

**DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement**

1. **Patron** Watkins M. Abbitt, Jr.

2. **Bill Number** HB 779

3. **Committee** Passed House and Senate

House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Transient Occupancy Tax; Tax on Certain Rentals in Franklin County and Nelson County

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would codify the maximum amount of transient occupancy tax that Nelson County and Franklin County may charge for the rental of condominiums, apartments, townhouses, or similar buildings. Under this bill, Franklin County's transient occupancy tax on the rental of the buildings set forth above would remain at its current 2% rate, while the maximum transient occupancy tax in Nelson County would be increased to 5%. The 3% additional revenue collected from Nelson County would be designated and spent for promoting tourism, travel, or business that generates tourism or travel in Nelson 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 affect local revenues only.

This bill would increase revenue for Nelson County to the extent that Nelson County chooses to exercise its authority to impose the special transient occupancy tax at the maximum rate of 5%. This bill would have no impact on Franklin County, as the bill neither increases nor decreases the rate of special transient occupancy tax that the County of Franklin may impose. Franklin County's rate cap remains at its current rate.

9. Specific agency or political subdivisions affected:

Counties of Franklin and Nelson

10. **Technical amendment necessary:** No.

11. Other comments:

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.

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.

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.

In addition to the standard transient occupancy tax, certain localities are also permitted to impose a special transient occupancy tax. Currently, the law permits Franklin County as well as any county with a population of at least 12,500 but no more than 18,500 to impose this special transient occupancy tax, which applies to condominiums, apartments, and townhouses when those structures are rented for fewer than 30 days at a time. The tax is currently imposed at a rate of 2%.

This bill would specifically identify Nelson County as a county authorized to impose the special transient occupancy tax and would remove those counties with a population between 12,500 and 18,500 from the counties eligible to impose the tax. In addition, the bill would increase the rate cap in Nelson County from 2% to 5%. Any revenue collected in Franklin County that exceeds 2% would be designated solely for promoting tourism, travel, or business that generates tourism or travel in Nelson County. Franklin County would still be limited to a rate cap of 2%.

Similar Legislation

House Bill 1323 and Senate Bills 463 are identical bills. Each 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 over two percent must be designated and spent solely for promoting tourism, travel, or businesses that generate tourism in the county.

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.

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

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