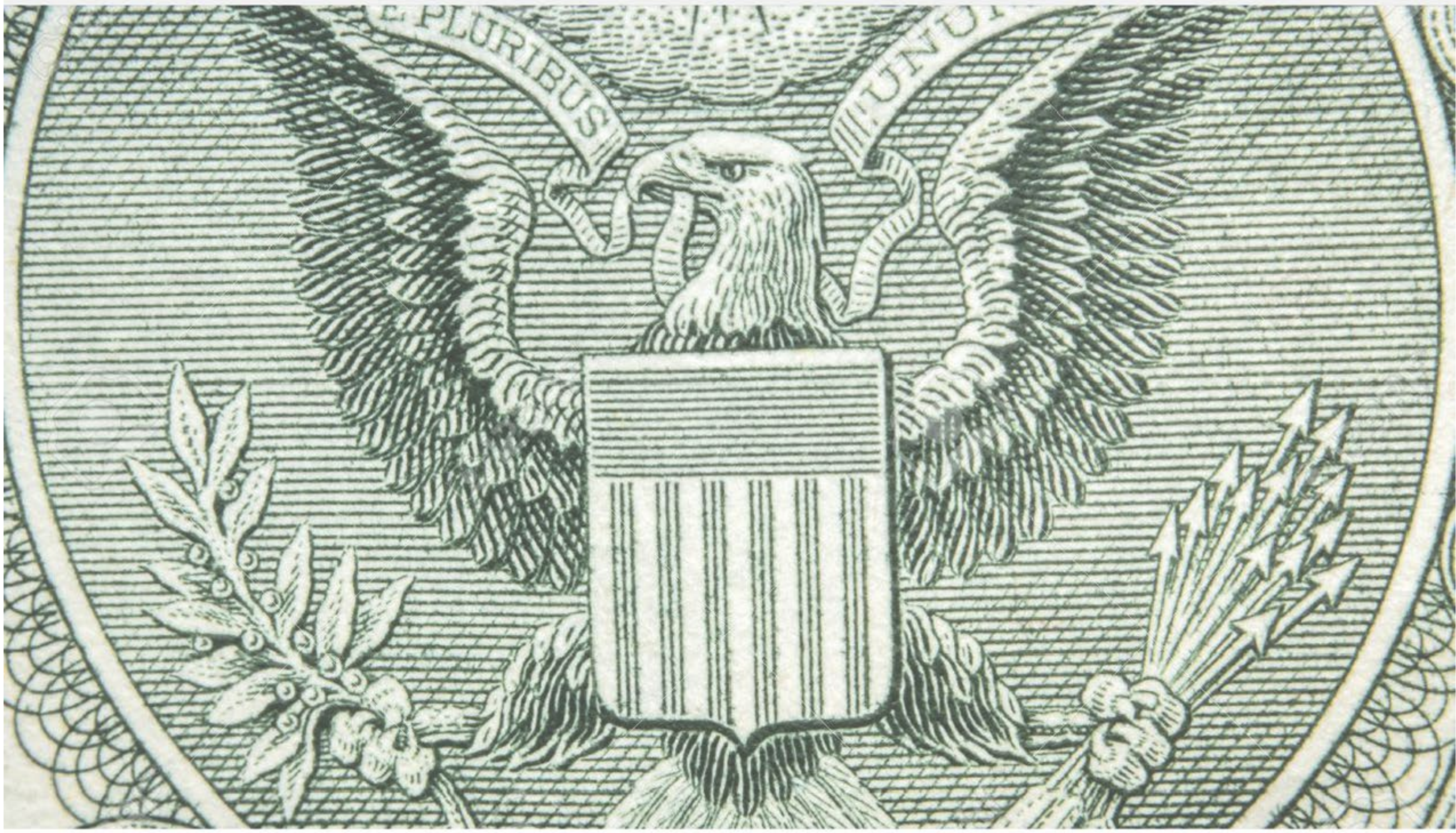
FISCAL BRIEF

Travel is Taxing in More Ways Than One



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Travel is Taxing in More Ways Than One

For 10 years leading up to 2020, the U.S. tourism industry was thriving. Tourism taxes accounted for nearly 6% of state and local tax collections. Then came the pandemic and everyone stayed home. A strong sector of the economy suddenly collapsed. One third of travel jobs were lost, travel spending declined by nearly $500 billion, and states lost billions of dollars in tax revenue.

