Report of the Tennessee Advisory Commission on Intergovernmental Relations

Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism

January 2016

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Report of the Tennessee Advisory Commission on Intergovernmental Relations

Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism

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January 6, 2016

The Honorable Ron Ramsey
Lt. Governor and Speaker of the Senate

The Honorable Beth Harwell
Speaker of the House of Representatives

Members of the General Assembly

State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the Commission's report on Public Chapter 395, Acts of 2015, which directed 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. The report was approved on January 6, 2016, and is hereby submitted for your consideration.

Respectfully yours,

Senator Mark Norris
Chairman

Lynnisse Roehrich-Patrick
Executive Director

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MEMORANDUM

TO: Commission Members

FROM: Lynnisse Roehrich-Patrick
Executive Director

DATE: 6 January 2016

SUBJECT: Lodging Taxes–Final Report for Approval

The attached Commission report is submitted for your approval. The report responds to Public Chapter 395, Acts of 2015, 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 consider methods to require public input before adopting lodging taxes.

Like Tennessee, most states levy a state tax on lodging—either a lodging tax or a general sales tax or in ten cases both—and most allow their local governments to tax lodging as well. In fact, 27 states including Tennessee allow some or all local governments both to levy lodging taxes and to apply their sales taxes to lodging. This layering of taxes is not unusual, although allowing city and county taxes to overlap is less common. But most states do not make these authorizations county by county and city by city. Twenty-one grant broad authorization in general law for all local governments to levy lodging taxes, and seven others broadly authorize either cities or counties to levy lodging taxes. Most cap the rates, but a few allow rates to be set locally including a handful that require referendums. Only five require public hearings on lodging tax proposals.

Although there is little evidence that Tennessee's economy or the tourism and hospitality industries are adversely affected by its lodging tax structure, there may be other reasons to reduce its complexity. Advantages and disadvantages are discussed in the report, as are options such as granting general authority up to some maximum rate, with or without an earmark, in order to reduce the number of individual requests that come to the legislature each year.

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Lodging Taxes: Supporting Communities and the Economy

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, almost half of which is used to fund convention centers and programs that promote tourism.

Accommodations alone contributed $2 billion to Tennessee's economy in 2013 and generated $154 million in lodging tax revenue for cities and counties in 2014.

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—see appendix A) 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 became Public Chapter 395, Acts of 2015 (see appendix B), 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.

Effect of Lodging Taxes on the Economy and the Tourism and Hospitality Industries

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

[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/

Studies show that lodging customers overall are not very sensitive to lodging taxes.

that lodging customers overall are not very sensitive to lodging taxes. 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, particularly those whose main business is hosting conventions and business travelers.

For individual travelers and non-business travel in general, the burden of lodging taxes falls mainly on customers, not on hotels. Moreover, 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. Nevertheless, hotels whose primary business is conventions and conferences compete not only with neighboring jurisdictions but also with hotels in other parts of the country, and at least some of the burden of lodging taxes may fall on them. Those in jurisdictions with higher tax rates, depending on the amenities in the area, may find it necessary to lower their room rates to remain competitive. And the jurisdictions themselves may come under pressure from the convention and conference booking industry to lower their rates. For example, when combined sales and lodging tax rates in the city of New York reached 21.25% in 1990—the highest rate in the country and more than twice the average rate for major US cities—convention organizers boycotted the city. And although, according to the Independent Budget Office of the City of New York, demand for hotel rooms was still increasing strongly and boosting tax receipts four years later, the State of New York repealed its 5% lodging tax, and the city reduced its rate from 6% to 5%, making the overall rate 15.25%. Following the reduction, tourism and tax revenues surged, but room rates also rose.

Only one study was found that specifically explored the effect of lodging taxes on the economy, a study done for the tourism industry that estimated a 2.4% reduction in room sales and associated visitor spending would result if 2% were added to existing lodging tax rates. Industry studies are difficult to evaluate because they are based on proprietary models that generally are not fully described or disclosed. This study, like many of its kind, appeared to assume that money collected from lodging taxes would not reappear elsewhere in the national economy.[2]

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

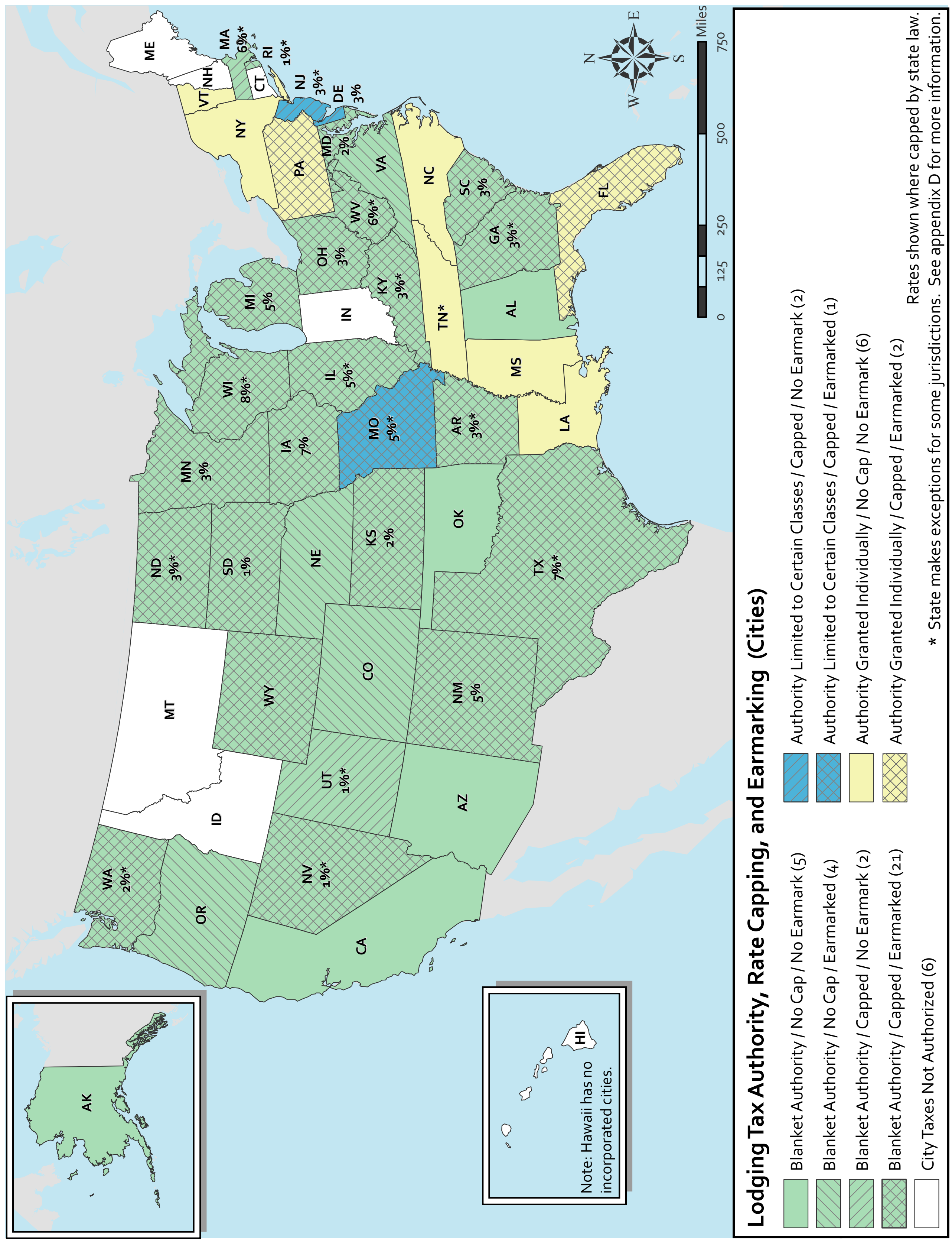
[2] For a guide to evaluating economic impact studies, see the 2009 TACIR staff research brief *Economic and Fiscal Impact Analyses* at http://tn.gov/assets/entities/tacir/attachments/econ_fiscalimpacts.pdf.

and county officials, citing differences in local needs, oppose any general earmark of lodging tax revenue because it would limit their flexibility to respond to changing local needs and priorities. And although some grants of authority to levy local lodging taxes in Tennessee include earmarks, most do not. Nevertheless, local governments, recognizing the many benefits of tourism, often use un-earmarked lodging tax revenue to help fund amenities like parks and convention centers that attract tourism and to provide services that make travelers' stays safer and more pleasant.

