

Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism

Tennessee's tourism and hospitality industry's revenue is at an all-time high. More than 100 million lodging stays in 2014 contributed to a record \$17.7 billion in tourism travel spending.¹ These expenditures make a significant contribution to Tennessee's overall economy and generate \$1.5 billion in tax revenue for the state and local governments. Accommodations alone contributed \$2 billion to the state's economy in 2013 and generated \$154 million in lodging tax revenue for cities and counties in Tennessee in 2014, most of which is used to fund convention centers and programs that promote tourism.

Although tourism is generally thriving in Tennessee, the hospitality industry has expressed concern that the relatively high lodging taxes in some parts of Tennessee turn visitors and developers away, harming the industry and the state's economy. Those concerns prompted legislation in 2015 (Senate Bill 850 by Tate, House Bill 951 by M. White) that would have required local governments to conduct economic studies before levying lodging taxes, earmarked at least 80% of future revenues for development of tourism, required audits to ensure that strict definitions of what constitutes "tourism development" were followed, and prohibited authorization of lodging taxes by private act. In response to opposition from local officials, the bill was amended and passed directing the Commission to

- study the effect of hotel occupancy taxes on the economy, tourism, and the hospitality industry,
- compare Tennessee's hotel occupancy tax structure with other states' and recommend whether to change it, and
- consider methods to require public input before adopting lodging taxes.²

Effect of Lodging Taxes on Tourism

Though increasing the total cost of a room, whether by increasing the price or by increasing taxes, can reduce the number of hotel stays, studies show that lodging customers overall are not very sensitive to higher prices. How sensitive customers are depends on other conditions, including whether the area is a tourist destination and whether there are hotels of the same class or status with similar amenities in a neighboring jurisdiction with lower lodging taxes. In the latter case, the difference in lodging taxes could hurt hotels in locations with higher tax rates. Even in those instances, however, the burden of lodging taxes falls mainly on

¹ "Governor Bill Haslam and Tennessee Tourism Announce Record-Breaking Economic Impact Numbers". Press release, 8/18/2015. <http://press.tnvacation.com/news-archive/2774/governor-bill-haslam-and-tennessee-tourism-announce-record-breaking-economic-impact-numbers/>.

² Public Chapter 395, Acts of 2015. See appendix A.

customers, not on hotels, and the amount paid toward lodging taxes by customers is a very small component of total travel spending and has little to do with their choice of hotel.

Authorizing Local Lodging Taxes and Capping Rates

Lodging tax laws in Tennessee, as in most states, are complicated by distinctions made among local governments and geographic areas. Tennessee's laws vary from county to county and among metropolitan governments and cities, but all hotel guests in Tennessee pay state and local sales taxes and in most places a county lodging tax, a city lodging tax, or both. Unlike most states, Tennessee has not granted general authority to levy local lodging taxes. Instead, the General Assembly has authorized certain types of local governments and individual counties and cities to levy them at certain rates, generally 5%.

The legislature mainly used private acts to authorize lodging taxes for individual local governments until 1976 when it granted metropolitan governments authority by statute to levy a 3% lodging tax. There was only one metropolitan government in Tennessee at the time. In 1988, the legislature granted its handful of home rule cities authority by statute to levy a 5% lodging tax. Tennessee's constitution prohibits private acts for home rule cities, but the practice of using private acts for other cities and most counties continues to this day. The General Assembly also authorizes local lodging taxes by making exceptions to the general law adopted in 1988 that ended the practice of using private acts to authorize local lodging taxes where another local government already had one. Most of those exceptions authorize overlapping local lodging taxes, often called "stacking," and cap the individual rates at 5%. Combined rates where they overlap, with few exceptions, are effectively capped at 10%. The stacking prohibition does not apply to home rule cities because their lodging tax authority is in general law, not in private acts.

Forty-three states authorize lodging taxes for at least some cities or counties. Most (37 of the 43) do so by general law for either all cities or all counties—21 authorize both—and usually up to a certain rate—though many make exceptions to the standard rate limit for specific, individual jurisdictions. Iowa and Texas generally cap rates at 7%; cities in Wisconsin are allowed to go to 8% with a referendum. A small number of states have no caps and allow rates to be set at the local level, either by the legislative body adopting the tax or by referendum, including seven that authorize local lodging taxes for cities generally (Alabama, Alaska, Arizona, California, Colorado, Nebraska, and Oregon), three of which (Alaska, California, and Oregon) grant similar authority to counties. In Tennessee and four others (Louisiana, Mississippi, New York, and North Carolina), most local governments must have specific, individual authorization from their state legislature to adopt a new lodging tax or increase the authorized rate for an existing lodging tax. Twenty-eight states including Tennessee allow city and county taxes to overlap.

With one exception, local lodging tax authorizations in Tennessee set maximum rates, nearly always 5%. The exception is Lexington, which has no cap.³ Home rule cities (currently 14) are statutorily authorized as a group to levy a lodging tax of up to 5%, which as noted above can overlap existing county taxes. Metropolitan governments in Tennessee (currently three) are authorized by statute to levy a local lodging tax of up to 3% except Metropolitan Nashville-Davidson County, which can levy up to 6% total plus a \$2.50-per-night fee. A total of 81 counties (including the three with consolidated governments) and 75 cities (including the 14 home rule cities) have been authorized to levy local lodging taxes.

City and county lodging taxes overlap in 33 cities in 19 counties, including 12 cities in 8 counties where the county and each city are authorized to levy a 5% tax for a total of up to 10%. When added to Tennessee's sales tax, which can be as high as 9.75% state and local combined, the total authorized rate in these 12 cities is 19.75%, the highest rate currently charged in the state. (The total lodging tax in the Davidson County portion of Goodlettsville, which has specific authorization for a 3% tax, is 9% plus a combined state and local sales tax rate of 9.25% for a total of 18.25%.)

The combined sales and lodging tax rates could exceed 19.75% without further action by the General Assembly in three situations. The first is illustrated by the city of Lexington, which currently taxes lodging at 5% but, as noted above, has no maximum and could tax at any rate. The second is illustrated by the Sullivan County portion of Johnson City, which has a 7% lodging tax, where the combined rate could be 21.75% if the county were to levy its authorized maximum 5% lodging tax and either the county or the city were to raise its sales tax to the maximum 2.75%. The third occurs in the nine counties with authorized lodging tax rates above 5% and sales tax rates of 2.75%. If one or more of the cities in those counties adopted a home rule charter, which requires no action by the General Assembly, and adopted the 5% lodging tax allowed for home rule cities, the combined rate in those cities would exceed 19.75%. For example, any city adopting home rule in Cheatham County, which has an authorized lodging tax rate of 10%, would have the highest combined authorized rate under this scenario, 24.75%, including the maximum 2.75% sales tax rate.

Many Tennessee jurisdictions have either not used their lodging tax authority at all or remain below their caps, and most have rates of 5% or less. Three counties, Hawkins, Morgan, and Sullivan, plus Metropolitan Hartsville-Trousdale County declined to use their lodging tax authority (Hawkins and Morgan's authority has since expired); six more—Cheatham, Lewis, Hamilton, Rhea, Rutherford, and Sequatchie—remain below their authorized rates as do 15 cities, including Chattanooga, Knoxville, and Memphis as well as the Great Smoky Mountains gateway cities of Alcoa, Maryville, Newport, Pigeon Forge, and Sevierville. Ten other cities, including three home-rule cities, have not yet used their authorizations at all.

³ Tennessee Code Annotated, Section 67-4-1425(i).

Earmarking Local Lodging Taxes

The hospitality industry has long argued that revenue from local lodging taxes should be spent to bring more tourism into the area. However, city and county officials, citing differences in local needs, oppose any general earmark of lodging tax revenue, and although many grants of authority to levy local lodging taxes in Tennessee include earmarks, most do not. Lodging customers benefit from many of the same government services that benefit residents, including roads, police and fire protection, and other local government services. As with any other earmark, earmarking lodging tax revenue for a particular purpose, including promoting tourism, would reduce local governments' flexibility to pay for these services.

Tennessee, like all four other states that do not generally authorize local lodging taxes, lacks a general earmark. Nevertheless, the legislature frequently earmarks lodging tax revenue when authorizing new or increased rates, sometimes at the request of the local government proposing the tax. For example, the 2015 bill that authorized Columbia to levy a 5% lodging tax specified that all of the proceeds would be used for tourism development in Maury County.

With few exceptions, general earmarks of lodging tax revenue in other states are tied to general authorizations to impose local lodging taxes. Of the 33 states with general local-lodging-tax authorizations for cities, counties or both, only 13 earmark all of the revenue, 14 earmark a portion of it, and 6 do not earmark any of it. Missouri grants local authority only to certain categories of cities and counties with certain exceptions and earmarks all of the revenue. Michigan, Nevada, and Texas similarly limit authority to certain categories and earmark a portion of the revenue. The amount earmarked varies from 25% to 100% or applies only to revenue collected from rates above a certain level.

Reconciling Competing Interests

Tennessee, like nearly all other states, does not require public hearings before adopting local lodging taxes. Only five states require hearings, although three of those require them only for counties. Local governments in Tennessee, like those in six other states, may hold referendums on whether to levy lodging taxes at their option, though most choose not to do so. Eleven states require referendums; three of those states (Alaska, California, and Nebraska⁴) impose no cap on the rates set by local governments. It is not clear that tax rates in any of those states or in the states that require hearings are any higher or lower than those in other states.

Although Tennessee's lodging tax structure is more complex than that of many other states—especially the majority that grant general authority to all cities or counties or both—it is not clear that the General Assembly's tradition of authorizing individual jurisdictions to levy

⁴ Nebraska requires referendums only for cities, not for counties.

lodging taxes by private act or by exception to general law is not an appropriate response to differences across the state that warrant differences in law. Moreover, this practice ensures an opportunity for all aspects of proposals to be thoroughly vetted before new or higher lodging tax rates are authorized, both in the state legislature and, if authorized, at the local level. Even so, reducing the complexity in current law by granting general authorization for local lodging taxes may be warranted and would not inherently limit the legislature's ability to respond to specific situations with exceptions to general law. The fact that many cities and counties either have not used their current authorizations or have rates below their authorized caps suggests that general authorization would not necessarily lead to more or higher taxes. That said, even though there is no evidence that lodging taxes adversely affect the economy or the hotel industry, an uncapped general authorization may not be prudent even if it were politically acceptable.

Nor is it clear that the General Assembly's practice of considering earmarks one case at a time rather than imposing a general earmark—especially in the absence of a general authorization to impose lodging taxes—is not an appropriate way to respond to disparate local situations and avoid unnecessarily restricting all local officials' discretion and hindering communities' efforts to set their own priorities and determine how best to meet their needs.

Lodging Tax Structures and Economic Effects in Tennessee and Other States

According to the US Travel Association, domestic spending in Tennessee's tourism sector grew 6% in 2014 to \$17.2 billion, generating \$1.4 billion in tax revenue—approximately \$885 million for the state and \$494 million for local governments, which includes \$154 million in lodging tax revenue.⁵ In addition to providing revenue to local governments, the lodging industry employs more than 33,000 Tennesseans.⁶ In the first half of 2015 alone, Tennessee's 1,400+ hotels were 77% occupied and received \$1.3 billion in revenue—both all-time highs. On a typical night, there are more than 75,000 "heads in beds" at hotels in Tennessee.⁷

Effects of Lodging Taxes on the Economy and the Tourism and Hospitality Industry

Available research indicates that lodging customers are generally able to bear price increases from lodging taxes, but that customers' sensitivity to those price changes varies from place to place, with lodging taxes having little effect on hotel development and the overall economy. There has been little research conducted specifically to study the effect that lodging taxes have on the industry or the greater economy because it is a difficult variable to isolate and study over time and that lodging taxes are such a small component of overall travel and tourism spending.

Actual Tax Rates on Lodging—Comparison of Tennessee to Other States

All lodging stays in Tennessee are subject to the 7% state sales tax, and counties and cities can add local option sales taxes up to a total of 2.75%. Most hotels in Tennessee are also subject to a 5% lodging tax, levied by either a city or a county; there are only 16 counties including Metropolitan Hartsville-Trousdale County where the state and local sales taxes are the only taxes applied to lodging. The overwhelming majority of cities in Tennessee do not impose lodging taxes, but where they do, they frequently overlap. Thirty-three municipalities in nineteen different counties currently have overlapping lodging taxes in place. When combined with state and local sales taxes, lodging guests in most other places in Tennessee pay taxes from 14.25% to 14.75%. See appendix C for a table of all lodging taxes in Tennessee. There are jurisdictions in Tennessee where sales taxes combine with overlapping city and county lodging taxes for a total rate of 19% or higher.⁸ See map 1 for the distribution of tax rates across the

⁵ 2014 Economic Impact of Travel on Tennessee Counties; report by the US Travel Association for the Tennessee Department of Tourist Development, August 18, 2015. Revenue for the state government includes state sales and excise taxes, and taxes on personal and corporate income. Local government revenue includes sales and property taxes.

