Alabama Mountain Lakes Tourist Association

Short-term rentals increase state and local tax coffers

24,602	2,500	$425,000	$30 million
STR properties within Alabama	letters mailed to North Alabama STRs	from AMLA counties to Ala. Dept. of Revenue	estimate in potential revenue

OVERVIEW

Short-term rentals in the United States have surged since the pandemic. While this gives a community more options for a visitor to overnight, there has not been a level playing field when it comes to lodging taxes. Traditional accommodations pay state and local lodging taxes, yet short-term rentals generally have not kept pace.

SITUATION

Alabama law states that anyone who rents a room for a night must pay state and local municipality lodging taxes. Yet this is not uniformly enforced, creating a dichotomy between what is owed the government and what is remitted. By not collecting these taxes, the state and tourism entities are losing much-needed revenue. In addition, it is not considered equitable when short-term rentals are reaping the benefits of the services provided by local convention and visitors bureaus yet are not paying into the system that helps boost the visibility of a local rental.

SOLUTION

As convention and visitor bureaus and destination management organizations are not allowed to enforce the lodging tax, Alabama Mountain Lakes Tourist Association (AMLA) embarked on an intense letter writing campaign to educate short-term rentals and local municipalities about the lost revenue by not enforcing short-term rental taxation. Also local North Alabama bureaus took it upon themselves to write letters and educate their local short-term rentals about the services that the local tourism bureau offers.

RESULTS

From one letter writing push, AMLA witnessed a 41% increase in the number of properties listed in AMLA's geographic footprint on Granicus, a short-term rental analyzer. This begs the question, "What type of revenue would be realized if the entire state of Alabama audited all short-term rentals?" It is expected that a hefty increase for state coffers would materialize. It is the desire that the state and local Department of Revenue appreciate that these additional revenues are realized due to tourism in their respective areas.

POSITIVE SOLUTIONS

North Alabama communities say:

"Having a collection of Airbnb properties in a community is the equivalent of a hotel property – that is how much lodging tax an Airbnb is collecting."

"It is imperative that we get this right with short-term rentals. We do not have policies in place for collecting, permitting or governing short-term rentals. It is going to be a big deal all over the U.S. and we need to be prepared."

NORTH ALABAMA

Purpose

The purpose of this case study is to ensure Alabama's Department of Revenue receives the lodging tax revenue it is legally owed. The expectation is that Alabama Tourism Department and those municipalities that promote travel will subsequently realize more marketing funds.

More short-term rental properties mean amplified tax revenue for Alabama.

Background

Alabama Mountain Lakes Tourist Association (AMLA) purchases Smith Travel Research (STR) data on a monthly basis; yet only seven (7) counties in the AMLA footprint subscribe to STR. STR, or Star Reports, show occupancy, average daily rates and revenue of traditional accommodations in any specified geographic locale. These reports do not include short-term rental properties. Thus, there is a gap between reported properties and existing, functioning properties and thus, what revenue is potentially owed.

The information purchased from Granicus and AirDNA gave AMLA ample evidence of a short fall in lodging revenue being pursued and collected. It was decided AMLA would alert short-term rentals of the power of tourism, as well as their responsibility to collect lodging taxes from its guests.

In 2022, AMLA created and oversaw a two-month letter writing campaign to short-term rentals. AMLA witnessed a 41% increase in the number of reported properties according to Granicus data. According to Granicus, its system gained 500 community users and, driven by the 16 counties in AMLA's region, statewide short-term rental revenue collection in Alabama increased by 8%.

From one single mailout from AMLA and member counties to rental property owners, a tremendous response rate in the collection of the lodging tax was observed; thus the question became, "What type of revenue would happen if the entire state of Alabama and each county audited all short-term rentals?" It is expected that an enormous increase for state coffers would be realized.

The posit is Alabama government will benefit from properly reporting and collecting short-term rental taxes. Just from AMLA's sixteen county geographic footprint, the state saw an increase of $425,000 for the state coffers.

The theory

State of Alabama's Lodging Law (Section 40-26-1 through 40-26-21, Code of Alabama 1975) states anyone who rents a room in Alabama must pay a lodging tax. Yet, this is not the case currently in practice.

If traditional accommodation and hotels are relied on for hotel occupancy tax (HOT) revenues, it is putting the tourism and convention and visitor bureaus in a precarious position for future funding; thus, a level playing field is compulsory. In Alabama, statewide compliance has yet to be achieved; the code is in effect; yet implementation is lax or nonexistent.

In addition, according to short-term rental analyzer, Granicus, municipalities can back date taxes.

If the industry stays static concerning short-term rentals, the proliferation of these properties and the myriad of ways traditional hotel rooms are being converted into short-term rentals, tourism will eventually be pushed to the side as these rentals will not be paying HOT into the system they are benefiting from.

