V.I.A.R.A

VIRGIN ISLANDS AUTO RENTAL ASSOCIATION

May 5, 2016

Hon. Sen. Clifford F. Graham
Chairman of the Committee on Finance
Legislature of the Virgin Islands
Capital Building
P.O. Box 1690
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00804

Re: Letter in opposition to Bill no. 31-0240 to create a new $3.75 per day car rental surcharge.

Dear Senator Graham,

We have polled every car rental company in the Territory and all companies are united in opposition to the proposed bill. We have also polled our staff who are the ones that must face the public and they are aghast and strongly opposed as well. We have polled our industry partners and they are also opposed to this new attack on the tourism industry. We expect that you will hear as much from both the St. Croix and St. Thomas Chambers of Commerce and the St. Croix and St. Thomas Hotel Association. The memory of having to explain the 85% increase in the daily car rental tax just a few years back is still fresh in all of our minds. The backlash was severe. The loss of customers, particularly long term customers, was startling. On St. Croix in particular we cannot sustain yet another shock to our fragile economy. Please do not support this unjust **100% tax increase**.

To propose any new tax on the increasingly competitive tourism industry, (think CUBA), and particularly during a very challenging business environment is bad public policy. To propose a new tax that is a 100% increase over the existing daily car rental surcharge is unconscionable. This on top of the recent 25% increase to the hotel room tax and many other increased fees and taxes are making our struggling destination too expensive to operate in a competitive manner. One of the functions of taxation is to influence people's actions. The more you tax something, (think sin taxes on tobacco and alcohol), the less likely people are to procure that service or product. We are taxing ourselves out of the tourism market during some really difficult times. The situation on St. Croix is particularly dire. Please do not support this unjust new levy.

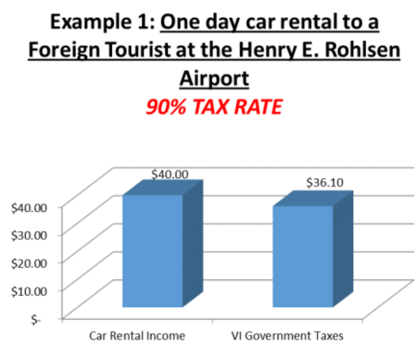
I have heard in the past that we can "just pass the tax on …". This logic is flawed and dangerous. If that were the case why not have a twenty dollar per day tax or fifty or one hundred dollars? If customers were not price sensitive to the total cost of a transaction why not just rent a car for one hundred dollars per day and pay another hundred dollars in taxes? The answer is obvious; because our destination would have no customers. One may argue, that another $3.75 per day on top of all the other taxes and fees will not make a difference. That is not the case. We are already seeing customer renting smaller cars and renting cars for fewer days to save money since the last tax increase. Where is the cutoff point of diminished returns for our government coffers or our community as a whole? Taxation without proper consideration is dangerous and counterproductive. Below are illustrated some percentages of the level of taxation we are being asked to bear in the car rental industry. The numbers are shocking.

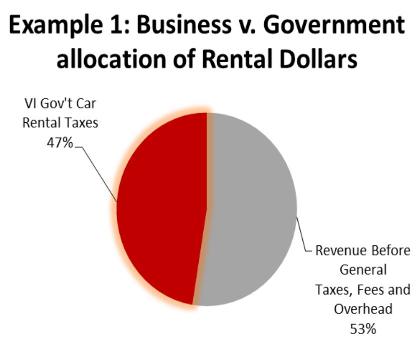
Senator Graham perhaps you may not know this, but I want to alert you to the fact that the car rental industry is arguably the most heavily taxed industry in the Virgin Islands. For some perspective here are some examples of how car rental transactions look on St. Croix.

Example 1. **One day car rental to a Foreign Tourist at the Henry E. Rohlsen Airport.**

One Day Rental	$40.00
Driving permit	$25.00
Airport Concession Fee, (STX)	$ 3.60
Daily Surcharge, (currently in place)	$ 3.75
New Surcharge, (IF PASSED)	$ 3.75
One day rental	$76.10

Industry Specific Tax Rate 90% BEFORE ALL OTHER TAXES/FEES.
Without the new tax we are already paying an 81% Tax Rate BEFORE ALL OTHER TAXES/FEES.

