

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 232 - SB 584

March 17, 2015

SUMMARY OF BILL: Requires any person who furnishes a short term rental to a transient to pay any occupancy tax, sales tax, and any other applicable tax, and to obtain a local business license which shall be prominently displayed on the rental premises and on any marketing materials or website offering short term rental for rent. Defines a short term rental as a room, apartment, condominium, house, or any other dwelling unit or part of a dwelling unit furnished to transients for sleeping purposes in exchange for consideration.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$1,493,600

Increase Local Revenue – \$1,659,900

Assumptions:

- The following assumptions are based on the New York State Attorney General 2014 report (Airbnb in the city), and the Department of Revenue's search of Airbnb's website for rentals in Tennessee.
- It is estimated that there are approximately 5,000 short term rentals available each year in Tennessee. This number is assumed to remain constant in perpetuity.
- This fiscal analysis focuses on Airbnb rentals as it is estimated that applicable taxes are charged on most of the other platforms offering short term rentals.
- The average listing is assumed to be reserved 14 times per year, for a total of 70,000 (5,000 x 14) reservations in Tennessee.
- The average consideration charged per reservation is estimated to be \$350.
- The total annual consideration charged is estimated to be \$24,500,000 (70,000 x \$350). It is further estimated that state and local sales tax, and hotel occupancy taxes will be imposed on 90 percent of such charges, or \$22,050,000 (\$24,500,000 x 90%).
- The current state sales tax rate is 7.0 percent; the local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent; the average local hotel occupancy tax rate is estimated to be 4.5 percent.
- The net recurring increase in state sales tax revenue is estimated to be \$1,487,672 [(\$22,050,000 x 7.0%) – (\$22,050,000 x 7.0% x 3.617%)].
- The total recurring increase in local sales tax revenue is estimated to be \$607,078 [(\$22,050,000 x 2.5%) + (\$22,050,000 x 7.0% x 3.617%)].

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- The recurring increase in local hotel occupancy tax revenue is estimated to be \$992,250 (\$22,050,000 x 4.5%).
- The Department of Revenue estimates that the recurring increase in business tax revenue will be \$5,900 for the state, and \$60,600 for the local government.
- The total recurring increase in state revenue is estimated to be \$1,493,572 (\$1,487,672 + \$5,900).
- The total recurring increase in local revenue is estimated to be \$1,659,928 (\$607,078 + \$992,250 + \$60,600).
- It is assumed that all applicable taxes will be imposed beginning with FY15-16.

IMPACT TO COMMERCE:

Increase Business Revenue - \$66,500

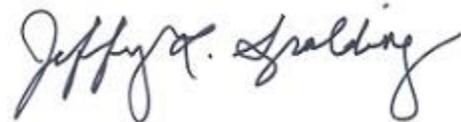
Increase Business Expenditures - \$66,500

Assumptions:

- Imposition of the state and local taxes is not anticipated to significantly impact the number of annual nightly rentals in the state.
- There will be a recurring increase in business expenditures of \$66,500 from property owners paying business tax (\$5,900 state portion + \$60,600 local portion). However, such owners are assumed to pass such costs onto transients; as a result the recurring increase in business revenue is estimated to be \$66,500.
- All sales taxes and hotel occupancy taxes are paid by transients; not business owners.
- Any impact on private sector jobs is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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