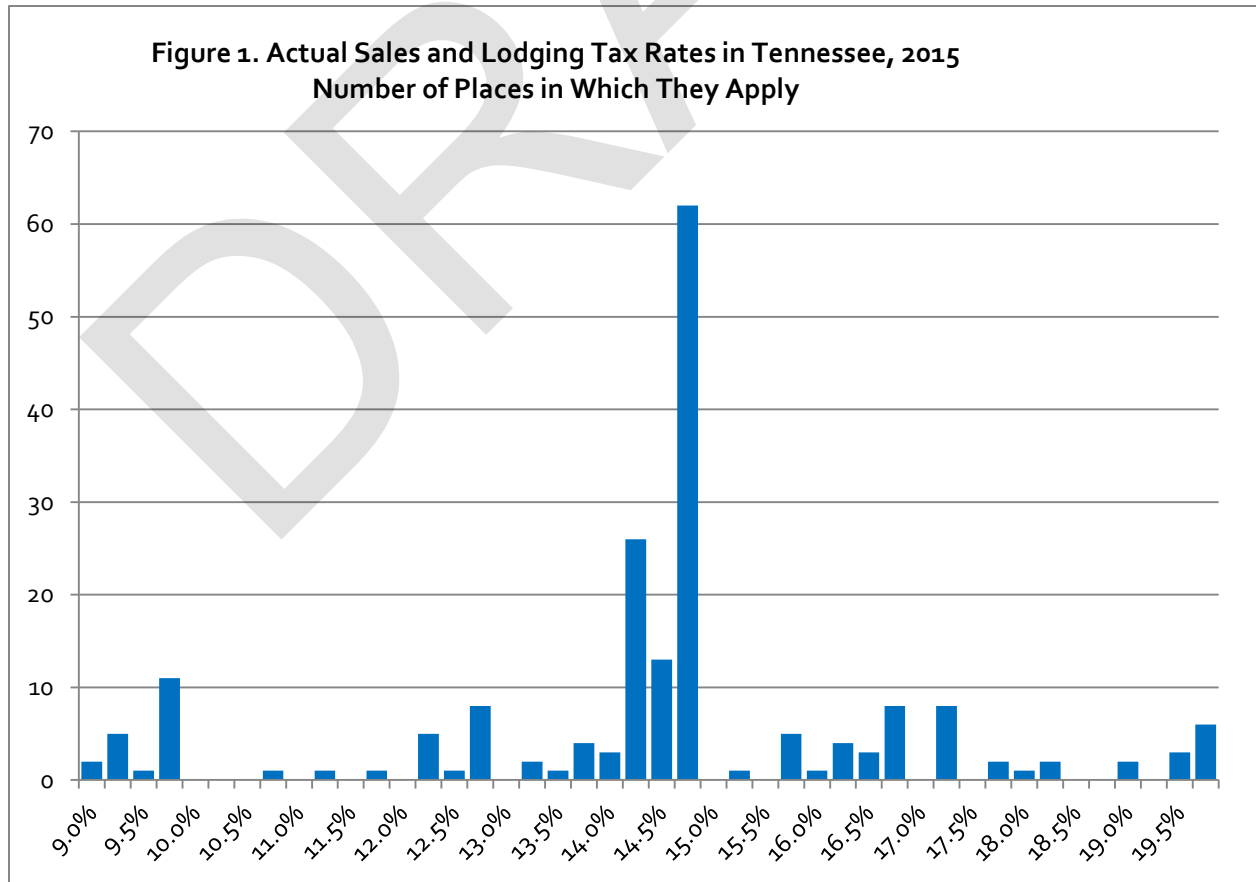
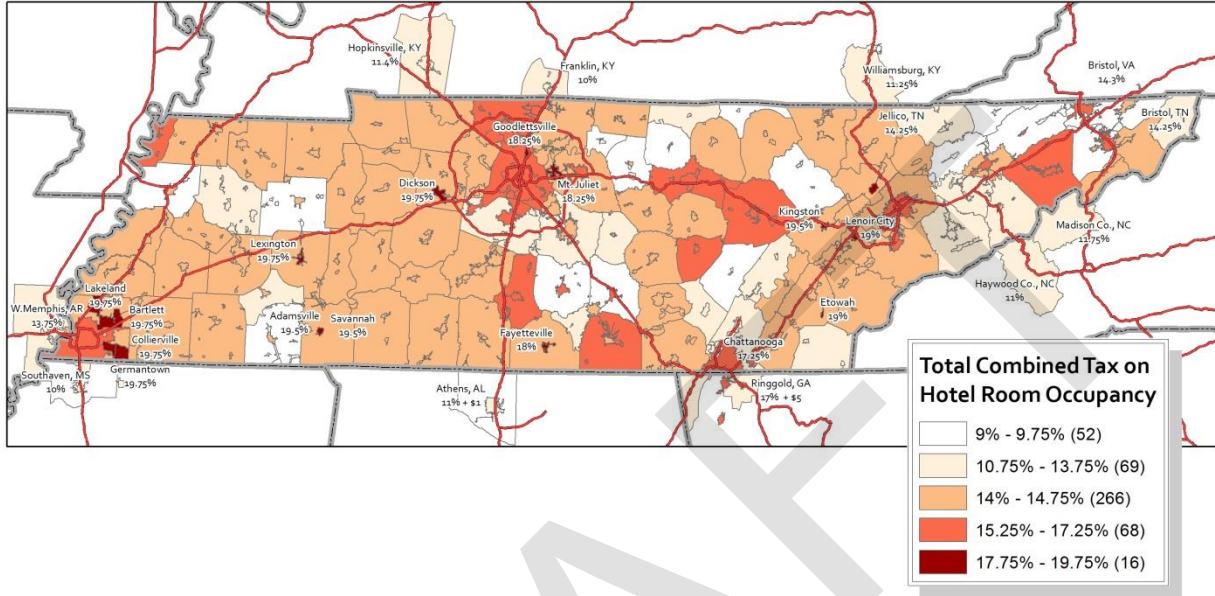
⁶ US Bureau of Labor Statistics, 2014.

⁷ 2015 Tennessee Business Travel Association Industry Overview, Smith Travel Research (STR), August 11, 2015.

⁸ Adamsville, Bartlett, Columbia, Collierville, Dickson, Etowah, Germantown, Kingston, Lakeland, Lenoir City, Lexington, and Savannah.

state and a comparison with neighboring locations. See figure 1 below for the distribution of combined lodging and sales tax rates across the state.

Map 1. Total Combined Actual Sales and Lodging Taxes in Tennessee



According to the US Census Bureau's 2012 Economic Census, more than half of all lodging establishments in Tennessee are in ten locations: Nashville-Davidson, Memphis, Pigeon Forge, Chattanooga, Gatlinburg, Knoxville, Clarksville, Jackson, Murfreesboro, and Sevierville. The combined tax rate on lodging in these cities ranges from 12.75% to 17.25%, with an average of 14.75%. A comparison with the top five lodging markets in each of Tennessee's eight neighboring states finds that total tax rates in those areas range from 6.475% to 17.5%, with an average rate of 13.2%. See table 1 below. The rates shown for cities in Arkansas, Georgia, Kentucky, and Missouri illustrate that other states also set some rates on a case by case basis, and that they sometimes authorize specific rates higher than their generally authorized rates.

DRAFT

**Table 1: Tennessee and Neighboring States
Actual Combined Sales and Lodging Tax Rates in the Largest Hotel Markets**

City or County	Rate	City or County	Rate
Nashville-Davidson	15.25%	KY—Lexington-Fayette County	13.00%
Memphis	15.95%	KY—Louisville-Jefferson County	15.50%
Pigeon Forge	12.25%	KY—Florence	11.00%
Chattanooga	17.25%	KY—Bowling Green	13.00%
Gatlinburg	12.75%	KY—Jeffersontown	15.50%
Knoxville	17.25%	MS—Jackson	11.00%
Clarksville	14.50%	MS—Vicksburg	10.00%
Jackson	14.75%	MS—Hattiesburg	9.00%
Murfreesboro	14.75%	MS—Meridian	9.50%
Sevierville	12.75%	MS—Natchez	10.00%
AL—Montgomery	14.00%	MO—Branson	11.600%
AL—Mobile	14.00%	MO—Kansas City	16.850%
AL—Birmingham	17.50%	MO—Springfield	12.600%
AL—Huntsville	13.00%	MO—St. Louis	15.929%
AL—Tuscaloosa	15.00%	MO—Stone County	6.475%
AR—Little Rock	13.00%	NC—Charlotte	15.250%
AR—Eureka Springs	14.38%	NC—Asheville	13.000%
AR—Hot Springs	14.50%	NC—Raleigh	12.750%
AR—North Little Rock	13.50%	NC—Greensboro	12.750%
AR—West Memphis	13.75%	NC—Swain County	10.750%
GA—Atlanta	16.00%	VA—Virginia Beach	14.000%
GA—Savannah	13.00%	VA—Chesapeake	14.000%
GA—Augusta-Richmond County	14.00%	VA—Newport News	13.500%
GA—Gwinnett County	13.00%	VA—Arlington	13.000%
GA—Columbus-Muscogee County	15.00%	VA—Norfolk	14.000%

Hotel Customers are Generally Insensitive to Taxes and Price

Though increasing the total cost of a room, whether by increasing the price or by increasing taxes, can reduce the number of hotel stays, studies show that lodging customers overall are

not very sensitive to higher prices. One study on the economics of a hotel tax found that a small bed tax, leading to a minimal increase in room rate, would have little effect on hotels' operating performance,⁹ and another determined that increased tax rates in Hawaii did not affect either the travel demand or the length of stay for the visitors.¹⁰ Just as high rates at some hotels lead some travelers to stay at less expensive hotels, or to forgo traveling entirely, lodging taxes reduce stays to some degree wherever they are levied. Studies on the demand for lodging have shown that customers are willing to stay in areas with high lodging taxes that the burden of lodging taxes falls mainly on customers, not on hotels. If customers were not as willing, and avoided staying in places where lodging taxes are high, then more of the burden of lodging taxes would fall on hotels in the form of lost business. One study concluded that customers pay for 86% of a lodging tax, with the remainder absorbed by the hotel through adjusted rates or fewer rooms sold.¹¹ A study of 481 hotels in 22 cities from 1989 to 2000—over 23,000 observations—showed that a 10% increase in the price per room resulted in a 1.3% decrease in the number of rooms rented.¹² Other studies estimated larger decreases from 1.5% to 5.7%, but still in a range where customers are not very sensitive to higher room rates or higher lodging taxes.¹³

Market Competition and Tourist Attractions Affect Customers' Sensitivity to Price

Although travelers overall are not very sensitive to lodging taxes, where hotels are in relatively close proximity to other hotels of the same class or status, and with similar amenities, a difference in lodging taxes would likely hurt the hotel with higher tax rates. In 2007, Midland, Texas, adopted a 1% lodging tax, but neighboring Odessa did not. The two cities are similar in terms of amenities and proximity to the airport shared between them. A 2014 study revealed that, after the tax was imposed, Midland hotels did not cut their rates in order to match the competitiveness of Odessa's hotel rates, and hotels in Odessa saw higher occupancy and higher revenue per available room than those in Midland. The authors concluded that hotels without occupancy taxes competing for similar demand are likely to have an advantage over hotels that are subject to the occupancy tax.¹⁴

⁹ Combs, J.P., Elledge, B., 1979. Effects of a room tax on resort hotels/motels. *Natl. TaxJ.* 32, 201–207.

¹⁰ Mak, J., Nishimura, E., 1979. The economics of a hotel room tax. *J. Travel Res.* 17 (4),2–6.

¹¹ Hiemstra, S.J., and Ismail, J.A., 1993. "Incidence of the impacts of room taxes on the lodging industry." *Journal of Travel Research*, 31 (4), 22–26.

