



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 12, 2020

Honorable Brett Harrell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 448 (LC 43 1593S)

Dear Chairman Harrell:

The bill would modify the definition of innkeeper and modify the state excise tax under O.C.G.A. § 48-13-50.3. Innkeepers subject to state and local excise taxes on lodging would include marketplace innkeepers, or “marketplace facilitators” with a substantial economic presence in the state as defined by HB 276 (signed into law January 30, 2020). These entities would be required to collect and remit both state and local excise taxes for lodging and public accommodations. The bill would also change the current flat tax of \$5 per night to \$5 or 10 percent of the sale price, whichever is less. The bill would be effective July 1, 2020.

Impact on State Revenue

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would result in a revenue gain of \$16.5 million in FY 2021, with the revenue gain increasing to \$18.0 million by FY 2025 (**Table 1**). FRC noted that insufficient tax data exists to estimate the impact on local tax revenue. Details of the analysis are included in the appendix.

Table 1. Estimated State and Local Revenue Effects of HB 448

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Estimate	\$16.5	\$16.8	\$17.1	\$17.6	\$18.0
Local Estimate	-- No data available --				

Note: Numbers may not total due to rounding

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the provisions of the bill without additional funding.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The bill has two key provisions that would impact state and local revenue. The first would require lodging network services, such as Airbnb and HomeAway/VRBO, that facilitate short-term rentals of private homes to collect and remit hotel-motel taxes. Long-term stays of more than 30 days are exempt from the tax, as under current law. The second major change would reduce state and local revenue by effectively cutting hotel-motel taxes on rooms rented for less than \$50 per night, below which the tax would be 10 percent of the room price rather than the flat \$5 applicable under current law.

Lodging Network Services

The following summarizes the facts and assumptions used in the revenue estimates for lodging network services:

- Based on listing information data from Airdna.com, an Airbnb data analytics service, Airbnb's available rooms and nights in Georgia's major cities are estimated to be about 2.7 million available room-nights annually as of 2019. The average occupancy rate for Airbnb listings in major Georgia cities is estimated to be 55 percent.¹
- As part of their preparation for a possible initial public offering, Morningstar released a report discussing Airbnb's market share, among other financial and growth metrics.² The number of Airbnb room-nights available, calculated above, was divided by this estimated market share to approximate the size of the overall alternative accommodations market in Georgia's major cities. If Airbnb's market share estimate was inflated, then total room-nights, rental spending, and taxes received would be higher than the estimates presented in Table 2.
- Research firm eMarketer estimates Airbnb's growth from 2015 to 2016 to have been about 44.4 percent in the U.S., but warns of significant regulatory, safety, and other challenges coming for the company and its industry. The same report projects year over year growth rates in the U.S. market slowing dramatically to 2.4 percent between 2021 and 2022. These eMarketer forecasted growth rates were used to estimate Airbnb's room-night rental sales through FY 2025, and its market share projections (from the report mentioned previously) were in turn used to estimate the total industry's rental sales.³
- Based on a survey of Airbnb listings⁴ 6 months from now in these cities, 96 percent of the available rooms are listed for prices above the \$50 threshold and would be subject to the flat \$5 in excise taxes per room night. The 4 percent that fall below the threshold typically charge between \$25 and \$49, for an average listing of \$37. The estimates assume this average price will increase by 2 percent annually due to inflation.

¹ <https://www.airdna.co/vacation-rental-data/app/us/georgia/atlanta/overview> as of Feb. 6, 2020

² https://files.pitchbook.com/website/files/pdf/3Q_2018_Morningstar-PitchBook_Airbnbs_Network_Effect_Offers_Investors_A_Unique_Stay.pdf

³ <https://www.emarketer.com/content/emarketer-lowers-airbnb-forecast>

⁴ Listing on <https://www.airbnb.com/> for the weekend of Aug. 1, 2020.

- Eventually, inflation would be expected to push many of these listings above the \$50 threshold, capping the taxes paid at \$5 per room. However, because this threshold effect is difficult to account for and is not expected to significantly impact the revenue generated in the forecast period, this estimate assumes the share of rentals below the \$50 threshold will remain constant.
- These assumptions lead to estimated new revenue from lodging network services as shown in Table 2 below.

Table 2. Estimated New State Excise Tax Revenue from Lodging Network Services

<i>(millions except per night prices)</i>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Room Night Rentals \geq \$50	3.49	3.54	3.61	3.70	3.79
Room Night Rentals $<$ \$50	0.15	0.15	0.15	0.15	0.16
Average room price $<$ \$50	\$37.0	\$37.7	\$38.5	\$39.3	\$40.0
State Revenue Rentals \geq \$50	\$17.4	\$17.7	\$18.0	\$18.5	\$19.0
State Revenue Rentals $<$ \$50	\$0.5	\$0.6	\$0.6	\$0.6	\$0.6
Total State Revenue	\$18.0	\$18.3	\$18.6	\$19.1	\$19.6

Traditional hotel-motels

The following summarizes the facts and assumptions used in the revenue estimates for the traditional lodging market, which is already subject to hotel-motel excise taxes.

- In FY 2019, the state generated \$180,020,800 from hotel-motel taxes, according to Department of Revenue data.⁵ At \$5 per room, this translates to an estimated 36,004,160 taxable room nights sold.
- After years of strong growth, recent industry forecasts by analyst STR show national demand for hotel stays slowing over the next two years. The number of room nights is expected to increase by 1.6 percent in 2020 and 1.7 percent in 2021.⁶⁷ The estimates assume growth of 1.65 percent per year over the remainder of the forecast period.
- Using a survey of 772 hotel listings in 14 Georgia cities six months from now on hotelscombined.com, we estimate that about 7.6 percent of the state's available hotel inventory falls below the \$50 threshold.⁸ The average price of these listings was \$45.
- Available data do not differentiate occupancy rates across the different price segments of the hotel market, or the total number of rooms offered at each hotel, which could affect this estimate positively or negatively. It is also possible that low-priced hotels are less likely than the rest of the market to appear in online listings, which would cause our forecast to underestimate the number of rooms that would fall below the threshold.

⁵ Georgia Revenue and Reserves Report for Fiscal Year Ended June 30, 2019.

⁶ <https://str.com/press-release/str-te-forecast-further-slowing-us-hotels>

⁷ <https://str.com/press-release/us-hotel-revpar-forecasted-flatten-2020>

⁸ https://www.hotelscombined.com/PlaceAll/Georgia_United_States.htm

- This forecast assumes a static price of \$45 per night through the forecast period, because while inflation could push some hotel stays above the \$50 price threshold during the forecast period, this revenue gain could be offset by growth in lower-priced hotels. If the growth in lower-priced rentals does not outpace the amount that cross over to the \$50 and up bracket, this could result in an overestimation of the lost revenue.
- The estimated state revenue loss from traditional hotels with rooms that cost less than \$50 per night is thus the number of < \$50 room nights times the difference between \$5 per night and 10 percent of the average room charge, or 50 cents per room night (see Table 3).

Table 3. Estimated State Excise Tax Revenue Losses from Proposed Hotel-Motel Tax Threshold

<i>(millions)</i>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total Room Night Rentals	37.2	37.8	38.4	39.1	39.7
Room Night Rentals < \$50	2.8	2.9	2.9	3.0	3.0
State Revenue	(\$1.4)	(\$1.4)	(\$1.5)	(\$1.5)	(\$1.5)