

# Local Bonus

## Tax Fairness Proposal Closes a Loophole and Helps Localities

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The Governor's proposed revisions to the state budget contain a bonus for Virginia's cities, counties, and towns. By closing a statewide tax loophole, the proposal would allow Virginia's cash-strapped localities to collect taxes on the full price of hotel rooms, rather than only part of their prices. That, in turn, would help the localities pay for much-needed services.

Currently, when hotel rooms and other short-term accommodations are booked through online booking sites like Priceline and Orbitz, sales and transient occupancy taxes are charged only on the discount price negotiated by the online site, not on the full price paid by the consumer. Taxes are charged on the full room price paid by the consumer when accommodations are booked directly with the hotel or property manager. This creates an uneven playing field that boosts the profits of the big online sites but reduces the revenue available to Virginia and its localities to provide the services on which the tourism industry—and ordinary Virginians—depend every day.

The Governor's budget plan includes a proposal to close this loophole and put direct hotel bookings and online bookings on even ground. Statewide, this would raise about \$1.7 million a year for the state general fund, which pays for major services like schools and health care. It would also provide \$500,000 a year in additional local option sales tax revenue for localities and could result in about \$2.75 million a year in additional local transient occupancy tax revenue.

While we don't know the exact locality-by-locality impact of the proposal, we can estimate it based on current taxable sales by the accommodations industry and local transient occupancy receipts.

Almost every Virginia locality would see additional revenue, and in many of Virginia's cities and counties the money would be sufficient to provide much-needed additional services. For example, in Virginia Beach, which we expect would receive the most additional revenue, the \$421,000 could provide the local share of the cost of allowing 173 additional at-risk four-year-olds to attend high-quality preschool. In Prince William County,

which currently provides preschool to very few of these children despite the availability of state matching funds, the newly-collected revenue could provide full-time preschool to 25 students.

Closing Virginia's online hotel bookings loophole is good for the state, good for localities, and good for basic tax fairness. Approving this proposal should be an easy decision for Virginia legislators.

### Local benefits from closing the online hotel bookings loophole Top 20 localities in terms of total benefit

	Sales and Use	Transient Occupancy	Total
Statewide	\$ 500,000	\$ 2,755,000	\$ 3,255,000
Virginia Beach	\$ 38,000	\$ 383,000	\$ 421,000
Arlington	\$ 67,000	\$ 327,000	\$ 394,000
Fairfax County	\$ 85,000	\$ 279,000	\$ 364,000
Alexandria	\$ 20,000	\$ 173,000	\$ 193,000
Henrico	\$ 25,000	\$ 159,000	\$ 184,000
Norfolk	\$ 13,000	\$ 118,000	\$ 131,000
Richmond City	\$ 16,000	\$ 88,000	\$ 104,000
Loudoun	\$ 21,000	\$ 73,000	\$ 94,000
Williamsburg	\$ 19,000	\$ 67,000	\$ 87,000
York	\$ 10,000	\$ 63,000	\$ 73,000
Chesapeake	\$ 9,000	\$ 62,000	\$ 71,000
Chesterfield	\$ 9,000	\$ 62,000	\$ 70,000
Prince William	\$ 10,000	\$ 49,000	\$ 59,000
Roanoke City	\$ 9,000	\$ 50,000	\$ 59,000
Charlottesville	\$ 9,000	\$ 43,000	\$ 52,000
Newport News	\$ 7,000	\$ 44,000	\$ 51,000
James City	\$ 2,000	\$ 44,000	\$ 47,000
Hampton	\$ 3,000	\$ 42,000	\$ 45,000
Albemarle	\$ 9,000	\$ 36,000	\$ 45,000
Lynchburg	\$ 5,000	\$ 29,000	\$ 34,000
All other	\$ 114,000	\$ 564,000	\$ 677,000

Source: TCI analysis based on CY2013 Weldon Cooper Center taxable sales reports, FY2013 APA amended comparative cost study, and the Dec 2014 2014-2016 executive budget.

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