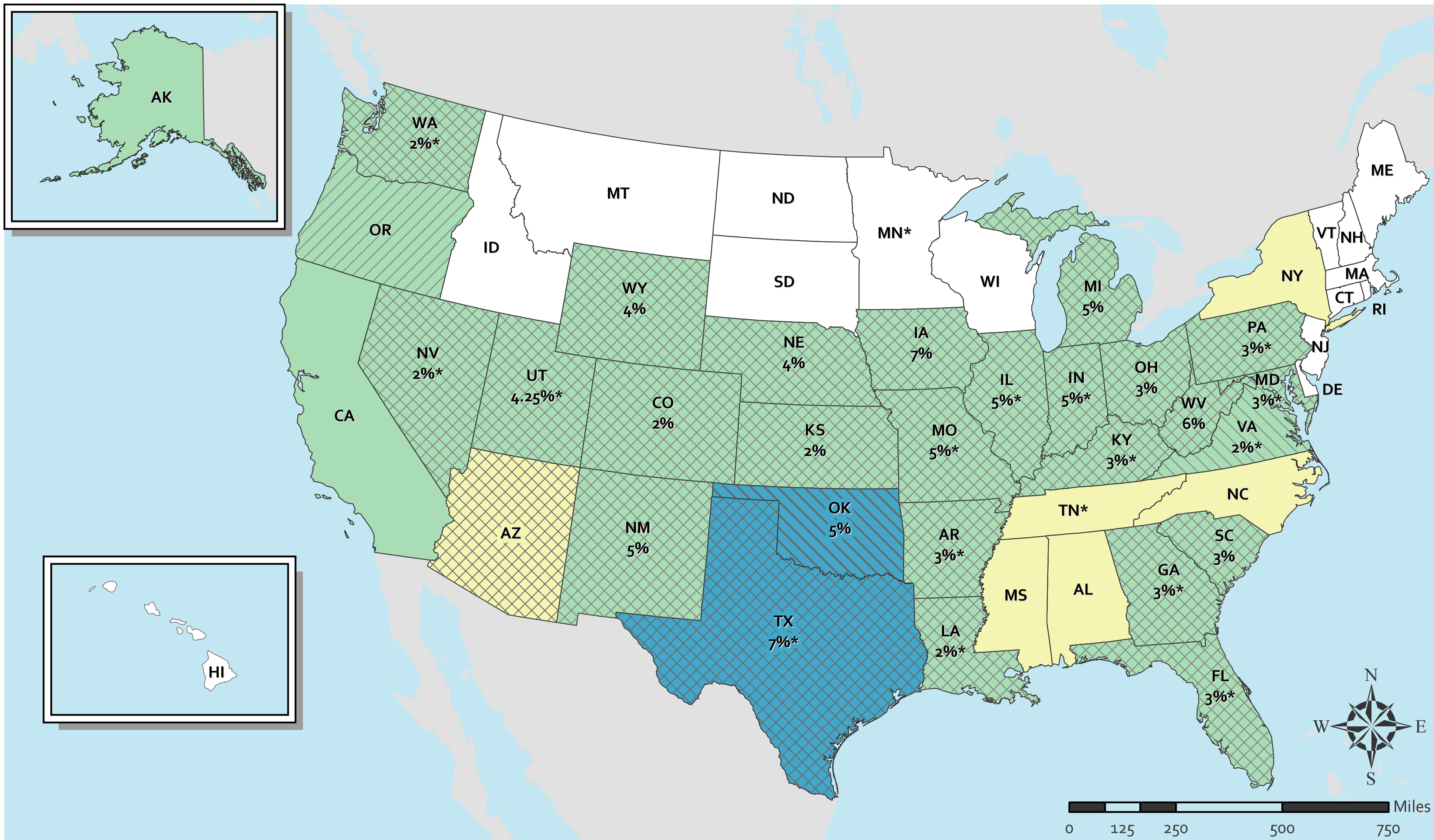
With few exceptions, general earmarks of lodging tax revenue like the one proposed in the original legislation that became Public Chapter 395 are tied to general authorizations to impose local lodging taxes in other states. Most of the 44 that allow local governments to levy lodging taxes grant blanket authority in general law to all cities (32) or all counties (27); close to half (22) grant blanket authority to both. Tennessee is among the minority that do not. All told, the number of states that grant blanket authority to either cities or counties or to both totals 37. Thirty of those states earmark all (14) or a portion (16) of the revenue. The amount earmarked varies from 25% to 100% or applies only to revenue collected from rates above a certain level. See maps 1 and 2.

Most states that allow local governments to levy local lodging taxes grant blanket authority in general law to all cities or all counties; close to half grant blanket authority to both. Tennessee is among the minority that do not.

Map 1. State Authorization, Capping, and Earmarking of City Lodging Taxes



Map 2. State Authorization, Capping, and Earmarking of County Lodging Taxes



Lodging Tax Authority, Rate Capping, and Earmarking (Counties)

- Blanket Authority / No Cap / No Earmark (2)
- Blanket Authority / No Cap / Earmarked (1)
- Blanket Authority / Capped / No Earmark (1)
- Blanket Authority / Capped / Earmarked (23)
- Authority Limited to Certain Classes / Capped / No Earmark (1)
- Authority Limited to Certain Classes / Capped / Earmarked (1)
- Authority Granted Individually / No Cap / No Earmark (5)
- Authority Granted Individually / Capped / Earmarked (1)
- County Taxes Not Authorized (15)

Rates shown where capped by state law.
* State makes exceptions for some jurisdictions.
See appendix D for more information.

Although Tennessee, like all six other states that do not generally authorize local lodging taxes, lacks a general earmark, the legislature frequently earmarks lodging tax revenue when authorizing new or increased rates for individual cities and counties, 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.

Authorizing Local Lodging Taxes and Capping Rates

Even the majority of states that grant blanket authority for local lodging have many of the same complicating factors as Tennessee, including exceptions to the general law for certain jurisdictions and overlapping state and local sales and lodging taxes. In fact, ten states both levy state lodging tax and impose their general sales tax on lodging, and eight of them authorize at least some of their local governments to do the same. Only six states do not authorize local lodging taxes: Connecticut, Hawaii, Idaho, Maine, Montana, and New Hampshire. Of those, only Maine does not have a state lodging tax; Hawaii and Idaho levy a state lodging tax and also impose their state sales taxes on lodging. The other eight that impose both state taxes on lodging are Arkansas, Georgia, Kentucky, Nebraska, New Jersey, Rhode Island, South Carolina, and South Dakota. Of course, the state taxes overlap, but many of the local taxes do as well.

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.

Although the lodging tax structure in Tennessee, as in most states, is complicated by distinctions made among local governments, 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. The General Assembly 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 and ended the practice of using private acts to authorize local lodging taxes where another local government already had one. This practice is often called "stacking." 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. And although private acts cannot be used to authorize overlapping local lodging taxes, the General Assembly has since 1988 authorized them by making exceptions to the general law. The stacking prohibition does not apply to home-rule cities because their lodging tax authority is in general law, not in private acts.

Eighteen other states allow city and county taxes to overlap. One, Alaska, grants both cities and counties general authority to levy local lodging taxes and set their own rates ***and*** allows them to overlap. California and Oregon also grant both cities and counties general authority to levy lodging taxes and set their own rates, but they do not allow them to overlap. Six more allow rates to be set at the local level: Alabama, Arizona, Colorado, Nebraska, Oklahoma, and Virginia (see maps 1 and 2), and three of them—Alabama, Nebraska, and Oklahoma—allow these uncapped city and county lodging taxes to overlap. See map 3.

The 44 states that authorize lodging taxes for at least some cities or counties usually do so up to a certain rate, though many make exceptions to the standard rate limit for certain jurisdictions. With one exception, local lodging tax authorizations in Tennessee set maximum rates, nearly always 5%. Lexington is the only jurisdiction with no cap. As noted above, the cap for home rule cities (currently 14) is 5% and can overlap county taxes. All 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 80 counties (including the three with consolidated governments) and 76 cities (including the 14 home rule cities) have been authorized to levy local lodging taxes.

City and county lodging taxes in Tennessee overlap in 34 cities in 20 counties, including 13 cities in 9 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 13 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%.)

