



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3891 As amended by the Senate on April 14, 2016
Author: Toole
Subject: Surcharges on passenger motor vehicles
Requestor: Senate Transportation
RFA Analyst(s): Dunbar and Martin
Impact Date: April 28, 2016 - Updated for revised information

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	(\$1,888,600)	\$0
Other and Federal	\$455,700	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$250,000	\$0

Fiscal Impact Summary

This bill as amended will reduce General Fund revenue by an estimated \$1,888,600 and increase EIA and Homestead Exemption sales tax revenue each by \$227,850 for a total of \$455,700 in FY 2016-17 and each year thereafter. Local revenue will increase by an estimated \$250,000 in FY 2016-17 and each year thereafter. Local sales tax could be increased by a minimal amount. This fiscal impact statement is updated to reflect a revised analysis based on information provided by the Department of Revenue subsequent to the fiscal impact dated April 14, 2016.

Explanation of Fiscal Impact

Updated for Revised Analysis and Fiscal Impact on April 28, 2016

State Expenditure

The Department of Revenue indicates that this bill would have no expenditure impact to the General Fund, Other Funds, or Federal Funds.

State Revenue

Section 1. Currently, a vehicle surcharge of five percent is added to each private passenger motor vehicle rental contract of thirty-one days or less in South Carolina. The surcharge is a sales tax applied to the total amount stated in the rental agreement. The accumulated surcharges are collected by the vehicle rental company in a segregated account and used to reimburse the vehicle personal property taxes due each year on the rental vehicles of each rental car company. Any amount in excess of the total property taxes due each taxable year is remitted to the Department of Revenue and deposited in the state General Fund. According to data from the

Department of Revenue, the private passenger rental surcharge amounted to \$2,497,383 in FY2014-15.

This bill as amended would make the following changes to Section 56-31-50:

- Deletes the five percent sales tax surcharge in each rental contract.
- Extends the number of days that charges may be applied to rental vehicles from thirty (30) days to ninety (90) days.
- Deletes the requirement that any surcharge or fees be placed into a segregated account to be used to reimburse the rental company for any motor vehicle personal property taxes due each taxable year. This amendment does not absolve the rental company from its obligation to pay annual personal property taxes on its rental car fleet.
- Allows the rental company to impose a “vehicle license fee” to be stated as a separate charge to recover the rental company’s costs for licensing, titling, registering, plating, and inspecting of its rental vehicles and taxes paid in connection with the registered vehicle. If the vehicle license fee is greater than the actual costs of the rental company, the company may retain the excess amount and adjust the average per vehicle charge for the following calendar year to reduce excess amount.
- This vehicle license fee is subject to local and state sales tax.

The amount of the vehicle license fee must be disclosed at the time of reservation and must appear as a separately itemized charge. The motor vehicle rental company is permitted to adjust the vehicle license fee to reflect changing financial conditions. There are no provisions in the bill to limit the number of changes to the vehicle license fee during a calendar year or the amount that may be charged per vehicle. The rental company may charge a vehicle license fee to recoup the costs for licensing, titling, registering, plating, and inspecting of its rental vehicles. Other stated fees may include, but are not limited to, airport access fees, airport concession fees, and any additional fees the rental company may wish to include in the state per vehicle rental price.

The vehicle license fee is subject to state and local sales taxes. Our estimate of vehicle license fees is based upon recently updated tax data from DOR records. DOR records indicated that approximately 39,100 private passenger rental vehicles in South Carolina paid \$21,729,406 in property taxes in tax year 2015. We estimate that titling and registration fees total \$1,056,000 and the total vehicle license fees would be approximately \$22,785,406. Applying the six percent sales tax, we estimate that the General Fund (4%) would receive approximately \$911,400 and the EIA (1%) and the Homestead Exemption (1%) would receive \$227,850 respectively. This compares to the current revenue of \$2,500,000 for the General Fund and \$0 for the EIA and Homestead. Therefore, the General Fund would notice a net reduction of \$1,588,600 while the EIA and Homestead would receive an increase of \$227,850 each. If a local jurisdiction imposes a local option sales tax, then the local tax would apply too.

Section 3. This bill as amended repeals Section 12-37-717, which imposes a three percent surcharge on the rental of heavy equipment. Based upon the most recent data from the Department of Revenue, the current three percent surcharge on the rental of heavy equipment property generates \$300,000 in General Fund revenue. This section of the bill would reduce General Fund revenue by \$300,000 in FY 2016-17.

Section 4. This act takes effect on January 1, 2017.

Local Expenditure

N/A

Local Revenue

Section 2. This bill as amended adds Section 56-31-60, which imposes a two and one-half percent rental fee on heavy equipment. The fee is to be remitted to the Department of Revenue on a quarterly basis and then distributed to the local jurisdiction. The local jurisdiction will distribute the funds in the same manner as the personal property tax. Based upon the most recent data from the Department of Revenue, the current three percent surcharge on the rental of heavy equipment property generates \$300,000 in General Fund revenue. We estimate that the two and one-half percent heavy equipment rental fee will generate an additional \$250,000 of revenue in FY 2016-17 and each year thereafter.