¹² Canina, L and Carvell, S.A. (2005). "Lodging demand for urban hotels in major metropolitan markets," *Journal of Hospitality & Tourism Research*, 29(3), 291-311

¹³ Qu, H.; Peng, X.; and Tan, A. (2002) "A simultaneous equations model of the hotel room supply and demand in Hong Kong," *International Journal of Hospitality Management* 21, 455-462; Hiemstra, S. J. and Ismail, J. A. (1990). *Impacts of Room Taxes on The Lodging Industry.* *Hospitality Research Journal*, 14(2), 231-241.

¹⁴ Seul Ki Lee, (2014) "Revisiting the Impact of Bed Tax with Spatial Panel Approach," *International Journal of Hospitality Management*, 41 (49-55)

A study published in the *Hospitality Research Journal* said that travelers are more sensitive to price when considering high priced hotels than for less expensive hotels.¹⁵ Part of this difference can be explained by the ability of travelers to “trade down” to a lesser-priced hotel if a high-end one is too expensive, where customers of less expensive hotels, including business travelers, may not be willing to choose the alternative not to travel at all. Another study suggested that smaller properties are affected more by price increases than larger properties.¹⁶

Increasing a lodging tax may affect hotel stays differently in destination cities than in other locations. A study comparing Charleston and Columbia, South Carolina, found that lodging customers in Charleston, a tourist destination, were much less sensitive to overall prices than travelers to Columbia.¹⁷ It follows that customers are more willing to absorb price increases from a lodging tax in places with more attractions and amenities. Levying lodging taxes by city and county, rather than uniformly across the state, means local officials can determine how sensitive travelers are to lodging taxes and levy higher tax rates where they are less sensitive so that the decreases in stays caused by the taxes are minimized.

Lodging Taxes Have Little Effect on Hotel Development and the Overall Economy

Lodging tax rates are not likely to be a deciding factor in hotel developers’ decisions to build in a location in Tennessee or in another state. When deciding where to build a new hotel, developers choose areas where existing hotels have high room rates and occupancy, and lodging taxes reduce occupancy only to the extent that travelers are sensitive to prices. Hotel occupancy is a reflection of supply and demand, and where high occupancy drives higher room rates, investors will meet that demand by building additional hotels.

Where attractions are located near the state border, developers could build hotels in another state and still meet demand for stays near attractions located in Tennessee, and that option becomes more attractive where lodging taxes are greater in Tennessee than in the bordering state. The largest difference in taxes between a county in Tennessee and one in another state is in Shelby County. With a 3% local lodging tax added to the 7% state sales tax, the 10% total tax on lodging in Southaven, Mississippi is significantly less than Memphis’s 15.95% total—9.75% sales tax plus Shelby County’s 5% lodging tax and Memphis’s 1.7% lodging tax. Southaven is close enough to satisfy some of the lodging demand of those traveling to attractions in Memphis.

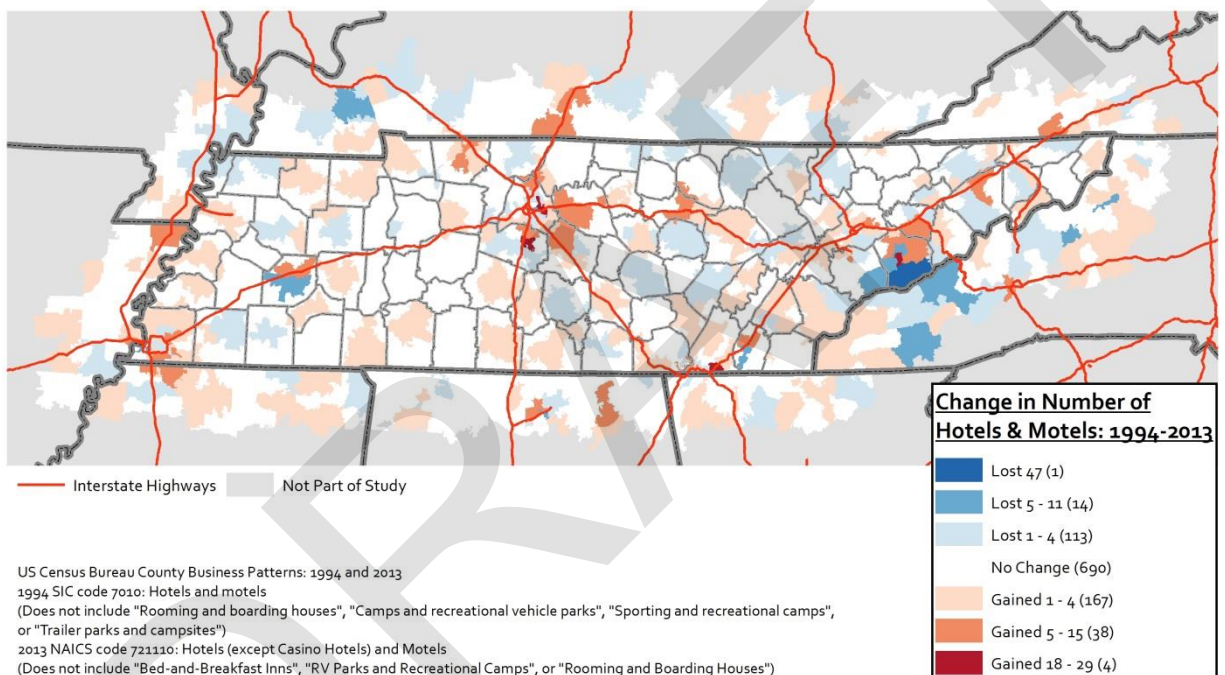
¹⁵ Hiemstra, S. J., and Ismail, J. A. (1990). Impacts of room taxes on the lodging industry. *Hospitality Research Journal*, 14(2), 231-241.

¹⁶ Hiemstra, Stephen J. and Ismail, Joseph A. Occupancy taxes: No free lunch. *The Cornell Hotel and Restaurant Administration Quarterly*, Volume 33, Issue 5, October 1992, Pages 84-89

¹⁷ Damonte, D., Damonte, L., Domke-Damonte, D. J., & Morse, S. P. (1998). The case for using destination-level price elasticity of demand for lodging services. *Asia Pacific Journal of Tourism Research*, 3(1), 19.

Yet, in spite of the possibility of losing customers to Mississippi, Memphis hotels are seeing record occupancy and revenues. The Memphis lodging market does include part of Mississippi, but although the Mississippi submarket is doing very well, it is a much smaller part of the overall market than the eastern suburbs, downtown, and airport submarkets. Southaven has four new hotels in the development pipeline, but the rest of the market area has 13.¹⁸ Map 2 illustrates the change in number of hotels and motels by ZIP Code from 1994 to 2013. It shows that there are areas of growth in neighboring parts of Mississippi, Kentucky, Alabama, and Virginia, but it also shows many growing areas within Tennessee that have higher total tax rates.

**Map 2. Change in Number of Hotels and Motels
1994 to 2013.**



Lodging is one part of the overall travel and tourism industry, which also includes transportation, food, entertainment, recreation, and general retail trade. Travelers in Tennessee produce secondary effects beyond their original expenditures, from indirect spending by hospitality businesses buying goods from local suppliers to increased wages and spending by employees.¹⁹ The size of Tennessee's accommodations industry is near the national average, but its growth has trailed the national average in recent years. Tennessee's accommodations industry makes up 0.72% of the state's gross domestic product (GDP), down

¹⁸ Metropolitan Memphis Hotel & Lodging Association, Lodging Industry Update, Year End 2014

¹⁹ The Economic Impact of Travel on Tennessee Counties 2013

from its peak of 1.01% in 2007. Although this share is slightly less than the national average of 0.8%, Tennessee's lodging industry has a greater share of GDP than those of bordering states except for Mississippi, whose accommodations industry is 1.55% of state GDP. The GDP of the accommodations industry in Tennessee peaked in 2007, and has not fully recovered from the 2007-09 recession. Since then its growth has trailed both the national average and every bordering state except Mississippi whose accommodations industry has been in relative decline since Hurricane Katrina. In the end though, there is not enough evidence to attribute Tennessee's lagging growth entirely to lodging tax rates.

Tennessee's Lodging Tax Structure is Complex

The Tennessee Constitution gives the legislature "power to tax merchants, peddlers, and privileges, in such manner as they may from time to time direct."²⁰ The authority to tax can be extended to local governments through Article II, Section 29, which states that, "The General Assembly shall have power to authorize the several counties and incorporated towns in this State, to impose taxes for County and Corporation purposes respectively, in such manner as shall be prescribed by law." Thus, there must be a statute in general law or a private act to authorize a local government to impose a privilege tax.

The General Assembly most often authorizes counties and cities to levy lodging taxes ("a privilege tax upon the privilege of occupancy in any hotel of each transient..."²¹) by private act. A local legislative body may request that its delegation in the General Assembly introduce and encourage the passage of the private act. If passed by the General Assembly, the lodging tax authorized by the private act must be ratified by either a two-thirds vote of the local legislative body or by referendum, depending on which of the two methods is prescribed by the private act.²² The General Assembly may also pass "general laws of local application"—statutes that apply only to a narrowly defined number of counties or cities. The process for authorizing and implementing lodging taxes in Tennessee is complicated because different laws apply to counties, metropolitan governments, and cities with different types of charters. Authorized taxes and rates are listed in appendix C.

Lodging Taxes in Tennessee—Cities

Cities in Tennessee can have one of three different types of charters—home rule, general law, or private act—and in some cases different laws apply to cities depending on which charter they have adopted. This is the case with lodging taxes; home rule cities are treated differently than cities with other types of charters.

²⁰ Tennessee Constitution, Article II, Section 28.

²¹ Tennessee Code Annotated, Section 67-4-1402.

²² University of Tennessee County Technical Assistance Service (CTAS), e-Library Reference Number: CTAS-17. <http://ctas-eli.ctas.tennessee.edu/reference/private-act-approvals-clb>.

Home Rule Cities

In Tennessee, “home rule” means that a city may adopt and change its own charter by local referendum and that the state legislature may not pass private acts that apply to them. General laws that apply to all cities are still applicable to the 14 cities that have adopted home rule charters.²³ Before Public Chapter 982, Acts of 1988,²⁴ established a uniform way for home rule cities to levy a lodging tax, they could get authorization to levy a lodging tax only by a public act of the General Assembly, which Oak Ridge did in 1971. The Act of 1988

- defines “municipality” as only those that have adopted home rule;
- authorizes home rule cities to establish lodging tax rates up to 5%;
- does not place limitations on how the revenue can be spent; and
- requires either a 2/3 vote of the local legislative body at two consecutive meetings or a voter referendum to approve the tax.

Eleven of the 14 home rule cities in Tennessee have adopted lodging taxes,²⁵ but only four levy the maximum 5% rate. The General Assembly granted an exception to the 5% rate cap in 2015 allowing Johnson City to raise its lodging tax rate to 7% but earmarked the additional 2% for tourism.²⁶

General Law and Private Act Cities

Most cities have not adopted home rule and operate under a private act charter or one of three “form charters” written into general law:

- Mayor-aldermanic general law charter (Tennessee Code Annotated, Section 6-1-101, et seq.)—67 cities
- City manager-commission charter (Tennessee Code Annotated, Section 6-18-101 et seq.)—47 cities
- City manager-council charter (Tennessee Code Annotated, Section 6-30-101 et seq.)—2 cities

²³ University of Tennessee Municipal Technical Advisory Service (MTAS), Online Resource Reference Number: MTAS-333. <http://mtasresource.mtas.tennessee.edu/reference/home-rule>.

²⁴ Tennessee Code Annotated, Title 67, Chapter 4, Part 14, Sections 1401-1411.

²⁵ Chattanooga, Clinton, East Ridge, Etowah, Johnson City, Knoxville, Lenoir City, Memphis, Mt. Juliet, Oak Ridge, and Sevierville have lodging taxes; Red Bank, Sweetwater and Whitwell do not.

²⁶ Public Chapter 412, Acts of 2015, which was added as paragraph (n) to Tennessee Code Annotated, Section 67-4-1425.

These forms of general law charters define the powers granted to those cities and how their governing bodies are organized. The 212 Tennessee cities with private act charters were incorporated by passage of a private act in the General Assembly before 1953, when the revised state constitution prohibited incorporating by private act. Private act cities can amend their charters only by amending the private acts that established them. They are also subject to general laws that apply to all forms of cities.²⁷

These private act and general law cities—which account for 95% of Tennessee’s cities—do not have the broad authorization in general law that home rule cities do to impose lodging taxes and can only do so by act of the General Assembly, either private act, which is typical, or by specific authorization in general law. Sixty-one of the 328 private act and general law cities have been authorized to levy lodging taxes and 55 have enacted them.