The state is encouraged to investigate the tiny home movement and its impact on travel receipts. Many tiny homes will eventually convert to short-term rentals, providing more HOT revenue. State Park cabins should be listed on short-term platforms and generate HOT receipts. The industry is taking for granted these lodging opportunities and options.

Why examine short-term rentals tax collection?

There is a pronounced shift in lodging tax revenues from traditional hotels to short-term rentals. This was seen in the 2010s but was fast-peddled after the pandemic when many sought the perceived safety of individual short-term rental properties – away from large crowds.

The changing consumer preferences towards short-term rentals will cause the blending and merging of different players in the accommodation industry which is why it is critical for municipalities to examine their short-term rental collections now.

An analogy is in order.

Less gasoline taxes are collected each successive year as American consumers switch to electric vehicles. Annually, there is a widening decrease in gasoline tax collections. In the short run, this is sustainable; in the long run, the state will lose money.

The same can be said for municipalities that depend on lodging taxes. As more visitors select short-term rentals over traditional hotels, cities, municipalities and the state are losing revenue by not reviewing and taxing short-term rentals.

Communities of interest

Investors and residents in Nashville, Tenn. are constructing second homes for the exclusive purpose of renting; the Nashville Convention & Visitors Corporation (CVB) has been on top of this issue as it realizes it is in danger of losing potential HOT revenue that could fund city efforts and tourism promotion. Because of the rising number of short-term rentals, garbage service, police protection and customary home occupation ordinances have become hot button issues for central Tennessee. Property taxes rose 34% and many in the community believe that short-term rentals not paying their fair share caused these issues. In addition, the suburb of Brentwood witnessed an explosion of STRs due to its proximity to Nashville.

In coastal areas, hotel chains are increasingly snapping up condominiums and converting them into STRs. It is gradually more difficult to find the individual "mom and pop" properties on the coast; the majority are increasingly owned and rented by real estate companies. Brett-Robinson is a firm that promotes their properties on Gulf Shores and Orange Beach.

There is also a trend of short-term rentals competing with state parks for overnight rentals.

What does this mean for tourism promotion?

With the added revenue of full compliance of short-term rentals, the state of Alabama would receive 75% of this new revenue while 25% would be allocated to the state's tourism efforts, i.e. Alabama Tourism Department.

Alabama Tourism Department expressed a desire to create a rural tourism incentive program like Tennessee has implemented; it could be achieved with these potential HOT receipts. The state must write the process and the rest of the communities will follow.

Any destination with water or mountains will have numerous short-term rentals. We need to study these destinations more fully.

Destination Management Organizations (DMO) are the ones who typically submit request-for-proposals (RFP) for group events; they end up using their DMO money for this.

What do tourism taxes fund?

Travel and tourism is a significant revenue generator for state and local governments. Tourism dollars bring new revenue into our communities, which helps fund a multitude of programs.

Tourism Dollars

- Fund our teachers
- Fund our firefighters
- Fund our police force
- Fund our road improvements
- Funds our community revitalization projects
- Build and maintain infrastructure projects
- Keep our communities safe
- Protect the environment
- Keep our beaches and parks thriving
- Support area arts and culture

Long-Term Tourism Dollars

- Funding development & resilience
- Ensure sustainable tourism growth
- Industry & destination resilience
- Place regeneration
- Protection of nature

In 2022, tourism helps Alabama families save more than $685 each year in taxes.

Not only do these dollars contribute to county residents' quality of life, but they also lessen their tax burden. When visitors spend money in Alabama counties and generate tax revenue, less money residents pay in taxes. For every $1 spent in Alabama's travel-related expenditures, the state retains a total of $0.33.

