

## State Lodging Taxes

*By Erica Michel*

State and local governments in nearly every state levy taxes on short-term accommodations—30 days or less in most states. Out-of-state visitors pay most of these taxes so raising them has become an increasingly common way for lawmakers to increase revenues without raising residents' taxes.

Lodging taxes have several components. Often, accommodations are subject to the same general state and local sales taxes that apply to most other purchases. Some states also impose specific lodging taxes, either in place of or in addition to the general sales tax. In addition, many states permit local governments to levy other lodging taxes.

Forty-eight states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands have taxes on lodging, either through a general sales tax or specific taxes on accommodations. Only Alaska and California do not levy a state lodging tax. Nevada does not impose a state tax on lodging, but it requires incorporated cities in all counties to levy at least a 1 percent local tax on lodging.

Only five states—Connecticut, Delaware, Hawaii, Maine and New Hampshire—do not allow municipalities to add an additional local tax on accommodations. In many states, lawmakers have imposed a cap on local lodging taxes, ensuring that travelers do not pay more than a certain total tax rate.

Taxing tourists presents a dilemma. Some tax experts claim that, because visitors contribute to a state's need to maintain public services, they should contribute their share to cover those services. Likewise, tourism taxes also have played a role in raising revenues for tourism development in many states.

Other tourism experts, however, are concerned that higher taxes are likely to have detrimental effects over time. If lodging operators are forced to lower prices to compete, revenue generated from lodging taxes would also decrease. Although tourists cannot vote against lodging tax increases in local elections, they can "vote with their feet"—spending their money in other destinations where taxes are lower. In fact, in the early 1990s, convention planners boycotted New York City when the city's taxes on hotel rooms exceeded 21 percent. Today the rate is 14.75 percent.

### Did You Know?

- Forty-eight states, D.C., Puerto Rico and the U.S. Virgin Islands tax lodging.
- Nevada has no state lodging tax but requires cities to impose at least a 1% tax.
- New York City's 14.75% lodging tax is lower than its 21% rate in the 1990s.

Policymakers in a few states have increased taxes on accommodations to raise revenues. Hawaii raised its lodging tax in July 2010 from 8.25 percent to 9.25 percent. In FY 2011, the state collected \$60 million more in revenues from transient accommodations than in FY 2010. The tax is in addition to the state's general excise tax of 4 percent. Connecticut increased its tax on accommodations from 12 percent to 15 percent in July 2011 in an effort to raise nearly \$20 million annually to distribute to distressed municipalities.

Kansas and New Mexico also have increased their general sales or gross receipts tax, raising rates on hotel rooms when accommodations also are subject to the sales tax.

States use lodging tax revenues for various purposes, often to promote tourism. In 2003, North Dakota initiated a 1 percent accommodations tax for four years to promote and pay for a celebration of the Lewis and Clark expedition in the state.

As many states continue to grapple with budget difficulties, some are rethinking the allocations of their tourism revenue. In 2011, Washington became the first state to close its tourism office, redirecting the savings to the general fund.

To view a table and graph outlining the state rates on accommodations as of 2011, please visit NCSL's website [here](#). The table and graph show the total state taxes on accommodations, breaking out state sales tax and specific lodging taxes. Most states allow municipalities to levy an additional sales tax and/or accommodations tax, which are not reflected in the table and graph.

### **NCSL Contacts and Resources**

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“State Tax Actions 2011: Special Fiscal Report”

“State Tax Actions 2010: Special Fiscal Report”

### **Other Contacts and Resources**

“State Tax Guide,” Commerce Clearing House. (Purchase required.)  
“Survey of U.S. State & City Governments Taxing Policies on Selected Travel & Tourism Goods & Services,” Center for Travel & Tourism. Denver: Daniels College of Business at the University of Denver, July 2007.



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**STATE LODGING TAX RATES**

**Specific Statewide Taxes on Lodging - By State**

Posted April 3, 2012

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The following table contains state lodging tax rates. Please keep in mind that these taxes are often levied in addition to local lodging and/or sales taxes.

