SENATE BILL REPORT

ESHB 2964

AS OF MARCH 6, 1992

Brief Description: Modifying rental car taxation and providing funding for traffic safety education programs.

SPONSORS: House Committee on Revenue (originally sponsored by Representatives Wang, Winsley, Locke, Peery, R. Fisher and Brekke)

Staff: Terry Wilson (786-7715)

BACKGROUND:

Rental cars are subject to state and local sales taxes, business and occupation (B&O) taxes, and motor vehicle excise taxes (MVET).

The state MVET is levied annually based on the value of each rental car operating in the state. Cities and counties may levy an additional MVET that is credited against the state tax and is to be used for acquisition and construction of mass transit facilities.

In 1988, Washington joined the International Registration Plan (IRP). The IRP is a multi-state agreement under which interstate truck fleets pay license fees based on fleet miles operated in various jurisdictions. The IRP also allows interstate car rental agencies to allocate their license fees among states. The IRP formula requires that the number of cars registered in the state reflect the percentage of revenue generated in the state.

There has been disagreement between the Department of Licensing (DOL) and some interstate car rental companies regarding how many vehicles each company should register in Washington. A DOL investigation of interstate car rental companies in 1990 revealed that some interstate companies might not be registering as many vehicles in Washington as required by DOL's interpretation of the IRP.

SUMMARY:

Rental cars are exempt from the MVET and a new 5.9 percent sales tax is imposed on each rental car contract. Proceeds from the new tax are deposited and distributed in the same manner as revenues collected under the existing MVET statute.

The tax applies only to passenger cars that are used solely by a rental car business for rental to others, without a driver provided by the rental car business, for periods of not more than 30 consecutive days. The tax does not apply to long-term vehicle leases that are financing alternatives to a traditional car loan, to vehicles loaned to customers by automotive repair businesses while the customer's vehicle is under repair, or to taxicabs. Rental car companies must annually register vehicles with DOL in the same manner as under current law.

Local jurisdictions may levy sales and use taxes on rental cars in place of the existing local option motor vehicle excise taxes on rental cars. The ratio of the new local taxes to the new 5.9 percent state tax is to be the same as the ratio of rates for the existing state and local option motor vehicle excise taxes. In addition, any county may impose a 1.0 percent sales tax on rental cars to acquire, construct, maintain, or operate public sports stadium facilities, any engineering, planning, financial, legal, or professional services incidental to such facilities, and youth or amateur sports activities or facilities. It may not be used to subsidize any professional sports team.

Before January 1, 1994, and January 1 of each odd-numbered year thereafter, DOL is to provide to the Office of Financial Management and the fiscal committees of the Legislature an updated estimate of the amount of revenue attributable to the new taxes and to exempting rental cars from the MVET.

Appropriation: none

Revenue: yes

Fiscal Note: available

Effective Date: Sections 1-3 take effect June 1, 1992. Sections 4-13 take effect January 1, 1993.