NetChoice

Policy Note | April 2020

Big Rental's Rules of the Road:

Tax Loopholes & Sneaky Subsidies

NetChoice

NetChoice is a trade association of businesses who share the goal of promoting free expression and free enterprise on the net.

Introduction

Every year, taxpayers and consumers shell out billions of dollars to subsidize rental-car conglomerates, despite the industry's consistent profitability and $32 billion in revenue.

First, the industry persuaded most state legislatures to pass a lucrative tax break that exempts its vehicle fleet purchases from any state sales taxes. That sales tax exemption now costs taxpayers **$3.6 billion** annually.[1]

Second, Big Rental lobbyists persuaded most states to subsidize the companies' cost of registering and licensing vehicle fleets—a normal operating cost—by passing it on to consumers under the misleading label of a state-required fee. Often called a "Vehicle License Fee" (VLF)[2] and listed alongside taxes, the fee deceives consumers into believing the VLF goes to the state. In fact, the VLF goes to the rental-car companies, where it adds **$650 million** to their bottom lines each year.

This NetChoice Policy Note highlights the rental-car industry's ability to persuade state legislatures to confer advantages unseen in other industries, and shows why Big Rental's VLF is a state-sanctioned, consumer-paid subsidy that harms consumers. In total, Big Rental gets over **$4 billion** in tax breaks, loopholes, and subsidies every year.

Industry Snapshot: 2019 U.S. Rental Car Market

	2019 Revenue	Fleet Size	# of U.S. Locations
Top Rental Companies			
ENTERPRISE HOLDINGS	$17.8 billion	1.2 million	6,400
HERTZ	$6.8 billion	538,000	4,200
AVIS BUDGET GROUP	$5.5 billion	380,000	3,200
INDUSTRY-WIDE			
	$ 31.9 billion	2.3 million	19,272

Source: Auto Rental News, Fact Book 2020 8 (2020), http://digital.autorentalnews.com/factbook2020#&pageSet=5.

[1] See detail for each state in table at pages 9-10.

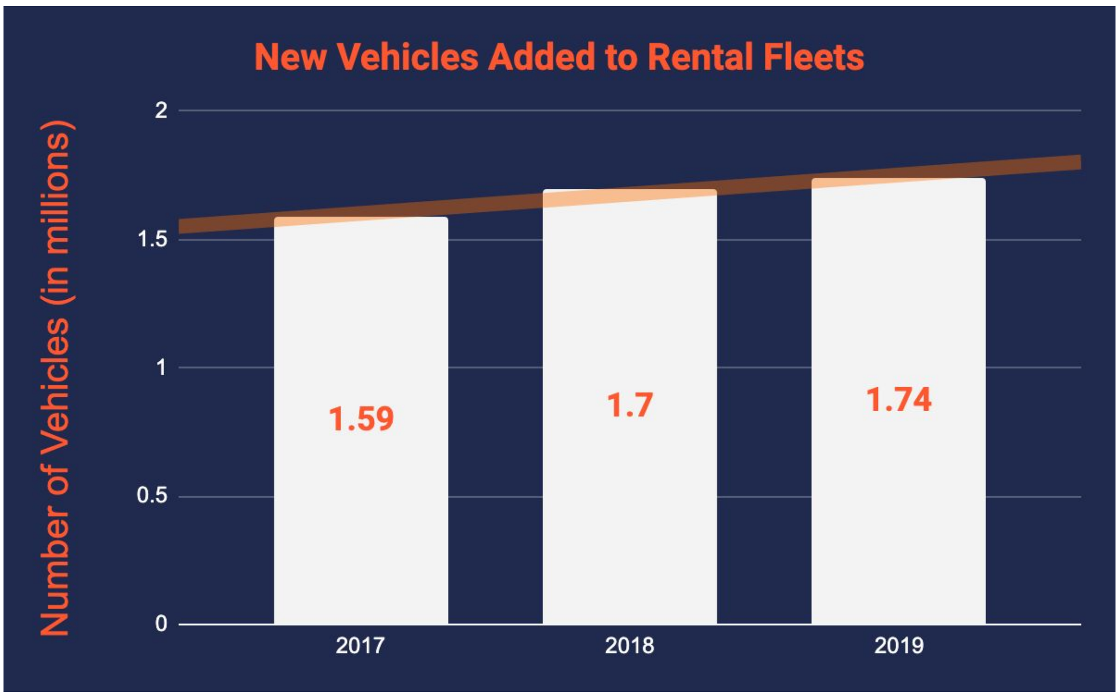
[2] The fee is sometimes called "Vehicle License Recovery Fee," "Vehicle License Fee Recovery," "Vehicle License Cost Recovery," "Vehicle Lic Recovery," "Lic Fee," "VLF Recovery," "Title/Registration Recovery Fee," or "Personal Property Tax Reimbursement."