Explanation of Amendment by the Senate on April 14, 2016

State Expenditure

The Department of Revenue indicates that this bill would have no expenditure impact to the General Fund, Other Funds, or Federal Funds.

State Revenue

Section 1. Currently, a vehicle surcharge of five percent is added to each private passenger motor vehicle rental contract of thirty-one days or less in South Carolina. The surcharge is a sales tax applied to the total amount stated in the rental agreement. The accumulated surcharges are collected by the vehicle rental company in a segregated account and used to reimburse the vehicle personal property taxes due each year on the rental vehicles of each rental car company. Any amount in excess of the total property taxes due each taxable year is remitted to the Department of Revenue and deposited in the state General Fund. According to data from the Department of Revenue, the private passenger rental surcharge amounted to \$2,497,383 in FY2014-15.

This bill as amended would make the following changes to Section 56-31-50:

- Deletes the five percent sales tax surcharge in each rental contract.
- Extends the number of days that charges may be applied to rental vehicles from thirty (30) days to ninety (90) days.

- Deletes the requirement that any surcharge or fees be placed into a segregated account to be used to reimburse the rental company for any motor vehicle personal property taxes due each taxable year. This amendment does not absolve the rental company from its obligation to pay annual personal property taxes on its rental car fleet.
- Allows the rental company to impose a “vehicle license fee” to be stated as a separate charge to recover the rental company’s costs for licensing, titling, registering, plating, and inspecting of its rental vehicles and taxes paid in connection with the registered vehicle. If the vehicle license fee is greater than the actual costs of the rental company, the company may retain the excess amount and adjust the average per vehicle charge for the following calendar year to reduce excess amount.
- This vehicle license fee is subject to local and state sales tax.

The amount of the vehicle license fee must be disclosed at the time of reservation and must appear as a separately itemized charge. The motor vehicle rental company is permitted to adjust the vehicle license fee to reflect changing financial conditions. There are no provisions in the bill to limit the number of changes to the vehicle license fee during a calendar year or the amount that may be charged per vehicle. The rental company may charge a vehicle license fee to recoup the costs for licensing, titling, registering, plating, and inspecting of its rental vehicles. Other stated fees may include, but are not limited to, airport access fees, airport concession fees, and any additional fees the rental company may wish to include in the state per vehicle rental price.

The vehicle license fee is subject to state and local sales taxes. Our estimate of vehicle license fees is based upon tax data from DOR records. DOR records indicated that approximately 39,100 private passenger rental vehicles in South Carolina paid \$14,076,000 in property taxes in FY 2013-14. We estimate that titling and registration fees total \$1,056,000 and the total vehicle license fees would be approximately \$15,132,000. Applying the six percent sales tax, we estimate that the General Fund (4%) would receive \$605,280 and the EIA (1%) and the Homestead Exemption (1%) would receive \$151,320 respectfully. This compares to the current revenue of \$2,500,000 for the General Fund and \$0 for the EIA and Homestead. Therefore, the General Fund would notice a net reduction of \$1,894,720 while the EIA and Homestead would receive an increase of \$151,320 each. If a local jurisdiction imposes a local option sales tax, then the local tax would apply too.

Section 3. This bill as amended repeals Section 12-37-717, which imposes a three percent surcharge on the rental of heavy equipment. Based upon the most recent data from the Department of Revenue, the current three percent surcharge on the rental of heavy equipment property generates \$300,000 in General Fund revenue. This section of the bill would reduce General Fund revenue by \$300,000 in FY 2016-17.

Section 4. This act takes effect on January 1, 2017.

Local Expenditure

N/A

Local Revenue

Section 2. This bill as amended adds Section 56-31-60, which imposes a two and one-half percent rental fee on heavy equipment. The fee is to be remitted to the Department of Revenue on a quarterly basis and then distributed to the local jurisdiction. The local jurisdiction will distribute the funds in the same manner as the personal property tax. Based upon the most recent data from the Department of Revenue, the current three percent surcharge on the rental of heavy equipment property generates \$300,000 in General Fund revenue. We estimate that the two and one-half percent heavy equipment rental fee will generate an additional \$250,000 of revenue in FY 2016-17 and each year thereafter.

Updated for Revised Analysis and Fiscal Impact on March 1, 2016

State Expenditure

The Department of Revenue indicates that this bill would have no expenditure impact to the General Fund, Other Funds, or Federal Funds.

State Revenue

Section 1. Currently, a vehicle surcharge of five percent is added to each private passenger motor vehicle rental contract of thirty-one days or less in South Carolina. The surcharge is a sales tax applied to the total amount stated in the rental agreement. The accumulated surcharges are collected by the vehicle rental company in a segregated account and used to reimburse the vehicle personal property taxes due each year on the rental vehicles of each rental car company. Any amount in excess of the total property taxes due each taxable year is remitted to the Department of Revenue and deposited in the state General Fund. According to data from the Department of Revenue, the private passenger rental surcharge amounted to \$2,497,383 in FY2014-15.