Demand for rentals grows

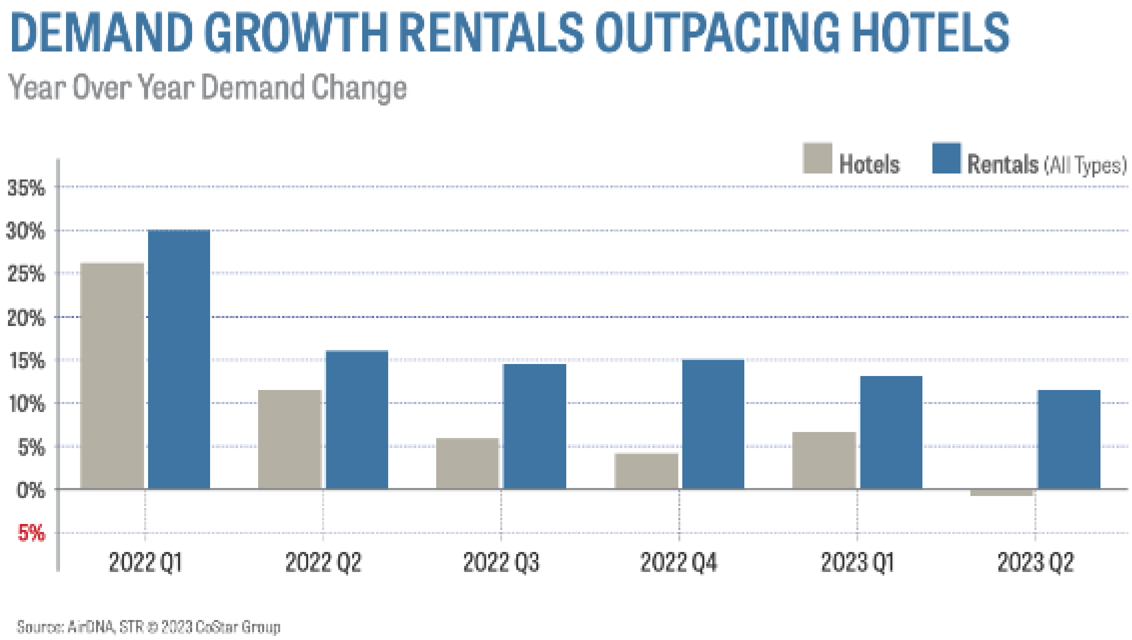
Despite the overall slowdown in the North American market owing to international travel, short-term rentals continued to outpace hotel units in terms of demand growth. Rental demand growth has seen a notable rise in all location types, particularly in small cities and rural areas. By mid-summer 2023, demand growth for short-term rentals reached 24%, while hotels remained at zero, a Skift study found. Mid-sized cities, suburbs, mountains and lake resorts and coastal resorts also experienced greater demand growth in rentals compared to hotels. Urban areas witnessed both hotels and rentals had a more even demand growth rate.

It is not just demand, but in the real estate market, rental properties are outpacing hotel construction in terms of supply growth. Factors such as labor, land and building material costs have caused considerable delays and raised concerns among investors, leaving several hotel projects in the planning stages. The rental sector has also encountered a bevy of challenges, including limited housing availability and elevated interest rates, both of which impeded growth. Nevertheless, year-over-year supply growth for rentals consistently exceeded 15%, while hotels remained below 5% for each quarter spanning from early 2022 to mid-2023.

Even with the slowdown in these indicators, demand for rentals is projected to increase, climbing 14.6% in 2023 to 15.4% in 2024. Particularly for 1-bedroom and studio rentals, this share is expected to rise from 4.2% to 4.5%.

The hotel sector will experience the consequences of ongoing growth in rental demand. For 1-bedroom, studio accommodations, it is anticipated that hotel occupancy will decrease by -2.8% in 2023 and further drop to -3.0% in 2024. Furthermore, the impact on hotel average daily rate (ADR) is projected to decrease by $1.31 in both 2023 and 2024.

The industry is also seeing short-term rental demand outplacing supply. Slower supply growth and high demand are not necessarily bad. In fact, they translate into higher occupancy rates and increased revenue per booking. This also means more revenue for communities that collect the bed-tax.



Case Study Example: Marshall County, Ala.

Alabama Mountain Lakes Tourist Association estimated numerous short-term rentals (STR) in Marshall County as well as in north Alabama. While some STRs were paying the hotel occupancy tax (HOT) also known as the hotel/motel lodging, or bed tax, the vast majority were not. Marshall County, Ala., estimates possessing 350 STRs. The number is fluid as many properties are listed and delisted frequently due to seasonality and supply.

Convention and visitors bureaus (CVB) are not able to ask these properties to remit the HOT tax. In Marshall County, mayors and city clerks were asked to attend a meeting about the loss of potential revenue from HOT taxes not being procured. Marshall County Tourism & Sports provided each of the cities within the County with Granicus information which supplies detailed information about who pays the HOT tax in hopes the cities would pursue the potential revenue. While a CVB cannot directly procure this potential revenue, it can create a relationship with the STR to help educate the property about its obligation to secure the HOT tax. Marshall County's message to the rental property was,

> "Thanks for being a part of the tourism industry. We appreciate all you do. Come in to our office and let us show you all the tourism attractions and amenities the County provides."

Marshall County Tourism and Sports created a dedicated table stand at the visitors center for the STR. The stand made clear what the bureau does for the community and accommodations. In the words of the Bureau, the stand platform made the CVB the "good guy" with the community and STR.

When an STR sees the word "tax" it makes the rental wary as there is the implication that the STR itself must cough up the tax; the Bureau educates the STR that the rental property is simply a conduit and pass through for the tax and that every guest in Alabama must pay the lodging tax just as it would if overnighting in a hotel. The takeaway is that the CVB is more of a helper rather than the dreaded tax collector.