Big Rental's Sales Tax Loophole Costs Taxpayers $3.6 Billion

Although consumers always pay a sales tax when they buy cars in states with a sales tax, Big Rental does not. Big Rental lobbied for—and won—special exemptions from state sales taxes on its fleet purchases. Those exemptions let the industry avoid **$3.6 billion** in sales taxes **annually**.

And because Big Rental's business model involves replacing its cars every year, this loophole means taxpayers subsidize the industry's biggest expense. Big Rental also buys almost **2 million** new cars every year.[3] So as car prices tick upward, taxpayers will be on the hook for even more subsidies.

Average New Car Price: **$36,718**



[3] Auto Rental News, *2020 Fact Book* 10 (2020), http://digital.autorentalnews.com/factbook2020#&pageSet=6 (hereinafter "ARN").

Big Rental Pads Its Bottom Line With $650 Million Annually From State-Sanctioned, Consumer-Paid "Vehicle License Fees"

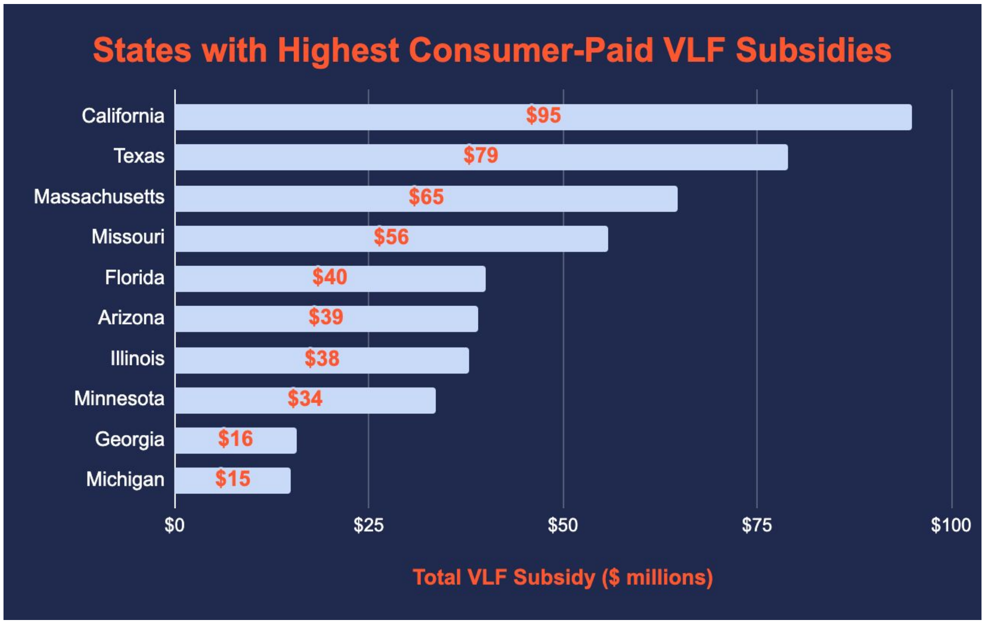
In every state, all owners must register and license their motor vehicles. The same is true for trucking providers and moving companies; taxis and limos; Lyft and Uber drivers; and regular Americans who share their cars through peer-to-peer platforms like Turo and GetAround.

