



SF 640 – Hotel and Motel Local Sales Tax (LSB1771SV)
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Fiscal Note Version – New

Description

[Senate File 640](#) modifies the number of consecutive days the same person must rent lodging for the sales price to be exempt from State and local hotel and motel taxes by making the first 90 days of a stay subject to taxation.

The Bill also exempts lodging furnished by a nonprofit lodging provider renting to the friends and family of a hospital patient from the hotel and motel tax.

Background

Under current law (Iowa Code chapter [423A](#)), the renting of lodging by the same person for a period of more than 31 consecutive days is exempt from State and local hotel and motel taxes.

Iowa Code section [423A.7\(4\)](#) requires that 50.0% of the revenue generated by local hotel and motel taxes be used for purposes related to recreation, convention, cultural, or entertainment facilities, or for the promotion and encouragement of tourist and convention business in the city or county and surrounding areas. The remaining revenues may be spent by the city or county for any operations authorized by law as a proper purpose for the expenditure within statutory limitations.

Assumptions

- In FY 2018, hotels and motels reported exempt sales of \$51.0 million. These sales are assumed to be for long-term rentals, and other potential sales to exempt entities are assumed to be minimal.
- The State tax rate is 5.0%, and the effective local tax rate is 5.78%.
- Of the exempt hotel and motel sales, 10.0% are assumed to be for periods of 90 days or longer. Of that amount, it is assumed there is a decreasing number of stays beyond 90 days, and an average stay of 120 days is used as the maximum. Therefore, 97.5% of currently exempt sales would become taxable.
- Increases in taxable sales are derived from the Department of Revenue's sales and use tax forecasting model, which includes estimated increases in collections due to changes enacted in 2018 Iowa Acts, chapter 1161 (State and Local Taxation, Revenue, and Finances Act).
- Total revenue from lodging and fee support from 2016 to 2017 reported by Ronald McDonald House Charities of Eastern Iowa and Western Illinois on Internal Revenue Service (IRS) Tax Form 990 was reviewed.

Fiscal Impact

Changing the tax exemption is estimated to increase revenues as presented in the following table. The exemption of lodging furnished by a nonprofit lodging provider is estimated to have minimal fiscal impact.

	Estimated Impact	
	Dollars in Millions	
	General Fund	Local Tax Revenue
FY 2020	\$ 2.9	\$ 3.3
FY 2021	2.9	3.4
FY 2022	3.0	3.5
FY 2023	3.2	3.7
FY 2024	3.3	3.8

Sources

Department of Revenue
990 form for Ronald McDonald House Charities of Eastern Iowa and Western Illinois, 2016-2017

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.