

# FINAL BILL REPORT

## ESHB 2964

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*Synopsis As Enacted*

**Brief Description:** Modifying rental car taxation and providing funding for traffic safety education programs.

By House Committee on Revenue (originally sponsored by Representatives Wang, Winsley, Locke, Peery, R. Fisher and Brekke).

House Committee on Revenue

**Background:** In 1991, the Legislature directed the Legislative Transportation Committee (LTC) and affected state agencies to study the taxation of rental cars. The study is to examine the impacts of sales, business and occupation (B&O), and motor vehicle excise taxes (MVET) on the industry, whether the MVET is equitably applied to rental cars, and whether there are alternatives to the MVET. The committee is to provide an interim report on this issue by January 1, 1992 and a final report by January 1, 1993.

Rental cars are subject to the sales tax at the 6.5 percent state rate, the B&O tax at the 0.471 percent retailing rate, and the MVET at the 2.2 percent state rate. State and local sales taxes and B&O taxes apply to the value of the contract each time a car is rented. Revenues from sales and B&O taxes are deposited in the general fund.

The 2.2 percent state MVET is paid yearly to the Department of Licensing (DOL) based on the value of each rental car operating in the state. Proceeds of the state MVET are split between the general fund and various transportation accounts. Transit districts may levy a voter-approved local option MVET of up to 0.8 percent to be used for high capacity transportation service. Certain counties may levy a surcharge of 15 percent on the state MVET for high occupancy vehicle service. The total amount generated in a county where both the 0.8 percent tax and the 15 percent surcharge are levied may not exceed the amount generated from the 0.8 percent tax. Cities and counties may levy an additional MVET that is credited against the state tax and is to be used for acquisition and construction of mass transit facilities. The rate is 0.725 percent after June 30, 1992.

Application of the MVET to rental cars used interstate has been administratively difficult in recent years. Before 1988, every rental car used in Washington had to be registered in the state, regardless of whether the car was used partially in Washington and partially elsewhere. The only exception was for one-way rentals coming from out of state. In 1988, Washington joined the International Registration Plan (IRP). The IRP is a multi-state agreement originally developed to allow interstate truck fleets to pay license fees based on fleet miles operated in various jurisdictions. A provision of the IRP also allows interstate car rental agencies to allocate their license fees among states. The IRP formula requires that the number of cars registered in the state reflect the percentage of revenue generated in the state. Thus, if a company receives 10 percent of its gross revenue in Washington, it must pay MVET on 10 percent of its vehicles. Of the approximately 100 rental car agencies operating in Washington, nine are interstate companies, and all participate in the IRP.

Although the concept of the IRP is fairly simple, there has been disagreement between DOL and some interstate car rental companies regarding how many vehicles each company should register in Washington. Complaints from instate car rental companies that most cars on some companies' lots had Oregon license plates lead to a DOL investigation of interstate car rental companies in 1990. The investigation revealed that some interstate companies might not be registering as many vehicles in Washington as required by DOL's interpretation of the IRP.

**Summary:** Rental cars are exempt from the MVET and a new 5.9 percent sales and use tax is imposed on each rental car contract in place of the MVET. The new tax is intended to replace the revenues previously generated by the MVET on rental cars. Proceeds from the new tax are deposited and distributed in the same manner as revenues collected under the existing MVET statute.

Rental cars subject to the tax are defined as passenger cars that are used solely by a rental car business for rental to others, without a driver provided by the rental car business, for periods of not more than 30 consecutive days. The tax does not apply to long-term vehicle leases that are financing alternatives to a traditional car loan, vehicles loaned to customers by automotive repair businesses while the customer's vehicle is under repair, or to taxicabs. Rental car companies must annually register vehicles with DOL in the same manner as under current law.

Authorized local jurisdictions may levy sales and use taxes on rental cars in place of the existing local option motor

vehicle excise taxes on rental cars. The ratio of the new local taxes to the new 5.9 percent state tax is to be the same as the ratio of rates for the existing state and local option motor vehicle excise taxes. In addition, any county may impose an additional 1.0 percent sales and use tax on rental cars. Proceeds of the tax may not be used to subsidize any professional sports team and may be used only for:

- (1) Acquiring, constructing, maintaining, or operating public sports stadium facilities;
- (2) Engineering, planning, financial, legal, or professional services incidental to such facilities; or
- (3) Youth or amateur sport activities or facilities.

Before January 1, 1994 and January 1 of each odd-numbered year thereafter, DOL is to report to the Office of Financial Management and the fiscal committees of the Legislature. DOL, with the assistance of the Department of Revenue, is to provide an updated estimate of the amount of revenue attributable to the new taxes and to exempting rental cars from the MVET.

***Votes on Final Passage:***

House	57	38
Senate	35	14

***Effective:***            June 1, 1992                    (Sections 1 - 3)  
                              January 1, 1993                (Sections 4 - 13)