Since non-home-rule cities need individual authorization from the legislature, each authorizing act can be different from the next. There is no statutory 5% rate cap that applies to lodging taxes authorized by private act, although that seems to be a de facto cap that the legislature is hesitant to go above—only six of these cities have been authorized to levy lodging tax rates above 5%.²⁸

Lodging Taxes in Tennessee—Metropolitan Governments

Public Chapter 704, Acts of 1976, added a “Tourist Accommodation Tax” to Tennessee Code Annotated Title 7, authorizing metropolitan governments to levy a tax up to 3% on hotel occupancy.²⁹ Title 7 has been amended over the years to increase the tax rate to 6% in Metropolitan Nashville-Davidson County. Consolidated in 1988, Lynchburg-Moore County currently imposes a 3% lodging tax. Hartsville-Trousdale County (consolidated in 2000) does not currently impose a lodging tax but could levy one up to 3% under existing law as could any future consolidated city-county government. Cities partly within a metropolitan county and partly outside, with a population greater than 5,000, (i.e. Goodlettsville) may levy their own 3% tax on top of the metropolitan government’s tax.³⁰ Public Chapter 422, Acts of 2007, established a “Convention Center Fund” for Nashville-Davidson County. This law authorized an additional \$2-per-room-night tax on top of the Tourist Accommodation Tax. The fee was subsequently increased to \$2.50 the following year.³¹

²⁷ MTAS Online Resource Reference Number: MTAS-333.
<http://mtasresource.mtas.tennessee.edu/reference/private-act-charter>.

²⁸ Harriman, Kingsport, Manchester, Morristown, Rogersville, and Shelbyville.

²⁹ Tennessee Code Annotated, Section 7-4-101 et seq.

³⁰ Tennessee Code Annotated Section 7-4-102(c). Public Chapter 636, Acts of 1990.

³¹ Public Chapter 1004, Acts of 2008.

Lodging Taxes in Tennessee—Counties

Like general law and private act cities, the state's ninety-two non-metro counties can enact lodging taxes only with specific authorization from the General Assembly; there is no statewide general law authorizing all counties to levy lodging taxes. The rate authorized and how the revenue can be spent depends on what the authorizing act says as well as what the local government's adopting ordinance says. Seventy-seven of the ninety-two counties have enacted lodging taxes. Fifty-seven of those set the rate at 5%, but current rates range from 2% to 7.5%. Cheatham County is authorized to charge up to 10% but has set its rate at 5%. Counties must have private acts amended to raise a lodging tax above the rate they have been previously authorized to levy.

Limitations on Overlapping Local Lodging Taxes

Public Chapter 1000, Acts of 1988 (codified in Tennessee Code Annotated, Section 67-4-1425) prohibited private acts that would add a city or county lodging tax where a county or city already had one, but since the law was adopted fourteen exceptions have been made.³² Because they are authorized in general law and do not adopt lodging taxes by private act, home rule cities may adopt a hotel tax even if their county already has one.³³

The prohibition on overlapping does not apply in any county that

- contains or borders a county that contains an airport designated as a regular commercial service airport in the international civil aviation organization (ICAO) regional air navigation plan and also contains a government-owned convention center of at least fifty thousand square feet (50,000 sq. ft.) with an attached, adjoining, or adjacent hotel or motel facility; or
- contains an airport with regularly scheduled commercial passenger service, and the creating municipality of the metropolitan airport authority for the airport is not located within such county. The tax levied on occupancy of hotels by cities located within such a county may only be used for tourism as defined by § 7-4-101.³⁴

³² Public Chapter 413, Acts of 1991. Public Chapter 1082, Acts of 1996. Public Chapter 538, Acts of 1999. Public Chapter 324, Acts of 2001. Public Chapter 718, Acts of 2002. Public Chapter 370, Acts of 2003. Public Chapter 162, Acts of 2005. Public Chapter 156, Acts of 2007. Public Chapter 303, Acts of 2011. Public Chapter 975, Acts of 2012. Public Chapter 384, Acts of 2015. Public Chapter 400, Acts of 2015. Public Chapter 412, Acts of 2015. Public Chapter 432, Acts of 2015.

³³ See TN AG Opinion No. 03-062 regarding the City of Clinton in Anderson County.

³⁴ Tennessee Code Annotated, Section 67-4-1425(c)

Counties are authorized to overlap with city lodging taxes if their population falls into the following population brackets:

- 25,575 to 25,850, according to the 2000 federal census or any subsequent federal census
- 71,300 to 71,400, 19,500 to 19,775, or 51,900 to 52,000, according to the 2000 federal census or any subsequent federal census
- 13,700 to 13,750, according to the 2010 federal census or subsequent federal census

Cities are authorized to overlap with county lodging taxes if their population falls into the following population brackets:

- 80,000 to 83,000, according to the 1990 federal census or any subsequent federal census
- 35,050 to 35,070, according to the 1990 federal census or any subsequent federal census
- 118,400 to 118,700, according to the 1990 federal census or any subsequent federal census
- 5,200 to 5,300, located in a county 51,900 to 52,000, according to the 2000 federal census or any subsequent federal census
- 7,350 to 7,410 within a county 24,450 to 25,550, according to the 2000 federal census or subsequent federal census
- 6,900 to 7,000 within a county 35,600 to 35,700, according to the 2010 federal census or subsequent federal census
- 34,600 to 34,700 within a county 80,900 to 81,000, according to the 2010 federal census or subsequent federal census
- 6,820 to 6,830 within a county 33,300 to 33,400, according to the 2010 federal census or subsequent federal census
- 63,000 to 63,500, according to the 2010 federal census or subsequent federal census

It has become common in recent years—especially for cities, since there are more counties with lodging taxes already in place—for local governments to seek authorization for lodging taxes through general law exceptions to Tennessee Code Annotated, Section 67-4-1425, because the law prohibits them from using a private act to overlap one lodging tax with another. See table 2 below for a summary of the many ways in which local governments in Tennessee are authorized to levy lodging taxes, what rates they can impose, and how many of each type there are.

Table 2. Authorized Local Lodging Taxes in Tennessee.

Level of Government	How Authorized	Maximum Authorized Rate	Number of Jurisdictions Authorized	City/County Tax Overlap Authorized
County 13 not authorized	Private Act	10%	1	0
		7.5%	1	0
		7%	6	0
		6%	1	0
		5%	59	19
		4%	6	1
		3%	4	1
		2.5%	1	0
Metropolitan	TCA 7-4-102, 7-4-110, 7-4-202	6% + \$2.50	1	1
	TCA 7-4-102	3%	2	n/a
City 270 not authorized	TCA 7-4-102(c)	3%	1	1
	Private Act	10%	1	0
		7%	4	0
		6%	1	0
		5%	19	0
		3%	4	0
		2%	1	1
		1%	1	0
	TCA 67-4-1402 (Home Rule) and TCA 67-4-1425	7%	1	0
		5%	4	3
	TCA 67-4-1402 (Home Rule)	5%	9	5
	TCA 67-4-1425	Unlimited	1	1
		5%	17	17
	Private Act and TCA 67-4-1425	5%	5	2
		4%	2	2
2.5%		3	3	
2%		1	1	

Previous Attempts to Amend Tennessee’s Lodging Tax Laws

Since 1996, there have been nine bills introduced in the General Assembly to make structural changes to Tennessee’s lodging tax laws; three that proposed to broaden local ability to levy lodging taxes and six proposing to restrict it. A 1997 bill proposed expanding the limited definition of “municipality” in Tennessee Code Annotated Section 67-4-1401 to include all counties, incorporated cities, and metropolitan governments, and would have allowed the local governments to determine their own rates. Two bills were introduced in 2003 to remove the statutory limitations on overlapping city and county lodging taxes. One bill proposed to reduce from 5% to 4% the rate home rule cities are authorized to levy. Five bills were introduced from 2003 to 2012 that attempted to earmark all new and increased lodging taxes for tourism promotion only. Two of these also included a combined rate cap of 5% for city and county taxes. None of these bills advanced beyond committee discussion.

As originally proposed, Senate Bill 850 by Tate, House Bill 951 by M. White, would have required local governments to conduct economic studies before levying a lodging tax, earmark at least 80% of future revenue for development of tourism, add audit requirements to ensure that strict definitions of what constitutes “tourism development” were followed, and prohibit lodging taxes from being authorized by private act. The bill was amended before passage to direct the Commission to study the effect of hotel occupancy taxes on the economy, tourism, and the hospitality industry, compare Tennessee’s hotel occupancy tax structure with other states’ and recommend whether to change it, and consider methods to require public input before adopting lodging taxes.

Tennessee’s Lodging Tax Structure is Similar to Other States in Many Ways

Although it is complicated, Tennessee’s lodging tax structure is comparable to those in many other states. Tennessee is one of 35 states that apply the state sales tax to lodging. Twenty-two states impose a statewide lodging tax: four states that have no state sales tax to apply, eight that have a sales tax but do not apply it to lodging, and ten that apply both. See table 3 below.

Table 3. States with State Lodging Taxes and State Sales Taxes Applied to Lodging.

		State Sales Tax Applies to Lodging		No State Sales Tax
		Yes	No	
State Lodging Tax	Yes	<p>10 States Arkansas, Georgia, Hawaii, Idaho, Kentucky, Nebraska, New Jersey, Rhode Island, South Carolina, South Dakota</p>	<p>8 States <i>Same Rate as Sales Tax:</i> Alabama, Pennsylvania <i>Higher Rate than Sales Tax:</i> Connecticut, Illinois,</p>	<p>4 States Delaware, Montana, New Hampshire, Oregon</p>
	No			

			Iowa, Massachusetts, Texas, Vermont	
	No	<p>25 States</p> <p><i>Different Rate for Lodging:</i> Arizona and Maine</p> <p><i>Same Rate for Lodging:</i> Colorado, Florida, Indiana, Kansas, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, <i>Tennessee</i>, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming</p>	<p>2 States</p> <p>California, Nevada</p>	<p>1 State</p> <p>Alaska</p>

Tennessee Is One of a Few States without Broad Authorization for Local Lodging Taxes

Forty-three states have lodging taxes at the city or county level, and although some states authorize only one or the other, Tennessee is one of thirty-two that permit both. ,Twenty-eight states, including Tennessee, allow city and county lodging taxes to overlap. Only Colorado, Illinois, Iowa, and New Mexico do not. See table 4. Most (37 of the 43) that authorize lodging taxes for at least some cities or counties do so broadly by general law for either all cities or all counties—21 broadly authorize both—and usually up to a certain rate, though many make exceptions to the standard rate limit for specific, individual jurisdictions. A small number allow rates to be set at the local level, either by the legislative body adopting the tax or by referendum, including seven that authorize local lodging taxes for cities generally (Alabama, Alaska, Arizona, California, Colorado, Nebraska, and Oregon), three of which (Alaska, California, and Oregon³⁵) grant similar authority to counties. Five states (Michigan, Missouri, Nevada, New Jersey, and Texas) authorize only certain groups of cities or counties to levy lodging taxes. In Tennessee and four others (Louisiana, Mississippi, New York, and North Carolina), most local governments must have specific, individual authorization from their state legislature to adopt a new lodging tax or increase the authorized rate for an existing lodging tax. Twenty-eight states including Tennessee allow city and county taxes to overlap. See table 5. See table of state authorization methods and rates in appendix D.

³⁵ Oregon, however, has had a moratorium on new taxes and tax increases in place since 2003, unless at least 70% of the proposed funds are dedicated to tourism promotion. Oregon Revised Statutes, Section 320.350.

Table 4. How States Authorize City and County Lodging Taxes.

		County Lodging Taxes		
		Broadly Authorized	Individually Authorized	Not Authorized
City Lodging Taxes	Broadly Authorized	21 States Alaska, Arkansas, California, Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Maryland, Michigan, Nebraska, Nevada, New Mexico, Ohio, Oregon, South Carolina, Utah, Virginia, Washington, West Virginia	3 States Alabama, Arizona, Texas	7 States Massachusetts, Minnesota, New Jersey, North Dakota, Rhode Island, South Dakota, Wisconsin
	Individually Authorized	3 States Florida, Missouri, Pennsylvania	5 States Louisiana, Mississippi, New York, North Carolina, Tennessee	1 State Vermont
	Not Authorized	3 States Indiana, Oklahoma, Wyoming	No State	7 States Connecticut, Delaware, Hawaii, Idaho, Maine, Montana, New Hampshire

Tennessee is one of 27 states that allow local governments to levy both local lodging taxes and apply local option sales taxes to lodging. Sixteen other states allow local governments to levy lodging taxes but do not allow them to levy a local sales tax on lodging; nine of those have no local sales tax at all. Another seven states have no local lodging taxes. See table 5.

