

HOUSE BILL REPORT

HB 2880

As Reported by House Committee On:
Finance

Title: An act relating to excluding car-sharing activities from the rental car tax.

Brief Description: Excluding car-sharing activities from the rental car tax.

Sponsors: Representatives Kenney, McIntire, Dickerson, Quall, Pettigrew, Cody, Roberts, Pedersen, Morrell and Simpson.

Brief History:

Committee Activity:

Finance: 1/30/08, 2/12/08 [DPS].

Brief Summary of Substitute Bill

- Exempts car-sharing activities from state and local rental car taxes.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Minority Report: Do not pass. Signed by 1 member: Representative Condotta, Assistant Ranking Minority Member.

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the

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location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

Retail sales and use taxes apply to the rental of cars. Rental cars are defined as passenger cars that are rented by rental car companies to customers, without drivers, for a period of time not in excess of thirty consecutive days. In addition to retail sales and use taxes, specific state and local taxes apply exclusively to car rentals. These are referred to as car rental taxes. The state imposes an additional car rental tax of 5.9 percent for deposit into the Multimodal Transportation Account. Counties may impose an additional 1 percent tax on car rentals. Currently, four counties levy this tax: Franklin, King, Pierce, and Spokane. King County imposes a second car rental tax at the rate of 2 percent for Safeco Field. Sound Transit is also authorized to impose a car rental tax at the rate of 2.172 percent, however, Sound Transit currently imposes the tax at a rate of 0.8 percent. King, Snohomish, and Pierce counties are authorized to impose a car rental tax at the rate of 0.805 percent, however, these counties do not currently impose the tax. In King County, the combined rate for state and local retail sales and use taxes and car rental taxes is 18.7 percent.

Car sharing is a membership program that offers an alternative to car ownership under which persons or entities that become members are permitted to use vehicles from a fleet on an hourly, as-needed basis. Members pay hourly each time they use a vehicle. Vehicles are strategically located near homes, employment centers, and bus, transit, and ferry lines.

In 2007 the Department of Revenue determined that car sharing activities are subject to car rental taxes.

Summary of Substitute Bill:

Car sharing activities are exempted from car rental taxes. General state and local retail sales and use taxes still apply to car sharing activities. To qualify for the exemption, the car sharing business must meet the following requirements: vehicles are provided to members of the business; the business charges a membership fee separate from the charge for the specific use of a vehicle; the average usage period for vehicles was less than eight hours in the previous calendar year; vehicles are available to members at dispersed locations and the locations are not owned or controlled by the business; and no separate agreement is required each time a members reserves and uses a vehicle.

A July 1, 2010, expiration date is added.

Substitute Bill Compared to Original Bill:

The substitute bill adds an expiration date of July 1, 2010.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect on July 1, 2008.

Staff Summary of Public Testimony:

(In Support) There are many environmental and social reasons to encourage car-sharing programs. It has been estimated that each car-sharing vehicle replaces up to 20 privately owned vehicles. Many of the program participants report being able to dispose of a second car, and in some instances their only vehicle, and rely exclusively upon public transit and the car-sharing program. Individuals indicate net savings of up to \$500 per month in their individual transportation budgets.

Supporters indicate that the rental car tax was originally intended to apply mainly to nonresidents, whereas car-sharing participants are strictly in-state residents of Washington. Some questioned the change in policy by the Department of Revenue when it began applying rental car tax to the car-sharing program in 2007.

Participants in these programs noted that there are personal sacrifices they must make to utilize car-sharing, but that it is worth it in the long run for economic considerations, as well as reduction in pollution, congestion and the carbon foot-print imposed on the Earth by our citizens. If anything, these people need to be encouraged – not penalized via higher taxes. Car-sharing is one of the most effective ways of getting people out of single-occupancy vehicles and into public transit. People who participate in car-sharing are on the front-line in our battle against climate change.

The Flex-Car program in King County was one of the leading innovators of this concept in the county. Supporters noted that it has been successful in other urban areas of the country, e.g., in Washington DC and Portland. In Washington, there are several communities with active programs. Flex-Car has a presence in five cities and there are separate programs in Bellingham and Vancouver. Some businesses have begun offering the use of car-sharing to employees during the day for doctors' visits and other necessary appointments, as long as they commuted to work via public transit.

Proponents believe that the requirements of car-sharing makes this very different from commercial rental car companies. For example, they are required to leave the car fuel tank full and to wash the vehicle if it needs washing.

(Opposed) The rental car industry contributes \$49 million annually to the state Multimodal Transportation Account. The industry questions whether the car-sharing activities are really all that different from the way that the commercial rental car companies operate today. They feature many of the same benefits such as home pick-up and short-term rentals for as short as one hour. The industry does not object to truly nonprofit car-sharing organizations which are basically not engaging in business. But the larger car-sharing entities operate in a very similar manner, and they are in direct competition with commercial rental firms. When a rental car firm makes a presentation to a large business to provide transportation services, they often encounter similar proposals made by a car-share firm. The tax difference under this legislation will price the rental car companies out of the market for innovative business transportation programs.

Persons Testifying: (In Support) Representative Kenney, prime sponsor; Representative Wallace; Sandi Swarhout and Jamie Cheney, Flexcar; Lorraine Wilde, Community Car Share of Bellingham; Ref Lindmark, King County Metro Transit; Ronald Holden; Sean Sykes; Cathy Wickwire; Sally Clark, Seattle City Council; Cherie Seymore; Caroline Worsham; and Genesee Adkins, Transportation Choices Coalition.

(Opposed) Gordon Walgren and Richard Thrasher, Enterprise Rent a Car; Kathy Turner, Alamo Rent A Car; and Doris Cassan, Dollar Rent a Car.

Persons Signed In To Testify But Not Testifying: None.