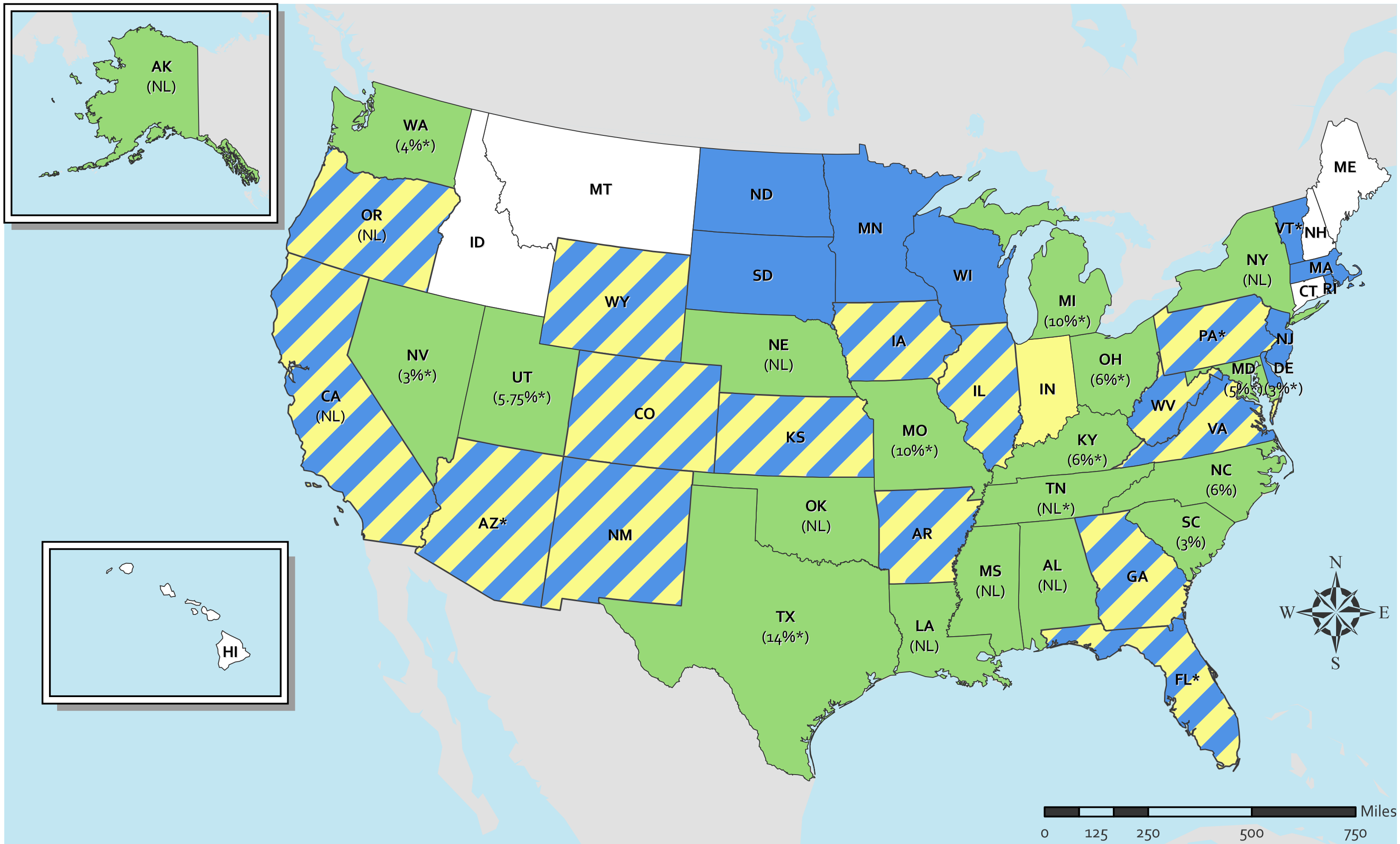
Many Tennessee jurisdictions have either not used their lodging tax authority at all or remain below their caps, and most have rates of 5% or less. Two counties, Hawkins and Morgan, plus Metropolitan Hartsville-Trousdale County declined to use their lodging tax authority (Hawkins and Morgan's authority has since expired); four more—Cheatham, Rhea, Rutherford, and Sequatchie—remain below their authorized rates as do 16 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.

Combined sales and lodging tax rates in Tennessee could exceed 19.75% without further action by the General Assembly in two 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

With one exception, local lodging tax authorizations in Tennessee set maximum rates, nearly always 5%.

Many Tennessee jurisdictions have either not used their lodging tax authority at all or remain below their caps.

Map 3. State Authorization, Capping, and Overlapping of County and City Lodging Taxes



Local Lodging Taxes: Level of Government and Whether They Can Overlap

- Local Lodging Taxes: City Level Only (9)
- Local Lodging Taxes: County Level Only (1)
- Local Lodging Taxes: Both City and County, Not Overlapping (15)
- Local Lodging Taxes: Both City and County, Overlapping (19)
- States With No Local Lodging Taxes—City or County (6)

Combined / overlapping rates shown where capped by state law; NL = Not Limited

* State makes exceptions for some jurisdictions. See appendix D for more information.

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. See appendix C for authorized and actual lodging tax rates in Tennessee.

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 others states, may hold referendums on whether to levy lodging taxes at their option, though most choose not to do so. Twelve states require referendums; three of them—Alaska, California, and Nebraska[3]—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.

Tennessee, like nearly all other states, does not require public hearings before adopting local lodging taxes.

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 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, including the issue of whether to earmark all or part of the proposed tax, before new or higher lodging tax rates are authorized, both in the state legislature and, if authorized, at the local level.

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.

Even so, reducing the complexity in current law by granting general authorization for local lodging taxes, up to some specified rate or

[3] Nebraska requires referendums only for cities, not for counties.

combination of rates for cities and counties, 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. Indeed, general authorization for local lodging taxes up to a certain rate might make a general earmark more acceptable. Finally, although granting blanket authority to levy local lodging taxes would reduce individual requests for that authority, it should not be expected to eliminate them. Exceptions will always be requested.

Lodging Tax Authority, Structures, and Effects

Since 1996, ten bills have been introduced in the General Assembly to change Tennessee's lodging tax structure: three that proposed to broaden local ability to levy lodging taxes and seven proposing to restrict it. A 1997 bill would have expanded 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 local governments to determine their own rates.[4] Two 2003 bills would have removed the statutory limitations on overlapping city and county lodging taxes.[5] A 2011 bill would have reduced from 5% to 4% the rate home rule cities are authorized to levy.[6] And five more bills were introduced from 2003 to 2012 that would have earmarked all new and increased lodging taxes for tourism promotion.[7] Two of these would have capped the combined rate for city and county lodging taxes at 5%.[8] None of these bills advanced beyond committee discussion.

Since 1996, ten bills have been introduced in the General Assembly to change Tennessee's lodging tax structure: three that proposed to broaden local ability to levy lodging taxes and seven that proposed to restrict it.

In 2015, Senate Bill 850 by Tate, House Bill 951 by M. White, as originally proposed 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.[9]

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[4] Senate Bill 1333 by Cooper, House Bill 0682 by Curtiss. An amendment in the House State & Local Government Committee would have imposed a 5% cap.

[5] House Bill 0998 by Sargent (no Senate companion) also included a provision that if a local government (city or county) levied a lodging tax on top of another government's existing tax it had to send 33% of its proceeds to the state general fund. Senate Bill 1609 by Clabough, House Bill 1226 by Sargent, proposed removing the limits on overlapping taxes without that provision. A House amendment to this bill instead proposed authorizing all cities to levy a 2.5% lodging tax, earmarked for tourism.

[6] Senate Bill 1444 by Overbey, House Bill 1958 by Montgomery.

[7] Senate Bill 1366 by Haynes, House Bill 0459 by Fitzhugh (2007-8), and Senate Bills 2662 and 2663 by Overbey, House Bills 3318 and 3319 by Montgomery (2012).

[8] Senate Bill 0621 by Haynes, House Bill 0461 by Head (2003-4), and Senate Bill 0994 by Haynes, House Bill 1605 by Davidson (2006).

[9] Both the original bill and the amendment addressed concerns about corporate entities renting rooms for extended periods and avoiding lodging taxes but did so differently. State law removes the lodging tax for stays exceeding 30 days, and companies could avoid the tax by sending different individuals to stay in the same room because the statutory definition of "person" included many types of business entities. The original bill would have changed the number of days from 30 to 90. The bill as passed instead dealt with the issue by limiting the definition of "person" to "any individual or group of individuals that occupies the same room."

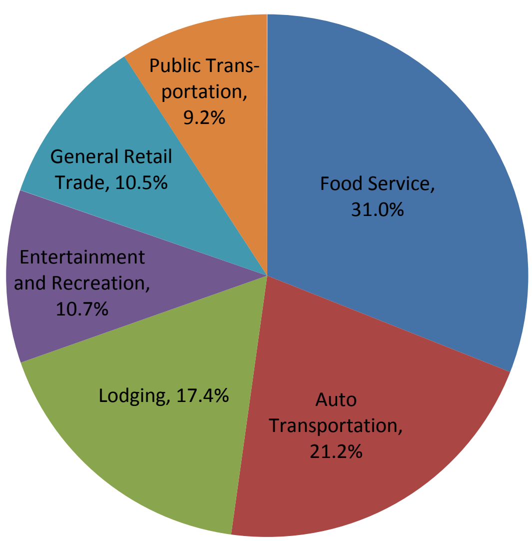
Tennessee is one of 44 states in which both sales taxes and lodging taxes apply to hotel stays.

The 2015 legislation, like many of the earlier bills, was prompted by industry concerns that taxes imposed on lodging in Tennessee are too high and that the combination of state and local sales taxes with city and county lodging taxes results in total rates in Tennessee that are higher than those in other states. Tennessee is one of 44 states in which both sales and lodging taxes apply to hotel stays. Five states apply both the state general sales tax and a state lodging tax to hotel stays and authorize both local-option sales taxes that apply to lodging and separate local lodging taxes, creating the potential for lodgers to pay four separate taxes on any hotel stay. Half of all states, including Tennessee, apply a state sales tax to lodging but have no separate state lodging tax. Twenty of those 25, also including Tennessee, authorize local sales taxes on lodging or local lodging taxes or both. Sixteen Tennessee jurisdictions have combined rates of 18% or more, and the industry argues that it is these combined rates that matter to customers and that rates greater than 18% are too high even if some of the revenue is earmarked for tourism.