Marshall County Tourism and Sports places a table stand at all its area hotels; it gives visitors options and itineraries on what to do during a visit. On the stand, there is a QR code that takes one to a landing page on the Marshall County tourism website; updated every Thursday, it displays upcoming weekend happenings; i.e. highlight events, local restaurants, etc.

When it comes to short-term rentals, the mission of the Bureau is building relationships with local STRs and be a trusted source of assistance and information. The anticipation is that the STR will come to the Bureau and be educated on the purpose and role of the HOT tax and subsequently, the Bureau.

If the STR requests the Bureau to list it on the tourism website, the Bureau will ask the platforms on which it is currently listed. If the property responds with "Airbnb," the Bureau realizes that it is collecting and paying the HOT tax. If it mentions another short-term rental umbrella organization (i.e. Vrbo, etc.), the Bureau will inquire where it is paying the HOT tax. The property is then informed to contact their city/county administrator to pay the HOT tax. Lodging tax is complicated for the average person so there is an understanding that the STR may not know what/how to pay their fees and taxes.

"Working with the cities is what made the difference in collections. It was important to inform mayors on revenue that is lost. We educate cities and short-term rentals on what they need to do."

Katy Norton, Marshall County Tourism & Sports

In Marshall County, out of the 5% local motel tax, the Bureau receives 1.5%. The Bureau president tracks what each property pays and lists it in a spreadsheet.

According to Katy Norton, president and CEO of Marshall County Tourism & Sports, cities are told, "You are missing out by not getting your 5%! There are 350 STR within Marshall County. We always ask the STR, 'Where do you list your rental? Are you charging the lodging tax? Go to the City Clerk to pay your legal responsibilities.' Guntersville has an ordinance that deals with STR. They have put parameters around STRs."

Takeaway: the municipalities must secure the tax; convention and visitors bureaus cannot.

Example of letter of introduction to short-term rentals

Dear Owner:

We are excited to have you as part of our community. Short term rentals offer visitors to Marshall County options that meet their specific needs, and we recognize the importance of providing individuals, couples and families with lodging choices that allow for extended and more comfortable stays when they visit with us.

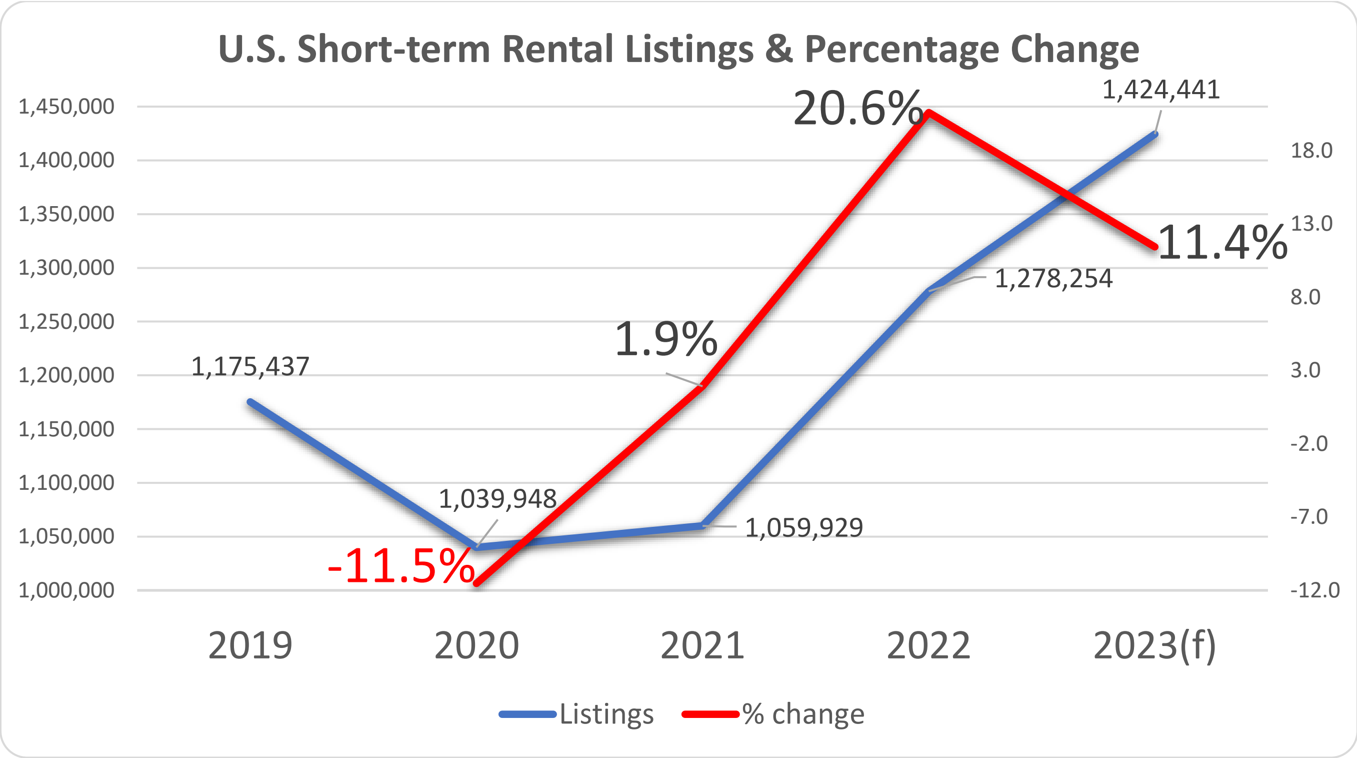
As the local visitor center, our tourism organization, provides short term rentals located in Marshall County with free visitor guides and even signage that allows visitors to scan a QR code and be directed to our website that provides updated information about live music, festivals and other events happening in our community during their stay.

