April 23, 2025

Chair Kristen Cloutier
Joint Committee on Taxation
Maine Legislature
2 State House Station
Augusta, Maine 04333-0002

RE: ***Oppose LD1602 SP639, An Act to Impose New Taxes on Business Inputs***

Dear Chair Cloutier and Members of the Joint Committee on Taxation:

On behalf of the members of the American Car Rental Association (ACRA), I write to oppose LD1602 SP639, which imposes a new tax on rental car companies that purchase vehicles exclusively for resale, rent or lease. Taxing business inputs, when tax is already collected from the consumer at the point of consumption represents a double tax on the same asset, and a pyramiding of taxation. We respectfully urge the Joint Committee to reject this legislation.

About ACRA

ACRA is the national representative for over 98% of our nation's car rental industry. ACRA's membership is comprised of over 300 car rental companies, including all of the brands you would recognize such as Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, Sixt and Thrifty; as well as many system licensees and franchisees, mid-size, regional and independent, and smaller operators. ACRA members have over 2.1 million registered vehicles in service in the United States, with fleets ranging in size from ten cars to one million cars and employ over 160,000 workers at rental locations in nearly every county across the nation. Many of these companies operate within the State of Maine.

Imposing the sales and use taxes on vehicles purchased and placed into service exclusively for short-term motor vehicle rental by rent-a-car (RAC) operators violates long-standing economic and tax policy by taxing wholesale inputs while also taxing consumers at the point of consumption. Currently in Maine, RAC's are treated just like any other retailer where the wholesale good is not taxed because sales and use taxes are collected on the rental activity of that vehicle.

Council on State Taxation (COST) Opposes Taxing Business Inputs

COST is a nonpartisan, nonprofit trade association engaged in interstate and international business, that is endorsed by the National Council of State Legislatures (NCSL). Its objective is to "preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities." COST addresses this tax policy in a 2019 study prepared by Ernst & Young which notes "Imposing sales tax on business inputs results in a number of undesirable effects". The report further states "Taxing business inputs is inconsistent with the rationale for a sales tax designed to operate as a tax on final household consumption. Because businesses are not the final consumers, of business inputs purchases, the sales tax should not apply to their purchases" (see May 19, 2019 report entitled "The Impact of Imposing Sales Taxes on Business inputs" commissioned by COST page 10).

In sum:

- **<u>Sales and Use Taxes Should Not Be Imposed on Business Inputs</u>**
    - By preserving the current tax structure for rental vehicles, Maine will continue to benefit from a robust rental vehicle marketplace that generates significant sales and use tax revenue throughout Maine via the renting of those vehicles. In addition, a reduction in fleet size, as a result of this new tax on RAC purchases, will likely result in fewer. vehicles titled, and registered in the state, yielding diminishing registration fees and sales and use taxes derived from rentals.

    - Imposing sales taxes on business inputs has the same negative effects on a state's competitiveness as other "origin-based" taxes. Like any new tax on goods or services, the net result will be that consumers pay more, making vehicle rentals in your state more expensive and less competitive with neighboring states. Further, sales taxes on business inputs will force RACs to review the business impacts of this new tax and make operational decisions accordingly which could lead to lower investments in vehicles, infrastructure, and employees in that state.

- **<u>Motor Vehicles Purchased by RACS Should Not Face a Different Tax Policy than Any Other Goods Purchased Exclusively for Sale, Resale, Rent, or Lease.</u>**
    - Long standing tax policy allows businesses to purchase goods without paying sales and use tax if they or their purchase meet certain exemption criteria. A common exemption is the "purchase for resale," where businesses purchase a good with the intent of selling said goods at retail. The term "sale" includes leasing and renting. Eliminating this exemption as it pertains to motor vehicle rentals would be inconsistent with the many other businesses that avail themselves of this exemption. Rental vehicles should not be singled out and discriminated against in this regard. If Maine wants to tax business inputs, it should apply to all goods and services procured in the state, not just rental vehicles.

- **<u>Proponents of Imposing the Sales Tax on Business Inputs for Car Rental Operators Intentionally Mislead Policymakers That RAC Operators Receive Preferential Tax Treatment.</u>**
    - Should the sales and use tax exemption for rental vehicles be repealed, it would result in triple taxation of the same asset, at the time of purchase, when rented, and when sold as a used vehicle.

We respectfully urge you to reject any attempt to repeal the sales and use tax exemption on business inputs (short-term motor rental vehicles, in this case). It is a short-sighted policy that would unfairly target a single industry, raise costs for consumers and make your state less competitive with its neighbors.

Sincerely,

Don Lefeve,
Executive Director