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

Tennessee's accommodations industry relative to the state's economy is near the national average, but its growth has trailed the national average in recent years, and the industry has not fully recovered from the 2007-2009 recession. The industry, with a gross domestic product (GDP) of $2.1 billion in 2013, accounted for 0.72% of the state's total GDP of $286.9 billion, down from its peak of 1.01% ($2.5 billion) in 2007. It is still a larger share of total GDP than in all of Tennessee's border states except Mississippi but is slightly less than the national average of 0.8%. Since 2007, the growth in lodging's share of Tennessee's economy has trailed both the national average and its growth in every bordering state except Mississippi, whose accommodations industry has been in relative decline since Hurricane Katrina.[10] However, in the first half of 2015 alone, Tennessee's 1,400+ hotels were 77% occupied and took in $1.3 billion—both all-time highs.

Figure 1. Direct Domestic Travel Expenditure in Tennessee by Industry Sector, 2013.



Source: US Travel Association.

Although the lodging industry is important to Tennessee's economy, employing more than 33,000 Tennesseans[11] and, on a typical night, providing lodging to more than 75,000 guests,[12] it accounts for a relatively small portion of overall tourism spending: According to the US Travel Association, lodging

[10] US Bureau of Economic Analysis 2014.
[11] Ibid.
[12] Smith Travel Research 2015.

accounted for 17.4% of direct domestic travel expenditures in Tennessee in 2013 (see figure 1). Total spending in Tennessee's broader 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.[13]

Travelers produce secondary economic effects beyond their own spending, including purchases from local suppliers by hospitality businesses and increased spending by employees of those businesses.[14] Industry studies often tout these effects and rightly so.[15] Attempting to demonstrate this ripple effect, the one industry study that focused specifically on lodging taxes concluded that "a 2.0% increase in a lodging tax (increasing the combined tax rate from 12.4% to 14.4%, for example) would cause about a 2.4% reduction in room sales and associated visitor spending per year."[16] These studies are difficult to evaluate because they are based on proprietary models that were not fully described or disclosed, but they tend to assume that money not spent on the object of interest is not used in some other productive way. This study, for example, appeared to assume that money collected from lodging taxes is permanently removed from the national economy.[17] The study included estimates for every state. No other study was found that specifically explored the effect of lodging taxes on the tourism or lodging industries or the broader economy.

Although tourism creates jobs and brings in business and tax revenue, its economic effects are not uniformly positive.

Although tourism creates jobs and brings in business and tax revenue, its economic effects are not uniformly positive. The industry can also have adverse social and environmental effects. Jobs, including those in the lodging and dining industries, tend to be first-time jobs for unskilled workers at relatively low pay. When the companies that own these establishments are located elsewhere or the establishments are built or supplied by companies located elsewhere, much of the benefit of their economic activity can leave the area before it has a positive effect on it, something called "economic leakage." Ironically, this is particularly likely to occur where tourism is especially successful, at least until and unless it prompts local entrepreneurism that grows to become a larger part of the area's economy. Further ironic effects occur when development pushes up land prices and property taxes on local residents who do not benefit from tourism's more positive effects.[18] This is a complaint often heard from Sevier County, home to Tennessee's premier gateway cities to the

[13] Tennessee Department of Tourist Development 2015.
[14] Tennessee Department of Tourist Development 2014.
[15] For example, Morrison 1997 and American Economics Group, Inc. 2003.
[16] American Economics Group, Inc. 2003.
[17] For a guide to evaluating economic impact studies, see the 2009 TACIR staff research brief *Economic and Fiscal Impact Analyses* at http://tn.gov/assets/entities/tacir/attachments/econ_fiscalimpacts.pdf.
[18] Timothy, Dallen J. and Victor B. Teye 2009.

Great Smoky Mountains, Gatlinburg and Pigeon Forge. Lodging and other tourism-based taxes are often viewed as an appropriate and even necessary offset to these more negative effects.

Although it is not clear that lodging taxes harm the lodging industry, it is clear that lodging taxes are a small component of overall travel and tourism spending and in general have little effect on tourism. Taking the 17.4% of travel expenditures that was spent on lodging in Tennessee in 2013 (see figure 1) as the norm, if applied to a two-night, $800 trip, the room cost would be $70 per night, and a 5% lodging tax would cost a visitor about $7 or less than 1% of the total spent on the trip.

Hotel Customers' Sensitivity to Room Prices and Taxes

Lodging customers are generally able to bear price increases from the taxes, but customers' sensitivity to price varies from place to place.

Lodging customers are generally able to bear price increases from lodging taxes, but customers' sensitivity to price varies from place to place. Based on numerous studies, the burden of lodging taxes falls mainly on customers, not on hotels. For example, a 1993 study published in the Journal of Travel Research concluded that customers pay 86% of lodging taxes with hotels absorbing the remainder by lowering rates or selling fewer rooms.[19] And if customers avoid staying in places where lodging taxes are high, then more of the burden of lodging taxes will fall on hotels in the form of lost business. But all of these studies suggest that small tax increases have little effect on hotels' performance. These studies' calculations of the effect that a change in price has on the number of rooms rented suggest that a 10% increase in the total price per room could cause a 1.3% to 5.7% decrease in the number of rooms rented.[20]

Although ordinary travelers, despite bearing the primary burden of lodging taxes, are not very sensitive to them, a difference in lodging tax rates can hurt hotels with higher rates where hotels of the same class or status and with similar amenities are in close proximity. Similar effects can occur between hotels that compete for convention and conference travelers even when those hotels are not in close proximity. Hotels hosting conventions and conferences compete not only with those in neighboring jurisdictions but also with hotels in other parts of the country. In both cases, hotels in areas with higher lodging tax rates may have to absorb the difference in lodging taxes to remain competitive.

According to an article from Cornell University's School of Hotel Administration, "the conventions and long-term corporate accounts market segments often involve deep discounting. For example, the convention

[19] Hiemstra, S.J., and Ismail, J.A., 1993.
[20] Canina 2005, Hiemstra 1990, Hiemstra 1993, New York City Independent Budget Office 1997, Qu 2002, and Tsai 2006.

segment pits city against city, instead of hotel against hotel, and the cities compete vigorously."[21] For instance, the Allied Social Science Association (ASSA) "requests bids from three to five cities for each year's conference. For the ASSA, the only decision variable is the single-room rate for its members, since the belief is that any of the finalist cities will provide excellent support for the meetings." [22] The City of New York felt the effects of this competition when its lodging tax rates rose in the 1990s (see sidebar).

An example from Texas illustrates the effect where hotels in adjacent jurisdictions are subject to different lodging tax rates. The City of Midland there adopted a 1% lodging tax in 2007, but neighboring Odessa did not. The two cities are similar in amenities and proximity to the airport they share. Midland hotels did not cut their rates in order to match the competitiveness of Odessa's hotel rates after the tax was imposed, and hotels in Odessa saw higher occupancy and higher revenue per available room than those in Midland, suggesting that hotels without occupancy taxes competing for the same customers have an advantage over hotels that are subject to an occupancy tax.

Lodging taxes may also affect choices where hotels in close proximity vary in price or size, but even those differences may not matter in destination cities. A study published in *Hospitality Research Journal* said that travelers are more sensitive to price when considering high-priced hotels than for less expensive hotels. 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 and the inability or unwillingness of customers of less expensive hotels, including business travelers, to choose not to travel at all.[23] Another study suggested that smaller properties are affected more by price increases than larger properties.[24] But 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 were.[25]

New York City's 1994 Lodging Tax Cut

The only lodging tax in New York City was a $2 flat fee on rooms costing $40 or more until 1986, when the city added a 5% tax. Including the 8.25% combined state and local sales tax, the effective tax rate on a $100 room was 15.25%. That rate rose to 21.25% four years later when the state of New York added its own 5% tax on hotels and the City of New York raised its rate to 6%. The resulting total was the highest rate in the country and double the average rate for major US cities. Pressure from meeting and convention planners who boycotted the city to protest the increase led the state to eliminate its 5% tax and the city to reduce its rate back to 5% in 1994. Despite the small increase in lodging rates that followed, tourism increased, and tax cut proponents took credit. Closer study by the New York City Independent Budget Office, however, revealed that hotel occupancy was increasing before the tax cut as the overall economy improved and crime went down. They credit the tax cut with a 1.5% increase in occupancy; comparatively, they credit two years of declining crime rates with a 6.4% increase in occupancy.

