

POLICY BRIEF

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Putting the Brakes on the Car Rental Tax

In a previous *Policy Brief* (Number 54) we outlined three alternatives to creating a new tax on car rentals in Allegheny County for the purpose of closing the operating deficit at the center and providing a stream of revenue to support a bond issue for an adjacent hotel. Those alternatives--cutting costs at the center, raising the hotel tax, or levying a center-based fee--would be preferable to levying a tax that has a good chance of falling on residents of the County and would likely tax visitors that don't have Pittsburgh, let alone downtown or the convention center, as their final destination.

In addition to the arguments against imposing a car rental tax contained in our earlier report, the case against the tax is further bolstered by the negative impact on local businesses the tax would create. Consider that a sizable number of Allegheny County companies bring employees into the area and use a corporate car rental account to pay for cars used by these visitors. Likewise, many County companies use rental cars for their employees who need to travel for business purposes. In both of these cases, the car rental tax would act as another tax on business based in Allegheny County. This would be a very undesirable outcome for an already high-tax county.

It is obvious from this discussion that a substantial portion of the tax will fall on County's residents and businesses. Clearly, solutions for the financial problems at the convention center should be focused as closely as possible to the center itself. Those who stand to benefit most from the Convention center should be the most willing to help support it.

Therefore, a reasonable alternative to the car rental tax (in addition to the ones previously offered) would be to create a "convention center improvement district". Based on the improvement district concept that is currently in place in Downtown and Oakland, the businesses in the nearby vicinity of the convention center could vote to create a new business improvement district and a special levy on themselves to help offset the convention center's deficit and provide funding for a new hotel. Indeed, a portion of the revenues from the current downtown district could be redirected to support the convention center. After all, considering the number of restaurants, hotels, entertainment venues, and other businesses that are ready to capitalize on the benefits of the convention center, it is appropriate to ask them to chip in. Bear in mind that a business improvement district levy would be a voluntary, self-imposed tax and not a government mandated charge such as a car rental tax.

Still, proponents are apparently convinced that local residents really don't care about the effect of the proposed tax since it won't affect them. They say that locals would prefer to tax visitors and that, given the chance, would support the tax because it has the convention center as a primary beneficiary. The recent experience in Columbus, Ohio raises questions about their assumptions.

A local car rental tax of \$4 per day was recently proposed as a way to shore up the finances of the City's general fund. A legal challenge forced the issue to be decided by referendum. Exemptions for locals, such as excluding moving vans, were crafted into the legislation. And yet when the final vote was tallied, the tax failed to pass by a vote of 62 percent (no) to 38 percent (yes). Obviously, the voters felt that the tax would not be "painless" as supporters claimed.

For a car rental tax to be imposed in Allegheny County, the General Assembly must first pass enabling legislation that would allow County government to levy the tax. If the General Assembly passes a bill that gives Allegheny County the option of imposing a car rental tax, it should require a local referendum on the tax. Absent the state's imposing a referendum requirement, the Allegheny County Council ought to commit itself to passing a resolution that would put a referendum on the ballot.

It is imperative to remember that another tax, particularly one for which the payers are so far removed from the beneficiaries, would send a very negative signal to residents and businesses and would hurt the County's long term prospects.

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