That's true for Big Rental companies, too. But with a twist: Big Rental's battalions of lobbyists persuaded most state legislatures to pass laws that let rental-car companies make customers pay a "**Vehicle License Fee**" (VLF). Under VLF regulations, rental-car companies are allowed to explicitly pass their vehicle registration and licensing costs through to consumers, even though they are just ordinary costs of doing business for any company that acquires and operates a fleet of cars.

In other words, Big Rental has convinced state lawmakers to endorse a scheme to transform a normal operating cost into a state-sanctioned add-on fee, deceiving consumers into subsidizing an already very profitable industry.

And the subsidy is no small amount. With over 2 million rental cars in operation[4], including over 1.7 million new cars[5], rental-car companies use VLFs to pad their bottom lines by **$650 million**.

Nor is the subsidy limited to one geographic region. As shown at right, Big Rental makes hundreds of millions of dollars in VLFs across all regions of the country, and in states both large and small.



[4] ARN at 8.
[5] *Id*. at 10.

VLFs Intentionally Mislead Consumers

When consumers see VLF charges on their rental car agreements, most do not realize they are covering what is just an ordinary operating cost for a rental-car company. That's part of the ruse designed by Big Rental, starting with the name, "Vehicle License Fee." To a consumer, VLF sounds like a state-imposed add-on fee or tax.

Consider placement next. As shown in the Hertz rental receipt at right[6], VLF shows under the heading "**Service Charges/Taxes**" and just above the state sales tax.

SALT LAKE CITY INTL AP

[redacted] #01

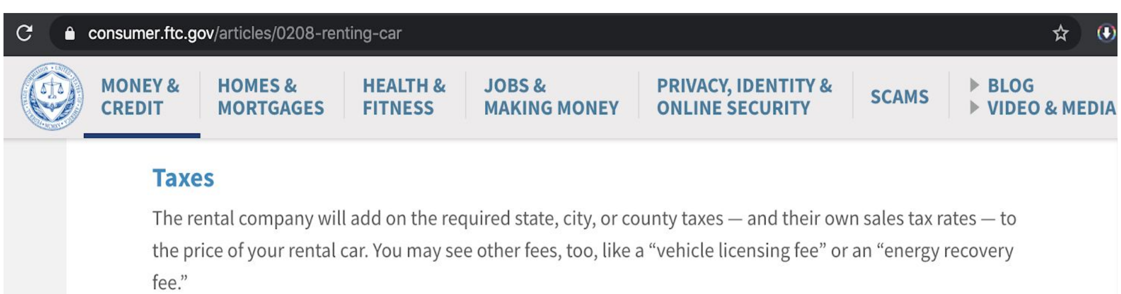
INITIAL CHARGES
RENT RT$ 340.49 /WEEK @ 1 /WEEKS $ 340.49
SUBTOTAL T$ 340.49

CHARGES ADDED DURING RENTAL
LDW ACCEPTED @ $28.99DAY T$ 144.95
LIS DECLINED
PAI, PEC DECLINED
ADDITIONAL CHARGES* T$ 65.00
* ADDITIONAL CHARGES
AAO TOTAL $ 65.00

SERVICE CHARGES/TAXES
CONCESSION FEE RECOVERY T$ 55.59
CUST FAC CHG T$ 25.00
ENERGY SURCHARGE T$ 1.03
VEHICLE LICENSE COST RECOVERY T$ 4.40
TAX 16.350% ON 636.46 $ 104.07
TOTAL AMT DUE $ 740.53
PAID BY [redacted]

Now consider timing. Although rental-car companies usually set, collect, and retain the VLF, they do **not** include it in the daily rental rates for the car. That means the typical renter will encounter the VLF only when it is time to pay the bill—much like when consumers encounter a sales tax at the checkout counter.

Rental-car companies may not explicitly say that VLFs are fees required by the state, but the presentation of VLF tricks the public into believing just that. Even the federal government's consumer watchdog, the Federal Trade Commission, lists VLFs under "Taxes," stating, "The rental company will add on the required state, city, or county taxes—and their own sales tax rates—to the price of your rental car. You may see other fees, too, like **'vehicle licensing fee'** or an 'energy recovery fee.'"