[21] Kalnins 2006.
[22] Ibid.
[23] Hiemstra 1990.
[24] Hiemstra 1992.
[25] Damonte 1998.

Effect of Lodging Taxes on Hotel Development

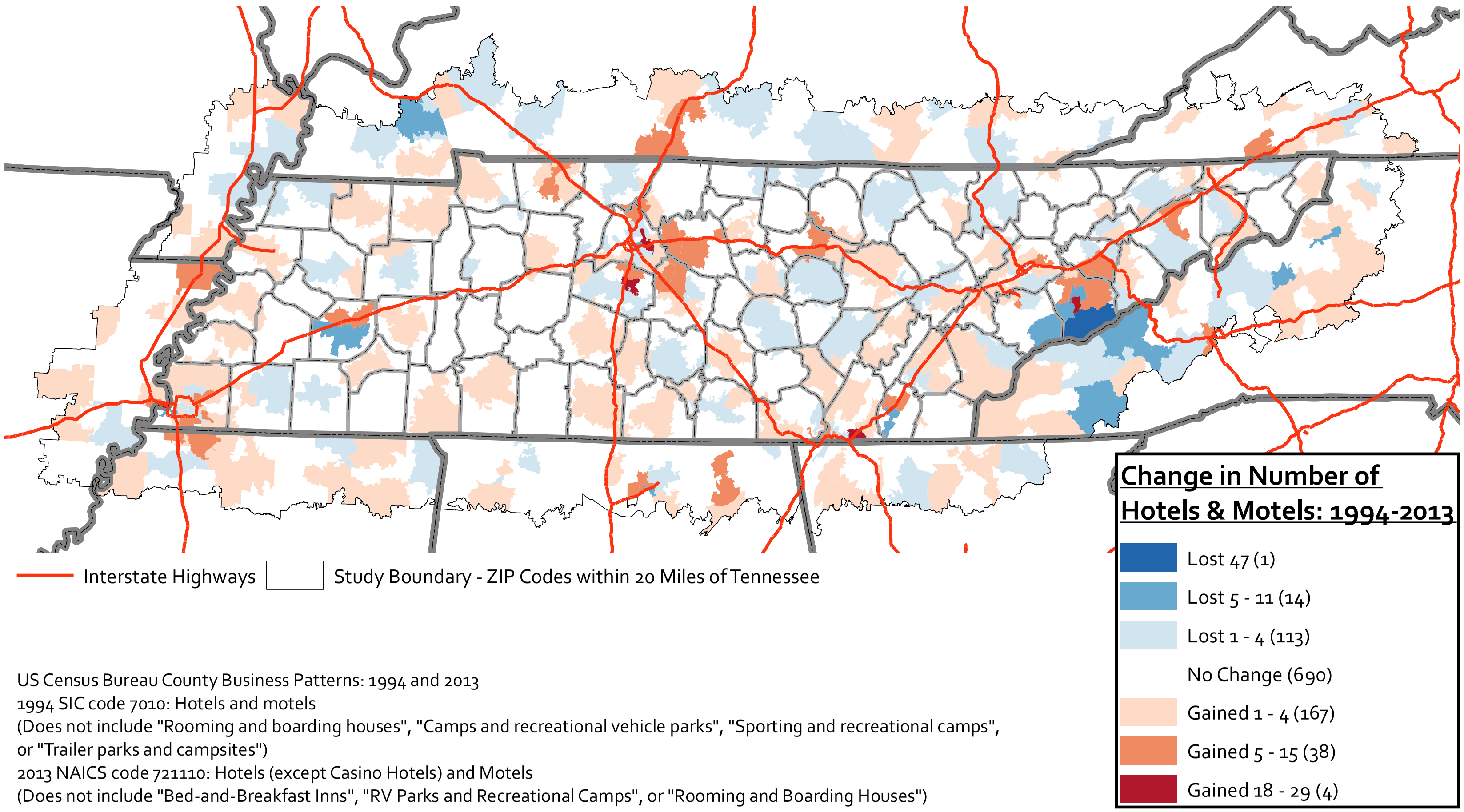
Lodging tax rates do not appear to be a deciding factor in developers' decisions about where to build hotels; rather their decisions are more likely to be driven by the occupancy and room rates in the particular areas considered. Investors will finance additional hotels and developers will build them where occupancy and room rates are high. That said, if a desirable area is near a state border, they can choose which state to build in, and lodging taxes may be a consideration. The change in the number of hotels in Tennessee and nearby for the 20-year period of 1994 to 2013 suggests that lodging taxes in Tennessee are generally not a deterrent to the industry even though some counties bordering Tennessee have lower total tax rates than the Tennessee counties adjacent to them. The number of hotels in neighboring parts of Alabama, Kentucky, and Mississippi are growing, but so are many adjacent areas in Tennessee (see map 4).

Lodging tax rates do not appear to be a deciding factor in developers' decisions about where to build hotels.

For example, one of the largest differences in taxes between a Tennessee jurisdiction and one in a border state is between Memphis, in Shelby County, and Southaven, Mississippi. The total tax on lodging in Southaven, including a 3% local lodging tax and a 7% state sales tax, at 10%, is significantly less than Memphis's 15.95% total—the 9.25% combined state and local 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—as evidenced by hotels in Southaven advertising that they are convenient to the Memphis airport—yet, according to the Metropolitan Memphis Hotel & Lodging Association, Memphis hotels are seeing record occupancy and revenues. The Memphis lodging market includes 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.[26]

[26] Metropolitan Memphis Hotel & Lodging Association 2014.

Map 4. Change in Number of Hotels and Motels by Zip Code



US Census Bureau County Business Patterns: 1994 and 2013
1994 SIC code 7010: Hotels and motels
(Does not include "Rooming and boarding houses", "Camps and recreational vehicle parks", "Sporting and recreational camps", or "Trailer parks and campsites")
2013 NAICS code 721110: Hotels (except Casino Hotels) and Motels
(Does not include "Bed-and-Breakfast Inns", "RV Parks and Recreational Camps", or "Rooming and Boarding Houses")

Tennessee's Complex Lodging Tax Structure

Tennessee's constitution gives the legislature "power to tax merchants, peddlers, and privileges, in such manner as they may from time to time direct."[27] 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 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.

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.

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 . . . ,"[28]) by private act. Typically, a local legislative body asks its delegation to the General Assembly to introduce and encourage passage of a private act. If the private act passes, the lodging tax it authorizes 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.[29] The General Assembly may also pass "general laws of local application," statutes that apply to only a narrowly defined number of counties or cities. Authorized taxes and rates are listed in appendix C.

Lodging Taxes in Tennessee—Cities

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

Home-Rule Cities

"Home-rule" in Tennessee 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 though general laws apply.[30] Before Public Chapter 982, Acts of 1988,[31] established a uniform way for home-rule cities to levy a lodging tax, they could get authorization to levy a lodging tax

[27] Tennessee Constitution, Article II, Section 28.
[28] Tennessee Code Annotated, Section 67-4-1402.
[29] 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.
[30] University of Tennessee Municipal Technical Advisory Service 2015a.
[31] Tennessee Code Annotated, Title 67, Chapter 4, Part 14, Sections 67-4-1401 through 1411.

only by an act of the General Assembly that was general in terms and effect.[32] The legislature did this for Oak Ridge in 1971 with a private act that specified a population range instead of naming the city to which it applied.[33] The 1988 act

- defines "municipality" as only those that have adopted home rule;
- authorizes home rule cities to establish lodging tax rates up to 5%;
- does not limit 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 Tennessee's 14 home rule cities have adopted lodging taxes,[34] 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% and earmarked the additional 2% for tourism.[35]

Eleven of Tennessee's fourteen home rule cities have adopted lodging taxes, but only four levy the maximum 5% rate.

General Law and Private Act Cities

Most Tennessee cities have not adopted home-rule charters and operate under private-act charters (212 cities)[36] or one of three "form charters" authorized in 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

These general-law charters define the powers granted to those cities and how their governing bodies are organized.

The 212 private-act cities and 116 general-law cities, which together account for 95% of Tennessee's cities, do not have the broad authorization

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32 Tennessee Constitution, Article XI, Sec 9.

33 Private Chapter 123, Acts of 1971. The law authorized municipalities with a population from 28,000 to 28,500 according to the 1970 Census to levy a 5% tax on lodging. Private acts such as this that specify population ranges or other general identifying characteristics are called general bills with local application and are not codified as statutes. Only public acts are codified.

34 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.

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

36 The state constitution was amended in 1953 to remove the legislature's power to incorporate cities by private act. The legislature incorporated 212 cities before that change was made. University of Tennessee Municipal Technical Advisory Service 2015b.

in general law that home rule cities have to impose lodging taxes and can do so only by act of the General Assembly, either by private act, which is typical, or by specific authorization in general law. Sixty-two of the 328 private-act and general-law cities have been authorized to levy lodging taxes, but only 55 have adopted them.

