

# Innovation, Car Rentals, and Taxation



## Introduction

In the last decade, the sharing economy has provided consumers with an incredible amount of new peer-to-peer resources. Citizens can now turn their unused car, home, or RV into a valuable income stream. As the sharing economy increased in size, and revolutionized markets, lawmakers acted quickly to regulate and tax the many new industries. However, one area of this economy that has not been generally addressed is peer-to-peer rental car usage. This policy primer aims to examine the historical significance of car rental taxes and the prospect of expanding those to the sharing economy to ensure a competitive marketplace.

## Understanding the Issue

The rental car business is one that thrives around most airports and in many local neighborhoods. With travelers coming in for business or pleasure, often public transport and taxis do not provide the necessary or most convenient modes of transportation. To help facilitate travel, airports often include rental car companies and lots. Along with lots for short and long-term parking, rental car lots take up valuable real estate near airports. Airport officials are tasked with regulating the different ways that people can get to and from airports and around communities. This means placing regulations around rental car businesses, buses, public transportation, taxis, ride sharing companies, and others.

Airports have a competitive bidding process to determine which companies are placed on site with rental businesses. Airports also make agreements with larger taxi and bus companies. **However, as the sharing economy has grown, airports and local governments have struggled to understand how to best regulate these peer-to-peer platform services, some of which are currently operating at airports, without going through a bid process.** On one end, prohibition or total rejection of services is an option. We could also allow these companies to operate completely unregulated.

## Key Points

- ▶ As the rental car industry becomes increasingly decentralized, lawmakers must adapt tax systems to reflect this change.
- ▶ Currently, large rental car companies are taxed 6% on every transaction, this is not the case for peer-to-peer transactions.
- ▶ In order to level the playing field, lawmakers should consider extending this consumption-based tax to sharing economy industries.
- ▶ A low rate fee on each transaction allows for continued innovation in this field while still preserving the intent of the tax.

Neither of these options is advantageous - and generally speaking - neither option has been implemented by airports and local governments. To help regulate traffic and allow for fair use by rental car companies, Kentucky has taxed some aspects of this industry. Airport rental car services are subject to Kentucky's 6% 'U Drive It' tax, the 10% airport access fee and a \$4.00 per day facility fee - if operating at an airport. Unfortunately, peer-to-peer rental transactions are not currently collecting or remitting on any of these taxes, creating a loophole in the structure.

This policy primer does not aim to discuss the legitimacy of rental car taxes in general but rather to examine how governments should apply the tax. The current tension between fleet owned rental car businesses and individuals renting their car should be and can be easily resolved by lawmakers.

# Legislative Recommendations

When considering how to regulate rental car services, lawmakers must first be cognizant of not imposing regulations or tax systems that will bury the industry. An appropriate tax structure should feature a broad base, with the lowest possible rates that incur the least damage to the industry. **Entrepreneurs looking to enter this industry should not be discouraged or limited in their endeavors by the taxes imposed.**

Formalizing tax structures across these industry segments must be a priority for lawmakers. Just as major rental car operators located at airports or elsewhere would be taxed, peer-to-peer car sharing platforms should be taxed equally. A 6% tax, already incurred on standard rental transactions, should also be applied to peer-to-peer rental transactions. Lawmakers should make the system transparent and easy to understand, so peer-to-peer services, and the entrepreneurs using them can easily adapt.

**A 6% consumption based tax, essentially a service tax, will allow new and innovative rental car services to operate and thrive, without shutting them out.** Prohibition of services, or damaging regulations would be an unwise policy for legislators to implement. Ensuring that tax systems are transparent and simple will close this tax loophole.

In the same vein of the 2018 tax reforms, extending a 6% consumption tax to peer-to-peer rental car platform services would broaden Kentucky's tax base and - unlike other one off tax increases - provide a new consistent source of revenue. Extending consumption based taxes to sales as well as services, in favor of production side taxes must be the objective for for Kentucky's legislators.

**Rental car transactions should be taxed based on how the car is used, not based on the entity whether business or personal, who owns it.** Low, consumption based taxes on rental use would even the playing field in the rental car industry.

While a private citizen may pay a 6% sales tax on the purchase of their vehicle, rental car companies must pay this 6% tax on every transaction. While both are consistent in paying this 6% tax, a private citizen pays once, while rental companies must apply this fee on every single transaction. Meanwhile, the platform through which the peer-to-peer rental transaction is facilitated pays nothing. **Applying a 6% tax to the transaction creates no double taxation on the private car owner.** To level the playing field and remain consistent in taxing practices, peer-to-peer services should be taxed on every transaction as well. This creates the most transparent and efficient tax system for all parties involved.

## Conclusion

Recently, states and localities have made efforts to ban certain innovative transportation companies from operating at their airports. Most notably, companies like Uber and Lyft have been barred from picking up and dropping off travelers. This should not be the solution that lawmakers use. Prohibition of new peer-to-peer travel services would only hurt Kentucky's economy.

Competition and innovation is the backbone of a strong capitalist economy. Businesses and communities should not hesitate to embrace new modes of transportation or ride sharing industries. The gig economy has provided private individuals with incredible opportunities to produce new wealth. Peer-to-peer car rentals are just one of many emerging markets. **Leveling the playing field, while providing a reliable source of revenue, and not discouraging entrepreneurial activity, should be the pathway forward for Kentucky.**