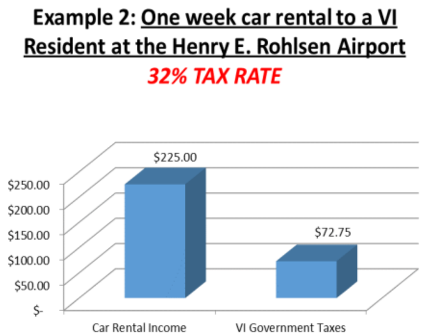


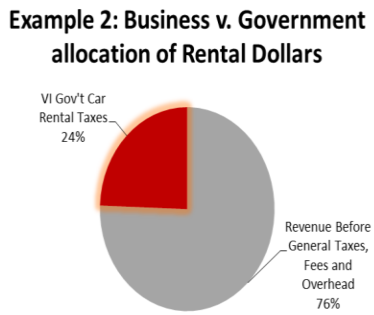


Example 2. **<u>One week car rental to a VI Resident at the Henry E. Rohlsen Airport.</u>**

One Week Rental	$225.00
Airport Concession Fee, (STX)	$ 20.25
Daily Surcharge, (currently in place)	$ 26.25
New Surcharge, (IF PASSED)	<u>$ 26.25</u>
One week rental	$297.75

Industry Specific Tax Rate <u>32%</u> BEFORE ALL OTHER TAXES/FEES.
Without the new tax we are already paying a <u>21%</u> Tax Rate BEFORE ALL OTHER TAXES/FEES.

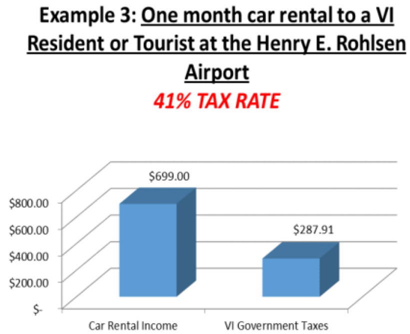


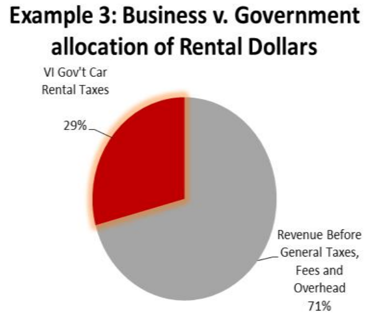


Example 3. **<u>One month car rental to a VI Resident at the Henry E. Rohlsen Airport.</u>**

One Month Rental	$ 699.00
Airport Concession Fee, (STX)	$ 62.91
Daily Surcharge, (currently in place)	$ 112.50
New Surcharge, (IF PASSED)	<u>$ 112.50</u>
One month rental	$ 986.91

With new TAX, Industry Specific Tax Rate <u>41%</u> BEFORE ALL OTHER TAXES/FEES.
Without the new tax we are already paying a <u>25%</u> Tax Rate BEFORE ALL OTHER TAXES/FEES.





For **<u>Example 1</u>** a $40 per day car rental transaction for a small car increases to $76.10. How many transactions get killed by this high level of taxation? The answer is a lot. Example 1 indicates a **NINETY PERCENT TAX RATE** for a car rental transaction. **<u>NINETY PERCENT!</u>** This 90% **JUST COVERS INDUSTRY SPECIFIC TAXES** not all the other taxes and fees that all businesses must pay! The car rental company that provides the asset and the service gets $40.00 and the government gets $36.10**.** Yet the car rental operator must pay a plethora of additional fees and taxes from this $40 then start paying overhead. How can this be?

For **<u>Example 2</u>** a $225.00 weekly car rental transaction for a small car increases to $297.75. Example 2 indicates a **THIRTYTWO PERCENT TAX RATE** for a weekly car rental transaction and this 32% **JUST COVERS INDUSTRY SPECIFIC TAXES** not all the other taxes and fees that all businesses must pay! The car rental company that provides the asset and the service gets $225.00 and the government gets $72.75 for just these INDUSTRY SPECIFIC TAXES. Yet the car rental operator must pay a long list of additional fees and taxes from this $225 then start paying overhead. How can this be sustainable?

