



Tourism and Lodging Taxes

PRIMER

INTRODUCTION TO TOURISM AND LODGING TAXES

Tourism and lodging taxes—unlike property and sales or use taxes—can be imposed on uses tied to tourism and spent in support of tourism, hospitality, entertainment and the arts at the state or local level. Taxes for hotel lodging, rental car and parking at event venues are the most common tourism-related taxes in the U.S. and Canada.

A recent discussion point focused on lodging taxes imposed on non-hotel short-term/vacation rentals (e.g., Airbnb, HomeAway). In many resort areas, tourism and lodging taxes are a main source of revenue for local government. And about half of all states impose a lodging tax. Another topic is online travel agencies (OTAs). OTAs may or may not pay a taxing jurisdiction the lodging tax on full price consumers but only on the sales price that the OTAs pay back to the hotels. Finance officers should find out how their jurisdictions resolved these issues.

Local jurisdictions that seek to impose or increase these taxes may face resistance from hotel and lodging associations. The associations claim that such taxes often increase hotel room vacancy rates and result in lost revenue to lodging facilities.

USE OF TOURISM AND LODGING TAXES

Governments approved to impose tourism and lodging taxes normally set up legally authorized uses for the revenue collected. Examples include funding convention center and visitor information center construction, maintenance and operations; advertising and promotions to attract tourists and visitors; promoting the arts; historical restoration or preservation programs; and constructing, maintaining and operating sports facilities or entertainment venues. In some jurisdictions, especially at the state level, tourism and lodging taxes can be used to support general government spending and are rolled into the state's general fund or transportation projects.

Sometimes a jurisdiction is allowed to issue debt secured by tax revenues. This allows the jurisdiction to pursue or construct capital projects funded by bond proceeds and then use a revenue stream to pay the debt.

One reason local elected officials may be partial to tourism and lodging taxes is because they can provide community amenities for residents and taxpayers to use but are paid for by tourists and visitors. Justifiably, some local elected and appointed officials point out that visitors use locally funded infrastructure and services—such as roads, parks and emergency services—without paying local property or income taxes.

QUESTIONS FINANCE OFFICERS SHOULD ASK ABOUT TOURISM AND LODGING TAXES

Finance officers should be ready to ask the following questions about tourism and lodging taxes:

- » Is this revenue used for general or specific purposes? If the latter, do we need a special fund?
- » Is my jurisdiction allowed to impose tourism and lodging taxes? If so, what is the maximum tax that can be imposed? Can an amount less than the maximum be imposed? Are there increments that must be used? Can an overlapping jurisdiction (e.g., city/county) absorb the full amount of allowable tax? How does this tax apply to short-term rentals?



- » Is a vote needed to impose the tax or approve specific projects funded by the tax revenue? If so, what is the estimated cost of the election? How does it compare to the estimated revenue collected? Are there any timelines that must be met?
- » Can the tax revenue be used to secure debt? Since this is a variable revenue source, will the revenue stream be modeled and tested to make sure there will be enough funds to pay the debt secured by the revenue?
- » Does the administering department have the staff necessary to ensure the proper collection and accounting of the tax revenue?
- » Can the costs for collecting and handling the tax revenue be reimbursed by the revenue? Are there reimbursement limits?
- » If my jurisdiction seeks to impose a new tax or increase an existing tax, will the hotel and lodging association consider the concerns of members?

OUTSIDE RESOURCES

- » Texas Comptroller of Public Accounts, Hotel Occupancy Tax: <https://comptroller.texas.gov/taxes/hotel/>
- » National Conference of State Legislatures, State Lodging Taxes: www.ncsl.org/research/fiscal-policy/state-lodging-taxes.aspx
- » Ballotpedia, Hotel Taxes in California: https://ballotpedia.org/Hotel_taxes_in_California
- » American Hotel and Lodging Association, OTA Tax Parity: <https://www.ahla.com/issues/ota-tax-parity>
- » Carine Martinez and Kathleen Hunker. *The Hotel Occupancy Tax in Texas*, Texas Public Policy Foundation, May 24, 2018; <https://www.texaspolicy.com/the-hotel-occupancy-tax-in-texas/>
- » Carine Martinez-Gouhier. *How Many Enchiladas Can El Paso's Hotel Occupancy Tax Cost You?*, El Paso Times, June 3, 2018; <https://www.elpasotimes.com/story/opinion/2018/06/03/el-paso-hotel-occupancy-tax-cost-you-enchiladas/661208002/>
- » "New Castle County Executive Matt Meyer's Case for Lodging Tax," Delaware Business Times, May 18, 2018; <https://www.delawarebusinesstimes.com/new-castle-county-executive-matt-meyers-lodging-tax/>

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