The Local Hotel Occupancy Tax

The Issue

The hotel occupancy tax (HOT) is levied at the state and local level on visitors paying for the short-term use (less than 30 consecutive days without interruption of payment) of a room in accommodations such as hotels, motels, tourist houses, bed and breakfasts, or short-term rentals.

The state HOT is a 6 percent mandatory tax on the price of any room, including in private homes, that costs at least $15 a day. Lodging facilities must collect the tax and remit it to the state. Revenues are administered by the Comptroller's office and deposited in the general revenue fund, with some of them dedicated to specific types of spending such as promotion of tourism.

Municipalities and counties may levy a local HOT on any room that costs at least $2 a day. The maximum rate can vary between 7 and 9 percent for municipalities, up to 9 percent for counties, and up to 2 percent for sports and community venue projects. The local HOT is administered directly by municipalities and counties.

The combined HOT rate (state and local) cannot exceed 15 percent except when a venue project tax is added. The combined rate can hence range from 6 percent to 17 percent, with El Paso reaching the height of 17.5 percent (the city had reached that rate before the 83rd Legislature passed a cap).

Municipalities and counties can only levy a HOT to foster economic development through tourism or to finance a "venue project." Expenditures of local HOT revenues must directly enhance and promote tourism and the convention and hotel industry and should attract visitors from outside the city or county to the area and its vicinity. Allowable categories of expenditures include funding for construction or maintenance of a convention center or visitor center; paying for advertising and promotional programs that support the tourism and convention center industry; funding the promotion of the arts, historical restoration, or preservation programs; providing signage to sights and attractions; and in certain cases, paying for upgrading certain sports facilities.

The Arguments

The goal of the local hotel occupancy tax lies in how the revenues from the tax are proscribed to be used: "to promote tourism and the convention and hotel industry." The rationale is that by promoting tourism and local attractions, and by helping the convention and hotel industry attract tourists, more visitors will come and spend money locally, which in turn will stimulate the economy and create jobs. Proponents of projects that can be funded by HOT revenues even argue that these projects cost local taxpayers nothing: visitors pay for them when they visit. Attracting more visitors means increasing revenues to fund such projects.

The promotion of specific industries with taxpayer money is problematic in several ways, though. For instance, it distorts the free market system by giving privileges, such as publicly funded marketing campaigns, to some businesses over others. In addition, Texas already benefits from a variety of attractions and, as a result, is a prized destination. In 2014, the Lone Star State could boast the 3rd highest share of domestic travel days. In 2015, total direct travel spending in Texas reached $69 billion. Tourism in Texas ranks second only to oil and gas in terms of its contribution to the state's GDP. Why does such a successful industry need government support?

Second, economic impact studies mainly focus on positive effects of building attractions and luring more visitors to Texas. Other, less optimistic effects are better swept under the carpet. The focus on one major event or arena to attract tourists often diverts them away from other leisure activities, or from nearby shops and restaurants, possibly counterbalancing any perceived positive effect on the local economy. This is the crowding out effect.

Another issue lies in the myth that visitors are paying, not local taxpayers. First, outside of their local communities, all Texans are visitors in their own state. When they pay for a room away from home, they pay any added local tax. Finally, each tax added to a product or service makes it more expensive to its buyer, resulting in less of it being bought. A 2011 U.S. Travel Association survey found that 49 percent of travelers changed their plans because of high travel taxes. How many visitors decide to shorten their stay, if they come at all, or spend less, because of the daily cost added by the HOT to the price of their hotel room? The money levied on visitors through the HOT could be spent in the local economy instead, generating additional economic activity.

Recommendations

Eliminate the local hotel occupancy tax. However well-intentioned it may appear, the tax has the double unfortunate result of subsidizing specially connected businesses with taxpayer money and encouraging government spending. Tourism is strong in Texas and does not need corporate subsidies to thrive. Visitors will be left with more money to spend locally, as Texas will become instantly more attractive to tourists in search of less expensive vacation plans. Additionally, the role of a limited government is not to increase tax revenues in order to increase spending, but to frugally restrict spending to its core functions, which should not include financially supporting any industry. ✭

Resources

"Texas Tourism Travel Facts," *Texas–It's a Whole New Country* (accessed July 27, 2016).

"Hotel Occupancy Tax," *Texas Comptroller of Public Accounts* (accessed July 27, 2016).

"Hotel Occupancy Tax Frequently Asked Questions," *Texas Comptroller of Public Accounts* (accessed July 27, 2016).

"Local Hotel Occupancy Tax," *Texas Ahead* (accessed July 27, 2016).

Risks Incumbent to the Hotel Occupancy Tax – Presented to the City of Austin Economic Opportunity Committee by Kathleen Hunker, Texas Public Policy Foundation (May 2016).

"Survey: 49% of Travelers Alter Plans Due to High Travel Taxes," U.S. Travel Association (April 11, 2011)

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