In 2019, tourism generated $180 billion in tax revenues for federal, state, and local governments. During the pandemic's early days, tourism-reliant states were hit hard by declining revenues. Hawaii initially projected $300 million in lost tax collections and 6,000 jobs. New York City lost $1.2 billion in tax revenue. Nevada, another tourism-dependent state, faced a bleak economic outlook when visitor spending declined by 52.2% from the previous year. While traditional tourist destinations faced massive losses, rural areas across America saw an uptick in travelers.

Rural areas near state and national parks saw visitor numbers grow as more people sought outdoor recreation as a lower COVID-19 risk alternative. Airbnb reported a rise in homes booked in rural areas in 2021. In Jackson Hole, Wyo., lodging tax revenue hit record highs. Tourism tax revenue in Arkansas totaled $20.54 million in 2021, 16.7% higher than 2019 collections. While increased tourism is beneficial for state revenue, it also comes with costs. Areas that experienced a boom in visitors faced a new problem- additional stress on state and local resources.

DYK???

The national average gas price has reached the highest recorded price ever at $4.60 as of May 2022.This year, more than 50% of Americans plan to take a domestic vacation according to AAA, only 42% of those individuals said they would not change their plans regardless of gas prices.

The sudden shift to domestic rural travel during the pandemic highlights the need for policymakers to think about the burdens tourists place on state and local resources. Gini Pingenot, director of external affairs at Colorado Counties Inc., reported a lack of sufficient infrastructure to host the number of visitors that came to Colorado. In addition, individuals who live in popular tourist areas are being priced out of the communities in which they work. Both these issues reverberate in other rural areas where tourism boomed because of COVID-19. In fact, a study conducted by the University of Montana found 38% of residents disagreed that increased tourism improved the quality of life for Montana residents (the most recorded since 1992). Negative sentiment among locals in highly traveled areas has some state lawmakers modifying tourism tax legislation.

Tourism tax revenues are typically earmarked. For example, some states earmark lodging tax revenue to promote tourism. To tackle issues brought on by shifting travel preferences to small rural communities, legislators have changed the ways tourism tax revenue can be allocated. In Washington County Utah—-- home to Zion National Park—legislators passed a bill to increase spending flexibility for lodging tax revenue. It is no longer required to be spent on tourism promotion. Colorado legislators passed a bill to allow county lodging taxes to support affordable housing in an effort to combat rising costs in areas with heavy tourism.

Business Tourism

Whereas domestic leisure travel is on the rise, domestic business travel continues to struggle and currently accounts for only 14% of travel spending compared to 26% in 2019. Between 2020 and 2021, $391 billion in travel spending was lost as employers halted business travel. The revenue that came from business accommodations, airfare, car rentals and event spaces plummeted at the start of the pandemic. Business travel has since resumed, but it has changed. Businesses may be forced to reduce the size or change the location of events to comply with COVID restrictions. Companies also continue to rely on video conferences and meetings.

There are conflicting opinions on the recovery of business travel. Deloitte reported likely improvement of corporate travel demand in the first half of 2022 but warned that travel was unlikely to reach near 2019 levels. The U.S Travel Association found that eight in 10 travel managers reported changes to business travel policies, including fewer business trips. The association forecasts business travel will not reach pre-pandemic levels until 2024. Yet, American Airlines and Delta airlines report promising business travel demand numbers. Hotel companies also show more optimism in business travel recovery. Hilton expects business travel to reach pre-pandemic levels by the end of 2022.

Considerations for Legislators

State policymakers seeking to capitalize economically on tourism must consider several factors.

- Examine travel trends. Being prepared puts states in a better position to mitigate the negative impacts of increased tourism. Every state has a tourism office that collects travel data. Collaboration with that office will help policymakers develop effective tourism policies.
- Ensure the various agencies that play a part in tourism are coordinating with each other. State tourism offices, history preservation agencies, state park offices and the Department of Transportation are a few of the agencies where collaboration benefits state tourism
- Consider the tax rate imposed on tourist activities. The World Travel and Tourism Council warns high tourism taxes can have a negative impact on revenue collected by deterring travelers from visiting a destination or leading to shorter stays to cut costs. Likewise, organizations and businesses hosting large events and conventions may be discouraged from visiting destinations with high tax rates. Local businesses dependent on tourist spending are also affected by high tax rates. Consumers may choose to spend less locally to offset the costs of accommodations, car rentals, and airfare. On the other hand, tourism taxes can allow local governments to pay for services in the community.

