

DEPARTMENT OF TAXATION

2003 Fiscal Impact Statement

1. **Patron** Rerras

2. **Bill Number** SB 1073

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Local Meals and Transient Room Rental
Taxes - Limitations

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would prohibit any city or town from imposing a meals tax or increasing the rate of its meals tax unless approved by the voters in a referendum. Additionally, the bill would limit the rate of the meals tax to a rate which, when added to the rate of the state and local sales tax on meals, does not exceed 8 ½ percent. This bill also would prohibit any city or town from imposing a transient room rental tax at a rate that exceeds 2 percent unless the revenues attributable to that portion of the rate that exceeds 2 percent are used for tourism promotion. In no event, however, may the rate exceed 5 percent.

The limitations imposed by this bill would not apply to cities and towns that imposed a meals or transient room rental tax prior to January 1, 2003. However, in the event that a city or town imposes a meals or transient room rental tax or increases the rate of its meals or transient room rental tax after January 1, 2003, that tax would be subject to the limitations imposed by this bill.

Under current law, cities and towns may impose meals and transient room rental taxes and increase the rates of these taxes without holding a referendum. Additionally, under current law, the rates of these taxes are not limited.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** None.

8. **Fiscal implications:**

This bill has no impact on state revenues. This bill would restrict the taxing powers of cities and towns as they relate to meals and transient room rental taxes.

9. **Specific agency or political subdivisions affected:**

All cities and towns

10. Technical amendment necessary: None.

11. Other comments:

Meals Tax

Under current law, the state sales and use tax rate imposed on meals is 3½ percent. Under the provisions of this bill, the meals tax rate would be limited to a rate which, when added to the rate of the state and local sales tax on meals, does not exceed 8 ½ percent. Therefore, the maximum meals tax rate cities or towns may impose (when added to the current sales and use tax rate) would be five percent. This rate limitation is consistent with that applicable to counties imposing a local food and beverage tax.

Transient Room Rental Tax

Under current law, twenty-one counties are authorized to impose a transient occupancy tax at a rate that exceeds two percent. The revenues from the portion of the tax in excess of two percent must be spent on tourism and promoting tourism. This bill would require cities and towns that impose a transient room rental tax to spend the revenues attributable to that portion of the rate that exceeds 2 percent solely for tourism promotion. Currently, no such requirement exists for cities and towns.

Taxing Authority

The taxing authority of counties, cities and towns is under consideration by the Joint Subcommittee Studying the Tax Code pursuant to HJR 60.

cc : Secretary of Finance

Date: 01/15/03

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