[6] Hertz receipt courtesy of Simple Pleasures Travel, "What Are All Those Car Rental Fees," https://simplepleasurestravel.com/what-are-those-car-rental-fees/. Blue arrow added for emphasis.

VLFs are Special Favors for Big Rental

To make money, you have to spend money. Big Rental took that conventional wisdom and ran with it—straight to state capitals. There, industry lobbyists secured legislative approval for VLF laws, so Big Rental's operating costs are turned into a guaranteed, consumer-paid revenue enhancement. And Big Rental gets to pocket that revenue while keeping consumers in the dark.

That's a remarkable feat for private, for-profit businesses like Hertz, Enterprise Rent-A-Car, and Budget. Without such state intervention, these businesses would either have to absorb registration and licensing costs in the form of lower profits, or push those costs onto consumers through higher rental rates.

In other words, Big Rental would have to make business decisions like every other private, for-profit company when it sets its prices. Consider Coca Cola, which increased its wholesale prices after shipping costs rose significantly in 2018.[7] Even if consumers didn't know why prices increased, they noticed that a liter of Coke cost more. With that knowledge, consumers could decide whether to stick with Coke, switch to Pepsi, or forgo soda altogether.

But imagine if state legislatures treated Coca Cola the same way they treat Big Rental. Coca Cola could have kept prices the same while tacking-on a "Distribution Recovery Fee." If consumers saw such a fee, they would naturally think that it goes to the state treasury—not to Coca Cola's coffers.

That's quite an absurd hypothetical, which underscores how absurd the VLF actually is. Apart from utilities, there are no comparable examples of states granting companies like Hertz and Enterprise the power to boost revenues through misleading, state-sanctioned add-on fees.

The only remotely similar treatment is seen with public-utility companies. Most states let government-regulated monopolies tack-on additional fees for government-designated purposes.[8] For example, New Jersey lets utility companies impose surcharges to finance public infrastructure.[9] Kansas does the same but directs fees toward tree trimming;

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[7] Michael Bartiromo, "*Coca Cola is Raising Soda Prices, CEO says Consumers Likely to Feel Effect*," Fox News (July 26, 2018), https://www.foxnews.com/food-drink/coca-cola-is-raising-soda-prices-ceo-says-consumers-likely-to-feel-effect.
[8] Talia Buford, "*The Obscure Charges that Utility Companies Add to Your Bills*," ProPublica (Oct. 21, 2019), https://www.propublica.org/article/the-obscure-charges-that-utility-companies-add-to-your-bills.
[9] *Id*.

Massachusetts toward pension costs; Colorado toward smart meters.[10] But utility add-on fees—unlike VLFs—have government oversight and are often regulated through a public rate-setting process.

But the big rental-car companies are **not** state-regulated monopolies, and state legislatures should **not** be granting Big Rental special treatment and tax loopholes.

Big Rental's New Bid for Special Favors: Get States to Crush Competitors

> ***A recent survey of rental-car operators revealed that "Competition from peer-to-peer networks (Turo, GetAround)" ranked as one of the top self-reported threats in 2020. —Auto Rental News***

The peer-to-peer economy is a rapidly growing option for Americans. Driving this growth are companies like Airbnb and Vrbo, which connect guests with homeowners who rent out their homes or spare rooms; Lyft and Uber, which connect travelers with drivers; and Turo and GetAround, which connect drivers with people who want to share their cars.

These peer-to-peer platforms help average Americans supplement their incomes by sharing their existing assets. A homeowner can use Airbnb income to help pay their mortgage; car owners can use peer-to-peer car sharing to help with car payments or insurance premiums.

These platforms also make the rental car market more competitive. And as competition does in other industries, it threatens legacy players like the big rental companies. So much so, that a recent survey of rental-car operators revealed that "Competition from peer-to-peer networks (Turo, GetAround)" ranked as one of the top self-reported "threats" in 2020.[11]

It's not hard to see why. Peer-to-peer car sharing offers better service and deals than does Big Rental. And it offers consumers a wider variety of cars, including specialty and antique cars, along with 24/7 roadside assistance. The success of peer-to-peer car sharing springs from giving regular car owners a unique income opportunity, with

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[10] *Id.*
[11] ARN at 15.

reporting to help owners file their income taxes, all while making mobility easier for drivers who need a car.

