

# Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

## *FISCAL NOTE*

Date: February 19, 2019

Prepared by: Graham Campbell

### **S.87: An act relating to updating Vermont's rooms tax collection practices**

#### **Summary**

This proposal would require booking agents to collect the meals and rooms tax on rentals of rooms booked through their platform. Booking agents are defined as a person who facilitates the rental and collects rent for an occupancy and who offers, reserves, resells or facilitates an occupancy either through the internet or other means. It would also change the definition of "rent" to include all amounts collected by booking agents, including any administrative fees.

#### **Fiscal Impact**

**The Joint Fiscal Office (JFO) estimates that this proposal will raise \$3.8 million in additional meals and rooms tax revenue in fiscal year (FY) 2020.** This new revenue is expected to grow in future fiscal years. All meals and rooms tax revenue is dedicated 75% of the General Fund and 25% to the Education Fund.

<b>Fiscal Year</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimate</b>	\$3.8	\$4.2	\$4.4
Of which: General Fund	\$2.82	\$3.1	\$3.3
Of which: Education Fund	\$0.94	\$1.1	\$1.1

There is a degree of uncertainty regarding these estimates, although risks are likely to be on the upside. Given the rapidly changing and growing environment of travel booking websites, it is possible these estimates are conservative. These estimates are based upon the most recent available data and grown using industry growth rates and the 2019 Consensus Revenue Forecast. JFO will review these estimates as new data sources become available.

#### **Narrative/Explanation**

Under current law, online travel agencies<sup>1</sup> (OTA) themselves are not required to remit the 9% rooms tax. In a typical transaction, when a customer reserves a room through an OTA, the OTA collects the 9% tax on the *listed* price of the room. The OTA then forwards an agreed-upon room rate to the operator (which is often 15-20% less than the listed room rate) plus the 9% rooms tax on only that agreed-upon rate. The operator remits the 9% tax on the agreed-upon rate to the

---

<sup>1</sup> These include most online travel websites, including Expedia, booking.com, Priceline, but also includes booking websites for short term rentals, including AirBnB, HomeAway, and VRBO.

Department of Taxes. The OTA keeps the 9% rooms tax on the difference between the listed rate and the agreed-upon rate.

The following example illustrates this process:

Listed Price online for Hotel room	\$100
OTA collects 9% rooms tax on listed price	\$100 x 9% = \$9
OTA sends Hotel 80% of listed rate	\$80
<b>OTA sends Hotel rooms tax on listed rate</b>	<b>\$80 x 9% = \$7.20</b>
OTA keeps 20% service charge on listed rate	\$20
<b>OTA keeps rooms tax collected on listed rate</b>	<b>\$20 x 9% = \$1.80</b>
Hotel remits rooms tax to Department of Taxes	\$7.20
Rooms tax left unremitted by OTA	\$1.80

This proposal requires OTAs (“booking agents”) to remit the rooms tax on all amounts collected by the OTA. In the example above, the OTA would be required to collect and remit to the Department of Taxes both the \$7.20 it was previously sending to the Hotel, but also the \$1.80 in rooms tax it was previously keeping.

JFO estimates that requiring OTAs to collect and remit rooms tax on all amounts listed by the OTA will generate approximately \$2.8 million in additional meals and rooms tax revenue in FY 2020 and growing in future fiscal years. 75% of this revenue will go to the General Fund and 25% will go to the Education Fund.

<b>Fiscal Year</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimate</b>	\$2.8	\$3.1	\$3.2
Of which: General Fund	\$2.1	\$2.3	\$2.4
Of which: Education Fund	\$0.7	\$0.8	\$0.8

In addition to this revenue, the proposal also requires booking agents to remit the rooms tax on all amounts collected at the point of sale. Booking agents include websites that list short-term rental properties, in addition to websites that list traditional hotels and motels. Under current law, rooms tax is due on short-term (or any) rentals if the operator rents the room for greater than 15 days in a calendar year, and remittance of the tax is the responsibility of the operator, not the booking agent. The Department of Taxes and JFO have estimated that there is 40% noncompliance<sup>2</sup> amongst short-term rentals who use booking agents other than AirBnB<sup>3</sup>. This proposal would require booking agents to collect on behalf of those noncompliant operators.

<sup>2</sup> Fiscal Note: S.204 of the 2018 Session.  
[https://ljfo.vermont.gov/assets/docs/fiscal\\_notes/76ee30e86b/2018\\_S\\_204\\_fiscal\\_note\\_-\\_short-term\\_rentals\\_house\\_ways\\_and\\_means.pdf](https://ljfo.vermont.gov/assets/docs/fiscal_notes/76ee30e86b/2018_S_204_fiscal_note_-_short-term_rentals_house_ways_and_means.pdf)

JFO estimates that closing the noncompliance gap amongst short term rentals would generate an additional \$1 million in rooms tax in FY 2020 and growing in future fiscal years. 75% of this revenue will go to the General Fund and 25% will go to the Education Fund.

<b>Table 3: Estimate of Additional Revenue from Closing Short-Term Rental Tax Gap (in millions)</b>			
<b>Fiscal Year</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimate</b>	\$1.0	\$1.1	\$1.2
Of which: General Fund	\$0.75	\$0.83	\$0.87
Of which: Education Fund	\$0.25	\$0.28	\$0.29

In total, JFO estimates that in total, this proposal will raise rooms tax revenues by \$3.8 million in FY2020, growing to \$4.2 million in FY21 and \$4.4 million in FY2022. 75% of this revenue will go to the General Fund and 25% will go to the Education Fund.

<b>Table 4: Estimate of Total New Rooms Tax Revenue (in millions)</b>			
<b>Fiscal Year</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimate</b>	\$3.8	\$4.2	\$4.4
Of which: General Fund	\$2.82	\$3.1	\$3.3
Of which: Education Fund	\$0.94	\$1.1	\$1.1

---

<sup>3</sup> In 2016, AirBnB signed an agreement with the Department of Taxes to collect rooms tax on behalf of operators on its platform.

## **Appendix:**

These estimates relied upon the following sources:

- Pennsylvania estimates on HB1511 of 2018
- 2017 Tourism Benchmark Report, Vermont Department of Tourism and Marketing<sup>4</sup>.
- Lodging Magazine
- Department of Taxes data
- January 2019 Consensus Revenue Forecast

---

<sup>4</sup> “2017 Benchmark Report: Tourism in Vermont.” Vermont Department of Tourism and Marketing. December 2018. <https://accd.vermont.gov/sites/accdnew/files/documents/VDTM/BenchmarkStudy/VDTM-Research-2017BenchmarkStudyFullReport.pdf>