



South 61 Paramus Road, P.O. Box 768, Paramus, NJ 07653-0768
Phone: 201-368-2100 Fax: 201-368-3438

TO: Chairman Green, Members of the Assembly Housing and Local Government Committee

FROM: Paul Tyahla, Vice President, Government Affairs and Communications

DATE: Monday, September 12, 2008

SUBJECT: CIANJ Opposition to A-2765

Thank you, Chairman Green, for the opportunity to share CIANJ's insights into A-2765, which would allow certain municipalities to impose a tax on vehicle rentals, and then use the funds for redevelopment plans. On behalf of the Association's membership, I testify in OPPOSITION to the bill, and urge this committee's NO vote today.

When analyzing any piece of legislation from the perspective of what makes "good" tax policy, CIANJ holds it against three basic tests:

- Good tax policy will spread the burden across the largest sensible base
- Good tax policy will have at least some semblance of a user-fee model
- Good tax policy will encourage good spending policies

A-2765 fails all three tests.

Rather than spreading the burden across a large base, A-2765 does the opposite. The bill identifies one industry and preys upon it simply because of the perception that its customers are non-residents. This type of tax policy is arbitrary and predatory, which is why even high-tourism states such as Florida and California have rejected attempts to increase their vehicle rental taxes. Spreading a tax burden allows it to be shared equally and minimally. This bill maximizes the distortion.

The bill also runs counter to the notion of a user-fee. In short, if government wishes to spend money on a project, such as economic development, then the beneficiaries of that project should shoulder the burden of paying for it. The clearest example of this is using gas tax revenues to fund road improvements. However, because revenue from the rental car tax would go into poorly-defined redevelopment pools, there is virtually zero nexus between the tax increase and the beneficiaries.

Finally, because of the disconnect between the taxpayers and the spending priorities, the bill accommodates poor spending habits by the cities collecting the tax. The local governments will actively seek so-called investments, but will actually be investing

money not taken from local citizens and businesses. This arrangement makes it more likely that the locality will engage in riskier projects and wasteful spending.

While rental car taxes have become popular in other American cities, they have also more recently been rejected because elected leaders have recognized the poor tax principles and the pitfalls of “taxation without representation”.

CIANJ also opposes to A-2765 because it represents the further exploitation of the rental car industry. The tax on rental cars was recently increased from \$2 to \$5 per day. Renters at Newark Liberty International Airport are also subject to an airport access fee and, of course, New Jersey sales tax. Up to one-fifth the cost of a one-day rental of an economy car goes directly to various state and federal agencies.

Now, the legislature is contemplating allowing the local government to impose another 5% tax. The more costs that government heaps on a particular industry, the more the demand for its goods and services will decline. It is the same logic the legislature used when attempting to reduce smoking through high cigarette taxes. However, there is no “sin” attached with car rentals.

CIANJ thanks you for considering our perspective on A-2765 and urges you to vote NO on the bill. It unfairly and arbitrarily punishes one industry, enables poor spending choices and represents the continued exploitation of specific consumers.