

NEIL ABERCROMBIE
GOVERNOR



Testimony of
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IN REPLY REFER TO:
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STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 22, 2013
1:30 p.m.
State Capitol, Room 308

**H.B. 551, H.D. 2
RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX**

House Committee on Finance

The Department of Transportation (DOT) **supports** the intent of this bill, which proposes to prorate the rental motor vehicle and tour vehicle surcharge tax for vehicles that are rented by a car-sharing organization to members of its membership program on an hourly basis at hourly rates that include the cost of insurance and the cost of the vehicle to the organization. The rentals made by a car-sharing organization to its members shall be prorated at 12.5 cents per hour.

The DOT is concerned that the bill will impact the rental motor vehicle surcharge revenues deposited into the state highway fund which amounted to approximately \$45 million and 19.2 percent of the total revenues for fiscal year 2012.

The DOT recommends that the bill be revised to re-insert the following language from its original form:

“In the case of rentals made by a car-sharing organization to its members of less than six hours in duration, the surcharge shall be prorated at 12.5 cents per hour; provided that for each rental of six hours or more, the tax shall be assessed at the same rate as provided in paragraph (1).”

Thank you for the opportunity to provide testimony.



NEIL ABERCROMBIE
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JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, February 22, 2013

Time: 1:30 p.m.

Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 551, H.D. 2 Relating to Rental Motor Vehicle Surcharge Tax

The Department of Taxation (Department) appreciates the intent of H.B 551, H.D. 2 and offers the following comments for your consideration. This measure provides for a prorated hourly rate of the Rental Motor Vehicle Surcharge Tax (RMVST) on rental income received by car-sharing organizations for rentals to their members that are less than six hours in duration.

The Department is concerned that the language of the bill provides for inconsistent treatment of taxpayers in the application of the RMVST, as only customers of car-sharing organizations would be eligible to pay a pro-rated RMVST for short-term rentals. The Department believes this could encourage car rental companies to make minor changes to their business models in order to qualify as car-sharing organizations.

It is the Department's understanding that users of car-sharing organizations generally rent cars for less than six hours. It is also the Department's understanding that the purpose of this bill is to alleviate some of the RMVST burden that is placed on such short-term rentals in comparison with a traditional full-day rental. Under current law, the \$3 per day tax is levied on a rental which is used for merely one hour just as it is levied on a rental used for a full day.

In order to carry out the bill's intent to allow RMVST proration while also providing a disincentive for traditional car rental companies to change their business model solely to avoid paying some portion of the tax in traditional car rental situations, the Department suggests the following amendments to this measure.

First, the Department recommends amending the definition of "car-sharing organization" to read as follows:

"Car-sharing organization" means an organization that:

- (1) Operates a qualified fleet of vehicles primarily for hourly rental;
- (2) Operates a fee-based annual membership program in which the membership fee is charged separately from any other charges;
- (3) Provides self-service, fully automated access to its qualified fleet of vehicles exclusively to its members;
- (4) Requires no separate written agreement from its members for each use of its qualified fleet of vehicles;
- (5) Allows members to use its qualified fleet of vehicles for an hourly fee that is inclusive of fuel, insurance, maintenance, and other costs;
- (6) Limits members' use of its qualified fleet of vehicles to 18 hours or less;
- (7) Distributes its qualified fleet of vehicles prior to rental; and
- (8) Requires return of vehicles to the point of rental.

To complement this amended definition, the Department further recommends adding a definition for "qualified fleet of vehicles" as follows:

"Qualified fleet of vehicles" means a fleet of vehicles that is comprised of at least ___% hybrid-electric, plug-in hybrid electric, and electric vehicles as identified as such by the United States Environmental Protection Agency or the United States Department of Energy and published in the Fuel Economy Guide, or any successor publication.

Second, the Department recommends amending the prorated rate for car-sharing organizations, by amending the bill's proposed section 251-2(a)(2) to read as follows:

(2) In the case of rentals made by a car-sharing organization to its members the surcharge shall be prorated at 50 cents per hour, but shall not exceed \$3 per rental.

Lastly, the Department notes that recent changes to the RMVST rate in 2011 and 2012 took several months to implement. If this measure is adopted, the Department requests that the effective date be changed to January 1, 2014.

The Department estimates this bill has no general fund impact; however, if this bill were to become effective July 1, 2013, State Highway Funds could decrease \$1.8 million per year starting FY 2014.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: RENTAL MOTOR VEHICLE AND TOUR VEHICLE SURCHARGE, Car-sharing organizations

BILL NUMBER: HB 551, HD-2

INTRODUCED BY: House Committee on Consumer Protection & Commerce

BRIEF SUMMARY: Amends HRS section 251-2 to provide that the imposition of the rental motor vehicle surcharge tax on rentals of car-sharing organizations shall be prorated at 12.5 cents per hour.

Amends HRS section 251-1 to define “car-sharing organization” as an organization that operates a membership program in which its members are permitted to use vehicles from the organization’s fleet on an hourly basis at hourly rates that include the cost of insurance and the cost of the vehicle to the organization.

EFFECTIVE DATE: July 1, 2020

STAFF COMMENTS: Under a car-sharing arrangement, vehicles may be rented hourly and since a renter does not have to pay for a full day of rental, the rates for the use of the vehicle could be significantly less than if a vehicle was rented from a typical rent-a-car company. While it appears that the imposition of the rental motor vehicle and tour vehicle surcharge adds to the cost of the vehicles rented hourly under a car-sharing arrangement, this measure prorates the amount of the rental motor vehicle surcharge, regardless of the length of time the vehicle is rented.

It should be noted that since a car-sharing arrangement is basically a rent-a-car company that allows renters to rent a car hourly, such car-sharing companies are in direct competition with rent-a-car companies that provide vehicles for rent. It is questionable why only car-sharing vehicles would qualify for the imposition of the rental motor vehicle surcharge at the prorated rates while other rental vehicles would be subject to the full amount.

Digested 2/21/13

**Testimony of
Gary M. Slovin / Mihoko E. Ito
on behalf of
EAN Holdings, LLC**

DATE: February 21, 2013

TO: Representative Sylvia Luke
Chair, Committee on Finance
Submitted Via FINtestimony@capitol.hawaii.gov

RE: **H.B. 551 H.D. 2 – Relating to Rental Motor Vehicle Surcharge Tax
Hearing Date: Friday, February 22, 2013 at 1:30 pm
Conference Room 308**

Dear Chair Luke and Members of the Committee on Finance:

We submit this testimony on behalf of EAN Holdings, LLC, operating Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental in Hawaii (collectively referred to as “Enterprise”).

Enterprise **supports** H.B.551 H.D. 2, which would establish a pro rata formula for the rental car surcharge for car sharing, but requests an amendment as described below.

Car sharing services assist people who may not have access to a car by allowing them to rent cars for short periods. Enterprise is operating such a service at the University of Hawaii. Taxing the rental on a pro rata basis is reasonable since in car sharing the cars are typically used for a short time. This approach makes such short term rental more affordable.

However, Enterprise would like to suggest that the fee instead be prorated over a 6 hour period at \$0.50 per hour rather than a 24 hour one at \$0.125 per hour, since a “full day” rental is classified at 6 hours, after which the rental car surcharge would be charged at the full \$3/day.

Thank you for the opportunity to submit testimony on this measure.

Gary M. Slovin
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