



STATE OF CONNECTICUT

DEPARTMENT OF REVENUE SERVICES

OCG-1

Original Issue Date: 10/16/2015
Last Updated: 10/25/2018

OFFICE OF THE COMMISSIONER GUIDANCE Regarding the Rental Surcharge

This publication is intended to provide guidance on changes to the Rental Surcharge that were made by 2017 Conn. Pub. Acts 2, § 653 (June Spec. Sess.) and 2018 Conn. Pub. Acts 136, § 1. The Department of Revenue Services (DRS) will update this guidance as it receives additional questions. Any information added after the initial publication will include the date on which the information was added. This guidance is binding on the DRS only until superseded or modified by a change in statute, regulation, court decision, ruling or other formal publication.

Question 1: Which businesses are required to collect and report the rental surcharge? (*Question added on October 25, 2018*)

Answer: Effective January 1, 2018, only businesses that rent pieces of machinery must file an annual consolidated report with DRS and remit the amount of the surcharge they collected that exceeds the amount of property taxes the business paid on the machinery during the preceding calendar year and the amount of registration and titling fees the business paid on the machinery to the Department of Motor Vehicles during the preceding calendar year.

Question 2: What is the definition of “rental company” for purposes of the rental surcharge on machinery? (*Question updated on 10/25/2018*)

Answer: The definition of “rental company” requires that a company must receive at least 51% of its total annual revenue from rental income, excluding retail or wholesale sales of rental equipment. Based upon the legislative history, the legislature added this language with the intention of limiting the number of companies that would qualify as rental companies that could collect the rental surcharge. For this reason, a company must be in the business of renting machinery, under the prior definition of machinery that referenced the rental of heavy equipment used in construction, forestry, or mining, in order to collect the rental surcharge.

Question 3: What year should a company use to determine whether more than 51% of its annual revenue is rental income? (*Question updated on 10/25/2018*)

Answer: A company should use its most recently completed year for which a Connecticut corporation business tax return, composite income tax return, or individual income tax return has been filed.

Example: A company’s tax year ends on December 31. As of July 1, 2018, the most recently completed year for which a tax return was filed would either be the 2017 tax year, if already filed, or the 2016 tax year, if the company received an extension of time to file.

Question 4: What is the definition of “machinery” and its impact on companies that were collecting the rental surcharge on machinery?

Answer: The definition of “machinery” requires that machinery means all equipment owned by a company that qualifies as a rental company. Equipment should be given its commonly understood meaning and include the implements (machinery and tools) used in an operation or activity. Such activities include, but are no longer limited to, construction, mining and forestry.

Question 5: Will the rental of storage bins be subject to the rental surcharge? (*Question updated on 10/25/2018*)

Answer: No, storage bins are not an implement used in an operation or activity. Therefore, they are not included in the definition of machinery.

Question 6: Are items rented out by party and special event rental companies, like tables, chairs, tents, and linens, subject to the rental surcharge? (*Question added 10/25/2018*)

Answer: The rental surcharge operates as a reimbursement to the rental company for Connecticut property taxes and, if applicable, Department of Motor Vehicles licensing and titling fees, paid on the equipment. Thus, the rental surcharge only applies to “machinery” owned by the rental company that is subject to property tax. In addition, because “machinery” is given its commonly understood meaning and includes the implements (machinery and tools) used in an operation or activity, it would not be within the commonly understood meaning of the term to include items such as table linens, for example. For these reasons, party and special event rental companies may collect the rental surcharge only if they are a “rental company,” a city or town collects property tax on the items they offer for rental, and the items would be commonly considered to be “machinery.”

Question 7: If a rental company (Company A) rents equipment to another rental company (Company B) for lease to a consumer, which rental company should collect the rental surcharge?

Answer: Under these facts, neither rental company should collect the rental surcharge. The definition of “lessee,” which excludes other rental companies from being subject to the rental surcharge, prohibits Company A from collecting the rental surcharge from Company B. The definition of “equipment,” which requires ownership of the equipment, prohibits Company B from collecting the rental surcharge from the consumer.

Question 8: What is the rental surcharge on machinery rented within the state? (*Question updated on 10/25/2018*)

Answer: Effective July 1, 2018, the surcharge rate of 2.75% is imposed on the total amount charged (including, e.g., transportation charges) for the rental of machinery within the state by a rental company for less than 365 days or under open-ended contract for an undefined period of time. This surcharge is in addition to any tax, and should be included in gross receipts for purposes of the sales and use taxes imposed under chapter 219.

Question 9: Are rentals of motor vehicles and rental trucks subject to a rental surcharge?

Answer: No. Effective January 1, 2018, rentals of motor vehicles and rental trucks are no longer subject to the rental surcharge. Instead, Conn. Gen. Stat. § 12-692(b) provides that rental companies have the option to charge individually itemized charges or fees on rentals of motor vehicles and rental trucks for a period of less than 31 days. Such charges or fees may include, but are not limited to, a vehicle cost recovery fee, airport access fee, or airport concession fee.

Additional Questions Regarding the Revisions to the Rental Surcharge Statutes: Send an e-mail to the DRS Office of Counsel at legal.division@po.state.ct.us

For Further Information Regarding Registration, Filing or Collection: Call the DRS during business hours, 8:30 a.m. to 4:30 p.m., Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

For Forms and Publications: Visit the DRS website at www.ct.gov/DRS

OCG-1

Rental Surcharge

Original Issue Date: 10/16/2015

Last Updated: 10/25/2018