



[HF 760](#) – Hotel and Motel Local Sales Tax (LSB1771HV.1)
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Fiscal Note Version – Final Action

Description

[House File 760](#) modifies the number of consecutive days a 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 2019, hotels and motels reported exempt sales of \$50.6 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 6.76%.
- 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 a stay of 120 days is used as the maximum. Therefore, 97.5% of currently exempt sales would become taxable.
- 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 to determine if there would be a fiscal impact associated with the tax exemption for lodging provided by a nonprofit.

Fiscal Impact

Changing the tax exemption is estimated to increase revenues as presented in the following table. The assumptions are based on data prior to the COVID-19 pandemic and the economic recession that began in February 2020. The extent of the economic impact that the COVID-19

pandemic will have on long-term hotel stays is unknown. The estimated increase in tax revenue shown on the below table represents the fiscal impact under pre-COVID-19 economic activity.

Estimated Revenue Increase			
Dollars in Millions			
	General	Local Tax	
	Fund	Revenue	
FY 2021	\$ 2.7	\$ 3.7	
FY 2022	2.8	3.8	
FY 2023	2.9	3.9	
FY 2024	2.9	4.0	
FY 2025	3.0	4.1	

The exemption of lodging furnished by a nonprofit lodging provider to friends and family of a hospital patient is estimated to have minimal fiscal impact.

Sources

Department of Revenue
IRS Tax Form 990 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.

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