OFFICE OF LEGISLATIVE RESEARCH

Objective Research for Connecticut's Legislature

ResearchReport

Rental Surcharge

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Issue

What is Connecticut's machinery rental surcharge? Does the surcharge also apply to car and truck rentals?

Summary

Connecticut imposes a 2.75% rental surcharge on machinery rentals lasting less than 365 days or for an undefined period under an open-ended contract. The surcharge applies to the total amount the rental company charges the customer (lessee) for the rental and is designed to reimburse the company for Connecticut personal property taxes and any applicable Department of Motor Vehicles (DMV) licensing, titling, and registration fees paid on the machinery. Rental companies collect the surcharge from lessees and annually remit to the state the amount of the surcharge collected that exceeds the property taxes and DMV fees they paid on the machinery during the year (CGS § 12-692).

Connecticut no longer imposes a surcharge on car and truck rentals but allows rental companies to impose fees covering similar expenses.

Machinery Rental Surcharge

By law, the machinery rental surcharge applies to businesses generating at least 51% of their total annual revenue from rentals, excluding retail or wholesale sales of rental equipment. Machinery includes all equipment owned by a qualifying rental company, including bulldozers, earthmoving equipment, well-drilling machinery and equipment, and cranes. The surcharge applies in addition to any other applicable tax and is included in the price for the purpose of calculating sales and use tax

(CGS § 12-692(d)). Department of Revenue Services (DRS) guidance provides more detailed information about the surcharge and when it applies.

In FY 25, 38 taxpayers (rental companies) remitted approximately $495,000 in machinery rental surcharge revenue. They collected approximately $2.75 million in rental surcharge from lessees but retained the difference to reimburse their property taxes and DMV fees on the machinery (DRS, *FY 24-25 Annual Report*, p. 54).

Car and Truck Rentals

A similar rental surcharge previously applied to car and truck rentals, but the legislature repealed it as part of the FY 18-19 biennial budget act (PA 17-2, June Special Session, § 653). The prior surcharge was 3% on car and truck rentals of less than 31 days and rental companies had to annually remit the amount collected that exceeded the property taxes and DMV fees they paid on the vehicles during the year. The legislature eliminated this surcharge as of January 1, 2018, and instead authorized rental companies to charge lessees individually itemized charges or fees as part of a rental agreement, including vehicle cost recovery (such as taxes and DMV fees), airport access, or airport concession fees, generally subject to the same requirements that previously applied to the rental surcharge (CGS § 12-692(b)).

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