

Memorandum: Alternative Proposal S. 204

From: Douglas Farnham, Policy Director and Economist, Department of Taxes

To: Ways & Means Committee, Vermont State Legislature

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The current version of S.204 introduces a new fee on the short-term rental industry, requires posting a Health Department account number on online advertisements, and creates a public registry of these properties. The administration opposes this bill strongly due to the new fee and does not believe the creation of a public registry and self-certification process are fully justified. The Department of Health has testified that this industry does not represent a public health concern and could certainly provide more detail in that area.

The purposes of this bill, based on discussion in Senate Finance and Economic Development, are to help close the tax gap in this industry and provide a basic structure to address health and safety concerns.

The Tax Department acknowledges that, using reasonable assumptions, there could be a tax gap in this industry as large as \$2 million of uncollected meals & rooms tax revenue. However, it is the opinion of the Department that the structure of S.204 as passed by the Senate will not significantly close that tax gap and there are much more effective methods to bring this industry into compliance.

Short-term Rental Industry Tax Gap

Posting a State account number on advertisements is an extremely valuable concept from S.204. Testimony was taken from a representative of HomeAway in Senate Economic Development that they would not oppose this requirement and that other states have similar practices. As currently written this would be the Health Department account number and due to data matching issues, this would be of limited use to the Tax Department. If this account number were the Meals & Rooms tax account number this would be of great compliance value to the Department. Requiring the account number, or a statement by the owner that the property is rented for less than 14 days a year and is not subject to Meals & Rooms tax should increase voluntary compliance.

The Meals & Rooms tax license is already required to be physically posted at the location of the rental. This adjustment would be bringing that intent, to make a taxpayer who is paying meals & rooms tax aware that the business has a license to collect on behalf of the state, forward into the current business environment where more and more transactions are taking place online. Physical posting of the license in a short-term rental is made irrelevant by the money changing hands through the internet well in advance of the renter entering the property.

The Department supports this element of S. 204 provided the account number is the Meals & Rooms account number.

Self-certification for Health and Public Safety

The Department of Taxes cannot speak to the value of a self-certification process. Experts from the Departments of Health and Public Safety would be best suited to address the need for this new process. If it is deemed that there is a legitimate need for the self-certification process the following structure would be the most efficient means of achieving that goal.

The Department would prefer to only publish the account number and location.

- The self-certification as written in S.204 could be easily appended to the meals & rooms tax account registration process at the Department of Taxes
 - Existing account holders would receive a mailing prompting them to complete and return the self-certification and this clean-up process for existing account holders would take some time to achieve
 - Programming changes in the myVTax portal and the Secretary of State's business registration portal would be required; there would be some cost, but it would not be significant
- If this were passed a future effective date would be highly preferred (e.g. July 1, 2019), with impactful changes to personal income tax and education property tax being considered this year it would be the Department's preference to focus on those important areas

No additional staffing or implementation would be required to process and publish this certification information. If additional requirements were placed on the Department related to this information that would not be the case.

Publication of information related to the meals & rooms tax accounts is a modest expansion from the current levels of confidentiality at the Department. However, the meals & rooms license is already public information and 'good standing' requests for businesses collecting meals & rooms tax are authorized under current law.