We invite you to stop in at our visitor center, located at 1601 Gunter Ave, Guntersville, to find out how we can help you provide resources to the visitors staying in your property, located at ____________________.

Sincerely,

Katy Norton
President, Marshall County Tourism and Sports

2019-2023 short-term rental listings in the U.S.



Source: AirDNA, DoorLoop

Terminology

There is a difference between taxes that short-term rentals must remit. The hotel tax is a distinct and separate tax from income and sales taxes. The hotel occupancy tax (HOT) goes by several names.

In some states, occupancy levies do not apply to rentals of more than a certain number of days. This rule is designed so that the tax is paid by tourists or guests who are visiting the area, not those who permanently reside there.

It creates revenue for the government to fund schools, roads, public safety and other infrastructure. This is paid by visitors to the area that are staying in hotels, motels, and vacation rentals for less than 30, 180 or 365 days, depending on the jurisdiction and municipality.

Also Called:

- lodging tax
- accommodation tax
- stay tax
- space tax
- visitor tax
- room tax
- hotel tax
- hotel/motel tax
- transient room tax

Typical property in Alabama

- Single family dwelling
- Entire dwelling rented
- Three bedrooms
- Two bathrooms
- Visitor stays up to 7 nights

Granicus Report

Monitoring compliance of STRs can be complicated. Granicus is a short-term rental monitoring, compliance and enforcement organization. This firm finds properties offered for rent, educates hosts on how to become compliant and municipalities gain revenue with their short-term rental monitoring services.

As of November 2023, Granicus listed 24,602 properties within Alabama with approximately 700 new listings in October 2023.

If a family overnights in Alabama at a rate of $200 a night, the lodging tax collection estimate would be:

	Alabama State lodging tax (5%)	County / city lodging tax (2%)
1 night	$10	$4
3 nights	$30	$12
7 nights	$70	$28

Takeaway: If each short-term rental property in Alabama paid its lodging tax, it would amass $246,000 per night, equivalent to $90 million per year.

Residents desire short-term rental properties to follow the law

As short-term rentals offerings proliferate, residents and lawmakers want these locations to be licensed and legal. In 2022, a small dust up in a north Alabama community was created when the city's mayor rented out a guesthouse; however, a city ordinance prohibited short-term rentals within its jurisdiction. After the blowback this elected official encountered, this mayor elected not to run for reelection.

Takeaway: residents want local businesses to abide by local ordinances, play by the rules and pay taxes of STRs

Lodging Tax Rates in Alabama

NORTH AL

5% lodging tax rate

- Blount
- Cherokee
- Colbert
- Cullman
- DeKalb
- Etowah
- Franklin
- Jackson
- Lauderdale
- Lawrence
- Limestone
- Madison
- Marion
- Marshall
- Morgan
- Winston

4% lodging tax rate

All other Alabama counties

Alabama short-term rentals tax remittances

Lodging tax returns and remittances are due on or before the 20th day of the month for the previous month's rentals. However, one may request quarterly filing status if one has a tax liability of less than $2,400 for the preceding calendar year. One can request annual filing status if the tax liability for the entire preceding calendar year is less than $600.

Local lodgings tax is levied in the same manner as the state lodgings tax, although these rates vary. Alabama Department of Revenue does not administer all county or city lodgings taxes.

Alabama Department of Revenue

Exemptions from lodging tax:

The tax shall not apply to rooms, lodgings, or accommodations supplied: (i) for a period of 180 continuous days or more in any place.

The tax shall not apply to marine slips, places or spaces for tent camping, or places or spaces provided for motor homes, travel trailers, self-propelled campers or house cars, truck campers, or similar recreational vehicles commonly known as RVs, which are supplied for a period of 90 continuous days or more in any place.

