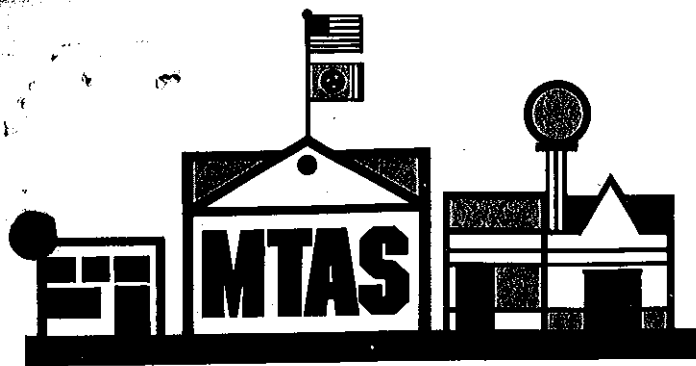




TECHNICAL BULLETIN

MUNICIPAL TECHNICAL ADVISORY SERVICE
THE UNIVERSITY OF TENNESSEE
IN COOPERATION WITH THE TENNESSEE MUNICIPAL LEAGUE
Authorization Number E14-1050-00-001-83

August 16, 1982

A HOTEL/MOTEL OCCUPANCY TAX FOR YOUR CITY?

By E. W. Meisenhelder, Municipal Consultant

Sixteen Tennessee counties and eight cities are levying a privilege tax on hotel and motel occupancies to augment general revenues and/or aid tourist promotion activities. If your city is a "destination point" for visitors, is located on or near a major highway or interstate, or wishes to increase funds needed to attract tourists, you may want to consider adopting a hotel/motel occupancy tax.

The only Tennessee general law provision authorizing the levying of a hotel/motel tax, Chapter 4, Title 7, Tennessee Code Annotated, is for metropolitan governments (applicable at present only to Metropolitan Nashville and Davidson County). Other local governments have adopted the tax by private or class acts passed for them by the General Assembly.

How to Estimate Yield

Before deciding to adopt a Hotel/Motel Occupancy Tax, attempt to estimate the expected annual revenues to see if the results are worth the effort. There is no way to know exactly what income to expect, because the yield depends upon the tourist flow. However, you can arrive at a rough estimate that may be useful.

One way to estimate income would be to examine the gross receipts as reported by each hotel and motel on its municipal business tax return and as contained in confidential state sales tax reports. These would give you an idea of each establishment's annual volume of business. Unfortunately, these returns usually combine room receipts with receipts from hotel/motel restaurants, bars, and gift shops.

Another approach would be to ascertain the total number of hotel/motel rooms that would be subject to the tax, determine an average room rate per night, estimate the overall percentage of occupancy, and use the following formula to arrive at an estimated annual tax yield:

$$\begin{aligned} &\text{No. of Rooms} \times \text{Average Room Rate Per Night} \times \text{Tax Rate} \times 365 \text{ Days} \\ &\quad \times \text{Per Cent of Occupancy} = \text{Annual Revenue from Hotel/Motel Tax.} \end{aligned}$$

This formula might have to be applied to each individual establishment, or groups of similar establishments, rather than to try for city-wide averages.

(more)

What to Include in Your Private Act

The most important elements to include in a Hotel/Motel Occupancy Tax private act are: the rate of tax, the definition of the type of accommodation subject to the tax, and how revenues obtained from the tax will be used.

Tennessee acts in existence for several years customarily set the rate "not to exceed 3%" (or, occasionally, 5%). The tax is levied on the occupancy of a room in a hotel, motel, tourist camp, etc., by transients, who are defined as persons occupying the room for a period of "less than 30 continuous days" (or "less than 90 continuous days").

The revenues from the hotel/motel tax most frequently are earmarked for tourism, for example: 1/3 for direct promotion of tourism; 1/3 for tourist related activities; and 1/3 for the city's general fund.

However, at least one of Tennessee's larger cities adopted the tax so that "an additional source of revenues [shall] be available for the General Fund." The following statement usually is added: "Proceeds of this tax may not be used to provide a subsidy in any form to any hotel or motel."

The authorizing legislation may also provide for the appointment of tourist commissions, who are charged with promoting tourist, convention, and recreational activities.

Other provisions of hotel/motel occupancy acts include:

- (1) Collection of the tax -- To be done by the hotel operator.
- (2) Offer to absorb the tax prohibited -- "No operator of a hotel shall advertise or state in any manner, whether directly or indirectly, that the tax, or any part thereof, will be assumed or absorbed by the operator, or that it will be added to the rent, or that, if added, any part will be refunded."
- (3) Payment of tax by hotel to city -- Generally no later than the 20th day of each month for the preceding month.
- (4) Compensation to hotel -- Usually 2 per cent is allowed to be deducted by the hotel from the amount to be paid to the city.
- (5) Interest and penalty for late payment -- The hotel operator is responsible for paying interest on delinquent taxes ranging from 6 to 12 per cent per annum, plus a penalty of 1/2 or 1 per cent a month.
- (6) Records maintained -- The hotel operator must keep records for a period of three years, with the right of inspection by the city.

Ordinances and Tax Forms

A municipality usually adopts a hotel/motel occupancy tax ordinance to implement the private act. Copies of existing ordinances and forms used for

(more)

reporting tax collections may be obtained from your MTAS consultant or at the MTAS library (891 20th Street, Knoxville 37996-4400, phone 615/974-5301). Samples of private acts also are available.

This revenue source can help municipalities increase their tourist promotion activities, or supplement general fund budgets. However, opposition to the adoption of the tax can be expected from hotel/motel interests and from travel and tour agencies.

Municipal Technical Advisory Service
891 20th Street
The University of Tennessee
Knoxville, TN 37996-4400

Non-Profit Org.
U.S. POSTAGE
PAID
Knoxville, TN
Permit No. 870