenues generated by the rental activity of that vehicle..

Council on State Taxation (COST)
COST is a nonpartisan, nonprofit trade association engaged in interstate and international business. It's objective is to "preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities." COST addresses this tax policy in a 2019 study prepared by Ernst & Young notes "Imposing sales tax on business inputs results in a number of undesirable effects". The report further states "Taxing business inputs is inconsistent with the rationale for a sales tax designed to operate as a tax on final household consumption. Because businesses are not the final consumers, of business inputs purchases, the sales tax

should not apply to their purchases" (see May 19, 2019 report entitled "The Impact of Imposing Sales Taxes on Business inputs" commissioned by COST page 10).

In sum:

- **<u>Sales and Use Taxes Should Not Be Based on Business Inputs</u>**
    - Imposing sales taxes on business inputs has the same negative effects on a state's competitiveness as other "origin-based" taxes. Like any new tax on goods or services, the net result will be that consumers pay more, making vehicle rentals in your state more expensive and less competitive with neighboring states. Further, sales taxes on business inputs will force RACs to review the economics of operating in a state, which could lead to lower investments in vehicles, infrastructure, and employees in that state.

    - By allowing RACs to continue to purchase vehicles used exclusively for rental under the resale exemption, Maryland may increase the total vehicles titled, registered and subject to recurring motor vehicle taxes and fees.

- **<u>Motor Vehicles Purchased by RACS Should Not Face a Different Tax Policy than Any Other Goods Purchased Exclusively for Sale, Resale, Rent, or Lease.</u>**
    - Long standing tax policy allows businesses to purchase goods without paying sales tax if they or their purchase meet certain exemption criteria. A common exemption is the "purchase for resale," where businesses purchase a goods with the intent of selling said goods at retail. The term "sale" includes leasing and renting. Eliminating this exemption as it pertains to motor vehicle rentals would be inconsistent with the many other businesses that avail themselves of this exemption.

- **<u>Proponents of Repealing the Sales Tax Exemption on Business Inputs for Car Rental Operators Intentionally Mislead Policymakers That RAC Operators Receive Preferential Tax Treatment.</u>**
    - Under a repeal of established tax law, full state and local sales tax rates would apply not only to rental charges for motor vehicles but also the entire purchase price of the rental vehicles when purchased by the rental car company, and when the vehicle is resold, resulting in a triple tax of the same good.

We respectfully urge you to reject any attempt to repeal the sales tax exemption on business inputs (short-term motor rental vehicles, in this case). It would be short-sighted policy that would unfairly target a single industry, raise costs for consumers and make your state less competitive with its neighbors.

Sincerely,

Sharky Laguana
President