State	Sales Tax	Lodging Tax	Total State Tax
Alabama	N/A	4.0%	4.0%
Alaska	No state sales tax	N/A	None
Arizona	N/A	5.5%	5.5%
Arkansas	6.0%	1.0% [1]	7.0%
California	N/A	N/A	None
Colorado	2.9%	N/A	2.9%
*Connecticut	N/A	15.0%	15.0%

State Lodging Taxes

*Delaware	No state sales tax	8.0%	8.0%
Florida	6.0%	N/A	6.0%
Georgia	4.0%	N/A	4.0%
*Hawaii	4.0%	9.25%	13.25%
Idaho	6.0%	2.0%	8.0%
Illinois	6.0%[2]	N/A	6.0%
Indiana	7.0%	N/A	7.0%
Iowa	N/A	5.0%	5.0%
Kansas	6.3%	N/A	6.3%
Kentucky	6.0%	1.0%	7.0%
Louisiana	4.0%	N/A	4.0%
*Maine	N/A	7.0%	7.0%
Maryland	6.0%	N/A	6.0%
Massachusetts	N/A	5.7%	5.7%
Michigan	6.0%	N/A	6.0%
Minnesota	6.875%	N/A	6.875%
Mississippi	7.0%	N/A	7.0%
Missouri	4.225%	N/A	4.225%
Montana	3.0%[3]	4.0%	7.0%
Nebraska	5.5%	1.0%	6.5%
Nevada	N/A	N/A[4]	None
*New Hampshire	No state sales tax	9.0%	9.0%
New Jersey	7.0%	5.0%	12.0%
New Mexico	5.125%	N/A	5.125%
New York	4.0%	N/A	4.0%
North Carolina	4.75%	N/A	4.75%

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State Lodging Taxes

North Dakota	5.0%	N/A	5.0%
Ohio	5.5%	N/A	5.5%
Oklahoma	4.5%	0.1%	4.6%
Oregon	No state sales tax	1.0%	1.0%
Pennsylvania	N/A	6.0%	6.0%
Rhode Island	7.0%	5.0%	12.0%
South Carolina	7.0%	N/A	7.0%
South Dakota	4.0%	1.5%[5]	5.5%
Tennessee	7.0%	N/A	7.0%
Texas	N/A	6.0%	6.0%
Utah	4.7%	N/A	4.7%
Vermont	N/A	9.0%	9.0%
Virginia	5%	N/A	5%
Washington	6.5%	N/A	6.5%
West Virginia	6%	N/A	6%
Wisconsin	5%	N/A	5%
Wyoming	4%	N/A	4%
District of Columbia	N/A	14.5%	14.5%
Puerto Rico	N/A	9%	9%
Virgin Islands	N/A	10%	10%

N/A = tax not levied on accommodations

\* = no additional local tax on accommodations

[1] Substitutes a 2% tourism tax on some accommodations.

[2] Sales tax is 6% of 94% of the gross rental receipts.

[3] Specific sales tax levied on accommodations. State has no general

sales tax.

[4] Incorporated cities must levy at least a 1% tax according to population.

[5] Seasonal (June – September)

Source, Commerce Clearing House, *State Tax Guide*, 2011

For more information contact, the Fiscal Affairs Program in Denver, Colo., telephone (303) 364-7700 or email [econ-info@ncsl.org](mailto:econ-info@ncsl.org).

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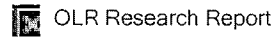
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## LOCAL OPTION TAXES

By: Rute Pinho, Associate Analyst

You asked (1) which states allow local governments to impose local taxes on income, sales, or hotel charges (i.e., local option taxes); (2) how these taxes work; and (3) whether the states or local governments administer them. You also asked for a discussion of the advantages and disadvantages of allowing Connecticut municipalities to impose local option taxes.

### SUMMARY

Nearly all states authorize local government entities (municipalities, counties, or school districts) to impose local taxes on income, sales, or hotel charges, but they vary considerably in how they structure and administer these taxes.

Thirteen states allow one or more of their local governments to levy income taxes. As with state income taxes, local income taxes are typically paid through payroll withholding, individual quarterly estimated payments, or annual returns. Some are imposed as a percentage of salaries or wages, while others are figured as a percentage of state tax liability or are a flat amount. In more than half of the states, local taxing jurisdictions administer and collect the taxes. Only five states (Indiana, Iowa, Maryland, New York, and Ohio (school districts only)) administer and collect the tax on the local government's behalf and periodically remit revenues back to them.

