

Fiscal Estimate Narratives

DOR 10/1/2013

LRB Number	13-1901/2	Introduction Number	SB-301	Estimate Type	Original
Description Changes to the local room tax					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a municipality may impose a tax on the privilege of furnishing, at retail, rooms or lodging to transients by hotels, motels, and others providing accommodations that are available to the public. This tax is referred to as the room tax. The bill makes several changes to the law on the room tax.

Two of the changes are expected to have minimal fiscal impact. (1) Current law defines a "tourism entity" as a nonprofit organization that existed January 1, 1992 to provide services to the tourism industry in a municipality. The bill defines a "tourism entity" as a nonprofit organization that came into existence before January 1, 2013 that spends at least 51% of its revenue on tourism promotion and tourism development and provides destination marketing staff and services for the tourism industry in a municipality. (2) A municipality or group of municipalities that impose the room tax may create a commission to coordinate tourism promotion and tourism development. While current law specifies that one commission member must represent the Wisconsin hotel and motel industry, under the bill a majority of the commission members must, in general, be owners or operators of restaurants, tourist attractions, or lodging facilities collecting the room tax located in the municipality imposing the room tax.

ROOM TAX PROCEEDS AND ADMINISTRATION

Under current law, the municipal room tax is administered by the municipality that imposes the tax. For most municipalities, the maximum room tax rate is 8.00%. Based on data from the municipal financial report form filed with the Department of Revenue (DOR) for 2011, 268 municipalities imposed the room tax and total collections were \$59,615,435. The DOR is not provided with information on the rates used or the use of the tax proceeds.

Current law permits a municipality that imposed the room tax on May 31, 1994 to retain the same percentage of proceeds for as it retained on that date. If the room tax was imposed after May 31, 1994, or if the room tax rate was increased after that date, at least 70% of the proceeds from the new tax or increase in tax rates must be spent on tourism or forwarded to the municipality's tourism commission. Under the bill, any municipality that retains more than 30% of its room tax proceeds would be required to reduce that percentage to no more than 30% in equal amounts over a six-year beginning January 1, 2015 and ending January 1, 2020. Since the DOR does not administer the room tax and does not collect information on how the room tax is used, an estimate of the reduction in retained room tax collections the bill would engender is not available.

Current law is silent regarding whether a party required to collect the room tax may retain a portion of the proceeds to defray some or all of the costs of collecting the tax. Current law is also silent on when room tax collections must be remitted to the municipality. Under the bill, a municipality may permit a party collecting the room tax to retain 3% of the tax collected (or a higher percentage if the municipality so chooses) to cover the party's collection costs. If every municipality that imposes the room tax allows entities collecting the tax to retain the allowed 3%, room tax collections would decline by about \$1.8 million. The bill also directs municipalities to establish a time frame within which room tax collections are to be remitted to the municipality.

Under the bill, every municipality that imposes the room tax will be required to annually certify and report to the DOR their prior year room tax collections, room tax rate, and a detailed accounting of the amounts forwarded to a commission or tourism entity. Information on spending in amounts of at least \$1,000 by a commission or tourism entity, the identity of the members of a commission or tourism entity, and their business or employment affiliation, if any, will also be required. DOR will be required to collect these reports and make them available to the public. The DOR would also be allowed to impose a penalty of not more than \$3,000 on a municipality that fails to file the report, and the municipality would be prohibited from using room tax proceeds to pay this penalty. The DOR will incur one-time costs to develop and test a reporting form for municipalities to use when filing the required information with the DOR. This cost can be absorbed

in current budgetary resources.

DISPUTE PROCESS

Current law does not provide an explicit procedure for municipalities to follow if issues related to the use of room tax proceeds arises. The bill permits a municipality's tourism entity or tourism organization to file a complaint with the municipality alleging that the municipality is not allocating its room tax revenue as required by law. The municipality would have 60 days to reply in writing to the complaint. If the parties are unable to settle their differences, the bill provides for a mediation process to resolve the dispute.

The DOR is unable to reasonably project the number of disputes that might enter the mediation process created under the bill. Since the DOR is not anticipating that it will be the agency to handle these mediations, this part of the bill is expected to impose no administrative costs on the DOR.

Long-Range Fiscal Implications