R SHEET ON

RENTAL CAR TAXES

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BACKGROUND

As long as Americans have owned cars, citizens have made money renting them to each other—from one-off transactions between friends and neighbors to the advent of formal rental car businesses. For almost as long, governments have taxed and regulated these transactions to protect public safety and raise funds for infrastructure like roads.

Typically, governments focused their tax and regulatory efforts on rental car firms. This makes sense, because historically, formal businesses with stationary car lots have administered these transactions more easily than individual citizens. But with the advent of internet rental platforms and cheap, camera-equipped phones, the rental car market is decentralizing. This creates problems for legacy tax and regulatory regimes, forcing decision-makers to consider how best to adapt rules to fit the new rental car economy.

CURRENT DEBATE

In the past, the primary question in rental car policy was whether rental car firms pay their fair share for the public services they use. This debate gave us the rental car excise taxes of today. But in the late 2000s and early 2010s, the business began to change with the advent of peer-to-peer rental platforms that allow individual car owners to rent out their personal vehicles in exchange for money.

This created a tension between peer-to-peer rental platform firms and legacy fleet-owning rental firms, since many taxes and rules apply unevenly to the two groups. As in other debates between disruptive platform operators and legacy firms, decentralization has forced policymakers to ask questions about the boundaries of the industry: What, precisely, constitutes a rental car? What, precisely, is a rental car company? These questions carry significant implications for matters of taxation, including whether or how existing excise taxes on rental car companies should apply to transactions facilitated by peer-to-peer platforms.

SUMMARY

- The rental car market is decentralizing, and tax codes associated with the market are becoming outdated.
- Rental car taxes should be assessed based on how a car is used, not the entity that owns the vehicle.
- High rental car taxes punish people who can legally drive but live car-free, namely the working poor.
- Low, use-based taxes would level the playing field between rental fleet owners and individuals who rent their cars on peer-to-peer platforms.

ACTION ITEMS

Rental car taxes should limit their disproportionate effect on car renters relative to car owners, or on individual platform users relative to legacy firms. If they avoid picking winners and losers within the market, policymakers can allow the rental car industry to meet changing consumer demand and land-use patterns.

Tax based on the use of the vehicle

In the past, applying rental car taxes at the firm level was convenient and efficient for government officials. Now that the market has decentralized and more rental cars are leased by individual car owners, shifting to a use-based or service-based model of taxation and regulation is the best way forward. This would tax all rental car activity the

same, regardless of the car owner or the business model of the firm providing the rental car service, and therefore would make the market more neutral with regard to whether a car is rented by a fleet owner or through a peer-to-peer platform. A taxation system that is based on the service at issue rather than other factors will help ensure mode neutrality for transportation and an equal playing field in the marketplace.

Low excise taxes

With the decentralization of the rental car market, the case for rental car excise taxes as a means to charge free riders for driving on local roads has weakened dramatically. With neighbors more often renting to neighbors, the odds that someone is being taxed twice for roads are higher. With non-taxpayers posing less of a problem, decentralization allows policymakers to focus on lowering rental taxes to limit distortions caused by the code.

Existing taxes discourage the use of rental car services. They incentivize those who drive only occasionally to purchase vehicles, and they incentivize car-owning families to buy a second car for occasional use. Lowering these taxes would allow more individuals to make efficient use of rental services. The tax code would be more neutral with regard to automobile ownership decisions.

Rental car investments as business investments

Policymakers should consider ways to create fairer tax treatment for individual car owners partaking in the rental marketplace. People who list their cars on peer-to-peer networks are operating small businesses, not unlike real estate owners who rent spare rooms or handymen who use their tools both at home and on the job. Where there are expenses associated with operating a small business, asset owners should be able to claim those against taxes on rental income. The same is true for vehicle owners at any scale. By allowing car expenses to be treated like standard business expenses--either via a tax credit or other mechanism--state tax codes would be more neutral with regard to whether a car is owned by a firm or an individual owner. Moreover, for individuals and small fleet owners, it would be more neutral with regard to the nature of the peer-to-peer platforms they use to rent their assets.

CONTACT US

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