NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1076

SHORT TITLE: Reform Rental Car Tax

SPONSOR(S): Senator Cooper

FISCAL IMPACT

Yes (X) No ( ) No Estimate Available ( )

($ Millions)

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
REVENUES					
General Fund			**No General Fund Impact**		
Local Governments					
Property Tax	(5.3)	(5.3)	(5.3)	(5.3)	(5.3)
Premiums Tax			**See Assumptions and Methodology**		

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Local Governments and the Department of Revenue, Sales Tax Division.

EFFECTIVE DATE: Section 3 becomes effective for taxable yeas beginning on or after July 1, 2000. The remainder of the bill is effective on July 1, 2000.

BILL SUMMARY: The bill exempts from property tax u-drive-it passenger vehicles that are rented or leased for 30 days or less. The bill also authorizes counties and cities to impose a privilege license tax on the rental car business. Each privilege license tax imposed can not exceed 2% of the retailer's gross receipts.

ASSUMPTIONS AND METHODOLOGY: The Division of Motor Vehicles estimates that there are approximately 40,000 u-drive-it passenger vehicles in the state. A u-drive-it passenger vehicle is defined as a passenger vehicle that is leased or rented under a 30-day (or less) contract by the retailer. In short, they are rental cars.

Industry analysts suggest that approximately 70% - 80% of all rental cars are located near major airports. A Fiscal Research survey of the seven counties near large airports (Wake, Mecklenburg, Forsyth, Nash, Guilford, New Hanover, and Buncombe) revealed that 31,397 rental vehicles are listed in these counties. Assuming there are 40,000 U-Drive-It vehicles, this represents 78.5% of the total North Carolina market.

These seven counties report a total u-drive-it tax value of $424,077,070. The property taxes associate with these vehicles is $4.187 million. This creates an average vehicle value of $13,507. Assuming the average value applies to the cars in other counties (the remaining 21.5%), the total value of the outstanding vehicles is $ 116,200,116. Assuming the average vehicle tax from the reporting counties ($133.36) applies to the remain counties, the property tax losses associated with the bill are as follows:

County	Number of Rental Cars	Percent of All U-Drive-It	Property Tax Loss	Value
Mecklenburg	10,000	25.0%	1,700,000	130,000,000
Wake	13,700	34.3%	1,515,997	177,309,611
Forsyth	1,018	2.5%	159,351	12,846,860
Nash	1,850	4.6%	157,386	23,846,390
Guilford	2,500	6.3%	400,000	51,000,000
New Hanover	1,129	2.8%	109,553	16,474,209
Buncombe	1,200	3.0%	144,900	12,600,000
Others	8,603	21.5%	1,147,319	116,200,116
TOTAL	40,000	100.0%	5,334,506	540,277,186

The bill also allows counties to levy a privilege license tax on u-drive-it vehicles. The counties can levy a tax of up to two percent (2%) of a rental car retailer's gross receipts. The cities can also levy a similar amount. Representatives of the rental car industry believe that eight rental car companies have the majority of the rental car market. Fiscal Research conducted a survey of these eight companies (Triangle, Budget, Dollar, Hertz, Enterprise, National, Thrifty, and Alamo). The companies were asked to reveal their property taxes (for rental cars only) for the previous year, along with an estimate of 2% of their gross receipts. The companies asked that these numbers be reported in total to avoid sharing proprietary information.

In total, these companies report paying approximately $2.5 million in property taxes. Of the companies that reported the number of vehicles, the average 2% gross receipts amount from each car was $ 252.33. Using the Division of Motor Vehicles estimate of 40,000 u-drive-it vehicles, the total revenue potential if every county levied the full two- percent (2%) tax, will be $10.1 million. The estimated property tax associated with the same number of vehicles is $5.3 million. As a result, if every county with rental cars levied the privilege license tax at two percent (2%) of gross receipts, the net impact of the bill would be a county revenue gain of $4.8 million. Cities could also see a revenue increase from the bill. However, the city impact will be much less as most airports are located outside city limits.

Because the language associated with the privilege license is permissive, fiscal research can not predict what proportion of affected counties or cities will levy the new privilege tax. Therefore, no firm fiscal estimate is given for this portion of the bill.

FISCAL RESEARCH DIVISION 733-4910
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