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Below are tables of state tax rates on lodging and car rentals:

State	State Sales Tax	State Lodging Tax	Total State Tax
Alabama [1]	N/A	4%	4%
Alaska	N/A	N/A	N/A
Arizona	N/A	5.50%	5.50%
Arkansas	6.50%	3%	9.50%
California	N/A	N/A	N/A
Colorado	2.90%	N/A	2.90%
Connecticut	N/A	15%	15%
Delaware	N/A	8%	8%
District of Columbia	N/A	14.95%	14.95%
Florida	6%	N/A	6%
Georgia	4%	$5/room	4%
Hawaii	4%	10.25%	14.25%
Idaho	6%	2%	8%
Illinois	N/A	6% of 94% of Gross receipts	
Indiana	7%	N/A	7%
Iowa	N/A	5%	5%
Kansas	6.50%	N/A	6.50%
Kentucky	6%	1%	7%
Louisiana	4.45%	N/A	4.45%
Maine	N/A	9%	9%
Maryland	6%	N/A	6%
Massachusetts	N/A	5%	5%
Michigan	6%	6%	12%
Minnesota	6.50%	N/A	6.50%
Mississippi	7%	N/A	7%
Missouri	4.00%	N/A	4%
Montana	4%	4%	8%
Nebraska	5.50%	1%	6.50%
Nevada	N/A	N/A	N/A
New Hampshire	N/A	8.50%	8.50%
New Jersey	6.63%	5%	11.63%
New Mexico	5%	N/A	5%
New York	4%	N/A	4%
North Carolina	4.75%	N/A	4.75%
North Dakota	5%	N/A	5%
Ohio	5.75%	N/A	5.75%
Oklahoma	4.50%	N/A	4.50%
Oregon	N/A	1.50%	1.5
Pennsylvania	N/A	6%	6%

Rhode Island	7%	5%	12%
South Carolina	5%	2%	7%
South Dakota	4.50%	1.50%	6.00%
Tennessee	7%	N/A	7%
Texas	N/A	6%	6%
Utah	4.70%	0.32%	5.02%
Vermont	N/A	9%	9%
Virginia	4.30%	N/A	4.30%
Washington	6.50%	N/A	6.50%
West Virginia	6%	N/A	6%
Wisconsin	5%	N/A	5%
Wyoming	4%	5%	9%

State	State Car Rental Excise Tax	State Sales Tax
Alabama	1.50%	4.50%
Alaska	10%	N/A
Arizona	5%	N/A
Arkansas	10%	6.50%
California	None	7.25
Colorado	$2/day	2.90%
Connecticut	2.75%	9.35%
Delaware	1.99%	N/A
District of Columbia	10.25%	6%
Florida	$2/day	6%
Georgia	None	4%
Hawaii	None	4%
Idaho	None	6%
Illinois	5%	6.25%
Indiana	4%	7%
Iowa	5%	6%
Kansas	3.50%	7%
Kentucky	6%	6%
Louisiana	3%	4.45%
Maine	10%	5.50%
Maryland	11.50%	6%
Massachusetts	$2 surcharge	6.25%
Michigan	6%	6%
Minnesota	9.2%+ 5%	6.88%

Mississippi	6%	5%
Missouri	4%	4.23%
Montana	4%	N/A
Nebraska	None	5.50%
Nevada	10%	6.85%
New Hampshire	8.50%	N/A
New Jersey	$5/day	6.63%
New Mexico	5% ("Leased") + $2/day	5.13%
New York	6%	4%
North Carolina	8%	4.75
North Dakota	3%	5%
Ohio	None	5.75%
Oklahoma	6%	4.50%
Oregon	None	N/A
Pennsylvania	2%+ $2/day	6%
Rhode Island	8%	7%
South Carolina	None	6%
South Dakota	4.5% and a 1.5% tourism tax	4.50%
Tennessee	3%	7%
Texas	10%	6.25%
Utah	2.50%	6.10%
Vermont	9%	6%
Virginia	10%	5.30%
Washington	5.90%	6.50%
West Virginia	$1-$1.50/day	6%
Wisconsin	5%	5%
Wyoming	4%	4%

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