

**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: *Tuesday, February 20, 2024, at 1:00 P.M.*

L.D. 2198 – *“An Act to Remove the Exemption from Sales and Use Tax for  
Automobiles Purchased for Use as Rentals”*

-----

Senator Grohoski, Representative Perry, 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 here at the request of the Administration to present testimony regarding L.D. 2198, *“An Act to Remove the Exemption from Sales and Use Tax for Automobiles Purchased for Use as Rentals.”*

This bill would repeal the part of the “retail sale” exclusion under the sales tax that allows persons “engaged in the business of renting automobiles” to purchase automobiles (and their integral parts and accessories) tax-free when the automobile will be rented for a period of less than one year. Under current law, instead of the lessor paying sales tax upfront on its purchase of the automobile, the lessor collects and remits sales tax imposed on the lessee’s short-term rental of the automobile. Repealing this “retail sale” exclusion as proposed by L.D. 2198 would result in the property being taxed twice—both when purchased by the lessor and when rented to the lessee.

The Committee currently has slated for its schedule two bills that take the opposite approach of LD 2198 and instead propose to modernize the sales taxation of leased or rented property in the manner followed by nearly all other states. The first bill is the Governor’s Supplemental Budget proposal. The second is L.D.

2000, currently scheduled for work session on February 27<sup>th</sup>. Both of those proposals would expand “retail sale” exclusions for all lessors of property — removing upfront full value sales taxation and instead moving to a tax on the lease stream payments. L.D. 2198 would by contrast, with respect to short-term rental automobiles, have sales tax imposed on both the lessor’s purchase and the lessee’s short-term rental.

The policy objective of L.D. 2198 is not apparent from the bill itself. The reason for a double tax is not clear. If the objective, and the Committee interest, is in providing some narrow form of sales tax relief to those who pay sales tax on their purchase of a motor vehicle and then use their vehicles on a limited basis for marketplace rentals of motor vehicles, consideration could be given to an alternative that uses a refund based on percentage of use as a rental over a two-year period such as in the so-called “ICC” exemption, or a partial refund based on primary use as a rental over a given period of time.

A separate technical question to consider in terms of consistent sales tax policy is whether the double tax treatment apparently intended by this bill is also intended to cover any “retail sale” exclusion for persons “engaged in the business of renting automobiles.” If so, then question is whether subparagraph (3-A), which is not part of the bill text, is intended to be repealed as well. That provision currently excludes trucks and vans weighing less than 26,000 pounds (and integral parts or accessories) purchased by persons “primarily engaged in the business of renting automobiles” to be rented for a period of less than one year.

In sum, this bill creates a double tax on the short-term rental of automobiles. Taxing the lease stream is the approach of almost every other state and is the current approach in Maine for the taxation of short-term automobile rentals. L.D. 2000 and the Governor’s Supplemental Budget propose to expand the lease stream

approach to all leases and rentals, and to exclude any lessor's purchase of lease or rental inventory from tax.

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.