For **<u>Example 3</u>** a $699.00 monthly car rental transaction increases to $986.91. Example 3 indicates a **FORTY-ONE PERCENT TAX RATE** for a monthly car rental transaction and this 41% **JUST COVERS INDUSTRY SPECIFIC TAXES** not all the other taxes and fees that all businesses must pay! The car rental company that provides the asset and the service gets $699.00 and the government gets $312.91 for just these INDUSTRY SPECIFIC TAXES. Why would a retiree come to St. Croix for the winter and pay nearly $1,000 per month to rent a car instead of Florida or Arizona where costs are more reasonable? Again this is just the beginning of what the car rental operator must pay in additional taxes and fees.

Senator Graham is this fair taxation? How is this level of taxation sustainable? We should be talking about a tax decrease, not a tax increase for the car rental industry. We as an industry are over taxed as it stands today; how can we be asked to sustain more taxation? The proposed new tax puts the taxation levels further over the top and threatens to crush the industry and wreak havoc on the economy, particularly on St. Croix. *"Raising taxes during times of weak economic performance is not a sound decision". Alan Greenspan, former chairman of the Federal Reserve Board*

Senator it gets worse. In addition to the 90% tax rate the government gets from the $40.00 charged for a one day car rental through industry-specific taxes, the government gets an additional large portion of the $40 through the application of a host of other general business fees and taxes as outlined below.

These are fees and taxes a car rental operator must pay IN ADDITION to the industry specific taxes.

- Gross receipts 5%
- Payroll Taxes 15.3% of employee wages, (1/2 from the employer)
- VIESA, (Virgin islands Employment Security Agency)
- VIESA Supplemental Surcharge
- FUTA, (Federal Unemployment Tax Act). We have to pay this levy to the Feds in order to pay the VI Government's loan that is not being paid back to the Federal Government. The Federal

Government is doing a “reach around” into our pockets to pay off the loan the non-performing VI Government loan. This started three years ago.

- Highway User’s Tax on new vehicles
- Vehicle registration fees, (Increased by 27% since 2014)
- Tire Disposal Tax on all tires
- Fuel Tax
- DPNR Generator Permit
- DPNR Waste Oil Disposal Permits
- DPNR Tire Storage Permit
- Sewer user tax
- Property Tax
- Franchise Tax
- Business License
- Fire Service Permit
- UCC-1 Lien Placement, $25.00 per vehicle
- UCC-1 Lien Release, $25.00 per vehicle
- Department of Motor Vehicle lien placement
- Department of Motor Vehicles Lien release
- Another New Onerous Tax; Centennial License Plate at $49.00 EACH on top of all other fees. Very expensive unplanned for expense for a fleet operator. The direct cost alone of $49.00 per vehicle is onerous enough, but also the administrative logistics of updating our computer systems, tracking vehicles with two plates assigned, changing the license plates on the vehicles, changing the key tags, updating vehicle documents, etc.
- Tire and Suspension Tax, (our interpretation of the very bad roads)

After the all the Government agencies get their immense cut, the rental car operator has to start paying for the actual business operations from whatever is left over from the original $40.00 minus the general taxes and fees listed above. Below is a list of typical expenses to give some more perspective:

- Agent commissions
- Agency commissions
- Franchise Fees
- Credit card commissions
- Staff wages, (soon to rise dramatically)
- Staff medical insurance, (has been rising in double digit percentages annually)
- Other Benefits, (Retirement Plan, Paid Vacation, Holidays, Incentive Bonus, etc.)
- Rent or mortgage or both
- Financing of vehicles
- Depreciation of assets
- WAPA, (car rental operators use a lot of water and power)
- General Liability Insurance
- Property Casualty Insurance
- Auto Liability Insurance

- Auto Collision Coverage
- Vehicle repair and maintenance.
- Facility repair and maintenance
- Uncollectable Vehicle Damages
- Charitable contributions
- Fuel and oil
- IT maintenance
- IT security
- Security
- Advertising
- Marketing
- Software charges
- Accounting fees
- Legal fees
- General Office expenses
- Losses due to crime
- Staff Training
- Uniforms
- Traffic Violations, (our vehicles get liens placed on them for moving violations caused by renters, unfair)
- Travel
- Fleet service vehicles
- Courtesy vans
- Staff vehicles
- Hurricane Recovery Fund
- Misc.
- Hopefully some profit for taking the risk of the investment and putting in the hard work?

