



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

PS 2007(3)

25 Sigourney Street
Hartford CT 06106-5032

POLICY STATEMENT

Rental Surcharge
Daily Rental of Machinery

Purpose: This Policy Statement:

- Describes the imposition of the rental surcharge on the daily rental of pieces of machinery rented by rental companies; **and**
- Incorporates new legislation that defines the word period for purposes of the rental surcharge imposed on daily rentals of pieces of machinery.

Effective Date: July 1, 2007

Statutory Authority: Conn. Gen. Stat. §12-692(c) as amended by 2007 Conn. Pub. Acts 254, §4.

Definitions: The following definitions are for the surcharge as applied to the daily rental of pieces of machinery.

Machinery means heavy equipment without an operator that may be used for construction, mining, or forestry. Heavy equipment is equipment propelled by its own internal engine or internal power source and intended for outside use.

Rental company means any business entity engaged in the business of renting five or more pieces of machinery in this state that may be used for construction, mining, or forestry in this state to lessees. Renting machinery for household use would not be subject to the rental surcharge on machinery.

Lessee means any person who rents a piece of machinery from a rental company for the person's own use and not for the rental to others.

Rental period or **period** begins on the date a piece of machinery is rented to a lessee and terminates on the date the piece of machinery is returned to the rental company.

Imposition of the Rental Surcharge: A 1½% rental surcharge is imposed on the total amount a rental company charges a lessee for the rental of a piece of machinery in Connecticut for a period of 30 consecutive calendar days or less. For purposes of the rental surcharge on a daily rental of machinery, the period for the term of a machinery rental begins on the date a piece of machinery is rented to a lessee and terminates on the date the piece of machinery is returned to the rental company. Therefore, if a rental of a piece of machinery is renewed before the machinery is returned to the rental company, the term of the renewal is added to the term of the initial rental to determine the rental period. The rental invoice must separately state the amount of the rental surcharge. The rental surcharge is added to the total amount the rental company charges the lessee for the rental of the piece of machinery. The 6% Connecticut sales tax must be charged and collected on that sum.

If the initial rental of a piece of machinery is for a term of 30 consecutive calendar days or less, and after adding the renewal term to the initial term, the rental period is more than 30 consecutive calendar days, the rental is not subject to the rental surcharge. In this situation, the rental company must refund the rental surcharge collected on the initial rental to the customer. The rental company must refund the difference between the amount of sales tax computed on the initial machinery rental and the amount of sales tax recalculated on the initial machinery rental less the rental surcharge. See Example 2 below.

Filing of Return and Payment of the Rental Surcharge: On or before February 15 annually, each rental company must file **Form OP-383, Rental Surcharge Annual Report**, with the Department of Revenue Services (DRS) to report the total rental surcharge the company actually collected on the rental of machinery during the proceeding calendar year. If the rental surcharge is collected on an initial

machinery rental and refunded to the customer because the rental period is more than 30 consecutive calendar days after the machinery rental is renewed, the amount of the rental surcharge collected and refunded to the customer is not included on Form OP-383.

Each rental company must also remit with Form OP-383 the portion of the total rental surcharge collected that exceeds the sum of:

- The personal property tax it actually paid during the year to any Connecticut municipality on pieces of machinery rented to lessees during the year; **and**
- The registration and titling fees it actually paid during the year to the Department of Motor Vehicles (DMV) on the pieces of machinery, if any.

The rental company is not entitled to keep any excess and must pay it over to DRS with Form OP-383.

In determining whether there is any excess, a rental company must take into account the personal property taxes it actually paid during the entire calendar year to any Connecticut municipality on the machinery. The same rule applies for registration and titling fees.