Table 5. States with Local Lodging Taxes and Local Sales Taxes Applied to Lodging.

Local Sales Tax Applies to Lodging		No Local Sales Taxes
Yes	No	

States Allowing Local Lodging Taxes	27 States Alaska, Arizona, Arkansas, Colorado, Florida, Georgia, Kansas, Louisiana, Minnesota, Missouri, Nebraska, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee , Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming	7 States Alabama, California, Illinois, Iowa, Nevada, Texas, Vermont	9 States Delaware, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, Oregon, Rhode Island
No Local Lodging Taxes	1 State Hawaii	No States	6 States Connecticut, Delaware, Idaho, Maine, Montana, New Hampshire

Most States Set Maximum Standard Local Lodging Tax Rates But Make Exceptions

Of the 32 states that allow lodging taxes in both cities and counties (see table 4), 21 broadly authorize both, 3 broadly authorize lodging taxes just for cities, 3 broadly authorize them just for counties, and 5, including Tennessee, authorize city and county lodging taxes mostly individually. Of the 21, 17 set standard rate limits for both cities and counties, and those rates range from 1% to 8%. Ten other states broadly authorize only cities to levy local lodging taxes, and eight set rates in statute that range from 1% to 9%. Alabama and Arizona do not limit what rate cities may levy. The six states where only counties are broadly authorized to levy lodging taxes all have statutory rate caps, from 1 to 6%.

Four states set rates for either classes of cities or classes of counties. New Jersey and Texas broadly authorize lodging taxes for all cities but set different standard rates for different classes of cities. Depending on the class of city, authorized rates in New Jersey are either 3% or 6%; rates in Texas are either 7% or 9%. Missouri and Nevada broadly authorize lodging taxes for all counties, setting different standard rates for different classes; most counties in Missouri are limited to a 1% tax. Most counties in Nevada have a mandatory 1% lodging tax and most have an optional additional 1% tax; the two largest counties have an optional 3% tax rate. Nevada is a good example, however, of where special laws authorize different rates in certain locations; Clark County (Las Vegas) is authorized by the state to levy up to a 12% total tax.

In 28 states, local governments also levy a local sales tax on lodging and 47 levy a state sales tax or a state lodging tax. Among the states that set a maximum lodging tax rate for cities, counties, or both, state law authorizes combined sales and lodging taxes from 3% in Nevada to 16% in Maryland and South Carolina.

How Lodging Tax Rates are Set in Tennessee

Tennessee broadly authorizes only home rule cities to levy lodging taxes, up to 5%. In most places, the only taxes authorized by state law to apply to lodging are the state and local sales taxes, up to 9.75%. Where local lodging taxes have been authorized, the state law generally prohibiting the overlap of city and county taxes limits the tax to one local tax. Most rates are 5% or lower, for a combined sales tax and lodging tax maximum of 14.75%.

However, 22 cities in Tennessee could raise their existing rates under current law, without additional legislative approval, to a combined rate of 19.75%. These are either home rule cities that have not implemented the 5% lodging tax they are authorized, cities that have been authorized by private act up to 5% but have adopted a lower rate, or cities authorized by general law in Tennessee Code Annotated, Section 67-4-1425, to adopt a lodging tax that have not yet chosen to do so.

There are three scenarios in which it is possible for the combined sales and lodging tax rates to exceed 19.75% without action by the General Assembly. The first is illustrated by the city of Lexington, which currently taxes lodging at 5% but, as noted above, has no maximum and could tax at any rate. The second is illustrated by the Sullivan County portion of Johnson City, which has a 7% lodging tax, where the combined rate could be 21.75% if the county were to levy its authorized maximum 5% lodging tax and either the county or the city were to raise its sales tax to the maximum 2.75%. The third occurs in the nine counties with authorized lodging tax rates above 5% and sales tax rates of 2.75%. If one or more of the cities in those counties adopted a home rule charter, which requires no action by the General Assembly, and adopted the 5% lodging tax allowed for home rule cities, the combined rate in those cities would exceed 19.75%. For example, any city adopting home rule in Cheatham County, which has an authorized lodging tax rate of 10%, would have the highest combined authorized rate under this scenario, 24.75%, including the maximum 2.75% sales tax rate. The other eight counties with authorized lodging tax rates above 5% are Cumberland (7.5%), Franklin (7%), Greene (7%), Lewis (7%), Marshall (7%), Robertson (7%), Van Buren (7%), Davidson (6%), and Putnam (6%). Any city in the 59 counties with authorized lodging tax rates of 5% could get to a combined rate up to 19.75% without action by the General Assembly. Cities in the 12 counties with authorized rates less than 5%, and in the 14 counties not authorized at all, have no way of getting to a combined rate of 19.75% without further action by the General Assembly. See appendix C for table of authorized and actual lodging and sales tax rates in Tennessee.

Public Input—Required for Adoption of Local Lodging Taxes in Some States

Tennessee, like nearly all other states, does not require public hearings before adopting local lodging taxes. Local governments in Tennessee, like those in six other states, have the option of holding a referendum on whether to levy lodging taxes, though most local governments,

normally approve lodging taxes by a two-thirds vote of the local legislative body.³⁶ Home rule cities in Tennessee can also choose to have lodging taxes approved by referendum, but often choose to approve them by two-thirds votes of the local legislative body at two consecutive meetings.³⁷

Of the forty-three states that authorize local lodging taxes, eleven³⁸ require lodging taxes to pass a referendum at least in certain circumstances, and five states³⁹ require public hearings. Tennessee is one of seven states⁴⁰ that provide an opportunity for lodging tax referendums but do not require them.

State laws authorizing some other local taxes in Tennessee go further by requiring referendums. Local option sales taxes require approval by referendums of the residents of the cities and counties levying them. Local option sales taxes require approval by referendums; all county voters for a countywide tax and only city voters for a city tax. The sale of liquor by the drink is subject to referendum, and if approved by the voters, is taxed by the state.

Earmarks Can Ensure Funding for Favored Programs But May Hinder Priority-based Budgeting

Earmarks dedicate taxes or other revenues to specific programs or purposes by statute or in the constitution and may be full or partial. Earmarks may or may not increase funding levels. Governments that are already spending discretionary funds for the earmarked purpose may substitute the earmarked revenue for those discretionary funds. A policy brief issued by the research department of the Minnesota House of Representatives describes the advantages and disadvantages thus:⁴¹

Advantages. Supporters of programs advance earmarking as a way to guarantee a steady and reliable funding source for the favored programs. Constitutional earmarks provide a legal guarantee that constrains the legislature's ability to reduce funding for the benefited program below the earmarked amount. While statutory earmarks can be avoided by legislative

³⁶ Tennessee Constitution, Article XI, Section 9.

³⁷ Tennessee Code Annotated, Section 67-4-1402(b).

³⁸ Alaska, Arkansas (only for counties), California, Colorado, Florida (only for counties), Iowa, Nebraska (only for cities), Nevada (only for counties), Oklahoma (only for counties; cities not authorized), South Carolina (only for cities), and Wisconsin (only for cities; counties not authorized).

³⁹ Maryland (counties only), Nebraska (counties only; cities require referendum), North Carolina, Virginia (counties only), and West Virginia.

⁴⁰ Arizona, Illinois, Louisiana, Michigan, Minnesota, Ohio, and Tennessee.

⁴¹ Minnesota House of Representatives 2012.

action (the statute can be changed or the earmark waived by the legislation), they create a presumption of a minimum funding level. Earmarks are also often seen as a way to build political support for funding increases.

Disadvantages. Critics contend that earmarks, particularly constitutional earmarks, reduce the legislature's budgetary flexibility; they may hinder its ability to construct an overall budget based on its funding priorities, including assessment of changes in circumstances that have occurred since the earmark was adopted. If the legislature perceives an earmark as contrary to its priorities, it may reduce other funding for the program or modify the revenue source, subverting the original goal of the earmark. Earmarks may also have indirect effects on tax and revenue policy and can increase administrative and compliance costs.

Earmarking Benefit Taxes or User Fees. There is a general consensus that earmarking benefit taxes or user fees for related expenditures is an appropriate budgeting practice (e.g., earmarking a special tax on highway fuels for construction and maintenance of highways). However, there may be disagreement about what constitutes a benefit tax.

Impacts on Spending Levels. The impact of earmarks on spending levels—either for programs benefiting from earmarks or on overall spending levels—is ambiguous. Reasonable arguments can be made that earmarks lead to increased spending on benefited programs, but it is also possible that they lead to lower spending in some cases. Similar contradictory arguments can be made regarding overall spending levels. Empirical studies have been unable to find a clear effect.

Earmarks are often used to garner support for new or increased taxes, especially when referendums are required for approval. Sometimes the earmarks are proposed by the government seeking the tax as a way to overcome opposition to it; other times earmarks are proposed by others and accepted in exchange for the grant of taxing authority. Destination cities like Gatlinburg and Nashville have had some of their lodging taxes earmarked by the state to promote tourism. However, the mayors of Brentwood and Mt. Juliet expressed concern that if their cities' lodging tax revenues were earmarked for tourism they would not have an effective way to spend that money. According to the mayors, Brentwood hotels are more for business travel, and demand for hotels in Mt. Juliet is driven by attractions in Nashville.

Lodging taxes could be treated like user fees and earmarked so that the revenue is used by local governments for the benefit of lodgers. But lodgers benefit from many of the same government services that benefit residents, including roads, police and fire protection and other local government services without necessarily paying anything for them, thereby placing the burden on residents. Earmarking lodging tax revenue for some of these expenses could reduce local governments' budget flexibility, and if the earmarked amount is large enough to

cause local governments to spend more on the earmarked expense than they would have anyway, the burden of paying for the other expenses shifts from lodgers to residents. Although hoteliers benefit from tourism promotion, because they bear only a small part of the burden of lodging taxes, any earmarking in excess of the amount proportional to that burden would not meet the definition of a benefit-related tax.; however, earmarks reduce local governments' budgeting flexibility

Most Local Government Lodging Taxes in Tennessee Are Not Earmarked

Forty-five of the eighty-one counties (58%) and forty-one of the sixty-six cities (62%) that are authorized to levy lodging taxes without earmarking them. Half of the other counties (18) and most of the other cities (19) must earmark at least some of their lodging tax revenue for tourism. The remaining eighteen counties and seven cities must earmark lodging tax revenue for some other purpose. See figures 2 and 3. Even where lodging tax revenue is not earmarked for tourism, local governments sometimes fund projects that increase the demand for lodging. For example, Wilson County, whose lodging tax revenue is not earmarked, plans to build a new \$10 million expo center, which may come with a new hotel.⁴²

Although Tennessee does not earmark lodging taxes in general law and most local lodging tax authorizations in Tennessee do not include earmarks, most of the revenue from them is collected by a few large jurisdictions, whose authorization for the tax by the state include

Figure 3. Number of Cities by How Lodging Tax is Earmarked

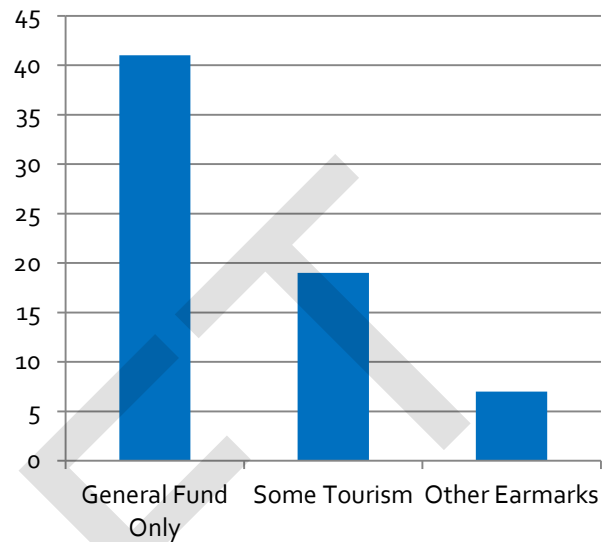
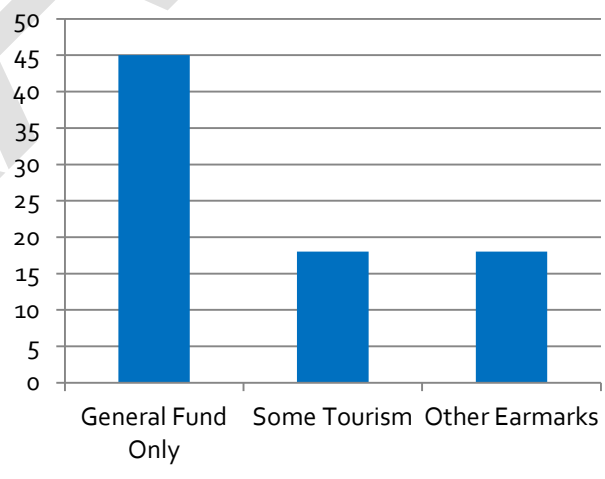


Figure 2. Number of Counties by How Lodging Tax Revenue is Earmarked



Source: Various county and city private acts; Tennessee Code Annotated, Sections 7-4-102, 7-4-110, and 67-4-1425.