Rooms or space that is not intended for overnight sleeping purposes and that is not used for overnight sleeping purposes is not subject to the tax levied if the charges for the rental are separately stated by the facility and the room or space is used exclusively as a room or space for a meeting, i.e. rental of a ballroom, dining room, club room, sample room, conference room, wedding chapel.

More from the Alabama Department of Revenue: https://www.revenue.alabama.gov/sales-use/lodgings-tax/

Overview of Alabama Lodging Tax Collection

Alabama State Lodging Tax: The state of Alabama imposes a lodging tax on accommodations rented for less than 180 consecutive days. It is administered by the Alabama Department of Revenue.

Local Lodging Taxes: Many local municipalities and counties in Alabama impose their own lodging taxes. The rates and regulations can vary by locality, so hosts need to be aware of the specific requirements in their area.

Collection Responsibility: Property owners are responsible for collecting lodging taxes from guests. The taxes are often added to the rental amount and collected at the time of booking.

Online Platforms: Many hosts use online booking platforms such as Airbnb or Vrbo to list their properties. These platforms often automatically collect and remit lodging taxes on behalf of hosts. In Alabama, Airbnb does, Vrbo does not.

Manual Collection and Remittance: In cases where hosts do not use online platforms, they will need to manually collect lodging taxes and remit them to the appropriate tax authorities.

Tax Rates and Calculation: The lodging tax rates can vary county to county and city to city. Hosts should check with the Alabama Department of Revenue and local tax authorities to determine the applicable rates in their specific location.

Reporting and Remittance: Hosts are required to file reports with the Alabama Department of Revenue and local tax authorities detailing the taxes collected and the corresponding rentals.

Penalties for Non-Compliance: Failure to collect and remit lodging taxes as required will result in penalties and fines. It is vital for hosts to understand and comply with the relevant tax regulations.

Contact the Alabama Department of Revenue or the local tax authority where their short-term rental property is located for the most up-to-date information on rates and regulations. Additionally, consult with a tax professional familiar with Alabama lodging tax laws who can provide specific guidance based on individual circumstances.

Short-term rental organizations and collections

airbnb

Airbnb collects lodging taxes on behalf of the property owner. Guests who book Airbnb listings in Alabama will pay the following taxes as part of their reservation:

Alabama State Lodging Tax: 4 to 5% of the listing price including any cleaning fee for reservations 179 nights and shorter.

County Lodging and Rental Tax collected by the State: 1 to 6% of the listing price including any cleaning fee for reservations 179 nights and shorter.

Municipality Local Lodging Tax collected by the State: 2 to 12% of the listing price including any cleaning fee for reservations 179 nights and shorter.

For more detailed tax collections on individual municipalities and counties in Alabama, click here.

Vrbo does not collect and remit lodging taxes in Alabama. Property owners and managers are responsible for understanding and complying with the laws and regulations applicable to their property listing.

Vrbo™

HomeAway®

HomeAway was acquired by Expedia Group in 2015. In 2020, HomeAway and Vrbo websites were rebranded as a single Vrbo website.

Hotel groups dive into short-term rentals

HOMES & VILLAS by MARRIOTT BONVOY

Marriott dove into short-term rentals in 2019. With more than 7,000 hotels globally it is the world's largest hotel company; yet it saw opportunity in short-term rentals. It opened its home sharing business with the launch of Homes and Villas by Marriott International in 100 destinations worldwide. Now under the brand of Marriott Bonvoy, it lists more than 2,000 homes throughout the western hemisphere and parts of Europe

Prior to 2019, Marriott Executive Apartments were largely in major markets with the brand tier for high-end, premium and luxury travelers who wished to stay in a location that was more expansive than a hotel typically offers. Marriott permitted stays of up to one year in a Marriott Executive Apartment.

When Airbnb saw explosive growth in the mid-2010s, Marriott realized that some travelers desired more of a home and neighborhood experience; hence, Home and Villas was curated. The Marriott Vacation Clubs brand has been around for decades which were essentially special clubs located in condominiums; yet Marriott believed there was a larger market for short-term rentals.

In creating Home and Villas, Marriott was generating demand for the high-end and luxury segment. Home and Villas has been exceedingly successful and have expanded into more luxury homes. Marriott wishes to expand Home and Villas footprint.

There is some concern there could be some cannibalization in the Marriott brand. A family may look at a Ritz Carlton if they are considering Home and Villa as they are in the same luxury category. A large advantage Marriott possesses over other STRs is BonVoy points are earned when overnighting in a Home and Villas property. Also, these Home and Villa STR lodgings have been vetted through the Marriott system, i.e. security, cleanliness, reservation system. Airbnb is a collection of rentals with Airbnb being the umbrella organization versus Marriott which the brand diligently stands by.

Hilton has a similar extensive system that offers vacation and leisure short-term rental homes in select markets.

