Testimony of the National Consumers League Before the House Judiciary Subcommittee on Administrative and Commercial Law of the House
June 15, 2010
Sally Greenberg, Executive Director

Good morning, Chairman Cohen, Ranking Member Franks and Members of the Subcommittee. Thank you for the opportunity to appear before you in support of H.R.4175, a bill entitled the "End Discriminatory State Taxes for Automobile Renters Act of 2009."

My name is Sally Greenberg and I am executive Director of the National Consumers League, the nation's oldest consumer organization, founded in 1899 with the mission of protecting the interests of workers[1] and consumers and creating a more fair marketplace for both.

Mr. Chairman, consumers today feel that in many of their transactions they are nickel and dimed, whether it is their cell phone bill, late fees and finance charges on credit and debit cards, bogus convenience fees slapped on tickets for live performances or extra fees imposed on just about everything else we consumers do when purchasing goods and services. Indeed, a good example is the recent survey from *Consumer Reports,* which finds that what travelers hate most are the extra fees they have to pay for luggage and airline ticket fees. (http://pressroom.consumerreports.org/pressroom/2010/05/luggage-charges-top-consumer-reports-survey-of-travel-gripes.html)

The National Consumers League feels consumers' pain – and unfortunately most of the time consumers have little power to challenge these fees. However, today we are here to support legislation that says: Enough! HR 4175 will prospectively bar discriminatory car rental taxes – which are really added fees – imposed by states and localities. The fees we refer to are those taxes that state and local governments have increasingly piled on consumers who rent cars in order to fund pet projects. This bill will grandfather in existing taxes and not affect the ability of states and localities to impose general taxes that are levied on all citizens or businesses. But NCL believes that states and localities should not impose fees on consumers who rent cars when those fees have nothing to do with improving the services they receive. Politicians also operate under some misperceptions when adopting such taxes on car rentals, which we believe make the taxes hard to justify.

---

[1] We wish to bring to the Subcommittee's attention to a June 10, 2010 letter endorsing the legislation from the United Auto Workers (UAW). The UAW is one of five union representatives that sit on the National Consumers League Board of Directors.

The former NCL President and my predecessor, Linda Golodner, discussed the issue of fees and their impact on consumers in an op-ed that appeared in the *Pittsburgh Post-Gazette*.[2] Golodner's piece noted how Congress has prohibited practices by state and local governments that unreasonably burden or discriminate against interstate commerce and transportation. Examples include the Railroad Revitalization and Regulatory Reform Act (1976), Airports and Airways Improvement Act (1978), Motor Carrier Act (1980) and Bus Regulatory Reform Act (1982).

The Problem

As of February of 2010, 43 states and the District of Columbia have imposed 118 excise taxes on car rentals. This is eight times the number of these taxes that existed in 1990. Rental car taxes tend to pay for entertainment items like stadiums, performing arts centers, or culinary institutes and not for vital services like schools, libraries, hospitals or services to the elderly. Industry research indicates that rental car customers have spent more than $7.5 billion in taxes to fund the pet projects of elected officials.

A perfect example is the situation unfolding right now in my hometown of Minneapolis. The Minnesota Vikings already have the Metrodome, a beautiful indoor stadium right in the middle of downtown Minneapolis. But Zygmunt Wilf, the Vikings' billionaire owner, wants another one -- with a retractable roof! – and he wants consumers who rent cars to help pay for it. So, the state is now considering levying a 2.5% tax on rental cars to finance a new billion-dollar stadium.

More than half of those who rent cars in Minnesota are residents of the state. To add insult to injury, Minnesota residents are already paying a special 6.2% excise tax on car rentals, a tax that was adopted to pay for the cost to the state of trying to attract the Super Bowl. That tax was supposed to expire in 2005, but it was extended, even though the revenue it raised has far exceeded its original purpose!

Tourists are also affected by these pervasive fees. Tourists might be easier to tax as non-constituents, but fees on tourists are also spiraling out of control. According to the *New York Times*, taxes and other fees such as vehicle licensing fees or high levels of excise taxes raise the average rental bill 28 percent at airport locations.[3]

Excise Taxes on Car Rentals Hurt Non-Profits

[2] Linda Golodner and Bill Connors. "Private Sector: Pain, No Gain." *Pittsburgh Post-Gazette* (2007).

[3] Susan Stellin. "Tax Bites on Travelers Go Deeper." *The New York Times* [New York] 10 Apr. 2007.

