

SENATE BILL REPORT

SB 5611

AS REPORTED BY COMMITTEE ON TRANSPORTATION, FEBRUARY 26, 1991

Brief Description: Imposing an additional sales tax on rental vehicles in lieu of the motor vehicles excise tax.

SPONSORS: Senators Matson, Patterson, Snyder and Conner.

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: That Substitute Senate Bill No. 5611 be substituted therefor, and the substitute bill do pass.

Signed by Senators Patterson, Chairman; Nelson, Vice Chairman; Barr, Conner, McMullen, Oke, Sellar, Skratek, Snyder, Thorsness, and Vognild.

Staff: Robin Rettew (786-7306)

Hearing Dates: February 26, 1991

BACKGROUND:

Currently rental agencies pay a pro rated share of motor vehicle excise tax on each new vehicle based upon the purchase date of the vehicle. For example, eleven months of excise tax is collected on new rental cars purchased in February; six months of excise tax is collected on new rentals purchased in June, etc. Subsequent renewals, if any, are for twelve months.

Rental car agents state they are keeping vehicles, on average, four to six months before selling them and are not getting full use of the vehicles commensurate with the period they have paid motor vehicle excise tax. For example, if a vehicle was purchased in February, the company would pay eleven months excise tax, but the car would likely be used only four or five months before it was sold. The rental companies are not eligible for a tax refund for the unused portion of the year.

Rental car agents argue they cannot pass the cost of the tax onto the consumer because of fierce market competition. They state there is not a direct relationship between the expenses they incur and the charge they impose for using the rental vehicle. Many national companies, for example, set a weekly rental rate which is honored nationwide, regardless of tax variances between states. The rental agents further argue they do not recoup the value of the unused portion of excise tax when they sell used vehicles.

SUMMARY:

The incidence of the tax burden is shifted from rental car company owners to consumers by exempting rental cars from the motor vehicle excise tax and imposing an additional sales tax. The proceeds of the additional sales tax would be distributed in the same manner as the motor vehicle excise tax.

EFFECT OF PROPOSED SUBSTITUTE:

The proposed substitute requires the Legislative Transportation Committee, the Departments of Licensing, Revenue, and Transportation, and representatives from the car rental industry, as well as other interested parties, to conduct a study to evaluate whether or not there is a problem with the current system of taxation and to make alternative recommendations if there is a problem. A final study is due by January 1, 1993 with an interim report due January 1, 1992.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR:

Car rental associations testified in favor of the proposed substitute. Stated they had difficulty getting required data for original bill. They support multi-agency approach to study.

TESTIMONY AGAINST:

Washington State Auto Dealers opposed the original bill because of the uncertain impact it would have on business and occupation taxes. Supported substitute bill provided the effect of alternative taxing methods will include consideration of business and occupation taxes.

TESTIFIED: Gordon Walgren, Car & Truck Renting & Leasing Assn. (pro); Jim Boldt, WA State Auto Dealers (con)