Thirty-eight states authorize local sales taxes, which generally follow the same structure as the underlying state sales tax. Although local sales tax rates are in many cases low (often 1% to 2%), some states authorize more than one type of local government to levy a tax, resulting in combined sales tax rates that are substantially higher than the state's base rate. Over half of the states authorize both counties and municipalities to levy the taxes, while the others authorize a mix of counties, municipalities, and other local entities to do so. Most of the states (32) administer the taxes at the state level and remit the revenues back to the localities.

All but five states (Connecticut, Delaware, Hawaii, Maine, and New Hampshire) authorize or require local governments to levy hotel taxes, which often apply in

addition to state sales and hotel taxes. We were unable to locate a list of local hotel taxes across the states, but we examined 10 states in the Northeast and Mid-Atlantic and found seven that authorize counties, municipalities, or both to levy the taxes. Three of the states (Massachusetts, Rhode Island, and Vermont) administer the taxes on behalf of the local governments, while in three others (Maryland, New York, and Pennsylvania) the local governments administer the taxes themselves. New Jersey differs in that the state administers municipal occupancy taxes, but individual municipalities administer city hotel taxes.

Among the advantages to local option taxes is that they provide cities and towns with greater revenue diversification and autonomy. They can reduce a municipality's reliance on the property tax and state aid and potentially shift some of the tax burden off of residents and onto nonresidents who come into town to work, shop, or vacation.

One of the disadvantages to local option taxes is that they increase the combined tax rates in an area. This could hurt the state's competitiveness in the region and limit its ability to raise tax rates in the future. Local taxes could also (1) create disparities among cities and towns, (2) encourage municipalities to make land use decisions to maximize local revenues, (3) increase administrative and compliance costs for taxpayers and government, or (4) make cities and towns more vulnerable to economic downturns.

### **LOCAL INCOME TAXES**

Table 1 below provides information on local income taxes in the 13 states that authorize them. For each state, it shows (1) the type and number of local taxing jurisdictions, (2) the tax rate and base, (3) how the state treats resident and nonresident taxpayers, and (4) the level at which the tax is administered. For purposes of this report, the table excludes California, New Jersey, Oregon, and West Virginia, which authorize local income taxes (or payroll taxes) on employers only, not employees living in a local jurisdiction.

In four states (Indiana, Iowa, Maryland, and Pennsylvania), local income taxes apply in most or all parts of the state. All 92 counties in Indiana, for example, impose an income tax. In five other states (Alabama, Kansas, Kentucky, Michigan, and Ohio), local income taxes are widespread, but do not apply to the entire state. In the remaining four (Colorado, Delaware, Missouri, and New York), the taxes apply in one or a few municipalities. In New York, for example, only New York City and Yonkers impose a tax.

As with state income taxes, local income taxes are typically paid through payroll withholding, individual quarterly estimated payments, or annual returns. Some are imposed as a percentage of salaries or wages, while others are figured as a percentage of state tax liability or are a flat amount. Although not included in the table, local income taxes may also apply to resident trusts and estates within the local taxing jurisdiction.



The states vary in their relative treatment of resident and nonresident income earned in the local jurisdictions. In most of the states, the tax rates that apply to nonresident taxpayers are the same or lower than those that apply to residents. In Pennsylvania, however, some local jurisdictions have higher rates for nonresidents than for residents. In contrast, local income taxes in Iowa and New York City apply only to residents.

In most of the states, the local taxing jurisdiction collects and administers the tax. Only in Indiana, Iowa, Maryland, and New York does the state collect the tax on the local government's behalf. In these states, taxpayers pay their local income tax when they file their state income tax forms. In Ohio, cities and towns administer municipal income taxes and the state administers school district income taxes. Pennsylvania differs from the other states in that it requires municipal and school district income taxes to be collected and administered on a regional basis by designated tax collection districts.