Hotels converting to short-term rentals

The trend of hotels converting to short-term rentals has been observed in various locations, driven by changes in consumer preferences and market dynamics. Several reasons contribute to hotels considering conversions to short-term rentals:

Changing Consumer Preferences: Some travelers prefer the unique, homely experiences offered by short-term rentals over the standardized environment of hotels.

Flexibility and Space: Short-term rentals often provide more space, kitchen facilities, and amenities compared to hotel rooms, making them attractive to families or groups.

Market Demand: In areas with high demand for short-term rentals due to tourism, business travel, or other factors, hotels may see an opportunity to capture a share of this market.

Economic Considerations: During certain economic conditions or industry downturns, hotels may explore alternative revenue streams, and short-term rentals can be a viable option.

Overview of impact of short-term rentals on a rural community

Short-term rentals have substantial positive and negative impacts on rural communities. Effects can vary depending on the destination including the local context, regulations and the extent to which rentals are embraced. Common ways in which short-term rentals can impact rural communities:

Potential Positive Impacts

Economic Boost: Short-term rentals inject much-needed revenue into rural areas. They create income opportunities for property owners and stimulate the local economy through increased tourism.

Tourism Growth: Rural communities that were previously off the tourist radar can become more popular due to the availability of short-term rentals, attracting more visitors.

Infrastructure Improvement: Increased tourism revenue can lead to investments in local infrastructure and services, such as road repairs, restaurants and retail which benefit residents.

Diversified Economy: Short-term rentals can help diversify the local economy, reducing dependence on a solitary industry.

Community Engagement: Hosting tourists can foster a sense of community engagement as locals can become more interested in showcasing the area's unique qualities.

“There has been no oversight in most markets – safety, standards, nor bed tax collections. Smaller markets were caught off guard by how many owners are listing properties. There has been little-to-no oversight renting to a party or large group. Municipalities must be proactive in sending tax bills to properties.”

Teresa White Taylor, Yedla Management Company

Potential Negative Impacts

Housing Affordability: Short-term rentals can reduce the availability of long-term housing options for locals and may drive up property prices, making it harder for residents to find affordable homes.

Overcrowding: During peak tourism seasons, rural areas can become crowded, leading to traffic congestion, noise and strain on local services.

Cultural Disruption: An influx of tourists can alter the character and culture of rural areas, potentially leading to a loss of traditional values or a "Disneyfication" of the community.

Regulatory Challenges: Balancing the interests of property owners, residents, and tourists can be challenging. Local governments may struggle to regulate the short-term rental market effectively.

Environmental Impact: Increased tourism may strain local natural resources and ecosystems, impacting the environment. For instance, overuse of water resources or damage to fragile ecosystems have been problematic.

Lack of Community Benefits: In some cases, economic benefits may not reach the local community, as short-term rental platforms often direct profits to the property owners and the short-term platform itself.

To manage these impacts, rural communities often develop regulations and policies specific to short-term rentals. These regulations can address issues such as housing availability, property maintenance, safety standards and taxation. Striking a balance between encouraging tourism and preserving the local culture and environment can be a complex challenge that each community must address.

Short-term rentals ought to consider

Successful hotel or motel tax collection on short-term rentals is critical for both the host and local governments. To ensure these taxes are effectively collected, variables to consider:

Know the Local Regulations: Research and understand the local, city and state regulations regarding hotel and motel taxes.

Register with Tax Authorities: Register as a tax collector with the local tax authority or department responsible for collecting lodging taxes. This is required by law.

Determine Tax Rates: Find out the applicable tax rates, including state, local and any additional occupancy taxes. These rates can vary depending on the location.

Incorporate Taxes into Lodging Rates: Include the applicable taxes in rental rates from the beginning of the process. Guests can then view the total cost upfront and avoid disputes over unexpected fees later.

"It is imperative that we get this right with short-term rentals. We do not have policies in place for collecting, permitting or governing short-term rentals. It is going to be a big deal all over the country and we need to be prepared for it."

Jason Wilson, Gadsden City Councilman, District 5

Utilize Online Booking Platforms: Several, but not all, online booking platforms, such as Airbnb, automatically collect and remit hotel taxes on behalf of hosts.

Clearly Display Taxes: Clearly itemize the taxes on guest invoices or rental agreements. Transparency builds trust with visitors.

Automate Tax Collection: If the booking platform does not automatically manage tax collection, consider using software or services that automate this process. Companies like MyLodgeTax and Avalara can assist with tax compliance.

Keep Accurate Records: Maintain thorough records of all transactions, including the amounts of taxes collected. This is indispensable for tax reporting.

File and Pay Taxes on Time: Submit your tax reports and payments to the appropriate tax authorities according to the required schedule. Late payments will result in penalties and interest charges.

