

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** R. Lee Ware

3. **Committee** House Finance

4. **Title** Short-term rentals; registration; civil penalty

2. **Bill Number** HB 695

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would require the Department of Taxation (“the Department”) to establish a registry of short-term rental properties. The bill would require accommodations intermediaries and accommodations providers to register and to provide identifying information to the Department. Accommodations intermediaries would have a quarterly obligation to provide the Department with a report of receipts and taxes paid for the properties on their platform. Every intermediary would also have to require any accommodations providers listing on the intermediary’s platform to provide identifying information and an address for their rental property.

The bill would also require the Department to provide the commissioner of the revenue for each locality with access to the registry. The bill would provide for a civil penalty of \$1,000 for accommodations intermediaries that fail to remove unauthorized properties on their platform within seven days of being notified of an unauthorized rental property by their local commissioner of the revenue.

If enacted during the regular session of the 2024 General Assembly, this bill would become effective July 1, 2024.

6. Budget amendment necessary: Yes.

Items 258 and 260: Department of Taxation

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

8. Fiscal implications:

Administrative Costs

Due to the system and form changes required by this bill and the resources already committed to implementing legislation enacted during the 2023 General Assembly session, the Department would be unable to implement this legislation by the effective date specified by this bill. As a result, the Department requests a delayed effective date of July 1, 2026.

This would allow time to make the technology changes described below, as well as work with relevant local and taxpayer stakeholders.

The Department would incur costs of \$52,410 in Fiscal Year 2025, \$724,905 in Fiscal Year 2026, and \$70,300 in Fiscal Year 2027 and thereafter as a result of this bill. These costs include funding for one full-time employee. These costs would be incurred primarily to develop and implement the information technology changes necessary to register accommodations providers and intermediaries, generate the reports required by the bill, and provide commissioners of the revenue access to the system.

This bill would have an unknown impact on local administrative costs.

Revenue Impact

This bill would have a potential unknown positive impact on local revenues to the extent that the registration and penalty provisions in the bill increase transient occupancy tax collections by encouraging tax compliance. The bill may also have a potential unknown positive impact on Virginia Housing Trust Fund revenues to the extent that penalties are imposed, collected, and deposited into the fund.

9. Specific agency or political subdivisions affected:

Department of Taxation
All localities

10. Technical amendment necessary: No.

11. Other comments:

Background

The rental or transient occupation of short-term rental properties is subject to both sales tax and transient occupancy tax. Short-term rental properties are distinct from traditional hotels and motels because they tend to be private residences that are rented by the owner through listing on an accommodations intermediary’s platform. The intermediary lists the property, connects the owner with renters, and handles all of the payment involved in the transaction.

For localities, these rental properties can represent lost revenue because tax compliance for short-term rental transactions has traditionally not been as high as for hotel/motel occupancy. Owners of these rental properties often don’t collect the taxes due and localities often cannot identify non-compliant properties or owners because the necessary information is not always available on an intermediary’s platform.

The Department has no role in administering local transient occupancy taxes but it does receive sales taxes collected and remitted on all transient occupancy transactions. Accommodations intermediaries are required to collect and remit all sales and occupancy taxes that may be required on all types of taxable transient occupancy transactions, including those involving short-term rental properties. Localities receive their share of sales

taxes from the Department and their share of local transient occupancy tax directly from the intermediary or accommodations provider that collected it.

Proposal

This bill would require the Department to establish a registry of short-term rental properties. The bill would require accommodations intermediaries and accommodations providers to register and to provide identifying information to the Department. Accommodations intermediaries would have a quarterly obligation to provide the Department with a report of receipts and taxes paid for the properties on their platform. The bill would also require every accommodations intermediary to require all accommodations providers listing on the intermediary's platform to provide identifying information and an address for their rental property.

The bill would also require the Department to provide the commissioner of the revenue for each locality with access to the registry. The commissioners would be obliged to notify an intermediary if their platform contains any unauthorized rental properties. The bill would provide for a civil penalty of \$1,000 for accommodations intermediaries that fail to remove an unauthorized listing within seven days of being notified by the local commissioner of the revenue. Revenues from the penalty would go to the Virginia Housing Trust Fund.

If enacted during the regular session of the 2024 General Assembly, this bill would become effective July 1, 2024.

Similar Legislation

House Bill 1328 would require the Department to administer and collect local transient occupancy taxes ("TOT") and then distribute the revenue collected to the appropriate localities. The bill would also require the Department to contract with a third party for development and implementation of a centralized electronic interface by which accommodations intermediaries could remit local TOT to the Department using a single aggregated return.

cc : Secretary of Finance

Date: 2/5/2024 VB
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