Table 1: Local Income Tax Rates and Administration By State

State	Number and Type of Local Taxing Jurisdictions	Rate(s) and Base	Resident and Nonresident Treatment	Administration
Alabama	Approximately 28 jurisdictions (27 municipalities and one county)	Ranges from 0.5% to 3% of gross receipts or compensation	Same	Local
Colorado	5 municipalities (Aurora, Denver, Glendale, Greenwood Village, and Sheridan)	Ranges from \$2 per month to \$5.75 per month of compensation over a certain threshold amount (from \$250 to \$750 per month)	Same	Local
Delaware	1 municipality (Wilmington)	1.25% of applicable wages and earned income	Same	Local
Indiana	All 92 counties (Lake County's tax takes effect October 1, 2013)	<p>Three different income tax programs available with varying rates (ranging from 0.1% to 3.13%) and parameters for their use (i.e., county adjusted gross income tax (CAGIT), county option income tax (COIT), and county economic development income tax)</p> <p>Supplemental rates for property tax relief and public safety (applicable only to counties that impose the CAGIT or COIT)</p> <ul style="list-style-type: none"> <li>• Up to 1% to provide property tax relief</li> </ul>	Nonresidents taxed at lower rate, though they may not be taxed	State

		<ul style="list-style-type: none"> <li>● Up to 1% in counties that have adopted a property tax freeze</li> <li>● Up to 0.25% to fund police protection and various emergency response services</li> </ul>		
Iowa	297 school districts (82% of total districts) and one county (Appanoose County)	<p>School districts may levy an income tax surtax of up to 20% of state income due</p> <p>Counties may levy an income tax surtax of up to 1% to fund emergency medical services (cumulative income surtax imposed on any taxpayer in a county may not exceed 20%)</p>	Residents only	State
Kansas	29 counties (of 105 total counties), 101 cities, and 382 townships	<p>Tax on gross earnings received from intangible property, such as savings accounts, stocks, bonds, accounts receivable, and mortgages</p> <p>Maximum rate of (1) 0.75% tax for counties and (2) 2.25% tax for cities and townships</p>	Same	Local (county collects and distributes the tax revenue, on forms the Kansas Department of Revenue prescribes)
Kentucky	Over 200 cities, counties, and school districts	<p>Tax on salaries, wages, commissions, and other compensation earned by people within the jurisdiction</p> <p>Levied either on a flat-rate schedule (e.g., \$1 per taxing district for work performed or rendered there (certain cities and counties also impose a tax on business net profits from activities conducted week) or as a percentage of gross wages (ranging from 0.05% to 2.5%)</p>	Some jurisdictions tax nonresidents, others do not; rates are the same in those that do	Local
Maryland	All 23 counties and Baltimore	Tax ranges from 1.25% to 3.20% of taxable income	Same	State
Michigan	22 cities	<p>Tax applies to (1) resident income, (2) nonresident income arising from sources in the taxing city, and (3) corporate net profits attributable to business activity in the city.</p> <ul style="list-style-type: none"> <li>● Generally, the tax rate is 1% for residents, 0.5% for nonresidents, and 1% for corporations</li> </ul>	Nonresidents taxed at lower rate	Local

		<ul style="list-style-type: none"> <li>• In Detroit, the rate is 2.4% for residents, 1.2% for nonresidents, and 2% for corporations</li> <li>• In Grand Rapids and Saginaw, the rate is 1.5% for residents, 0.75% for nonresidents, and 1.5% for corporations</li> <li>• In Highland Park, the rate is 2% for residents and 1% for nonresidents</li> </ul>		
Missouri	2 cities (Kansas City and St. Louis)	1% tax on (1) residents' earnings, (2) nonresidents' earnings from services performed in the city, and (3) net profits of businesses and the self-employed doing business in the city	Same	Local
New York	2 cities (New York City and Yonkers)	<p>In New York City, the tax rate varies by income and filing status</p> <ul style="list-style-type: none"> <li>• Rates range from 2.907% to 3.876%</li> </ul> <p>In Yonkers, the tax is 15% for residents and 0.5% for nonresidents, of net state tax liability</p>	<p>Residents only (New York City)</p> <p>Nonresidents taxed at lower rate (Yonkers)</p>	State
Ohio	592 (of 932) municipalities and 184 (of 614) school districts	<p>Municipal income taxes apply to residents, nonresidents, and businesses that have earned profits within the municipality</p> <ul style="list-style-type: none"> <li>• Rate is determined locally, but the maximum rate without voter approval is 1%</li> <li>• In 2011, rates ranged from 0.4% to 3% of income</li> </ul> <p>School district taxes apply to individuals residing in the district</p> <ul style="list-style-type: none"> <li>• District sets rates, with voter approval, in increments of 0.25%; In FY 12, rates ranged from 0.25% to 2%</li> <li>• In most districts, the tax applies to Ohio taxable income; select districts apply the tax only to earned income (i.e., wages and compensation)</li> </ul>	Same	<p>Local (municipal taxes)</p> <p>State (school district taxes)</p>