⁴² Andy Humbles, "Pros and cons for Wilson County expo center," *The Tennessean*, June 7, 2015. <http://www.tennessean.com/story/news/local/wilson/2015/06/07/pros-cons-wilson-county-expo-center/28634905/>

specific earmarks. Of the \$154 million in lodging tax revenue collected by cities and counties in 2014, \$74.2 million (48.2%) was earmarked for tourism-related expenses, comparable to the estimated 40⁴³–50%⁴⁴ of lodging tax revenue that is used nationally for tourism-related purposes. The amount actually used to support tourism in Tennessee may be far larger than the amount earmarked. It is impossible to tell without inspecting the financial reports of every Tennessee city and county with authority to levy lodging taxes. Moreover, local spending for things not specific to tourism including roads, beautification, safety infrastructure and services, environmental cleanup, etc. make communities more attractive to visitors.

Earmarked funds in Tennessee are raised for convention centers (22.7%)—85.8% of which is for the Music City Center in Nashville—tourism promotion (25.5%)—62% of which is for Nashville—and a visitor’s center in Kingsport (0.3%). Of the \$68.4 million raised that is not earmarked for tourism-related expenses, \$57.0 million goes to local governments’ general funds, and the remaining \$11.4 million is for capital projects (\$6.3 million), education (\$2.5 million), industrial and economic development (\$2.0 million), an agricultural center in Bradley County (\$210,000), chambers of commerce (\$156,000), and a rural fire district in Franklin County (\$110,000).

Most Lodging Tax Earmarks in Other States are Tied to Broad Grants of Authority to Impose Those Taxes

Of the 43 states that have local lodging taxes, all 30 that earmark some or all of the revenue do so through state laws that broadly authorize all counties, all cities, or both to levy lodging taxes. Twenty-five of the 34 states with county lodging taxes and 20 of the 38 with city taxes do so, with some states earmarking both. See table 10. Tennessee is one of eight states that have lodging taxes at both the city and county level but do not have state laws to earmark them. Among these eight, Alaska and California require local governments to get referendum approval for lodging taxes. Alabama cities have broad state authorization to levy lodging taxes with no earmark, but counties can only be authorized by private act. Tennessee and the other remaining four states in this group require individual state authorization for each local lodging tax, with no state law requiring earmarks. See tables 7 through 9.

⁴³ E-mail correspondence with Adam Sacks, President, Tourism Economics. “Nationally, \$11.9 billion in lodging-specific tax revenues were generated in 2012, and \$4.7 billion, or 39%, was channeled to tourism-related functions.”

⁴⁴ Convention and Visitor Bureaus in the USA: A Profile of Bureaus, Bureau Executives, and Budgets. *Journal of Travel and Tourism Marketing*, November 1997.

Table 7: States That Authorize Local Lodging Taxes for All Counties, All Cities, or Both

States That Earmark All of the Revenue in General Law	States That Earmark a Portion of the Revenue in General Law	States That Do Not Earmark the Revenue in General Law
Arkansas Colorado Florida (counties only)* Illinois* Indiana (counties only) Kansas Michigan* Nebraska (counties only) North Dakota (cities only) South Carolina South Dakota (cities only) Utah (counties only) Washington	Georgia* Iowa Kentucky Maryland* Minnesota (cities only) New Mexico Ohio Oregon Pennsylvania (counties only)* Rhode Island (cities only) Virginia (except cities) West Virginia Wisconsin (cities only) Wyoming	Alabama (cities only) Alaska Arizona (cities only) California Massachusetts (cities only)* Oklahoma (counties only)

* With specific exceptions for individual local jurisdictions or categories of jurisdictions.

Table 8: States That Authorize Local Lodging Taxes for Categories of Local Governments*

States That Earmark All of the Revenue in General Law	States That Earmark a Portion of the Revenue in General Law	States That Do Not Earmark the Revenue in General Law
Missouri (counties only)**	Nevada** Texas**	New Jersey**

* Other than cities generally or counties generally. For those, see table A.

** With specific exceptions for individual local jurisdictions.

Table 9: States That Authorize Local Lodging Taxes for Individual Local Governments

States That Earmark All of the Revenue in General Law	States That Earmark a Portion of the Revenue in General Law	States That Do Not Earmark the Revenue in General Law
None	None	Tennessee* Louisiana Mississippi New York North Carolina Vermont (cities only)

* With specific exceptions for categories of jurisdictions (e.g., home rule cities or counties; consolidated governments).

Table 10. General Earmarks of County and City Lodging Taxes

		State-Earmarked County Lodging Taxes		No County Lodging Taxes*
		Yes	No	
State-Earmarked City Lodging Taxes	Yes	15 States Arkansas, Georgia, Illinois, Iowa, Kansas, Kentucky, Maryland, Missouri, New Mexico, Ohio, Oregon, South Carolina, Texas, Washington, West Virginia	No States	5 States Minnesota, North Dakota, Rhode Island, South Dakota, Wisconsin
	No	6 States Colorado, Michigan, Nebraska, Nevada, Vermont, Virginia	8 States Alabama, Alaska, California, Louisiana, Mississippi, New York, North Carolina, Tennessee	4 States Arizona, Massachusetts, New Jersey, Vermont
No City Lodging Taxes*		4 States Florida, Indiana, Pennsylvania, Wyoming	1 State Oklahoma	7 States Connecticut, Delaware, Hawaii, Idaho, Maine, Montana, New Hampshire

* Except in certain jurisdictions. See appendix D for more information.

DRAFT

References

- American Hotel & Lodging Association. 2014. Lodging Industry Profile.
- California Local Government Finance Almanac. 2014. An Overview of Local Revenue Measures in California Since 2001.
- Canina, Linda and Steven A. Carvell. 2005. "Lodging Demand for Urban Hotels in Major Metropolitan Markets," *Journal of Hospitality & Tourism Research*, 29(3), 291-311.
- Damonte, D., L. Taylor Damonte, Darla J. Domke-Damonte, and S.P. Morse. 1998. "The case for using destination-level price elasticity of demand for lodging services," *Asia Pacific Journal of Tourism Research*, 3(1), 19.
- Deskins, John and Matthew T. Seevers. 2011. "Are State Expenditures to Promote Tourism Effective?" *Journal of Travel Research*.
- Hiemstra, Stephen J. and Joseph A. Ismail. 1990. "Impacts of room taxes on the lodging industry," *Hospitality Research Journal*, 14(2), 231-241.
- Longwoods International. 2012. Funding Tennessee's Tourism Promotion: A White Paper.
- Qu, Hailin; Peng Xu; and Amy Tan. 2002. "A simultaneous equations model of the hotel room supply and demand in Hong Kong," *International Journal of Hospitality Management* 21, 455-462.
- Seul Ki Lee. 2014. "Revisiting the Impact of Bed Tax with Spatial Panel Approach," *International Journal of Hospitality Management*, 41 (49-55).
- Smith Travel Research (STR). 2015. Tennessee Business Travel Association Industry Overview.
- State of Tennessee Office of the Attorney General. 2003. Opinion No. 03-062.
- Tennessee Department of Finance and Administration. 2015. Budget of the State of Tennessee, fiscal year 2015-2016.
- US Travel Association. 2015. Economic Impact of Travel on Tennessee Counties 2014.
- US Bureau of Labor Statistics. 2014.
- University of Tennessee County Technical Assistance Service (CTAS), e-Library Reference Number: CTAS-17. <http://ctas-eli.ctas.tennessee.edu/reference/private-act-approvals-clb>. (accessed October 2, 2015)
- University of Tennessee Municipal Technical Advisory Service (MTAS), Online Resource Reference Number: MTAS-333.

<http://mtasresource.mtas.tennessee.edu/reference/home-rule>. (accessed October 2, 2015)

University of Tennessee Municipal Technical Advisory Service (MTAS), Online Resource
Reference Number: MTAS-333.

<http://mtasresource.mtas.tennessee.edu/reference/private-act-charter>. (accessed October 2, 2015)

US Advisory Commission on Intergovernmental Relations. 1987. Local Revenue
Diversification-User Charges.

DRAFT

Persons Interviewed

Greg Adkins, President and CEO
Tennessee Hospitality and Tourism
Association

Jim Arnette, Director
Division of Local Government Audit
Tennessee Comptroller of the Treasury

Jason Barnes, Finance Director
City of White House, Tennessee

Leah Beth Bartley
Tax and Accounting
Thomson Reuters Corporation

Clint Brewer, Assistant Commissioner of
Communications and Marketing
Tennessee Department of Economic and
Community Development

Debbie Caughron, Finance Director and
City Recorder
City of Maryville, Tennessee

David Conner, Executive Director
Tennessee County Services Association

Ralph Cross, Consultant
Municipal Technical Advisory Service

Lee Waddell Curtis, Director of Program
Development, Legislative Liaison
Tennessee Department of Tourist
Development

Bryan Daniels, President and CEO
Blount Partnership

Penny Demko, Revenue Tax Specialist
Sales and Use Tax, Policy Services
Minnesota Department of Revenue

Joel Eisemann, Chairperson
America Hotel and Lodging Association

Lindsay Frilling
Economic Development Director
Obion County Joint Economic
Development Council

Brandi Ghergia, Executive Director
Cheatham County Chamber of Commerce
Tennessee

Aaron Gumpenberger, Director
Ryman Hospitality Properties
Tennessee Tourism Committee

Carl Luft, Executive Director
Delaware League of Local Governments

Ed Hagerty, Mayor
Mt. Juliet, Tennessee

Dan Haskell, Lobbyist
Tennessee Hospitality Association

Bradley Jackson
Vice President of Government Affairs
Tennessee Chamber of Commerce and
Industry and Tennessee Manufacturers
Association

Chad Jenkins, Deputy Director
Tennessee Municipal League

Mackie Lowery, Tax Auditor
Sales and Use Tax Division
Arkansas Department of Finance and
Administration

James Mayberry
Revenue Manager, Local Tax Section
Alabama Department of Revenue

Mary McGuire, Revenue Examiner
Sales and Use Tax Division
Alabama Department of Revenue

University of Tennessee Municipal
Technical Advisory Service

Amy New, Assistant Commissioner of Rural
Development
Tennessee Department of Tourism

Richard Ornstein, Attorney
Kentucky Association of Counties

Heetesh Patel, Hotel Owner and Regional
Director of Asian-American Hotel Owners
Association

Christopher Pike, Director
Impact Studies
Tourism Economics

Adam Sacks, President
Tourism Economics

Bojan Savic, Economist
Tennessee Joint Fiscal Review Committee

Barbara Sampson, Assistant Commissioner
Tennessee Department of Revenue

Ken Smith, Executive Director
Alabama League of Municipalities

Diana Stanley, City Clerk
City of Oak Ridge, Tennessee

Reginald Tate, State Senator
District 33

Kevin Triplett, Commissioner
Tennessee Department of Tourist
Development

Mark White, State Representative
District 83

Lyndy Wibking
Senior Library Associate

Appendix A: Public Chapter 395



State of Tennessee

PUBLIC CHAPTER NO. 395

SENATE BILL NO. 850

By Tate

Substituted for: House Bill No. 951

By Mark White, Keisling

AN ACT to amend Tennessee Code Annotated, Title 7, Chapter 4, Part 1 and Title 67, Chapter 4, Part 14, relative to taxes on accommodations for transients.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-4-1401(6), is amended by deleting the subdivision in its entirety and substituting instead:

(6) "Person" means any individual, or group of individuals, that occupies the same room; and

SECTION 2. The Tennessee advisory commission on intergovernmental relations is directed to study, using existing resources, the effect of hotel occupancy taxes on the economy and their effect on tourism and the hospitality industry. The study shall include a comparison of this state's hotel occupancy tax structure with other states and any recommendations on whether hotel occupancy taxes should be levied on the municipal, county, or state level to best preserve the state's economy and encourage the continued growth of tourism in this state. The study shall consider methods to require public input and consideration prior to the adoption of such taxes by any governmental entity. The one-time study shall be submitted to the local government committee of the house of representatives and the state and local government committee of the senate by February 15, 2016.

