

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *April 23, 2025, Wednesday at 1:00 P.M.*

LD 1602 – “*An Act to Remove the Exemption from Sales and Use Tax for
Automobiles Purchased for Use as Rentals*”

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 1602, “*An Act to Remove the Exemption from Sales and Use Tax for Automobiles Purchased for Use as Rentals.*”

Currently, lessors may purchase tangible personal property for resale without paying sales tax if the property (including parts and accessories) will be leased or rented. This exclusion is standard to most sale taxes – with the sales tax being imposed once at the time of lease to the consumer, and not at the time the business purchased property it intends to lease out. This exclusion thereby prevents effective double taxation. LD 1602, however, appears intended to create an exception – effectively creating double taxation on automobiles, and integral parts and accessories, that are purchased for subsequent lease or rental for a period of less than one year.

The policy rationale behind this bill and its precursor in the 131st Legislature (LD 2198) is unclear. Lessors of tangible personal property uniformly are not required to pay sales or use tax on eligible purchases of lease or rental

property for resale. This bill would create an additional layer of sales tax imposed only on lessors of automobiles rented for a period of less than one year.

The committee should note that while this bill would amend the definition of “retail sale” to include sales of automobiles to a person engaged in the business of renting automobiles, it would not repeal the provisions making those transactions tax-free. See 36 M.R.S. § 1752(11)(B)(10), (18). The proposed language should be amended to include the phrase “notwithstanding the provisions of paragraph B, subparagraphs 10 and 18.” Likewise, it is unclear whether the additional tax is intended to extend to a dealer’s purchase of a “loaner vehicle” subject to the 10% rate. If that is intended, the language should be “paragraph B, subparagraphs 8, 10 and 18.”

This bill would reverse – for this subset of purchases for rental transactions – the policy enacted last year to make the purchase of tangible personal property by a lessor tax-free and to tax the lease stream periodic payments made by a lessee.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee’s questions.