

Localities Enacting New Taxes On Hotel Room Charges

By Jay Boehmer
August 17, 2009

Several state and local governments in recent months have proposed, implemented or approved tax hikes on hotel stays as they put the onus of closing budget shortfalls on meeting planners, out-of-towners and travel buyers.

Last month, popular meetings destinations Hawaii and Las Vegas enacted new taxes on hotel room stays, while Oakland, Calif., passed a measure to do so. Boston at press time also was poised to pass a new hotel tax, joining the more than one-quarter of the 100 largest U.S. business travel destinations that have increased taxes that impact lodging since the beginning of 2008.

"Every time there is a downturn in the economy and jurisdictions have trouble with funding, they add some type of occupancy tax that goes into the general fund," according to American Hotel & Lodging Association president and CEO Joseph McInerney. "It happened after 9/11, and it's happening now."

Hawaii on July 1 became one of the latest states to raise hotel taxes, increasing the statewide occupancy tax rate by one percentage point to 8.25 percent. Overriding the governor's veto, Hawaii state legislators in May voted to increase hotel taxes in two phases, with the next phase taking effect on July 1, 2010, when the tax rate will rise another percentage point.

The legislation, however, characterized those increases as temporary, with plans to sunset them on June 30, 2015. According to the bill, the state is dedicating about half the newly collected revenues to tourism initiatives and convention center activities, while the other half is allocated for general funds in several Hawaiian locales.

Las Vegas on July 1 raised its occupancy tax rate to 12 percent from the previous 9 percent, though a Las Vegas Convention and Visitors Authority spokesperson noted "a couple of places in downtown Las Vegas where that rate is a little more. It was a 3 percentage point increase, but they capped it at 13 percent, so it can't go above that."

While other states have used funds generated from such taxes to update convention centers and bulk up tourism marketing, the hike in Las Vegas "for the first two years goes into the state general fund," the LVCVA spokesperson said. "After that, it goes to fund education. We don't see any of the revenue from that new tax."

McInerney said AH&LA, with local chapters and other travel organizations, works to prevent state and local governments from increasing occupancy taxes or steer the proceeds toward travel initiatives.

"That's easier for us to swallow because they help generate more business and bring more people in," McInerney said. "We try to encourage that if there is going to be something passed, let's earmark it so the proceeds will help the industry."

The Las Vegas spokesperson said the proposed tax is "just on the room rate," and won't impact such meeting costs as food and beverage or meeting room rental.

Nevada has long relied on gaming and hospitality revenue, and the travel and meetings slump hit the state hard. Promoting the Travel Promotion Act during a Senate hearing in May, Sen. Harry Reid (D-Nev.) said, "Nevada has no state income tax, and in 2007, 27 percent of the state budget came from revenues generated by the travel industry. Revenues from hotel room taxes, car rentals and sales taxes fund most of the basic services provided by local governments scattered around the state. The recent decline in visitors to Nevada has unfortunately contributed to the worst state budget shortfall in the state's history."

Hotel tax increases also act as a de facto price hike for travel buyers, while making it tougher for tourism officials who are "trying to sell their city for people to come there to do business," McInerney said. "If the taxes are 25 percent and a comparable city has taxes of only 17 percent, the numbers are 8 percent less. If taxes get too high, people aren't going to come anymore."

Despite the risk of alienating potential meetings business, the tax increases are a way for state and local governments to fund local services without raising taxes on voters. Such was the case in Oakland, where three-quarters of voters in July passed a measure to hike the hotel occupancy tax to 14 percent from 11 percent, effective Jan. 1, 2010.

The Oakland Convention & Visitors Bureau last month said in December 2008 it lost city funding "as a result of budget reductions related to the current economic crisis and has relied on private funding since." Half of the additional 3 percent surcharge on hotel room nights is earmarked to fund the convention and visitors bureau, with the rest for city attractions and events.

Even before these most recent tax actions, more than 25 of the largest 100 business travel markets in 2008 increased the hotel occupancy tax rate or state or local sales tax or added surcharges, according to data published in Business Travel News' 2009 Corporate Travel Index. Those increases ranged from 3 percentage points in Atlanta and El Paso, which brought the total tax rate on hotel stays to 15 percent and 15.5 percent, respectively, to the more modest half of a percentage point in Peoria, Ill., which now charges 12 percent per room night.

Since BTN issued that report, New York on March 1 raised its hotel occupancy tax from 5 percent to 5.875 percent "for all room types," the city said, bringing the total taxes levied on a room night, including state and city sales taxes, to 14.25 percent plus a \$3.50 surcharge.

With recent changes in the Massachusetts tax code, Boston is proposing to increase its occupancy tax by 2 percentage points, while adding .75 percentage points to its tax on dining out. That would bring overall taxes on a Boston nightly room rate to 14.45 percent and its dining tax to 7 percent, effective Oct. 1.

Though at press time Boston's city council had yet to vote on the measure, a CVB spokesperson said the vote was just "a formality," claiming broad support from the mayor and the council made approval a foregone conclusion.

Massachusetts increased its state sales tax to 6.25 percent from 5 percent, effective Aug. 1, which applies to hotel room nights.

Boston mayor Thomas Menino in late July told hospitality industry leaders that the new taxes could bring \$18 million in revenue to the city in the next 12 months. "None of us like new taxes—we have kept property taxes steady," Menino said in a statement, "but as I see it, these local option tax increases would primarily impact visitors to our city, and travel, tourism and convention business remains strong."