SECTION 3. This act shall take effect upon becoming a law, the public welfare requiring it.

Appendix B: Senate Bill 850

HOUSE BILL 951
By Lynn

SENATE BILL 850

By Tate

AN ACT to amend Tennessee Code Annotated, Title 7,
Chapter 4, Part 1 and Title 67, Chapter 4, Part 14,
relative to taxes on accommodations for
transients.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-4-1401, is amended by adding the following as a new, appropriately designated subdivision:

() "Tourism" or "tourism development" means the planning and conducting of programs of information and publicity designed to attract to the city or county tourists, visitors, and other interested persons from outside the area and to also encourage and coordinate the efforts of other public and private organizations or groups of citizens to publicize the facilities and attractions of the area for the same purposes and shall also mean the acquisition, construction, and remodeling of facilities used in the attraction and promotion of tourist, convention, and recreational businesses. Tourism promotion must be expected to increase lodging stays or sales of on-site prepared food or both.

Demonstration of the tourism purpose shall best be shown by the expenditures' likelihood to significantly increase the following: lodging stays; sales of prepared food; or visits to convention centers, attractions, museums, and other entertainment or sporting venues; or any combination of lodging stays, sales of prepared food, and such visits;

SECTION 2. Tennessee Code Annotated, Section 67-4-1402, is amended by adding the following as a new subsection:

() Prior to the adoption or authorization of any tax under this chapter, the local government proposing to adopt such tax shall conduct a study to determine the economic effect of the passage of such an ordinance. Such study shall be preceded by

SB0850
002692
-1-

public notice in a newspaper of general circulation, written notice to the county or city covered but not making the proposal and at least a thirty-day period for the public to review such study after it is published and submit comments to the adopting body prior to the adoption of an ordinance.

SECTION 3. Tennessee Code Annotated, Section 67-4-1406, is amended by adding the following as a new subsection:

() As part of the audit conducted or authorized by the comptroller of the treasury and within the normal cost of that audit, the collection and use of any tax levied under this part shall be subject to audit.

SECTION 4. Tennessee Code Annotated, Section 67-4-1403, is amended by adding the following language to the end of the section:

It is recommended that one hundred percent (100%) of the proceeds from an occupancy tax be spent for these purposes, but at least eighty percent (80%) of the proceeds of any tax or expansion of the tax adopted after the effective date of this act shall be spent in the promotion of tourism or tourism development as provided in this part.

SECTION 5. Tennessee Code Annotated, Section 67-4-1425, is amended by adding the following as a new subsection:

() After the effective date of this act, no occupancy tax or increase in an existing occupancy tax shall be adopted by a private act.

SECTION 6. Tennessee Code Annotated, Section 67-4-1401(7), is amended by deleting the language "thirty (30)" and substituting instead the language "ninety (90)".

SECTION 7. Tennessee Code Annotated, Section 67-4-1404(b), is amended by deleting the language "thirty (30)" wherever it appears and substituting instead the language "ninety (90)".

SECTION 8. Tennessee Code Annotated, Section 7-4-101(11), is amended by deleting the language "thirty (30)" and substituting instead the language "ninety (90)".

SECTION 9. Tennessee Code Annotated, Section 67-4-1401(6), is amended by inserting the following language after the word "unit":

where the same person or persons occupy the same room for a period of less than ninety (90) days;

SECTION 10. If any provision of this legislation or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of this act that can be given effect without the invalid provision or application, and to this end the provisions of this act are severable.

SECTION 11. This act shall take effect upon becoming a law, the public welfare requiring it.

Appendix C: State and Local Combined Lodging Tax Rates and Authorized Rates in Tennessee.

		Actual Tax Rates					Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Anderson	(except Clinton, Oak Ridge, Oliver Springs, Rocky Top)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Anderson	Clinton	7%	2.75%		5%	3%	17.75%	2.75%	5%	5%	19.75%
Anderson	Oak Ridge	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Anderson	Oliver Springs	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Anderson	Rocky Top	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Bedford	(except Shelbyville)	7%	2.75%				9.75%	2.75%			9.75%
Bedford	Shelbyville	7%	2.75%			7%	16.75%	2.75%		10%	19.75%
Benton		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Bledsoe		7%	2.25%				9.25%	2.75%			9.75%
Blount	(except Alcoa, Maryville)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Blount	Alcoa	7%	2.75%		5%	1%	15.75%	2.75%	5%	5%	19.75%
Blount	Louisville	7%	2.75%		5%		14.75%	2.75%	5%	5%	19.75%
Blount	Maryville	7%	2.75%		5%	1%	15.75%	2.75%	5%	5%	19.75%
Blount	Rockford	7%	2.75%		5%		14.75%	2.75%	5%	5%	19.75%
Bradley		7%	2.75%		5%		14.75%	2.75%	5%		14.75%

Actual Tax Rates								Authorized Tax Rates			
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Campbell	(except Caryville, Jellico, Rocky Top)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Campbell	Caryville	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Campbell	Jellico	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Campbell	Rocky Top	7%	2.25%	0.5%		5%	14.75%	2.75%		5%	14.75%
Cannon		7%	1.75%		5%		13.75%	2.75%	5%		14.75%
Carroll	(except Huntingdon, McKenzie)	7%	2.75%				9.75%	2.75%			9.75%
Carroll	Huntingdon	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Carroll	McKenzie	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Carter	(except Johnson City)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Carter	Johnson City	7%	2.75%			7%	16.75%	2.75%		7%	16.75%
Cheatham	(except Ashland City, Kingston Springs, Pegram)	7%	2.25%		5%		14.25%	2.75%	10%		19.75%
Cheatham	Ashland City	7%	2.25%	0.5%	5%		14.75%	2.75%	10%		19.75%
Cheatham	Kingston	7%	2.25%	0.5%	5%		14.75%	2.75%	10%		19.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Cheatham	Springs										
Chester	Pegram	7%	2.25%	0.5%	5%	14.75%	2.75%	10%		19.75%	
Chester	Henderson	7%	2.75%		4%	13.75%	2.75%	4%		13.75%	
Claiborne		7%	2.75%		5%	14.75%	2.75%		5%	14.75%	
Clay		7%	2.25%		3%	12.25%	2.75%	3%		12.75%	
Cocke	(except Newport)	7%	2.75%		2.5%	12.25%	2.75%	2.5%		12.25%	
Cocke	Newport	7%	2.75%		3%	12.75%	2.75%	3%		12.75%	
Coffee	(except Manchester, Tullahoma)	7%	2.75%		3%	12.75%	2.75%	3%		12.75%	
Coffee	Manchester	7%	2.75%			14.75%	2.75%		5%	17.75%	
Coffee	Tullahoma	7%	2.75%			9.75%	2.75%			9.75%	
Coffee	Manchester	7%	2.75%			15.75%	2.75%		6%	15.75%	
Coffee	Tullahoma	7%	2.75%			14.75%	2.75%		5%	14.75%	
Crockett		7%	2.75%		5%	14.75%	2.75%	5%		14.75%	
Cumberland		7%	2.75%		7.5%	17.25%	2.75%	7.5%		17.25%	
Davidson	(except Goodlettsville)	7%	2.25%		6%	15.25%	2.75%	6%		15.75%	
Davidson	Goodlettsville	7%	2.25%		6%	18.25%	2.75%	6%	3%	18.75%	
Decatur		7%	2.50%		5%	14.50%	2.75%	5%		14.75%	
DeKalb		7%	2.75%		5%	14.75%	2.75%	5%		14.75%	

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Dickson	(except Dickson)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Dickson	Dickson	7%	2.75%		5%	5%	19.75%	2.75%	5%	5%	19.75%
Dyer	(except Dyersburg)	7%	2.75%				9.75%	2.75%			9.75%
Dyer	Dyersburg	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Fayette	(except Piperton)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Fayette	Piperton	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Fentress		7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Franklin	(except Monteagle, Tullahoma, and Winchester)	7%	2.25%		7%		16.25%	2.75%	7%		16.75%
Franklin	Monteagle	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Franklin	Tullahoma	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Franklin	Winchester	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Gibson		7%	2.75%		4%		13.75%	2.75%	4%		13.75%
Giles	(except Pulaski)	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Giles	Pulaski	7%	2.50%	0.25%	5%		14.75%	2.75%	5%		14.75%
Grainger	(except Bean Station)	7%	2.75%				9.75%	2.75%			9.75%

Actual Tax Rates								Authorized Tax Rates			
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Grainger	Bean Station	7%	2.75%			1%	10.75%	2.75%		1%	10.75%
Greene		7%	2.75%		7%		16.75%	2.75%	7%		16.75%
Grundy	(except Monteagle)	7%	2.25%				9.25%	2.75%	5%		14.75%
Grundy	Monteagle	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Hamblen	(except Morristown)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Hamblen	Morristown	7%	2.75%			7%	16.75%	2.75%		7%	16.75%
Hamilton	(except Chattanooga, East Ridge, Collegedale)	7%	2.25%		4%		13.25%	2.75%	5%		14.75%
Hamilton	Chattanooga	7%	2.25%		4%	4%	17.25%	2.75%	5%	5%	19.75%
Hamilton	Collegedale	7%	2.25%		4%	4%	17.25%	2.75%	5%	5%	19.75%
Hamilton	East Ridge	7%	2.25%		4%	4%	17.25%	2.75%	5%	5%	19.75%
Hamilton	Lakesite	7%	2.25%				9.25%	2.75%	5%	5%	19.75%
Hamilton	Lookout Mountain	7%	2.25%				9.25%	2.75%	5%	5%	19.75%
Hamilton	Red Bank	7%	2.25%				9.25%	2.75%	5%	5%	19.75%
Hamilton	Soddy-Daisy	7%	2.25%				9.25%	2.75%	5%	5%	19.75%
Hamilton	Walden	7%	2.25%				9.25%	2.75%	5%	5%	19.75%
Hancock		7%	2.00%				9.00%	2.75%			9.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Hardeman		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Hardin	(except Adamsville, Savannah)	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Hardin	Adamsville	7%	2.50%		5%	5%	19.50%	2.75%	5%	5%	19.75%
Hardin	Savannah	7%	2.50%		5%	5%	19.50%	2.75%	5%	5%	19.75%
Hawkins	(except Kingsport, Rogersville)	7%	2.75%				9.75%	2.75%	4%		13.75%
Hawkins	Kingsport	7%	2.75%			7%	16.75%	2.75%		7%	16.75%
Hawkins	Rogersville	7%	2.75%			7%	16.75%	2.75%		7%	16.75%
Haywood		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Henderson	(except Lexington)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Henderson	Lexington	7%	2.75%		5%	5%	19.75%	2.75%	5%	Unlimited	Unlimited
Henry		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Henry	McKenzie	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Hickman		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Houston	(except Erin)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Houston	Erin	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Humphreys		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Jackson		7%	2.75%				9.75%	2.75%			9.75%