Since non-home-rule cities need individual authorization from the legislature, each authorizing act can be different. Even so, while there is no general rate cap on lodging taxes for these cities as there is for home-rule cities, the same 5% rate seems to be a de facto cap that the legislature is hesitant to go above; only six have been authorized to levy higher lodging tax rates.[37]

Lodging Taxes in Tennessee—Metropolitan Governments

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.

Public Chapter 704, Acts of 1976, added a "Tourist Accommodation Tax" to Title 7 of the Tennessee Code authorizing metropolitan governments to levy a tax rate of up to 3% on hotel occupancy.[38] Title 7 has been amended over the years to increase the rate authorized for Metropolitan Nashville-Davidson County to 6%. Metropolitan Lynchburg-Moore County (consolidated in 1988) currently imposes the maximum 3% lodging tax. Metropolitan Hartsville-Trousdale County (consolidated in 2000) has not adopted a lodging tax but could levy one up to 3% under existing law as could any future consolidated city-county government. Cities with a population greater than 5,000 and lying partly within a metropolitan county and partly outside (i.e., only Goodlettsville at present) may levy their own 3% tax on top of the metropolitan government's tax.[39] Public Chapter 422, Acts of 2007, established a "Convention Center Fund" for Metropolitan Nashville-Davidson County and authorized an additional $2-per-room-night tax on top of the Tourist Accommodation Tax. The fee was increased to $2.50 the following year.[40]

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 these 92 counties have enacted lodging taxes. Current rates range from 2% to 7.5%

[37] Harriman, Kingsport, Manchester, Morristown, Rogersville, and Shelbyville.
[38] Tennessee Code Annotated, Section 7-4-101 et seq.
[39] Tennessee Code Annotated Section 7-4-102(c). Public Chapter 636, Acts of 1990.
[40] Public Chapter 1004, Acts of 2008.

with 56 set at 5%. Cheatham County is authorized to charge up to 10% but has also set its rate at 5%.

Limitations on Overlapping Local Lodging Taxes

Public Chapter 1000, Acts of 1988, (codified in Tennessee Code Annotated, Section 67-4-1425) prohibits private acts that would add a city or county lodging tax where a county or city already has one, but fourteen exceptions have been made.[41] Because they are authorized in general law, not by private act, home rule cities may adopt a hotel tax even if their county already has one.[42] The general 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 be used only for tourism as defined by Section 7-4-101.[43]

Private acts that would add a city or county lodging tax where a county or city already has one are prohibited by statute, but fourteen exceptions have been made.

The general prohibition likewise does not apply to counties whose populations fall 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;

or to cities whose populations fall into the following population brackets:

- 80,000 to 83,000 according to the 1990 federal census or any subsequent federal census,

[41] 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.
[42] See TN AG Opinion No. 03-062 regarding the City of Clinton in Anderson County.
[43] Tennessee Code Annotated, Section 67-4-1425(c).

- 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 with a population of 51,900 to 52,000 according to the 2000 federal census or any subsequent federal census,
- 7,350 to 7,410 in a county with a population of 24,450 to 25,550 according to the 2000 federal census or subsequent federal census,
- 6,900 to 7,000 in a county with a population of 35,600 to 35,700 according to the 2010 federal census or subsequent federal census,
- 34,600 to 34,700 in a county with a population of 80,900 to 81,000 according to the 2010 federal census or subsequent federal census,
- 6,820 to 6,830 in a county with a population of 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.

Table 1. Authorized Local Lodging Taxes in Tennessee

Level of Government	How Authorized	Maximum Authorized Rate	Number of Jurisdictions Authorized	City/County Tax Overlap Authorized
County	Private Act	10%	1	0
15 not authorized		7.50%	1	0
		7%	6	0
		6%	1	0
		5%	57	19
		4%	6	1
		3%	4	1
		2.50%	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	TCA 7-4-102(c)	3%	1	1
269 not authorized	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%	18	18
	Private Act and TCA 67-4-1425	5%	5	2
		4%	2	2
		2.50%	3	3
		2%	1	1

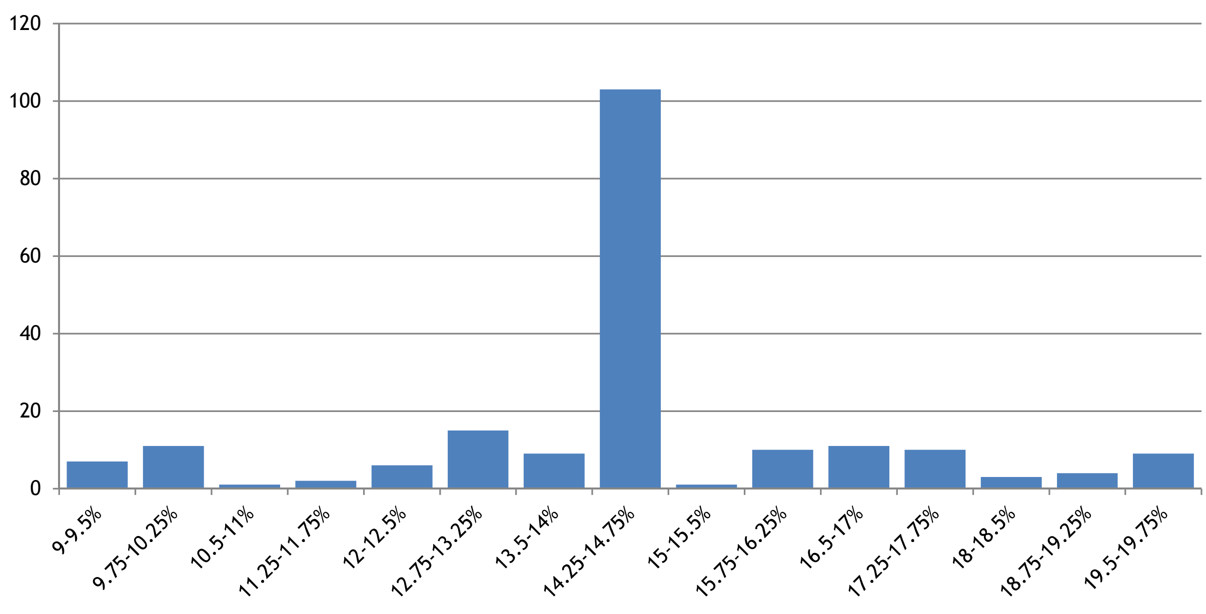
Source: Various private acts, Tennessee Code Annotated, Sections 7-4-102, 7-4-110, 7-4-202, 67-4-1402, and 67-4-1425.

It has become common in recent years—especially for cities, since most counties already have lodging taxes—for local governments to seek authorization for lodging taxes through exceptions to Tennessee Code Annotated, Section 67-4-1425, because the law prohibits using a private act to overlap one lodging tax with another. Table 1 is a compilation of the ways in which local governments in Tennessee have been authorized to levy lodging taxes, the rates they can impose, and the number of authorizations that have been made. Only nine counties, one metropolitan government, and eight cities have been authorized to set rates higher than 5%.

Actual Combined Tax Rates on Lodging

Sales taxes are the only taxes on lodging in 16 counties including Metropolitan Hartsville-Trousdale County. Where lodging taxes have been adopted, a single tax of 5% is most common, and lodging guests in most places in Tennessee pay combined tax rates of from 14.25% to 14.75% including sales taxes. And although the overwhelming majority of Tennessee cities do not impose lodging taxes, the lodging taxes of 34 of those that do overlap those of 20 counties, including 13 cities in 9 counties where the county and each city is authorized to levy a 5% tax for a combined total of up to 10%.[44] The combined rate in 7 of those 13 cities is 19.75%, the highest rate currently charged in the state.[45] See figure 2 for combined lodging and sales tax rates across the state and appendix C for a table of all lodging taxes in Tennessee.

Figure 2. Actual Sales and Lodging Tax Rates in Tennessee, 2015
Number of Places in Which They Apply



Source: TACIR staff review of various hotel and local government websites and local ordinances.

Local governments in Tennessee have requested new or increased lodging tax authority 63 times since 1996—including 21 requests for rate increases—and all but ten requests were granted, some with earmarks requiring the revenue to be spent to promote or benefit tourism. Four cities (Columbia, Decherd, Fayetteville, and Spring

[44] Adamsville, Bartlett, Columbia, Collierville, Dickson, Etowah, Germantown, Kingston, Lakeland, Lenoir City, Lexington, Monteagle, and Savannah.

[45] Bartlett, Collierville, Dickson, Germantown, Lakeland, Lexington, and Savannah.

Hill) and two counties (Lewis and Wilson) sought authority in 2014; none were granted that year, but two of those cities (Columbia and Fayetteville) returned in 2015 and were granted authority, and Lewis County returned and was granted an increase. Johnson City also requested and was granted authority to increase its rate from 5% to 7%, an exception to the 5% authorized in other home rule cities in Tennessee; the additional 2% was earmarked for tourism. Grundy County requested and was granted new authority to levy a 5% lodging tax. Bradley County's bill to increase its rate from 5% to 7% was withdrawn by the sponsor. See appendix C for table of authorized and actual lodging and sales tax rates in Tennessee.