Educate Guests: Include information about the taxes in any welcome materials or on the host website. Guests should be aware of their obligation to pay these taxes.

Stay Informed About Changes: Keep up to date with any changes in tax laws or rates in your area. Regulations can change, and it is the responsibility of the property to comply with them.

Seek Legal Advice: If there are concerns about tax compliance, consider consulting a tax professional or attorney experienced in short-term rental taxation. They can help one navigate complex tax issues.

Cooperate with Local Authorities: If tax authorities request information or audits, cooperate fully and promptly. Failure to do so can result in legal consequences.

Consider Outsourcing: If managing tax collection and remittance becomes too complex or time-consuming, consider outsourcing this obligation to a professional tax service.

In some areas, there might be tax collection and remittance services that can handle the entire process, making it easier to comply with local regulations. However, even if a property utilizes such services, it is important to stay informed and involved in the tax collection process to ensure that a property is meeting its obligations as a short-term rental host.

Successful collection of lodging taxes on short-term rentals

Communities worldwide have successfully implemented and collected hotel or motel taxes on short-term rentals.

<u>United States</u>

San Francisco: San Francisco was one of the early adopters of regulating and taxing short-term rentals. The city has successfully collected hotel taxes from hosts through platforms like Airbnb.

New Orleans: New Orleans has a well-established system for collecting hotel taxes on short-term rentals. The city's tax authority works closely with short-term rental platforms to ensure complete compliance.

State of Hawai'i: Hawai'i has implemented strict regulations and tax collection processes for short-term rentals. The state collects the Transient Accommodations Tax (TAT) from hosts.

International

Paris: Paris implemented strict regulations on short-term rentals, including the requirement for hosts to collect and remit the "taxe de séjour" to the city. This has been effective in ensuring tax compliance.

Vancouver: Like many other Canadian cities, Vancouver imposes a municipal accommodation tax on short-term rentals and it has effectively collected these taxes from hosts.

Amsterdam: Amsterdam implemented regulations to collect tourist tax from short-term rental hosts. The city works with platforms like Airbnb to ensure the automatic collection and remittance of taxes.

Berlin: Berlin introduced regulations to collect a city tax on short-term rentals, and hosts are required to register their properties and comply with tax requirements.

Barcelona: Barcelona has established a system for collecting the tourist tax from short-term rental hosts, helping ensure that these taxes are paid.

Kyoto: This central Japanese city imposes a municipal accommodation tax on short-term rentals, and hosts are required to collect and remit this tax to the city.

Sydney: Sydney has a well-structured system for collecting the Goods and Services Tax (GST) and other taxes on short-term rentals. Hosts are required to register for the GST and comply with tax regulations.

“Having a collection of Airbnb properties in a community is the equivalent of a hotel property – that is how much lodging tax an Airbnb is collecting.”

Katy Norton, Marshall County Tourism & Sports

Helpful tips for properties

Airbnb, HomeAway, Vrbo, FlipKey and similar companies are required to withhold 28% of rental income if a property does not provide the listing company with a W-9 form. In most cases, the tax on rental income will be less than 28%.

If one rents one room in a house, the 14-day rule applies in the same way as if one lets out an entire house. Fourteen days or less in a year, one does not have to report the income on your taxes, but one cannot take any rental expense deductions either.

Properties must familiarize themselves with rental tax rules and they vary substantially by region, state, and city.

FAQ for short-term rental owners

Do I really have to collect and pay it?

Yes. Occupancy tax is a part of doing business when you run a short-term rental. However, this will depend on where your vacation rental property is located, but most states tax rentals. There are serious legal consequences if one does not collect and pay these taxes.

What happens if I don't collect and pay occupancy taxes?

Although your guests cover your occupancy taxes, short-term rental owners are liable to collect and disclose these taxes to the taxing authorities. Even if you have not collected the tax from your guests, owners are still liable for the payments.

A tax collector may seek current as well as back taxes from a short-term rental owner who hasn't collected and remitted the necessary taxes. The typical rental business owes several thousand dollars in taxes a year and the outstanding liability can bloom in a short period of time.

Tax authorities can also impose fines and interest in conjunction with the outstanding tax owed. Penalties often range between 25-50% of the tax owed. Failure to pay such taxes will contribute to substantial tax obligations owed to state and local tax authorities.

Are there exemptions?

Some individuals and organizations can file for an exemption status for occupancy taxes. Depending on the location, it could include government officials, permanent residents, religious, educational and charitable organizations, and other specified city or state workers. Long-term rentals are excluded from the taxation on income and occupancy. In many states, long-term rentals are defined as continuously occupied for 30 days or more. However, each state defines long-term rentals differently.

180 days	90 days	30 days
• Alabama • Florida • Hawai'i	• Mississippi	• Georgia • Louisiana • Tennessee