

NEIL ABERCROMBIE  
GOVERNOR

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LT. GOVERNOR



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To: The Honorable David Y. Ige, Chair  
and Members of the Senate Committee on Ways and Means

Date: Tuesday, February 12, 2013  
Time: 9:30 a.m.  
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. 726 S.D.1 Relating to Rental Motor Vehicle Surcharge Tax

The Department appreciates the intent of S.B.726 S.D.1 and provides the following information and comments for your consideration.

S.B. 726 S.D.1 defines car-sharing organizations and exempts them from the rental motor vehicle surcharge tax (RVST).

The Department is concerned that the bill applies inconsistent RVST treatment to similarly situated taxpayers. If given this exemption, car-sharing organizations will be able to out-compete car rental companies in the traditional rental car market as they will not be burdened by the RVST. This may lead car rental companies to make minor changes to their business models in order to qualify as car-sharing organizations. The end result will be an eroded tax base as traditional car rental companies find ways to qualify for the exemption.

Additionally, the Department notes that due to limited staff resources and technological challenges there will be difficulty implementing the required changes to the RVST form and instructions. Recent challenges to adjust the RVST rate in 2011 and 2012 underscores the need for the Department to have sufficient time to implement changes to tax forms and instructions.

To assist with the administration and implementation of the exemption, the Department recommends the following amendments:

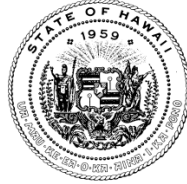
Page 2, line 22, after "tax" insert "; provided that all car-sharing organizations must continue to fulfill all other obligations of this chapter. To obtain allowance of the exemption a car-sharing organization must submit and have approved an application for exemption. The application must be submitted to the Department and must relate all information relevant to qualification as a car-sharing organization and any other information the Department may require."

Page 3, line 3, delete "shall take effect upon its approval" and insert ", upon its approval, shall become effective January 1, 2014."

These amendments will clarify the operation of the exemption and allow the Department the time needed to prepare for the administration of the exemption.

Thank you for the opportunity to provide comments.

NEIL ABERCROMBIE  
GOVERNOR



**LATE**

Testimony of  
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DIRECTOR

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**STATE OF HAWAII**  
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869 PUNCHBOWL STREET  
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February 12, 2013  
9:30 am  
State Capitol, Room 211

**S.B. 726 S.D. 1**  
**RELATING TO RENTAL MOTOR VEHICLE SURCHARGE TAX**

Senate Committee on Ways and Means

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The Department of Transportation (DOT) **opposes** SB 726 SD1, which amended this measure by exempting car-sharing organizations from the rental motor vehicle surcharge tax entirely.

The exemption of car-sharing organizations 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.

As more traditional rental car companies set up car-sharing services as exemplified by the acquisition of Zipcar, the largest car-sharing organization, by Avis, and the establishment of the WeCar car-sharing program by Enterprise Holdings, the parent company of rental companies Alamo, Enterprise and National, in Hawaii, the reduction of the rent motor vehicle surcharge revenues would be significant if they are exempt from the rental motor vehicle surcharge tax entirely.

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.



TESTIMONY OF SHEM LAWLOR  
TO THE  
SENATE COMMITTEE ON WAYS AND MEANS  
FEBRUARY 12, 2013  
9:30 AM

**Testimony on S.B. 726, SD1  
Relating to Rental Motor Vehicle Surcharge Tax**

**To the Honorable Chair Ige, Vice Chair Kidani and members of the Committee:**

I strongly support SB726, SD1 which would exempt car-sharing organizations from the State's daily rental car surcharge. The State is currently taxing car-sharing rentals at a flat \$3.00 rate, regardless of duration.

I have a few points that I would like to make, but I will try to be as brief as possible in doing so.

Traditional car rental and car-sharing may appear similar services; however there are significant differences which make car-sharing worthy of this tax exemption:

Traditional car rental service is geared towards tourists who use the vehicles as their cars away from home. Meanwhile, car-sharing serves local residents who use the vehicles (along with public transit, walking and biking) as a replacement for full-time car ownership.

Traditional car rental vehicles are sited at centralized locations, while car-sharing vehicles are disseminated in small, self-service pods in the neighborhoods where users live.

Traditional car rental service as a temporary car away from home, allowing users to satisfy all of their transportation needs by car. Car-sharing service is meant for very specific, short term trips such as grocery shopping or running weekly errands which typically take 1-3 hours and are difficult to make via public transportation or other alternative means.

A number of studies have demonstrated the benefits that car-sharing provides. On average, every car-sharing vehicle put into service removes between 10 and 15 personal vehicles from the roadways. This results in greater mobility for car-less households and allows many families to reduce the number of vehicles they own. The vehicles removed from the roads by car-sharing leads to the following benefits-

- a. lower household transportation costs,
- b. reduced traffic congestion,
- c. reduced GHG emissions,
- d. reduce oil dependency,
- e. reduced parking demand, and
- f. increased public transportation ridership.

I don't believe that the Rental Motor Vehicle Surcharge Tax was ever meant to tax local residents who are using the vehicles for essential transportation needs. In fact, there is already an exemption in the existing law for persons who are using rental vehicles while their regular vehicles are being repaired.

Car-sharing is a very valuable service which will improve the quality of life for those Honolulu households who do not currently own a car by providing convenient, inexpensive access to vehicles for trips that are difficult to make via public transportation or other alternatives.

Car-sharing will also make the car-less lifestyle more attractive for Honolulu households that currently own cars and will allow many of those to reduce the number of vehicles they own, reducing their household transportation costs without sacrificing quality of life.

Comments:

I propose that only car-sharing rentals of 6 hours in duration or less be allowed this exemption. This would make it more difficult for traditional car rental companies to subvert the intention of the law by charging for their rentals in 24 hour increments, rather than daily increments. Car-sharing companies also often allow for daily rentals which essentially provide the same service as traditional car rental, albeit with a different rate structure (car-sharing includes gas and insurance in the hourly rates). The six hour or less designation would therefore limit the tax exemption to those rentals that are actually being used for the types of trips that bring the economic, social and environmental benefits listed above.

I respectfully request the committee to pass this bill. Thank you for your time and consideration.

Sincerely,

Shem Lawlor  
Honolulu resident