Pennsylvania	2,492 (of 2,562) municipalities and 469 (of 500) school districts	<p>Municipalities may impose an earned income tax of up to 1% on wages and net profits, except for home rule cities (e.g., Philadelphia, Pittsburgh, and Scranton), which have no limit</p> <ul style="list-style-type: none"> <li>• Rates range from 1% to 3.93%</li> <li>• If both a municipality and its school district impose the tax, the maximum rate for the two together is 1%</li> </ul>	May be imposed on either residents only or both residents and nonresidents; Nonresident rates may be higher or lower than resident	Regional (69 tax collection districts collect local income taxes on behalf of municipalities and school districts)
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Source: State and local government websites; CCH *State Tax Guide*; Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy," paper presented at the Lincoln Institute of Land Policy's 2009 Land Policy Conference; Henchman, Joseph and Jason Sapia, "Local Income Taxes: City- and County-Level Income and Wage Taxes Continue to Wane," Tax Foundation, August 31, 2011.

**LOCAL SALES TAXES**

Table 2 lists the 38 states that authorize local sales taxes. For each state, it indicates the (1) types of local taxing jurisdictions, (2) state tax rate, (3) range of local tax rates, and (4) level at which the tax is administered.

As the table shows, local option sales taxes vary considerably across the states. Thirty-five of the 37 states specify a sales tax rate or range local governments may levy, while three do not specify a limit. In 22 of the states, counties and municipalities (and in some cases other local governments) are authorized to levy the taxes. Five states (Alaska, Mississippi, Montana, Nebraska, and Vermont) authorize only municipalities to levy a sales tax, while five others (Florida, Hawaii, Idaho, North Carolina, and Wyoming) authorize only counties to do so. The remaining six states (Louisiana, Ohio, South Carolina, South Dakota, West Virginia, and Wisconsin) authorize a mixture of counties, cities, and other local governments to levy sales taxes (e.g., special taxing districts and transit authorities).

Most of the states (32) administer the local sales taxes at the state level. With the exception of Alaska and Montana, all of the states listed also impose a state sales tax.

**Table 2: Local Sales Tax Rates and Administration By State**

State	Types Of Local Taxing Jurisdictions	State Sales Tax Rate (%)	Local Sales Tax Rate(S)	Administration
Alabama	Cities, counties	4	0.25% - 5%	State, local jurisdictions, or third-party vendors
Alaska	Cities, boroughs	No tax	No statutory limit	Local

Arizona	Cities, counties	5.6	No statutory limit	State administers county taxes; Municipalities may either have the state administer the taxes or administer them locally
Arkansas	Cities, counties	6.5	Up to 3% for counties and up to 3.5% for cities.	State
California	Cities, counties, special districts	7.5	Up to 1%	State
Colorado	Cities, counties, certain special districts	2.9	No statutory limit	Home rule cities administer their own taxes; State administers the taxes for statutory cities and all counties
Florida	Counties	6	Up to 1.5%	State; Counties may administer certain taxes after adopting an ordinance
Georgia	Cities, counties, transit authorities	4	Up to 2%	State
Hawaii	Counties	4	0.5% (Honolulu county surcharge)	State
Idaho	Counties	6	Up to 0.5% for county sales tax; no limit for resort city sales tax	Local jurisdiction or state
Illinois	Cities, counties, transit authorities, certain special districts	6.25	Rate increases in increments of 0.25% allowed	State, with some exceptions
Iowa	Counties, cities	6	Up to 1%	State
Kansas	Cities, counties, transportation districts	6.15	Up to 2%	State
Louisiana	Cities, parishes, school districts, certain special districts	4	For counties, up to 6%; For cities, up to 5.99%	State