Potential to Increase Lodging Taxes without Further Action by the General Assembly

Twenty-six Tennessee cities, six counties, and one metropolitan government could raise existing lodging tax rates under current law.

Twenty-six Tennessee cities, six counties, and one metropolitan government could raise existing lodging tax rates under current law. Two counties, Hawkins and Morgan, plus Metropolitan Hartsville-Trousdale County have not used their lodging tax authority (Hawkins and Morgan's authority has expired[46]); four more—Cheatham, Rhea, Rutherford, and Sequatchie—remain below their authorized rates as do 16 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.[47] Taking all of those situations into consideration, combined sales and lodging tax rates could exceed 19.75% in one of two ways with no further action by the General Assembly:

> The first is illustrated by the city of Lexington, which currently taxes lodging at 5% but has no maximum and could tax at any rate.
>
> The second 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,

[46] Tennessee Code Annotated, Section 8-3-202. Private acts expire when they are not ratified by the local legislative body by the deadline specified in the private act or December 1 of the year the act was passed by the General Assembly.

[47] Arlington, Lakesite, Louisville, Red Bank, Rockford, Soddy-Daisy, Sweetwater, Walden, and Whitwell.

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%).

Comparison of Lodging Tax Rates in Tennessee to Those in Surrounding States

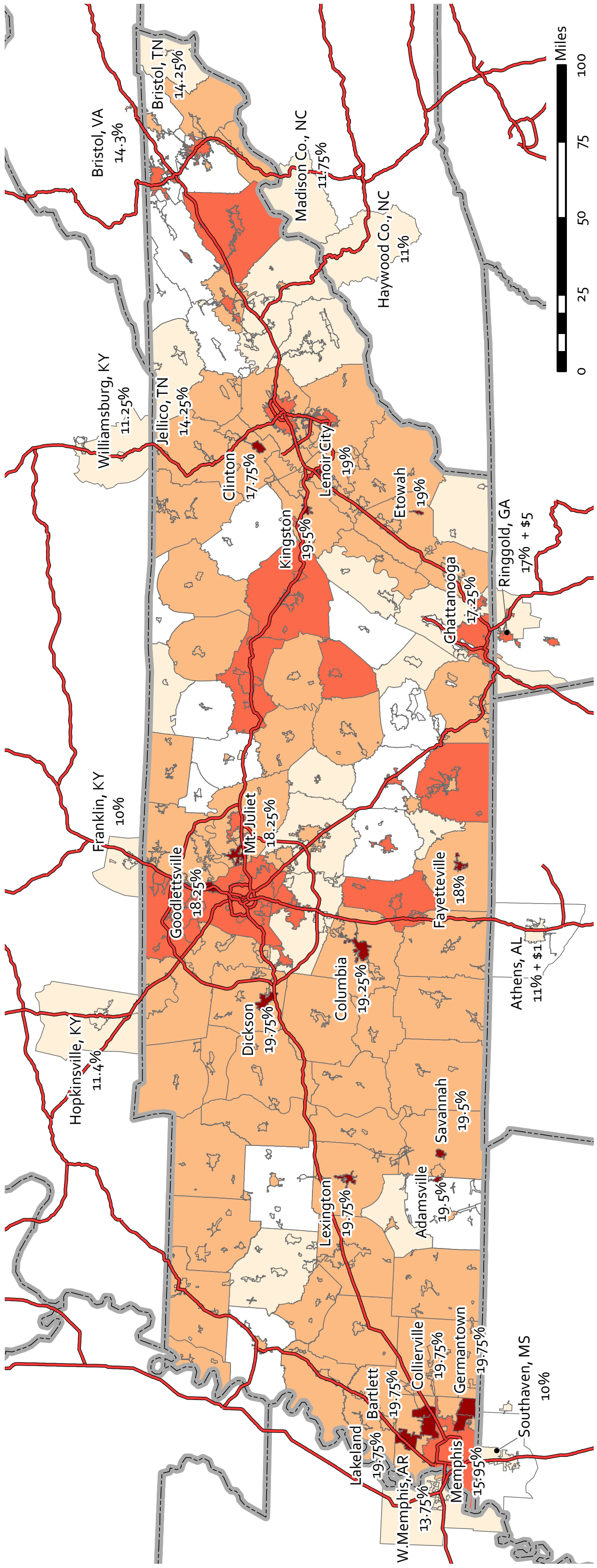
According to the US Census Bureau's 2012 Economic Census, more than half of all lodging establishments in Tennessee are in ten locations listed in order of number of establishments: Nashville, Memphis, Pigeon Forge, Chattanooga, Gatlinburg, Knoxville, Clarksville, Jackson, Murfreesboro, and Sevierville. The combined tax rates on lodging in these cities range from 12.75% to 15.25% plus $2.50 per night in Nashville. A look at the top five lodging markets in each of Tennessee's eight neighboring states reveals total tax rates in those areas range from 6.475% to 16% plus $5 per night in Atlanta. See table 2. See map 5 for tax rates across the state and neighboring locations in other states.

Table 2. 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% + $2.50	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	11.60%
AL—Mobile	14.00%	MO—Kansas City	16.85%
AL—Birmingham	17.50%	MO—Springfield	12.60%
AL—Huntsville	13.00%	MO—St. Louis	15.93%
AL—Tuscaloosa	15.00%	MO—Stone County	6.48%
AR—Little Rock	13.00%	NC—Charlotte	15.25%
AR—Eureka Springs	14.38%	NC—Asheville	13.00%
AR—Hot Springs	14.50%	NC—Raleigh	12.75%
AR—North Little Rock	13.50%	NC—Greensboro	12.75%
AR—West Memphis	13.75%	NC—Swain County	10.75%
GA—Atlanta	16%+$5	VA—Virginia Beach	14.00%
GA—Savannah	13%+$5	VA—Chesapeake	14.00%
GA—Augusta-Richmond County	14%+$5	VA—Newport News	13.50%
GA—Gwinnett County	13%+$5	VA—Arlington	13.00%
GA—Columbus-Muscogee County	15%+$5	VA—Norfolk	14.00%

Source: US Census Bureau, 2012 Economic Census; TACIR review of various hotel and local government websites, November 2015.

Map 5. Total Combined Actual Sales and Lodging Taxes in Tennessee



Total Combined Tax (Sales + Lodging) on Hotel Room Occupancy

- 9% - 9.75%
- 10.75% - 13.75%
- 14% - 14.75%
- 15.25% - 17.25%
- 17.75% - 19.75%

Source: TACIR staff review of various hotel and local government websites and local ordinances.

Comparison of Tennessee's Lodging Tax Structure to Those of Other States

Lodging tax structures in many other states are as complicated as Tennessee's. Forty-eight states apply some kind of state tax to lodging, either the general sales tax or a specific lodging tax, and some states apply both. The two states that do not tax lodging authorize all of their local governments to levy lodging taxes; one of them, Alaska, allows local governments to set their own lodging tax rates and apply their sales taxes to lodging as well. All but six of the 48 states that tax lodging also allow at least some of their local governments to levy a lodging tax. Nearly all states that authorize local lodging taxes, unlike Tennessee, do so broadly in general law for either all cities or all counties or for both. More than half of the states, like Tennessee, authorize local governments to impose both a sales tax on lodging and an additional lodging tax.

State Taxes on Lodging

Thirty-five states including Tennessee apply a state sales tax to lodging. Ten of those states also apply a separate state lodging tax. Thirteen others apply a state lodging tax instead of a sales tax—four have no state sales tax to apply; nine have a sales tax but do not apply it to lodging. Nevada has only a local lodging tax, but a portion of it, a 1% rate, serves as a de facto state tax because the state requires counties to levy it and remit a portion of it to the state. Only two states—Alaska and California—do not tax lodging. Alaska has neither a state sales tax nor a state lodging tax; California has a state sales tax but exempts lodging. See table 3.

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	**10 States** Arkansas, Georgia, Hawaii, Idaho, Kentucky, Nebraska, New Jersey, Rhode Island, South Carolina, South Dakota	**9 States** ***Same Rate as Sales Tax:*** *Alabama, Pennsylvania* ***Higher Rate than Sales Tax:*** Connecticut, Illinois, Iowa, Massachusetts, Texas, Vermont ***Lower Rate than Sales Tax:*** Nevada	**4 States** Delaware, Montana, New Hampshire, Oregon
State Lodging Tax	No	**25 States** ***Different Rate for Lodging:*** Arizona and Maine ***Same Rate for Lodging:*** Colorado, Florida, Indiana, Kansas, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, ***Tennessee,*** Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming	**1 State** California	**1 State** Alaska

Source: TACIR staff review of 50 states' statutes, November 2015.

