

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** L. Louise Lucas

2. **Bill Number** SB 759

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

3. **Committee** Senate Finance

4. **Title** Transient Occupancy Tax; Authorizes All
Counties to Impose at Five Percent

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would authorize all counties to impose the local transient occupancy tax at a maximum rate of five percent. In addition, the bill would remove the current requirement that those localities currently authorized to impose the tax at a rate of five percent must dedicate any excess over two percent to tourism and travel, marketing of tourism or initiatives that attract travelers to the locality, increase occupancy at lodging properties, and generate tourism revenues in the locality.

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. In addition, Virginia law separately identifies those counties that 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 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 effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

8. **Fiscal implications:**

The revenue impact associated with authorizing all counties to impose the tax at a maximum rate of five percent is unknown, but potentially significant. It is not known which, if any, counties will exercise the authority granted by the bill to impose the tax at the five percent rate.

Localities collected a total of \$88.3 million in local occupancy taxes in Fiscal Year 2013. Currently, seventy-five counties impose the transient occupancy tax. Fifty-six percent of all Virginia counties either do not impose the tax, or impose it at a rate below five percent. Assuming the remaining 43 counties elect to impose the tax at the maximum rate of five

percent, the revenue would be \$4.0 million in Fiscal Year 2016, \$4.5 million in Fiscal Year 2017, \$4.6 million in Fiscal Year 2018, \$4.8 million in Fiscal Year 2019, \$4.9 million in Fiscal Year 2020 and \$5.1 million in Fiscal Year 2021.

This bill would have no impact on state revenues.

9. Specific agency or political subdivisions affected:

Counties that are not authorized to impose the tax at a rate in excess of two percent.

10. Technical amendment necessary: No.

11. Other comments:

Generally

Under current law, any county may impose a local 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 basis by the same individual or group for 30 or more continuous days. The tax applies to rooms intended or suitable for dwelling and sleeping. Therefore, the tax does not apply to such rooms used for alternative purposes, such as banquet rooms and meeting rooms.

Counties Authorized to Impose Transient Occupancy Tax at 5% Rate

The following counties are authorized to impose a transient occupancy tax at a maximum rate of five percent: Accomack, Albemarle, Allegheny, Amherst, Augusta, Bedford, Botetourt, Brunswick, Campbell, Caroline, Carroll, Craig, Cumberland, Dickinson, Dinwiddie, Floyd, Franklin, Giles, Gloucester, Grayson, Greene, Greenville, Halifax, James City, King George, Loudoun, Madison, Mecklenburg, Montgomery, Nelson, Northampton, Page, Patrick, Prince Edward, Prince George, Prince William, Pulaski, Rockbridge, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, Wythe and York. The revenues for the portion of the tax over two percent must be spent on promoting tourism and travel, and marketing of tourism or initiatives that attract travelers to the locality and generate tourism revenues in the locality.

Counties Authorized to Impose Additional Transient Occupancy Taxes

Arlington County is authorized to levy transient occupancy tax at a maximum rate of five percent, provided the county's local license tax on facilities offering guest rooms rented out for continuous occupancy for fewer than 30 consecutive days does not exceed one percent of the gross receipts from these facilities. Arlington County's authorization to impose an additional transient occupancy tax at a maximum rate of one-fourth of one percent of the amount of the charge for accommodations expired on January 1, 2012. The counties of Chesterfield, Hanover, and Henrico may impose an additional transient occupancy tax not to exceed four percent. The revenues from the additional four percent must be used to promote tourism and travel in the Richmond Metropolitan area. These localities may also impose an additional transient occupancy tax not to exceed two

percent, the revenues from which must be used for the expansion of the Richmond Centre. These localities are also authorized to impose an additional transient occupancy tax not to exceed one percent. The revenues from the additional one percent tax must be used for the development and improvement of the Virginia Performing Arts Foundation's facilities in Richmond, for promoting the use of the Richmond Centre, and for promoting 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. Any additional tax imposed in Fairfax County does not apply within the limits of any town located in Fairfax County unless the governing body of the town consents.

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.

Franklin County may impose a transient occupancy tax on certain rentals, such as condominiums, apartments, and townhouses, at a rate not to exceed two percent.

Nelson County may impose a transient occupancy tax on certain rentals, such as condominiums, apartments, and townhouses, at a rate not to exceed five percent. The revenues for the portion of the tax over two percent must be designated for promoting tourism, travel, or business that generates tourism or travel in the locality.

Bath County may impose an additional transient occupancy tax at a rate not to exceed two percent. One-half of the revenue from the tax must be designated and spent solely for tourism and travel. The remaining half must be designated and spent solely for the design, operation, construction, improvement, acquisition and debt of tourism facilities, historic sites, beautification projects, promotion of the arts, regional tourism marketing efforts, capital costs related to travel and transportation, public parks and recreation, and information centers.

Roanoke County may impose a total transient occupancy tax not to exceed seven percent. The revenue collected from the two percent tax rate increase must be designated solely for advertising the Roanoke metropolitan area as an overnight tourist destination by members of the Roanoke Valley Convention and Visitors Bureau.

In addition, any county with the county manager plan of government is authorized to impose an additional transient occupancy tax at a maximum rate of two percent, provided the county's governing body approves the construction of a county conference center. The revenues collected from this additional tax must be spent for the design, construction, debt payment, and operation of the conference center.

Regional Transient Occupancy Tax

Legislation enacted in 2013 imposes a two percent state transient occupancy tax on charges for room rentals in the Northern Virginia region. The tax is collected in the same manner as the current local transient occupancy tax, and revenues must be dedicated to transportation purposes.

Proposal

This bill would authorize all counties to impose the local transient occupancy tax at a maximum rate of five percent. In addition, the bill would remove the current requirement that those localities currently authorized to impose the tax at a rate of five percent must dedicate any excess over two percent to tourism and travel, marketing of tourism or initiatives that attract travelers to the locality, increase occupancy at lodging properties, and generate tourism revenues in the locality.

cc : Secretary of Finance

Date: 1/19/2015 KP
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