Minnesota	Cities, counties, transit improvement districts	6.875	Up to 1%	State
Mississippi	Cities	7	0.25%	State
Missouri	Cities, counties, certain special districts	4.225	0.5% - 6.625%	State
Montana	Cities	No tax	Up to 3% in certain resort communities and areas	Local
Nebraska	Cities	5.5	Up to 1.5% for counties, municipal counties, and cities of a metropolitan class; Up to 2% for an incorporated municipality	State
Nevada	Counties, Carson City	6.85	Up to 1.25%	State
New Mexico	Cities, counties	5.125	Up to 1.25%	State
New York	Cities, counties	4	Up to 3%	State
North Carolina	Counties	4.75	Up to 3%	State
North Dakota	Cities, counties	5	Up to 2%	State
Ohio	Counties, transit authorities	5.75	Up to 1.5% for counties; up to 1.5% for transit district	State
Oklahoma	Cities, counties	4.5	Up to 2% for county and special taxing jurisdiction taxes	State
Pennsylvania	Cities, counties	6	2% in Philadelphia; 1% in Allegheny County	State
South Carolina	Counties, school districts, Indian tribe	6	Up to 1%	State
South Dakota		4		State

	Cities, special jurisdictions (Indian tribes)		Generally up to 2% (cities may impose additional tax under certain conditions)	
Tennessee	Cities, counties	7	Up to 2.75%	State
Texas	Cities, counties, special purpose districts, transit authorities	6.25	Up to 2% (combined rate of all local levies may not exceed 2% in any location)	State
Utah	Cities, counties	4.7	1%	State
Vermont	Cities	6	1%	State
Virginia	Counties, independent cities	4.3	Up to 1%	State
Washington	Cities, counties, regional transit authorities	6.5	Up to 1%	State
West Virginia	Cities, special districts	6	Up to 1% for municipal sales taxes; up to 6% for special district excise taxes	State
Wisconsin	Counties, certain special districts	5	Up to 0.5% (county and special district taxes)	State
Wyoming	Counties	4	Up to 2% for general or special purpose tax; up to 1% for economic development tax (combined local rates in a county may not exceed 3%)	State

Source: CCH *Smart Charts*; Sales Tax Institute, *State Sales Tax Rates*, October 1, 2013; NCSL, *Local Option Taxes*; Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy," paper presented at the Lincoln Institute of Land Policy's 2009 Land Policy Conference

### LOCAL HOTEL TAXES

Every state, except Alaska and California, taxes room rentals, either through a general sales tax, excise tax on lodging (i.e., hotel tax), or both. All but five states (Connecticut, Delaware, Hawaii, Maine, and New Hampshire) authorize or require local governments to levy additional hotel taxes (Michel, Erica. *State Lodging Taxes*, National Conference of State Legislatures (NCSL) Legisbrief, April 2012.) According to a 2011 report by the Center for Budget and Policy Priorities, hotel taxes are often earmarked for tourism promotion and related purposes (e.g., paying bonds issued

for a convention center) (Mazerov, Michael. “[State and Local Governments Should Close Online Hotel Tax Loophole and Collect Taxes Owed](#),” April 12, 2011.)

Table 3 shows state and local hotel tax rates in selected states and, where applicable, indicates the types of local taxing jurisdictions and how the local tax is administered. As the table shows, seven of the 10 selected states allow counties, municipalities, or both to levy hotel taxes. The states vary in how they administer the local taxes. In Maryland, New York, and Pennsylvania, counties and municipalities generally administer the taxes themselves. In Massachusetts, Rhode Island, and Vermont, the state generally administers and collects the local taxes on behalf of municipalities. New Jersey differs in that the state administers municipal occupancy taxes, but individual municipalities administer city hotel taxes.

**Table 3: State and Local Hotel Tax Rates In Selected States**

<i>State</i>	<i>Types of Local Taxing Jurisdictions</i>	<i>State Hotel Tax Rate (%)</i>	<i>Local Rates</i>	<i>Local Hotel Tax Administration</i>
Connecticut	None	15	No tax	N/A
Maine*	None	7.0	No tax	N/A
Maryland*	Counties, municipalities	No tax	Counties may levy a hotel tax, from up to 3% or up to 9.5%, depending on the county and as specified by law; certain municipalities may levy an additional tax of up to 2%	Local
Massachusetts	Municipalities	5.7	Up to 6% (6.5% in Boston); Boston, Cambridge, Chicopee, Springfield, West Springfield, and Worcester may add a 2.75% convention center financing fee	State
New Hampshire	None	9	No tax	N/A
New Jersey*	Municipalities	5 (with a few exceptions)	Up to 3% municipal occupancy tax; Select municipalities are prohibited from enacting an occupancy tax because they already impose local hotel occupancy taxes, ranging from 1.85% to 9%	State collects municipal occupancy taxes along with the state occupancy fee; municipalities administer city hotel taxes
New York*	Municipalities	No tax	Up to 5.875% (New York City charges a daily hotel fee of \$1.50 per room)	