This bill would amend Section 56-31-50 by making the following changes:

- Deletes the five percent sales tax surcharge in each rental contract.
- Extends the number of days that charges may be applied to rental vehicles from thirty (30) days to ninety (90) days.
- Deletes the requirement that any surcharge or fees be placed into a segregated account to be used to reimburse the rental company for any motor vehicle personal property taxes due each taxable year. This bill does not absolve the rental company from its obligation to pay annual personal property taxes on its rental car fleet.
- Allows the rental company to impose a “vehicle license fee” to be stated as a separate charge to recover the rental company’s costs for licensing, titling, registering, plating, and inspecting of its rental vehicles and taxes paid in connection with the registered vehicle. If the vehicle license fee is greater than the actual costs of the rental company, the

company may retain the excess amount and adjust the average per vehicle charge for the following calendar year to reduce excess amount.

- This vehicle license fee is subject to local and state sales tax.

The amount of the vehicle license fee must be disclosed at the time of reservation and must appear as a separately itemized charge. The motor vehicle rental company is permitted to adjust the vehicle license fee to reflect changing financial conditions. There are no provisions in the bill to limit the number of changes to the vehicle license fee during a calendar year or the amount that may be charged per vehicle. The rental company may charge a vehicle license fee to recoup the costs for licensing, titling, registering, plating, and inspecting of its rental vehicles. Other stated fees may include, but are not limited to, airport access fees, airport concession fees, and any additional fees the rental company may wish to include in the state per vehicle rental price.

The vehicle license fee is subject to state and local sales taxes. Our estimate of vehicle license fees is based upon tax data from DOR records. DOR records indicated that approximately 39,100 private passenger rental vehicles in South Carolina paid \$14,076,000 in property taxes in FY 2013-14. We estimate that titling and registration fees total \$1,056,000 and the total vehicle license fees would be approximately \$15,132,000. Applying the six percent sales tax, we estimate that the General Fund (4%) would receive \$605,280 and the EIA (1%) and the Homestead Exemption (1%) would receive \$151,320 respectfully. This compares to the current revenue of \$2,500,000 for the General Fund and \$0 for the EIA and Homestead. Therefore, the General Fund would notice a net reduction of \$1,894,720 while the EIA and Homestead would receive an increase of \$151,320 each. If a local jurisdiction imposes a local option sales tax, then the local tax would apply too.

If enacted, this bill would likely take effect in the middle of the calendar year and it is unclear how the proceeds from the current five percent surcharge would be treated.

Section 2. This act takes effect upon approval by the Governor.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Bill Filed on March 24, 2015

State Expenditure

N/A

State Revenue

Section 1. Currently, a vehicle surcharge of five percent is added to each private passenger motor vehicle rental contract of thirty-one days or less in South Carolina. The surcharge is a sales tax applied to the total amount stated in the rental agreement. The accumulated surcharges are collected by the vehicle rental company in a segregated account and used to reimburse the

vehicle personal property taxes due each year on the rental vehicles of each rental car company. Any amount in excess of the total property taxes due each taxable year is remitted to the Department of Revenue and deposited in the state General Fund. According to data from the Department of Revenue, the private passenger rental surcharge amounted to \$2,497,383 in FY2014-15.

This bill would amend Section 56-31-50 by making the following changes:

- Deletes the five percent sales tax surcharge in each rental contract. Instead, the rental company may charge separately stated fees such as vehicle license fees, airport access fees, airport concession fees, and all applicable taxes.
- Extends the number of days that charges may be applied to rental vehicles from thirty (30) days to ninety (90) days.
- Deletes the requirement that any surcharge or fees be placed into a segregated account to be used to reimburse the rental company for any motor vehicle personal property taxes due each taxable year. This bill does not absolve the rental company from its obligation to pay annual personal property taxes on its rental car fleet.
- Allows for a “vehicle license fee” to be stated as a separate charge to recover the rental company’s costs for licensing, titling, registering, plating, and inspecting of its rental vehicles. If the vehicle license fee is greater than the actual costs of the rental company, the company may retain the excess amount and adjust the average per vehicle charge for the following calendar year to reduce excess amount.

The amount of the vehicle license fee must be disclosed at the time of reservation and must appear as a separately itemized charge. The motor vehicle rental company is permitted to adjust the vehicle license fee to reflect changing financial conditions. There are no provisions in the bill to limit the number of changes to the vehicle license fee during a calendar year or the amount that may be charged per vehicle. The rental company may charge a vehicle license fee to recoup the costs for licensing, titling, registering, plating, and inspecting of its rental vehicles. Other stated fees may include, but are not limited to, airport access fees, airport concession fees, and any additional fees the rental company may wish to include in the state per vehicle rental price.

Therefore, based on information from the Department of Revenue, the deletion of the five percent sales tax surcharge in each rental contract would reduce General Fund departmental revenue by an estimated \$2,500,000 in FY2016-17, and each fiscal year thereafter.

Section 2. This act takes effect upon approval by the Governor.

Local Expenditure and Local Revenue

N/A



Frank A. Rainwater, Executive Director