Machinery: The rental of machinery that may be used for construction, mining, or forestry and is considered the rental of heavy equipment subject to the rental surcharge includes the following:

- Aerial lifts;
- Air compressors;
- Backhoe/loader;
- Bulldozers;
- Compactors;
- Concrete Mixers;
- Cranes;
- Crawler tractors;
- Earthmoving equipment;
- Excavators;
- Forklifts;
- Generators;
- Loaders;
- Pavers;
- Rollers;
- Trenchers;
- Scrapers;
- Skid-steers;

- Well-drilling machinery and equipment; **and**
- Similar heavy equipment that may be used for construction, mining, or forestry.

Rentals Not Subject to the Rental Surcharge:

If a piece of machinery considered heavy equipment is delivered to a lessee outside Connecticut or if the rental is for a period of more than 30 consecutive calendar days, the rental is not subject to the rental surcharge regardless of where the machinery is subsequently used or dropped off. If a piece of machinery not considered heavy equipment is rented to a lessee, the rental is not subject to the rental surcharge.

All Other Rentals Subject to the Rental Surcharge:

All other leases or rentals of pieces of machinery considered heavy equipment for a period of 30 consecutive calendar days or less are subject to the rental surcharge. This includes leases or rentals exempt from sales and use taxes, such as lease or rentals to an agency of the State of Connecticut (or an employee of the agency), a Connecticut municipality (or an employee of the municipality), a tax-exempt organization, or a farmer that holds a valid *Farmer Tax Exemption Permit*.

Example 1: A rental company rents a forklift to a contractor for a period of 21 days. The contractor does not renew the forklift rental. The contractor returns the forklift to the rental company when the 21 day rental period terminates. The total amount the rental company charges the contractor for the rental of the forklift is \$35 per day.

The application of the rental surcharge and sales tax on the forklift rental to the contractor:

Rental charge (Form OP-383)	
\$35 multiplied by 21 days	\$735.00
Rental surcharge	
\$735 multiplied by 1½% (.015)	<u>+ 11.03</u>
Amount on which sales tax must be charged and collected	\$746.03
Sales tax (Form OS-114)	
\$746.03 multiplied by 6% (.06)	<u>+ 44.76</u>
Total	\$790.79

Example 2: The facts are the same as in Example 1 except that the contractor renews the forklift rental for 14 days and returns it to the rental company after the end of the renewal period. The rental period for the forklift rental is 35 days because it begins on the first day the contractor rents the forklift and terminates on the day the contractor returns the forklift to the rental company. The forklift rental is not subject to the rental surcharge because the period of the rental is for 35 days. The rental company must refund the \$11.03 rental surcharge collected from the contractor on the initial 21 day forklift rental. The rental company is required to charge sales tax on the forklift rental for the additional 14 days the rental is renewed by the contractor ($\$35 \times 14 \text{ days} \times 6\% = \29.40 sales tax).

The sales tax must be recomputed on the initial 21 day rental charge without including the rental surcharge in the amount subject to sales tax ($\$735 \times 6\% = \44.10). The difference between the initial amount of sales tax collected from the contractor and the recomputed amount of sales tax after deducting the rental surcharge from the amount subject to tax must be **refunded** to the customer. Therefore, the rental company must refund 66 cents ($\$44.76 - \$44.10 = \$0.66$) sales tax to the contractor.

Effect on Other Documents: This Special Notice modifies and supersedes **Special Notice 2005(11)**, *Rental Surcharge - Daily Rental of Machinery*.

Effect of This Document: A Policy Statement explains in depth a current Department of Revenue Services (DRS) position, policy, or practice affecting the tax liability of taxpayers.

For Further Information: Call DRS during business hours, 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.

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Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone, or call **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns, tax payments, and electronic bill payments:** Use the *Taxpayer Service Center (TSC)* to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at www.ct.gov/DRS and choose the *TSC* logo or *File/Register OnLine* for a complete list of taxes that can be electronically filed and paid.
- **For income tax returns, extensions, estimated payments, and electronic bill payments:** Use the *Taxpayer Service Center (TSC)* to file personal income tax returns and extensions, or to make estimated payments and electronic bill payments over the Internet. Visit the DRS website at www.ct.gov/DRS and choose the *TSC* logo or *File/Register OnLine*.

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