In addition, from my professional vantage point as head of a non-profit, overseeing a staff of 14, when we travel – or even have meetings locally and don't have access to a car - we often have to rent cars. I see the bills come in, and often the excise fees and sales taxes together represent a hefty percentage of the entire rental. These added costs hurt non-profit organizations like mine that operate on modest budgets but are vitally important to civil society.

In addition to hurting nonprofits, this tax hurts the millions of families who are tourists visiting cities and towns across the country. These taxes mean that these tourists are being asked to fund projects for which they likely will derive no benefit at all.

It is easy to see why local elected officials have increasingly turned to car rental transactions to raise fees for stadiums and impose fees. They undoubtedly want to escape the wrath of their own constituents and taxpayers who have the power to vote them out of office. So why not shift the tax burden onto someone else? Who better than out-of-towners who come to their cities and towns to do business or visit friends and family?

Correcting Misconceptions about Who Rents Cars in America

Unfortunately, politicians who pass these laws taxing rental car transactions are operating on several false assumptions. First, there is the misconception that the vast majority of people who rent cars live outside of the state or locality. Second, there is the misconception that most consumers who rent cars are either businesses who won't feel the extra charges or affluent consumers who won't notice an extra $10 or $15 fee on a car rental.

Let me address each of these issues in turn:

First, the myth that most people who rent cars are from out of state. If local officials gave some thought to this idea, they would come to understand that many people who don't own a car *because they can't afford one* might rent when they have a specific need – like taking an elderly relative to a doctor's appointment or a child to a tournament or to visit a college, or for a special occasion like a wedding or graduation, or perhaps moving a relative from one residence to another.

Frequently consumers who rent cars for these reasons are not the affluent out-of-town businesspeople that state and local legislators seem to believe rent most of the cars– far from it. And they need affordable car rental options.

A June 2010 study conducted by the Brattle Group[4] (a study commissioned by the rental car industry) - a Cambridge, MA based consulting group that looks at economic impacts, found that the estimated total revenue for rental cars in the US for 2004 was around $17.6 billion, with home city rentals accounting for $9.5 billion or 54% of the industry's annual revenues. This, of course, flies in the face of what politicians say when they argue for imposing rental car excise taxes. The mayor of a suburb north of Atlanta is a case in point: *"We're not raising any tax. I didn't think it would be a big deal as most rentals are visitors anyway.*" The record is replete with such statements.

A second misconception is that affluent consumers and businesses rent most of the cars. The same Brattle Group study found that this is not the case. In fact, 19% of these car rental excise taxes are paid by working families that earn less than $50,000 a year and 7% of the total was paid by households earning less than $25,000. Enterprise Rent-a-Car estimates that 25% of its customers have incomes below $40,000.

The Brattle study also found that African-Americans generate 26% of the rental car revenues and pay 27% of the excise taxes, despite accounting for only 12% of the US population. Members of other minority groups pay 13% of the total car rental excise taxes, despite being only 7% of the population, while high-income households –defined as households earning over $100,000 pay only half of these excise taxes, which means the rental car excise taxes are a very regressive tax.

In a similar study, two leading tax policy experts, William Gale of the Brookings Institution and Kim Rueben of the Urban Institute, analyzed the impact of a $4-per-day rental car tax in Kansas City, Mo. (http://www.nbta.org/NR/rdonlyres/50F55B2B-16BB-4458-9D94-7AB4F976959D/0/GaleRueben_Fulltext.pdf).

Gale and Rueben found that piling taxes onto car rental customers is both inefficient, because it can distort choices about modes of transportation, and inequitable. Communities that already are taxing car rental customers might want to take another look at their long term strategy.[5]

Conclusion

With an eight-fold increase in taxes on rental cars since 1990, it seems clear that the piling on of these excise fees has gotten out of hand. NCL understands the importance of citizens paying her or his share of taxes to provide critical services that we all rely on – for our schools, hospitals, libraries, roadways, and for clean

[4] Dr. Kevin Neels. "Effects of Discriminatory Excise Taxes on Car Rentals: Unintentional Impacts on Minorities, Low Income Households, and Auto Purchases." (June, 10 2010).
[5] Linda Golodner and Bill Connors. "Private Sector: Pain, No Gain." *Pittsburgh Post-Gazette* (2007).

water and safe roadways. But when rental car customers are asked to pay for stadiums or arts centers and the taxes imposed seem to have no limit, its time to say, enough is enough! Consumers are tired of taxes and fees without any understanding of where that funding is going or why they are being asked to pay it. The Minneapolis stadium example is a case in point.

For the reasons stated above, NCL is pleased to offer our support for H.R.4175, which will help put the brakes on discriminatory taxes on consumers who rent cars. We thank you for inviting NCL to share our views with you today and urge you to support this important legislation.