

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1076 House Finance Committee Substitute Reform Rental Car Tax

SHORT TITLE: Reform Rental Car Tax

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available (X)		
	(\$ Millions)				
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES					
General Fund					<u>No General Fund Impact</u>
Local Governments					
Property Tax					Minimum \$5.6 million annual loss
Privilege License Tax					<u>See Assumptions and Methodology</u>
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Local Governments and the Department of Revenue, Sales Tax Division.				
EFFECTIVE DATE:	Section 3 becomes effective for taxable yeas beginning on or after July 1, 2000. The remainder of the bill is effective on July 1, 2000.				

BILL SUMMARY: The bill exempts from property tax vehicles that are termed short-term leased vehicles. These vehicles are leased for 365 days or less. This includes rental cars, sports utility vehicles, cargo vans, trucks, trailers and small semi-trailers. The bill authorizes counties and cities to impose a privilege license tax on the vehicle rental business. Each privilege license tax imposed can not exceed 1.5% of the retailer's gross receipts. The legislation also clarifies that the penalties and remedies that apply to the collection of sales tax also apply to the collect of this tax. Finally, the bill directs Fiscal Research to compare the revenue generated from the gross receipts tax in the bill with the Ad Valorum tax that would have been collected without the bill. The results of this comparison must be provided to the 2003 Session of the General Assembly.

ASSUMPTIONS AND METHODOLOGY: The bill has the potential to impact both property and privilege license taxes.

Property Tax: The bill addresses two types of rental vehicles, passenger and non-passenger. Currently there is no state or statewide local system that tracks the number of vehicles leased for 365 days or less. However, the Department of Motor Vehicles can estimate the number of rental cars that are leased for 30 days or less. These cars are given a special tag and are tracked by both the counties and the state. The Division of Motor Vehicles can estimate the number of these vehicles in North Carolina. The DMV estimates that there are approximately 40,000 u-drive-it passenger vehicles in the state. A u-drive-it passenger vehicle is defined as a passenger vehicle that is leased or rented under a 30-day (or less) contract by the retailer. In short, they are rental cars.

Industry analysts suggest that approximately 70% - 80% of all rental cars are located near major airports. A Fiscal Research survey of the seven counties near large airports (Wake, Mecklenburg, Forsyth, Nash, Guilford, New Hanover, and Buncombe) revealed that 31,397 rental vehicles are listed in these counties. Assuming there are 40,000 U-Drive-It vehicles, this represents 78.5% of the total North Carolina market.

These seven counties report a total u-drive-it tax value of \$424,077,070. The property taxes associate with these vehicles is \$4.187 million. This creates an average vehicle value of \$13,507. Assuming the average value applies to the cars in other counties (the remaining 21.5%), the total value of the outstanding vehicles is \$ 116,200,116. Assuming the average vehicle tax from the reporting counties (\$133.36) applies to the remain counties, the property tax losses associated with the bill are as follows:

County	Number of Rental Cars	Percent of All U-Drive-It	Property Tax Loss	Value
Mecklenburg	10,000	25.0%	1,700,000	130,000,000
Wake	13,700	34.3%	1,515,997	177,309,611
Forsyth	1,018	2.5%	159,351	12,846,860
Nash	1,850	4.6%	157,386	23,846,390
Guilford	2,500	6.3%	400,000	51,000,000
New Hanover	1,129	2.8%	109,553	16,474,209
Buncombe	1,200	3.0%	144,900	12,600,000
Others	8,603	21.5%	1,147,319	116,200,116
TOTAL	40,000	100.0%	5,334,506	540,277,186

Note: These numbers may include some rental truck information.

The Division of Motor Vehicles can not determine the number of non-passenger, short-term rental vehicles in the state. Most counties in the state are not able to determine from their records how many of these vehicles are in the county. However, three of the largest short-term truck and trailer rental companies have agreed to share their property tax information to assist with the fiscal estimate. These companies are Penske, Ryder, and U-Haul. These numbers were

provided with the assistance of the national Truck Renting and Leasing Association (TRALA) in Virginia. TRALA indicates that these three companies are the largest consumer truck renting and leasing organizations in the country. TRALA notes that the numbers provided indicate only the consumer rentals, and are not representative of the larger commercial truck industry. The numbers are reported as a combined estimate to maintain confidentiality. These companies report the following 1998 property tax payments in four of the largest counties:

Forsyth	8,309
Guilford	21,557
Mecklenburg	54,636
Wake	79,654

These property tax payments represent approximately 5% of the potential losses listed for rental cars. Using this ratio as a proxy suggests that statewide the loss associated with consumer rental trucks and trailers is approximately \$266,725 per year. Therefore, the total property tax loss associated with rental cars and trucks leased for 30 days or less is \$5,601,231. Because this estimate does not include trucks rented by companies other than Penske, Ryder, and U-Haul this is a **minimum** estimate.

Neither group can report how many vehicles are leased for between 31 and 365 days. However, industry representatives suggest that very few vehicles are leased for this amount of time. At least one car rental company has indicated that they will not offer a lease for more than 30 days. If a consumer wants to lease a car for more than 30 days they must sign an additional lease agreement once the original 30-day lease expires. This company indicated they maintain this policy because of corporate liability issues. However, since the actual number of vehicles leased and the associated revenue is not available the \$5.6 million estimate is a **minimum** local government loss.

Privilege License Tax: The bill also allows counties and cities to levy a privilege license tax on short-term rental vehicles. The counties can levy a tax of up to one and one half percent (1.5%) of a retailer’s gross receipts. The cities can also levy a similar amount. However, no accurate fiscal information is available from the rental car or truck industry on their gross receipts for 365 day or less rentals. An earlier Fiscal Research survey of the eight major car rental companies indicated a 1.5-% gross receipts tax on 30-day automobile rentals would generate \$7.5 million in local revenue.

Three of the truck rental companies agreed to share their gross receipt numbers to facilitate a fiscal estimate on this portion of the bill. The companies agreed to provide this information to Fiscal Research with the understanding that their receipts would be reported as an industry total to maintain confidentiality. The total gross receipt taxes likely to be generated from consumer rental trucks and trailers in the four counties below are as follows:

	Property Tax	1.5% Gross Receipts	Net Gain/Loss
Forsyth	8,309	27,658	19,349
Guilford	21,557	49,280	27,723
Mecklenburg	54,636	101,682	47,046

Wake	79,654	107,619	27,965
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These numbers assume each county levies the maximum gross receipts tax of 1.5%. These numbers also include only the receipts from consumer, not commercial, rentals. Because there is no pattern to the net gain, and the data represents only four counties, no reasonable proxy for a statewide truck and trailer rental estimate can be drawn from this information.

Because the language associated with the privilege license is permissive, Fiscal Research can not predict what proportion of affected counties or cities will levy the new privilege tax. Therefore, no firm fiscal estimate is given for this portion of the bill.

FISCAL RESEARCH DIVISION 733-4910

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