Actual Tax Rates								Authorized Tax Rates			
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Jefferson		7%	2.75%		4%		13.75%	2.75%	4%		13.75%
Johnson	(except Mountain City)	7%	1.50%				8.50%	2.75%	5%		14.75%
Johnson	Mountain City	7%	1.50%			5%	13.50%	2.75%		5%	14.75%
Knox	(except Knoxville)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Knox	Knoxville	7%	2.25%		5%	3%	17.25%	2.75%	5%	5%	19.75%
Lake		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Lauderdale		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Lawrence		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Lewis		7%	2.50%		5%		14.50%	2.75%	7%		16.75%
Lincoln	(except Fayetteville)	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Lincoln	Fayetteville	7%	2.50%		5%	3.5%	18.00%	2.75%	5%	5%	19.75%
Loudon	(except Lenoir City, Loudon)	7%	2.00%		5%		14.00%	2.75%	5%		14.75%
Loudon	Lenoir City	7%	2.00%		5%	5%	19.00%	2.75%	5%	5%	19.75%
Loudon	Loudon	7%	2.00%	0.5%	5%		14.50%	2.75%	5%		14.75%
McMinn	(except Etowah, Sweetwater)	7%	2.00%		5%		14.00%	2.75%	5%		14.75%
McMinn	Etowah	7%	2.00%		5%	5%	19.00%	2.75%	5%	5%	19.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
McMinn	Sweetwater	7%	2.00%	0.75%	5%		14.75%	2.75%	5%	5%	19.75%
McNairy	(except Adamsville, Selmer)	7%	2.25%				9.25%	2.75%			9.75%
McNairy	Adamsville	7%	2.25%	0.5%		5%	14.75%	2.75%		5%	14.75%
McNairy	Selmer	7%	2.25%			5%	14.25%	2.75%		5%	14.75%
Macon		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Madison	(except Jackson)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Madison	Jackson	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Marion	(except Kimball, Monteagle)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Marion	Kimball	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Marion	Monteagle	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Marion	Whitwell	7%	2.75%				9.75%	2.75%	5%	5%	19.75%
Marshall		7%	2.25%		7%		16.25%	2.75%	7%		16.75%
Maury		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Maury	Columbia	7%	2.25%		5%	5%	19.25%	2.75%	5%	5%	19.75%
Meigs		7%	2.00%		5%		14.00%	2.75%	5%		14.75%
Monroe	(except Sweetwater)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Monroe	Sweetwater	7%	2.25%	0.5%	5%		14.75%	2.75%	5%	5%	19.75%
Montgomery	(except Clarksville)	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Montgomery	Clarksville	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Moore		7%	2.50%		3%		12.50%	2.75%	3%		12.75%
Morgan	(except Oliver Springs, Sunbright, Wartburg)	7%	2.00%				9.00%	2.75%	5%		14.75%
Morgan	Oliver Springs	7%	2.00%	0.75%		5%	14.75%	2.75%		5%	14.75%
Morgan	Sunbright	7%	2.00%	0.75%			9.75%	2.75%			9.75%
Morgan	Wartburg	7%	2.00%	0.75%			9.75%	2.75%			9.75%
Obion	(except Samburg, Union City)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Obion	Samburg	7%	2.75%			3%	12.75%	2.75%		5%	14.75%
Obion	Union City	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Overton		7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Perry		7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Pickett		7%	2.75%				9.75%	2.75%			9.75%
Polk	(except Benton)	7%	2.25%		3%		12.25%	2.75%	3%		12.75%
Polk	Benton	7%	2.25%	0.5%	3%		12.75%	2.75%	3%		12.75%

		Actual Tax Rates					Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Putnam		7%	2.75%		6%		15.75%	2.75%	6%		15.75%
Rhea		7%	2.75%		2%		11.75%	2.75%	5%		14.75%
Roane	(except Kingston, Oak Ridge, Oliver Springs)	7%	2.50%		5%		14.50%	2.75%	5%		14.75%
Roane	Kingston	7%	2.50%		5%	5%	19.50%	2.75%	5%	5%	19.75%
Roane	Oak Ridge	7%	2.50%	0.25%		5%	14.75%	2.75%		5%	14.75%
Roane	Oliver Springs	7%	2.50%	0.25%		5%	14.75%	2.75%		5%	14.75%
Roane	Harriman	7%	2.00%	0.50%		7%	16.50%	2.75%		7%	16.75%
Robertson		7%	2.75%		7%		16.75%	2.75%	7%		16.75%
Rutherford	(except LaVergne, Murfreesboro, Smyrna)	7%	2.75%		2.5%		12.25%	2.75%	5%		14.75%
Rutherford	LaVergne	7%	2.75%		2.5%	2.5%	14.75%	2.75%	5%	2.5%	17.25%
Rutherford	Murfreesboro	7%	2.75%		2.5%	2.5%	14.75%	2.75%	5%	2.5%	17.25%
Rutherford	Smyrna	7%	2.75%		2.5%	2.5%	14.75%	2.75%	5%	2.5%	17.25%
Scott		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Sequatchie		7%	2.25%		2%		11.25%	2.75%	4%		13.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Sevier	(except Gatlinburg, Pigeon Forge, Pittman Center, Sevierville)	7%	2.75%		3%		12.75%	2.75%	3%		12.75%
Sevier	Gatlinburg	7%	2.75%			3%	12.75%	2.75%		3%	12.75%
Sevier	Pigeon Forge	7%	2.75%				12.25%	2.75%		3%	12.75%
Sevier	Pittman Center	7%	2.75%			3%	12.75%	2.75%		3%	12.75%
Sevier	Sevierville	7%	2.75%			3%	12.75%	2.75%		5%	14.75%
Shelby	(except Arlington, Bartlett, Collierville, Germantown, Lakeland, Memphis, Millington)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Shelby	Arlington	7%	2.25%	0.5%	5%		14.75%	2.75%	5%	5%	19.75%
Shelby	Bartlett	7%	2.25%	0.5%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Collierville	7%	2.25%	0.5%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Germantown	7%	2.25%	0.5%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Lakeland	7%	2.25%	0.5%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Memphis	7%	2.25%		5%	1.7%	15.95%	2.75%	5%	5%	19.75%

Actual Tax Rates								Authorized Tax Rates			
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Shelby	Millington	7%	2.25%	0.5%	5%	3%	17.75%	2.75%	5%	3%	17.75%
Smith	(except Carthage, Gordonsville)	7%	2.75%				9.75%	2.75%			9.75%
Smith	Carthage	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Smith	Gordonsville	7%	2.75%			3%	12.75%	2.75%		3%	12.75%
Stewart	(except Dover)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Stewart	Dover	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Sullivan	(except Bristol, Kingsport, and Johnson City)	7%	2.25%				9.25%	2.75%	5%		14.75%
Sullivan	Bristol	7%	2.25%			5%	14.25%	2.75%	5%	5%	19.75%
Sullivan	Kingsport	7%	2.25%	0.25%		7%	16.50%	2.75%	5%	7%	21.75%
Sullivan	Johnson City	7%	2.25%			7%	16.25%	2.75%	5%	7%	21.75%
Sumner	(except Goodlettsville and White House)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Sumner	Goodlettsville	7%	2.25%		5%	3%	17.25%	2.75%	5%	3%	17.75%
Sumner	White House	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Tipton	(except Atoka, Covington, Munford)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%

Actual Tax Rates							Authorized Tax Rates				
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Tipton	Atoka	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Tipton	Covington	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Tipton	Munford	7%	2.25%	0.5%	5%		14.75%	2.75%	5%		14.75%
Trousdale		7%	2.25%				9.25%	2.75%	3%		12.75%
Unicoi		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Union		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Van Buren		7%	2.75%		7%		16.75%	2.75%	7%		16.75%
Warren		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Washington	(except Johnson City, Jonesborough)	7%	2.50%				9.50%	2.75%			9.75%
Washington	Johnson City	7%	2.50%			7%	16.50%	2.75%		7%	16.75%
Washington	Jonesborough	7%	2.50%			5%	14.50%	2.75%		5%	14.75%
Wayne		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Weakley	(except McKenzie)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Weakley	McKenzie	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
White		7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Williamson	(except Brentwood, Fairview, Franklin)	7%	2.25%		4%		13.25%	2.75%	4%		13.75%

Actual Tax Rates								Authorized Tax Rates			
County	City	Sales Tax Rates			Lodging Tax Rates		Total Tax Rate	Sales Tax (Local)	Lodging Tax Rates		Total Tax Rate
		(State)	(County)	(City)	(County)	(City)			(County)	(City)	
Williamson	Brentwood	7%	2.25%		4%	4%	17.25%	2.75%	4%	4%	17.75%
Williamson	Fairview	7%	2.25%	0.5%	4%	2%	15.75%	2.75%	4%	2%	15.75%
Williamson	Franklin	7%	2.25%		4%	4%	17.25%	2.75%	4%	4%	17.75%
Wilson	(except Lebanon, Mount Juliet)	7%	2.25%		5%		14.25%	2.75%	5%		14.75%
Wilson	Lebanon	7%	2.25%		5%	2%	16.25%	2.75%	5%	2%	16.75%
Wilson	Mt. Juliet	7%	2.25%		5%	4%	18.25%	2.75%	5%	5%	19.75%

Bold indicates rate is less than rate authorized by the state.

Appendix D: Authorized State and Local Lodging Taxes by State

State	State Lodging and Sales Taxes Applied to Lodging	Local Lodging Taxes		Local Sales Taxes	
		City	County	City	County
Alabama	4%*	Unlimited	Varies	n/a	n/a
Alaska	None	Referendum	Referendum	Referendum	Referendum
Arizona	6.05%*	Unlimited	n/a*	Unlimited	3.3%
Arkansas	6.5%	3%*	3%*/Referendum	Referendum	Referendum
California	n/a	Referendum	Referendum	n/a	n/a
Colorado	2.9%	Referendum	2%/Referendum	Referendum	Referendum
Connecticut	15%	n/a	n/a	n/a	n/a
Delaware	8%	n/a	n/a	n/a	n/a
Florida	6%	n/a	6%/Referendum	n/a*	1.5%
Georgia	4% + \$5	3%**	3%	2%*	2%
Hawaii	13.42%	n/a	n/a	n/a	0.55%
Idaho	8%	n/a	n/a	n/a	n/a
Illinois	6%	5%**	5%**	n/a	n/a
Indiana	7%	n/a	5%*	n/a	n/a
Iowa	5%	7%/Referendum	7%/Referendum	n/a	n/a
Kansas	6.5%	2%	2%	3%	1%*
Kentucky	6%	3%**	3%	n/a	n/a

State	State Lodging and Sales Taxes Applied to Lodging	Local Lodging Taxes		Local Sales Taxes	
		City	County	City	County
Louisiana	4%	Varies	Varies	3%	7% minus city rate
Maine	8%	n/a	n/a	n/a	n/a
Maryland	6%	2%	3%*	n/a	n/a
Massachusetts	5.7%	6%*	n/a	n/a	n/a
Michigan	6%	5%	5%	n/a	n/a
Minnesota	6.875%	3%**	n/a	0.75%	1%
Mississippi	7%	Varies	Varies	n/a*	n/a
Missouri	4.225%	1%*	1%*	Referendum	3%
Montana	7%	n/a	n/a	n/a	n/a
Nebraska	6.5%	Referendum	4%	2%	1.5%
Nevada	n/a	2%*	1%*/Referendum	n/a	n/a
New Hampshire	9%	n/a	n/a	n/a	n/a
New Jersey	Combined 14%		n/a	n/a	n/a
New Mexico	5.125%	5%	5%	1%	0.4375%
New York	4%	Varies	Varies	4%	3%*
North Carolina	4.75%	Varies	Varies	n/a	2.75%

State	State Lodging and Sales Taxes Applied to Lodging	Local Lodging Taxes		Local Sales Taxes	
		City	County	City	County
North Dakota	5%	3%**	n/a	Referendum	Referendum
Ohio	5.75%	3%	3%	n/a	1.5%
Oklahoma	4.5%	n/a	n/a*	Referendum	2%*
Oregon	1%	Unlimited	Unlimited	n/a	n/a
Pennsylvania	6%	n/a*	3%*	n/a	3%*
Rhode Island	12%	1%*	n/a	n/a	n/a
South Carolina	7%	3%/Referendum	3%	1%	6%
South Dakota	5.5%	1%	n/a	2%	n/a
Tennessee	7%	Varies**	Varies	Combined 2.75%/Referendum	
Texas	6%	7%*	2%*	n/a	n/a
Utah	4.7%	1%*	4.25%*	1%	0.25%
Vermont	9%	n/a*	n/a	n/a	n/a
Virginia	4.3%	Varies	2%*	1%	1%
Washington	6.5%	2%*	2%*	0.5%*	0.5%*
West Virginia	6%	6%*	6%	1%	n/a
Wisconsin	5%	8%*/Referendum	n/a	n/a	0.5%
Wyoming	4%	n/a	4%	n/a	3%

*Certain counties and cities authorized to levy higher rates.

**Certain types of cities (e.g., home rule) or counties (e.g., those with consolidated governments) have general authorization to levy local lodging taxes.

DRAFT