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(2 pages)

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IMPACT

Of Room Tax Increases On the Lodging Industry

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ASSEMBLY COMMITTEE ON TAXATION
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A 2% Increase in the Bed Tax Would Cost the Nation 535,613 Jobs, \$11.4 Billion in Wages, \$39.6 Billion in Sales, and \$280.2 Million in State and Local Tax Collections.

- Econometric analysis reveals that on average a 2% increase in the combined tax on hotel and motel rooms (increasing the rate from 9% to 11%, for example) would cause about a 5.1% reduction in room sales and associated visitor spending per year. This reduction would spill over into every sector of the economy.
- The bed tax increase would raise an additional \$1,208.5 million from hotel guests, but cause the loss of \$1,488.7 million in other state and local taxes paid by all industries and workers affected by reduced visitor spending. The net result would be a \$280.2 million loss in combined state and local tax collections.
- This average impact would vary in different markets depending upon the current level of tax, current room rates, and strength of demand for rooms in a particular area. It would also vary by type of hotel and hotel amenities.

In Atlanta, GA, a 2% Bed Tax Increase Would Cost 8,410 Jobs and Drop Combined State and Local Tax Collections by \$80,402.

- In Atlanta, GA, for example, the same 2% room tax increase would raise the combined tax rate to 16% and cause a 4.3% reduction in hotel occupancy. This would reduce jobs by 8,410, sales by \$445.1 million, and wages by \$166.1 million annually across all industries. Combined state and local tax collections would fall by \$80,402. The hotel tax revenue increase of \$15,778,445 would be offset by a decline of \$15,858,847 in other tax revenue.
- We must emphasize that the impact of a tax change on sales can be masked by other factors in the market, including the business cycle. Although it requires complex econometric techniques to isolate the tax impact, its force is real even when not easily apparent in the data. Thus, strong markets do not disprove the negative tax effect; hotels would realize even greater room revenue at lower tax rates.
- Some negative impacts of bed taxes can be mitigated if they are used for travel promotion. A number of markets designate a portion of the bed tax to support convention and visitors bureaus, travel advertising, and other activities aimed at increasing travel and tourism. Bed taxes that are not earmarked for travel-related uses do not benefit tourism and act only as a deterrent to travel by increasing a guest's cost.

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For National Hotel & Lodging Association
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