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**DEPARTMENT OF TAXATION**

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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 454, Relating to the Rental Motor Vehicle Surcharge Tax.

**BEFORE THE:**

Senate Committees on Commerce and Consumer Protection and Transportation and Culture and the Arts

**DATE:** Friday, February 7, 2025

**TIME:** 9:45 p.m.

**LOCATION:** State Capitol, Room 229

Chairs Keohokalole and Lee, Vice-Chairs Fukunaga and Inouye, and Members of the Committees:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 454 for your consideration.

S.B. 454 amends section 251-2, Hawaii Revised Statutes (HRS), to prorate the rental motor vehicle surcharge tax for any rental motor vehicle that is rented or leased for a portion of a day. The current surcharge rate is \$7 per day and will increase to \$7.50 per day on January 1, 2026. The bill takes effect upon its approval.

DOTAX notes that the measure does not specify how many hours comprise a full rental day for purposes of prorating the tax. DOTAX also notes that section 251-2.5, HRS, already imposes a partial-day surcharge tax on car sharing of 25 cents per half-hour, provided that for each rental of six hours or more, the tax is based on the normal daily rate specified in section 251-2, HRS.

Because section 251-2.5, HRS, already imposes a partial-day surcharge on car-sharing, DOTAX requests that the measure adopt a similar approach in subsection 251-2.5(a) for the rental motor vehicle rental rate as follows:

(a) There is levied and shall be assessed and collected each month a rental motor vehicle surcharge tax of \$5 a day, or any portion of a day that a rental motor vehicle is rented or leased. When a rental motor vehicle is rented or leased for a portion of a day, the tax under this section shall be assessed at a rate of 25 cents per half-hour, or any portion of a half-hour, that a rental motor vehicle is rented or leased; provided that for each rental of six hours or more, the tax shall be assessed at the full rate specified in this section. Beginning January 1, 2022, and each subsequent year on January 1 until December 31, 2027, the rental motor vehicle surcharge tax shall increase by \$0.50. The rental motor vehicle surcharge tax shall be levied upon the lessor; provided that the tax shall not be levied on the lessor if:

(1) The lessor is renting the vehicle to replace a vehicle of the lessee that:

- (A) Is being repaired; or
- (B) Has been stolen and is unrecovered or will not be repaired due to a total loss of the vehicle; and

(2) A record of the repair order, the stolen vehicle record, or total loss vehicle claim for the vehicle is retained either by the lessor for two years for verification purposes or by a motor vehicle repair dealer for two years as provided by section 437B-16.

In addition to the requirements imposed by section 251-4, a lessor shall disclose, to the department, the portion of the remittance attributed to the county in which the motor vehicle was operated under rental or lease. A peer-to-peer car sharing program, as defined in chapter 279L, shall be subject to the tax imposed by this subsection and be subject to the other requirements of this chapter.

With the proposed changes, DOTAX can administer the measure by January 1, 2026. Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

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735 Bishop Street, Suite 417

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**SUBJECT:** RENTAL MOTOR VEHICLE; Proration of surcharge where a vehicle is rented for a portion of the day.

**BILL NUMBER:** SB 454

**INTRODUCED BY:** RHOADS

**EXECUTIVE SUMMARY:** Requires the rental motor vehicle surcharge tax to be pro-rated if the vehicle is rented or leased for a portion of the day.

**SYNOPSIS:** Amends section 251-2, HRS, to provide that the tax shall be prorated for any rental motor vehicle that is rented or leased for a portion of that day. (As enacted, the tax is \$5 a day or portion thereof.)

**EFFECTIVE DATE:** Upon approval.

**STAFF COMMENTS:** The proposed changes would make the tax system fairer. However, the tax system would also become more complex. Vehicle rental companies would need to keep closer tabs on check-in times and check-out times, information that may not have been collected reliably under prior law.

Digested: 2/3/2025



DATE: February 5, 2025

TO: Senator Jarrett Keohokalole  
Chair, Committee on Commerce and Consumer Protection

Senator Chris Lee  
Chair, Committee on Transportation and the Culture and the Arts

FROM: Matt Tsujimura / Tiffany Yajima

RE: **S.B. 454, Relating to Rental Motor Vehicle Surcharge**  
**Hearing Date: Friday, February 7, 2025 at 9:45 AM**  
**Conference Room 229**

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Dear Chair Keohokalole, Chair Lee, and Members of the joint Committee:

We submit this testimony on behalf of Enterprise Mobility, which includes Enterprise Rent-A-Car, Alamo Rent-A-Car, National Car Rental, and Enterprise Commute (Van Pool).

Enterprise offers **comments** with concerns on S.B. 454, which would require rental motor vehicle surcharge tax to be pro-rated if the vehicle is rented or leased for a portion of the day.

Enterprise has several concerns regarding the proposals in S.B. 454:

1. **Revenue Volatility** – Requiring proration of the rental motor vehicle surcharge tax reduce revenue for the State Highway Fund.
2. **Administrative Burden** – Implementing a pro-rated surcharge would require significant system changes for the rental car companies to calculate, track, and adjust the tax for each transaction. Currently, such mechanisms are not in place, adding complexity and cost.
3. **Increased Regulatory Complexity** – The Department of Taxation would need to process and verify variable tax remittances, increasing their workload to confirm compliance and accuracy. Additionally, consumers disputing rental durations could generate more complaints to the Office of Consumer Protection, increasing investigative and administrative burden.

Given these challenges, we respectfully urge the joint committee to consider the practical and financial impacts of S.B. 454.

Thank you for the opportunity to submit this testimony.