Unlike Big Rental, individuals who share their cars get neither a sales-tax exemption nor a VLF. In fact, car owners, like everyone else, pay sales taxes when they buy their cars. And they pay their own registration and licensing fees.

Even with special tax treatment and state-sanctioned, consumer-paid subsidies, rental-car companies want the government to further protect their bottom lines. Big Rental lobbyists want state and local governments to regulate and tax individual car owners—even though many share their cars for only a few days a month. Big Rental wants peer-to-peer car sharing platforms to be heavily regulated, as if they were the same as traditional rental-car companies.

Nevermind that peer-to-peer car sharing platforms do not own a single car, let alone a fleet of over 2 million, like Big Rental does. Nevermind that peer-to-peer car sharing doesn't operate rental desks or have parking lots at airports, let alone 20,000 locations in the United States, like Big Rental has.[12]

Peer-to-peer car sharing platforms focus on connecting individuals. Big Rental focuses on protecting its bottom line through state-approved tax breaks and subsidies. If Big Rental persuades state governments to do its bidding once again, consumers will have fewer rental options and they'll pay higher prices.

Big Rental's coffers are already fattened by tax loopholes and state-sanctioned, consumer-paid add-on fees. Lawmakers shouldn't become accomplices in Big Rental's attempt to crush emerging competition from peer-to-peer car sharing platforms. Instead, governments should side with their constituents, most of whom are car owners and consumers who want choice and transparency when renting a car.

[12] ARN at 8.

Big Rental's Special Treatment Costs Taxpayers & Consumers Over $4 Billion Annually

State	VLF Per Day	VLF Revenue ($ mil)	Car Sales Tax Rate	Rental Fleet Purchases ($ mil)	Sales Tax Exemption ($ mil)	Total Subsidy ($ mil)
Alabama	$1.60	$8.1	2.50%	$702.8	$17.6	$25.7
Alaska	$1.40	$1.9	0.00%	0.0	0.0	$1.9
Arizona	$5.02	$39.4	5.60%	$1,086.1	$60.8	$100.2
Arkansas	$1.75	$4.8	6.50%	$383.3	$24.9	$29.8
California	$1.41	$95.1	7.25%	$9,327.8	$676.3	$771.3
Colorado	$0.86	$7.1	2.90%	$1,150.0	$33.4	$40.5
Connecticut	$1.06	$6.4	6.35%	$830.6	$52.7	$59.1
Delaware	$1.66	$3.1	4.50%	0.0	0.0	$3.1
DC			6.00%	$447.2	$26.8	$26.8
Florida	$1.71	$40.3	6.00%	$3,258.4	$195.5	$235.8
Georgia	$1.17	$15.7	5.35%	$1,852.8	$99.11	$114.8
Hawaii	$0.74	$1.7	4.21%	$319.4	$13.5	$15.2
Idaho	$1.10	$2.0	6.00%	$255.6	$15.3	$17.4
Illinois	$1.98	$38.4	6.25%	$2,683.4	$167.7	$206.1
Indiana	$0.18	$1.5	7.00%	$1,150.0	$80.5	$82.0
Iowa	$1.13	$4.7	5.00%	$575.0	$28.8	$33.4
Kansas	$1.14	$4.2	6.50%	$511.1	$33.2	$37.4
Kentucky	$2.25	$10.4	6.00%	$638.9	$38.3	$48.7
Louisiana	$0.27	$1.5	4.50%	$766.7	$34.5	$36.0
Maine	$3.25	$4.5	5.50%	$191.7	$10.5	$15.0
Maryland	$0.56	$5.2	6.00%	$1,277.8	$76.7	$81.8
Massachusetts	$5.01	$64.8	6.25%	$1,788.9	$111.8	$176.6
Michigan	$1.30	$15.0	6.00%	$1,597.2	$95.8	$110.8
Minnesota	$4.04	$33.6	6.50%	$1,150.0	$74.8	$108.3
Mississippi			5.00%	$383.3	$19.2	$19.2
Missouri	$7.55	$55.8	4.23%	$1,022.2	$43.2	$99.0
Montana	$2.00	$1.8	0.00%	0.0	0.0	$1.8
Nebraska			5.50%	$383.3	$21.1	$21.1
Nevada	$2.16	$8.0	6.85%	$511.1	$35.0	$43.0
New Hampshire	$2.65	$4.9	0.00%	0.0	0.0	$4.9
New Jersey	$1.08	$15.0	6.63%	$1,916.7	$127.0	$141.9
New Mexico	$0.59	$1.4	4.00%	$319.4	$12.8	$14.1
New York			4.00%	$5,175.0	$207.0	$207.0
North Carolina	$0.48	$6.0	3.00%	$1,725.0	$51.8	$57.7