				Local, except that the state collects the \$1.50 daily hotel fee
Pennsylvania	Counties and Philadelphia	6.0	8.5% in Philadelphia; select counties authorized to levy an additional tax (generally 3%)	Local
Rhode Island*	Municipalities	5.0	1%	State, except that the city of Newport collects the tax locally and distributes it according to a statutory schedule
Vermont	Municipalities	9	1% (applies only in certain municipalities)	State

NCSL [State Lodging Tax Rates](#), April 3, 2012; CCH *State Tax Guide*; State and local tax department websites

\* Room rentals also subject to state sales taxes in Maine, Maryland, New Jersey, New York, and Rhode Island.

**ADVANTAGES AND DISADVANTAGES OF LOCAL OPTION TAXES**

***Advantages***

A major advantage to local option taxes is that they allow municipalities to diversify their revenue sources and subsequently reduce their reliance on the property tax. Currently, cities and towns faced with stagnant or depreciating property tax bases and rising public service costs are forced to either reduce or eliminate services or tax homeowners and businesses at higher rates to pay for them. The revenues from a local tax could help support a municipality's programs and services and consequently reduce the pressure to cut or eliminate them or increase property taxes to maintain them.

Local option taxes could also reduce municipalities' reliance on state aid. As the cost of municipal services has increased, cities and towns have turned to the state for assistance. In time, as state aid constitutes a growing share of municipal budgets, cities and towns become more vulnerable to the state's fiscal situation. Thus, by diversifying local revenues, cities and towns can be less dependent on the state's ability to fund municipal grants-in-aid.

Another advantage to local option taxes is the potential to levy taxes on a tax base that reflects an area's economic strengths, such as retail or tourism. For example, a local sales tax would allow a town that hosts a large number of retail outlets to capture revenue from retail sales. Similarly, a local hotel tax would allow municipalities in tourist areas to capture revenue from room rentals. This also allows municipalities to shift some of the tax burden off of residents and onto nonresidents who come into town to work, shop, or vacation.

Local option taxes could also increase local autonomy. They give municipalities and voters the option to levy a tax to pay for services that state taxpayers may be unwilling to fund. And because state funds often come with specific requirements or constraints, a local revenue source would give cities and towns more control over their spending decisions. This could also lead to greater accountability for taxing and spending decisions.

### ***Disadvantages***

One of the major disadvantages to local option taxes is that they increase the combined state and local tax rates in an area. The addition of local taxes could hurt the state's competitiveness in the region and limit the state's ability to raise tax rates in the future.

Local taxes could also create disparities among municipalities. While local taxes could help municipalities generate additional revenues from untapped sources (e.g., retail or tourism), the revenue generating capacity from these taxes is not evenly distributed across municipalities. On average, larger municipalities are likely to benefit more from local taxes than smaller ones. High-income, property-rich municipalities would gain more local option tax capacity than low-income, property-poor municipalities.

Another disadvantage is that local taxes could encourage municipalities to make land use decisions to maximize local revenues at the expense of promoting affordable housing or preserving open space (commonly referred to as the "fiscalization of land use"). For example, a local option sales tax could put pressure on a town to promote commercial developments over housing and other non-retail developments. This runs contrary to the state's policy of promoting regionalism and smart growth.

In addition, local taxes could increase administrative and compliance costs for taxpayers and government, particularly municipalities, which do not already have the capacity to administer an income or sales tax. Local taxes could also cause tax competition among cities and towns that want to attract new or expanding businesses.

Lastly, shifting the tax burden from property taxes to sales, hotel, or income taxes could make local governments more vulnerable to economic downturns. Property tax revenue is stable in economic good times and bad, and it grows roughly in line with population and inflation. Sales, hotel, and income tax revenue, however, is more cyclical and less predictable. Consequently, local option taxes could create fiscal difficulties for local governments during economic downturns if their revenue collections fall below their original forecasts (NCSL, *Local Option Taxes*, January 2008; Zhao, Bo. "The Fiscal Impact of Potential Local-Option Taxes in Massachusetts," New England Public Policy Center, 2010; Mikesell, John L. "The Contribution of Local Sales and Income Taxes to Fiscal Autonomy").

### **HYPERLINKS**

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