NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1076 Senate Finance Committee Substitute Reform Rental Car Tax

SHORT TITLE: Reform Rental Car Tax

SPONSOR(S): Senator Roy Cooper

FISCAL IMPACT

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

($ 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	**Minimum $5.3 million annual loss**				
Privilege License 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 vehicles that are termed short term leased vehicles. These vehicles are leased for 365 days or less. This includes rental cars, sports utility vehicles, cargo vans, trucks, trailers and small semi-trailers. The bill also authorizes counties and cities to impose a privilege license tax on the vehicle rental business. Each privilege license tax imposed can not exceed 1% of the retailer's gross receipts.

ASSUMPTIONS AND METHODOLOGY: The bill has the potential to impact both property and privilege license taxes.

Property Tax: The bill addresses two types of rental vehicles, passenger and non-passenger. Currently there is no state or local system that tracks the number of vehicles leased for 365 days or less. However, the Department of Motor Vehicles can estimate the number of rental cars that are leased for 30 days or less. These cars are given a special tag and are tracked by both the counties and the state. The Division of Motor Vehicles can estimate the number of these vehicles in North Carolina. The DMV 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 Division of Motor Vehicles can not determine the number of non-passenger, short-term rental vehicles in the state. Most counties in the state are not able to determine from their records how many of these vehicles are in the county. Some indicated that at least a portion of the trucks may be included in the above passenger vehicle estimate. Neither group can report how many vehicles are leased for between 31 and 365 days.

Because of the lack of firm data, the $5.3 figure is used as a **minimum** local government loss. The actually loss could be much greater.

Privilege License Tax: The bill also allows counties and cities to levy a privilege license tax on u-drive-it vehicles. The counties can levy a tax of up to one percent (1%) of a retailer's gross receipts. The cities can also levy a similar amount. However, no accurate fiscal information is available from the rental car or truck industry on their gross receipts for 365 day or less rentals. An earlier Fiscal Research survey of the eight major car rental companies indicated a 1% gross receipts tax on 30 day automobile rentals would generate $5.0 million in local revenue. However because this represents only a subset of the vehicles impacted by the bill this is a minimum potential impact.

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.

Note: While the statewide numbers suggest a potential net gain for counties that choose to levy the 1% privilege license tax, at least one county assessor has indicated to Fiscal Research that they believe their county will lose money under the proposal. The North Carolina Association of Assessing Officials indicates those counties with a property tax rate of more than approximately $0.60 could loose revenue even if the 1-% gross receipts tax was levied. However, they do note these number are the result of limited data.

FISCAL RESEARCH DIVISION 733-4910
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