State	VLF Per Day	VLF Revenue ($ mil)	Car Sales Tax Rate	Rental Fleet Purchases ($ mil)	Sales Tax Exemption ($ mil)	Total Subsidy ($ mil)
North Dakota			5.00%	$191.7	$9.6	$9.6
Ohio	$0.68	$10.4	5.75%	$2,108.3	$121.2	$131.6
Oklahoma			4.50%	$638.9	$28.8	$28.8
Oregon	$1.60	$8.9	0.50%	0.0	0.0	$8.9
Pennsylvania			6.00%	$2,427.8	$145.7	$145.7
Rhode Island	$3.50	$4.8	7.00%	$191.7	$13.4	$18.3
South Carolina	$2.77	$14.1	5.00%	$702.8	$35.1	$49.2
South Dakota	$0.60	$0.6	4.00%	$127.8	$5.1	$5.7
Tennessee			7.00%	$1,150.0	$80.5	$80.5
Texas	$1.94	$78.9	6.25%	$5,622.3	$351.4	$430.2
Utah	$0.50	$2.1	4.85%	$575.0	$27.9	$30.0
Vermont			6.00%	$127.8	$7.7	$7.7
Virginia	$0.39	$4.7	4.15%	$1,661.1	$68.9	$73.6
Washington	$0.79	$10.2	6.80%	$1,788.9	$121.6	$131.9
West Virginia	$1.00	$1.8	6.00%	$255.6	$15.3	$17.2
Wisconsin	$0.95	$7.0	5.00%	$1,022.2	$51.1	$58.1
Wyoming	$1.75	$1.6	4.00%	$127.8	$5.1	$6.7
TOTAL		$647.3		$62,100.4	$3,574.0	**$4,221.3**

Research & Data Notes:

1) Blank data indicates no VLF or no exemption from state sales tax on rental fleet purchases.

2) VLF rates reflect Hertz and Enterprise reported rates for a Chevrolet Malibu.

3) See Auto Rental News 2020 Fact Book, at http://digital.autorentalnews.com/factbook2020#&pageSet=5 for total 2019 rental revenue (page 8) and 2019 Total New Fleet Purchases (page 10).

4) Revenue and Fleet Purchases allocated to states according to state share of U.S. 2019 GDP, provided by the U.S. Bureau of Economic Analysis (Table 3), at https://www.bea.gov/system/files/2020-01/qgdpstate0120_2.pdf

5) Rental Car Fleet Purchases equals rental-car industry new fleet purchases for 2019 times average price of a new car in 2019: $36,718 reported by Edmunds, at https://www.edmunds.com/industry/press/new-vehicle-prices-climb-to-highest-level-of-the-year-in-april-according-to-edmunds-analysis.html.

6) State Car Sales Tax numbers provided by Factory Warranty List, https://www.factorywarrantylist.com/car-tax-by-state.html. Some states have state-imposed **and** additional county or city sales tax on motor vehicle purchases.

7) In Georgia, individuals pay a 6.6% TAVT on new vehicles, but rental-car companies pay only 1.25%, meaning these companies receive a tax subsidy of 5.35%, as noted in the table. *See* https://law.justia.com/codes/georgia/2014/title-48/chapter-5c/section-48-5c-1/