

**Testimony in Support of LD 2198 An Act to Remove the Exemption from Sales and Use Tax for Automobiles Purchased as Rentals, Sponsored by Speaker Rachel Talbot-Ross**

2/20/24

Sen. Grohoski, Rep. Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I'm an analyst at the Maine Center for Economic Policy. I'm here to testify in favor of LD 2198.

This bill would require that car rental businesses pay sales tax on automobiles and parts that everyone else in Maine who buys and owns a car pays. Businesses are not taxed on wholesale inventory that gets sold to their customers, but businesses do, as a rule, pay sales tax on purchases that they use to operate their business. Vehicles rented out to customers should be no exception, and we support removing the sales tax exemption for vehicle and parts purchases for short term auto rentals. Automobiles purchased for rent are a business asset and should be taxed as such. Rental car companies take deductions on these purchases, treating them as business assets, but do not pay taxes on them.

Currently, when rental car companies purchase automobiles they rent to customers, they do not pay sales and use tax. This means rental car companies get a tax exemption for a primary input they use as part of their business. The current law exempting rental car agencies from sales and use tax is a backdoor subsidy for rental companies, just three of whom dominate most car rentals in the industry. These businesses are not going to leave the market in Maine if they have to pay sales tax on cars. This subsidy allows existing big corporations to continue to dominate the market, meaning Maine taxpayers are actually subsidizing the dominance of big corporations and lack of market competition.

Rental car companies will oppose this measure, claiming additional costs will be passed on to consumers. But they are already being undercut by competitors who are able to outprice them while also paying sales tax. They want to preserve their unfair competitive tax advantage and they are asking Maine taxpayers to continue paying for it. The policy of exempting these purchases is not market neutral.

Thank you for your time, I would be happy to answer any questions.

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