DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron David A. Nutter

2. Bill Number HB 1323

House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Passed House and Senate

4. Title Transient Occupancy Tax; Allows Montgomery County to Increase the Tax Rate

Second House:
_____ **In Committee**
_____ **Substitute**
__X__ **Enrolled**

5. Summary/Purpose:

This bill would add Montgomery County to the list of localities that are authorized to impose a transient occupancy tax at a rate of up to five percent. Currently, Montgomery County may only impose a transient occupancy tax at a rate of up to two percent. Under this proposal, any revenue generated by the tax imposed at a rate higher than two percent must be designated and spent solely for promoting tourism, travel or businesses that generate tourism in the county.

The effective date of this bill is not specified.

6. No Fiscal Impact (See Line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

This bill would have no impact on state revenues. If Montgomery County chooses to impose this tax, it would result in a revenue gain to that locality. Currently, Montgomery County imposes a two percent transient occupancy tax. The APA Comparative Report of Local Government reports that $21,382 in transient occupancy taxes was collected in FY 2004 in Montgomery County. Montgomery County would experience an estimated increase of $32,073 if it chooses to impose the maximum five percent transient occupancy rate.

9. Specific agency or political subdivisions affected:

Montgomery County

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under current law, any county may impose a transient occupancy tax at a maximum rate of two percent, upon the adoption of an ordinance, on hotels, motels, boarding houses, travel campgrounds, and other facilities offering guest rooms. The tax, however, does not apply to rooms rented on a continuous occupancy by the same individual or group for 30 or more continuous days.

This bill would authorize Montgomery County to impose a transient occupancy tax of no more than 5%.

Counties Authorized to Impose Additional Transient Occupancy Tax

Albemarle County, Bedford County, Botetourt County, Cumberland County, Floyd County, Gloucester County, King George County, Loudon County, Mecklenberg County, Nelson County, Prince Edward County, Spotsylvania County, Stafford County, Wise County, and York County are authorized to impose a transient occupancy tax at a maximum rate of five percent. The revenues for the portion of the tax over two percent must be spent on promoting tourism, travel or business that generates tourism or travel in the locality.

Augusta County, Caroline County, Carroll County, Craig County, Dinwiddie County, Franklin County, Halifax County, James City County, Page County, Patrick County, Prince George County, Prince William County, Pulaski County, Rockbridge County, Tazewell County, and Wythe County are also authorized to impose a transient occupancy tax at a maximum rate of five percent. The revenues for the portion of the tax over two percent must be designated and spent solely for tourism, marketing of tourism or initiatives that attract travelers to the locality and generate tourism revenues in the locality.

Arlington County may impose a ¼% transient occupancy tax effective January 1, 1991 through January 1, 2006. Proceeds collected from the additional ¼% tax must be designated for promoting tourism and business travel.

The counties of Chesterfield, Hanover, and Henrico may impose an additional transient occupancy tax not to exceed six percent (total maximum rate of eight percent). The revenues from the additional six percent must be used to promote tourism and travel in the Richmond Metropolitan area.

The counties of James City and York are authorized to impose an additional transient occupancy tax not to exceed $2 per room per night. The revenues from this additional tax will be used to promote tourism in the Historic Triangle area.

Fairfax County may impose an additional two percent tax on the occupancy of any room. The revenues from this additional tax will be used to promote tourism in the county and to fund a Visitor's and Convention Bureau.

Rockbridge County and the Cities of Lexington and Buena Vista may impose an additional transient occupancy tax at a rate not to exceed two percent. The revenues from this tax

will be used to fund the Virginia Horse Center Foundation and the Virginia Equine Center Foundation.

Similar legislation

Senate Bill 463 is identical to this bill.

Senate Bill 86 would limit the imposition of the transient occupancy tax imposed by cities and towns to charges for rooms or spaces occupied by transients that are intended or suitable for dwelling, sleeping, or lodging purposes. The tax would not apply to charges for rooms rented for alternative purposes, such as banquet rooms and meeting rooms. The 2005 General Assembly passed a substantially similar restriction for county transient occupancy taxes.

House Bill 779 would raise the maximum amount of transient occupancy tax that Nelson County may charge for the rental of condominiums, apartments, townhouse, or similar buildings from 2% to 5%. This bill would also decrease the maximum amount of transient occupancy tax that Franklin County may charge for such rentals. Currently, Franklin County imposes a 5% transient occupancy tax, while Nelson County currently imposes a 2% transient occupancy tax.

Senate Bill 468 would authorize James City County and York County to continue to impose an additional transient occupancy tax not to exceed $2 per room per night for the occupancy of any overnight guest room, and would eliminate the current sunset date of January 1, 2008. Revenues from the additional tax must be spent for advertising the Historic Triangle area, which includes all of the City of Williamsburg and the Counties of James City and York as an overnight tourism destination. This bill also makes other additional technical changes.

cc : Secretary of Finance