Senator, Graham if the lists seem long that is because the fight to stay in business in the Virgin Islands and particularly on St. Croix is a big one. Running a business is not easy. It takes a strenuous, sustained effort to succeed and is very taxing not just economically, but physically and emotionally. That burden becomes unsustainable when the tax burden crosses the threshold where the effort is not worth the result. To arbitrarily slap on another huge tax without even attempting to do a proper financial study of what the consequences will be is not a good public policy. These sorts of actions are playing with people's livelihoods without thinking through what the consequences will be. These small business owners, and the staff and all of their respective families depend on these businesses to be successful as does the government for its revenue. Please do not support this new tax. Implementation of this tax will be a vital blow against the car rental industry, our tourism industry and by extension our community as a whole.

On top of the aforementioned keep in mind what has been going on in the past few years. St. Croix lost its biggest employer and the economic engine. So big that the Virgin Islands economy lost $500 million in GDP out of a two billion dollar economy when HOVENSA closed, (per the Virgin Islands Daily News). St. Croix was by far the hardest hit. Add to that catastrophic blow the increased competition in the tourism industry from our Caribbean neighbors, including the awakening of the tourism giant known as Cuba. It is obvious we are in a dire situation now and more yet to come. We need to stay competitive by getting leaner to survive and flourish. Additional taxation is counterproductive to our viability and progress as a tourism dependent community.

Yet since the HOVENSA closing increased taxes and fees have been like a runaway horse! The same week we received your letter informing us of Bill no. 31-0240, we received a letter from the Virgin Islands Port Authority informing the car rental operators that the Virgin Islands Port Authority was proposing to increase the airport concession fee by 29% effective July 1, 2016. You may recall in 2012 the Gross receipts tax was increased by 25%, the Daily Car Rental Surcharge currently in place increased by 85% as well, (this tax did not exist 11 years ago), vehicle registration fees have increased by 27% since 2014, hotel room tax recently increased by 25%, the temporary driver's permit was re-implemented in 2013 after being dormant for 30 plus years, and we are all familiar with the excessive costs of WAPA, not to mention the forthcoming increased minimum wage that will hit our industry very hard, particularly on St. Croix due to our contracting economy. There are many other hidden taxes in the form of fee increases yet this goes on with NEGATIVE REVENUE GROWTH ON St. Croix! We keep getting these increased costs, but are not able to pass them on because most customers have a fixed budget and limit as to what they will spend for a rental car. This new tax will damage the fragile economic environment on St. Croix. Senator this pattern is not sustainable. We need to grow our economy, not tax the few businesses left until they die. We must share with you that while reaching out to our fellow car rental industry operators to address this dangerous bill we had a sad and stark realization. Twenty-six years ago there were thirty car rental companies on St. Croix. These past weeks we could only locate EIGHT car rental companies! We are dying over here on St. Croix! Please do not put another nail in our economic coffin.

Senator we ask that you move to table this bill or help us defeat the bill if it goes for a vote. We are very concerned of the unintended consequences of this unstudied, unplanned move. If you have any questions please feel free to contact Manuel Gutierrez, (mgutierrez@ccrvi.com or 340-778-0450), or any of the undersigned at your earliest convenience. I hope all of the families in the car rental and related tourism industry and our over taxed community can count on your support. Thank you for your time and consideration.

Sincerely,

__________________ Robert Halk Preferred Rentals, Inc.	__________________ Honica Jeffers VI Enterprises, Inc.	__________________ Nigel Francis Skyline Car Rentals, Inc.
__________________ Careel Shillingford Tourism Industries, Inc.	__________________ Dennis Denner Judy of Croix Car Rental	__________________ Sharon George Midwest Auto Rental, Inc.
__________________ Sal Sanpere Olympic Rent A Car	__________________ Manuel Gutierrez Centerline Car Rentals, Inc.	