Local Taxes on Lodging

The overwhelming majority of states grant broad authorization for local lodging taxes, generally up to a certain rate, and most earmark some or all of it. And most states, like Tennessee, allow their local governments to impose two taxes on lodging: both their general sales taxes and separate lodging taxes. In fact, eight states that tax lodging, either by levying their own lodging taxes or by applying their sales taxes to lodging, also broadly authorize all of their local governments to levy lodging taxes: Kentucky, Maryland, Michigan, Nebraska, Ohio, South Carolina, Utah, and Washington. Five of these—Nebraska, Ohio, South Carolina, Utah, and Washington allow their local governments to apply their sales taxes to lodging as well; the other three have no local sales taxes. And nearly half of the states that broadly authorize all local governments to levy lodging taxes allow those levies to overlap.

The overwhelming majority of states grant broad authorization for local lodging taxes, generally up to a certain rate, and most earmark some or all of it.

More Than Half of All States allow Local Governments to Impose Both General Sales Taxes and Specific Taxes on Lodging

Forty-four states, including 41 that tax lodging themselves, authorize local lodging taxes, and although some states authorize only cities or counties to levy those taxes, 34 permit both cities and counties to levy lodging taxes, and 27 including Tennessee allow local governments both to levy local lodging taxes and to apply local sales taxes to lodging. Seventeen other states allow local governments to levy lodging taxes but do not allow them to levy a local sales tax on lodging; ten of those have no local sales tax at all. See table 4. Another seven states have no local lodging taxes; of those, only one allows local governments to apply their sales taxes to lodging (compare tables 3 and 4).

Table 4. State Authorizations for Local Lodging Taxes and Local Sales Taxes on Lodging

		Local Sales Tax Applies to Lodging		No Local Sales Taxes
		Yes	**No**	
Local Lodging Taxes	**Yes**	**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	**10 States** Delaware, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, Oregon, Rhode Island
	No	**1 State** Hawaii	**No State**	**5 States** Connecticut, Idaho, Maine, Montana, New Hampshire

Source: TACIR staff review of 50 states' statutes, November 2015.

Most States Grant Broad Authority for City or County Lodging Taxes or Both

Most (37 of the 44) that authorize lodging taxes for at least some cities or counties do so broadly in general law either for all cities or for all counties—22 broadly authorize both. The rates are usually capped in general law though exceptions are often made for certain jurisdictions. Ten states broadly authorize only cities to levy lodging taxes; six broadly authorize only counties to levy those taxes. Four authorize city and county lodging taxes individually or by class, as with Tennessee's home-rule cities and metropolitan governments; three more, Delaware, New Jersey, and Vermont, authorize only cities individually or by class. Ten of the 22 states that grant broad authority for both cities and counties to levy lodging taxes allow those taxes to overlap. See table 5. Ten of the twelve that grant authority for individuals or by class, including Tennessee, also allow them to overlap. Appendix D lists the authorization methods and rates for all 50 states.

Table 5. State Methods for Authorizing City and County Lodging Taxes

		County Lodging Taxes		
		Broad Authorization in General Law	Individually Authorized or only Certain Classes	Not Authorized
City Lodging Taxes	Broad Authorization in General Law	**22 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*, Wyoming*	**4 States** Alabama, Arizona,* Oklahoma, Texas	**6 States** Massachusetts, Minnesota, North Dakota, Rhode Island, South Dakota, Wisconsin
	Individually Authorized or only Certain Classes	**4 States** Florida,* Louisiana, Missouri, Pennsylvania*	**4 States** Mississippi, New York, North Carolina, ***Tennessee***	**3 States** Delaware, New Jersey, Vermont
	Not Authorized	**1 State** Indiana	**No State**	**6 States** Connecticut, Hawaii, Idaho, Maine, Montana, New Hampshire

* City and county taxes cannot overlap.
Source: TACIR staff review of 50 states' statutes, November 2015.

Most States Establish Maximum Standard Local Lodging Tax Rates but Make Exceptions

Nine states allow rates to be set at the local level, either by the legislative body adopting the tax or by referendum. All nine grant broad authority for cities to levy lodging taxes and set their own rates. Three of them—Alaska, California, and Oregon[48]—allow counties to do the same; the others either authorize and cap county lodging taxes in general law (Colorado, Nebraska, and Virginia) or authorize and cap them individually or by class (Alabama, Arizona, and Oklahoma). Sixteen additional states for a total of 22 broadly authorize both cities

[48] Oregon imposed a moratorium on new taxes and tax increases in 2003 unless at least 70% of the proposed funds are earmarked to promote tourism. Oregon Revised Statutes, Section 320.350.

The Tennessee General Assembly has granted only two small groups of local governments general authorization to levy lodging taxes: the general cap for the fourteen home-rule cities is 5%; the general cap for the three metropolitan governments is 3%. There are exceptions to both caps.

and counties to levy lodging taxes. Those 16 cap rates at from 1% (cities in Nevada and Utah) to 7% (cities and counties in Iowa). Seven more broadly authorize only cities to levy local lodging taxes and set maximum rates in general law that range from 1% (Rhode Island) to 8% (Wisconsin). And five states broadly authorize only counties to levy lodging taxes with statutory maximums ranging from 2% (Louisiana) to 5% (Missouri). See table 6 and appendix D.

As noted in the discussion of Tennessee's lodging tax structure, although Tennessee does not grant broad authority for cities generally or for counties to levy lodging taxes, the legislature here has granted two groups of local governments general authorization to levy lodging taxes: the general cap for home-rule cities is 5%; the general cap for metropolitan governments is 3%, but there are exceptions to both. One of the 14 home-rule cities, Johnson City, is authorized to levy a lodging tax of 7%, and the consolidated government of Nashville and Davidson County can levy a tax of up to 6% and can impose an additional $2.50 per night tax that is earmarked to repay debt incurred to build a convention center. The four other states that do not grant general authorization but do authorize certain classes of cities or counties to levy lodging taxes set different rate caps for each class. New Jersey broadly authorizes lodging taxes for all cities but, depending on the class of city, authorizes rates of either 3% or 6%.[49] Texas authorizes all cities to levy lodging taxes up to 7% and allows a certain type of city to go up to 9%.[50] Missouri[51] and Nevada broadly authorize lodging taxes for all counties, setting different standard rates for different classes based on population. All Nevada counties are required to levy a 1% lodging tax, a de facto state tax, with the exception of Clark County, the most populous county and home to Las Vegas, which is required to levy a minimum tax of 2%. In addition, Clark County and the second most populous county, Washoe (home to Reno), are required to levy another 3% tax.[52] All counties are further authorized to levy an optional 1% tax, and several individual jurisdictions are authorized to levy higher rates. Clark County can levy a 12% lodging tax, but the highest rate is 16% in the small city of West Wendover, most of which is earmarked for recreation.[53]

[49] New Jersey Revised Statutes, Section 40:48E-3 and Section 40:48F-1.
[50] Texas Tax Code, Chapter 351.
[51] Revised Statutes of Missouri, Section 67:1000 et seq.
[52] Nevada Revised Statutes, Section 244.335 et seq.
[53] E-mail correspondence with the Nevada Department of Taxation. The tax allocation is 14% to West Wendover Recreation Fund, 1% to West Wendover Tourism Promotion Fund, 5/8% to Elko County Recreation Board, and 3/8% to the State.

Table 6. State Capping of City and County Lodging Taxes

		Source of Caps on County Lodging Taxes			
		General Law	**Individual or by Class**	**No Cap**	**Not Authorized**
Source of Caps on City Lodging Taxes	**General Law**	**16 States** Arkansas,* Georgia,* Illinois,* Iowa, Kansas, Kentucky,** Maryland,* Michigan, Nevada,* New Mexico, Ohio, South Carolina, Utah,* Washington,* West Virginia*, Wyoming	**1 State** Texas**	**No State**	**6 States** Massachusetts,* Minnesota, North Dakota, Rhode Island,* South Dakota, Wisconsin*
	Individual or by Class	**4 States** Florida,* Louisiana, Missouri,** Pennsylvania*	**4 States** Mississippi, New York, North Carolina, ***Tennessee***	**No State**	**3 States** Delaware, New Jersey,** Vermont
	No Cap	**3 States** Colorado, Nebraska, Virginia*	**3 States** Alabama, Arizona, Oklahoma**	**3 States** Alaska, California, Oregon	**No State**
	Not Authorized	**1 State** Indiana*	**No State**	**No State**	**6 States** Connecticut, Hawaii, Idaho, Maine, Montana, New Hampshire

* Certain counties and cities authorized to levy higher rates.
** Certain categories of cities or counties have general authorization to levy local lodging taxes.
Source: TACIR staff review of 50 states' statutes, November 2015.

Eleven of 27 states that grant blanket authority to counties (first column in table 5) and 11 of 32 states that grant blanket authority to cities (first row in table 5) make exceptions for higher rates in certain cities and counties, typically earmarking at least a portion.[54] For example, Kentucky authorizes counties generally to levy lodging taxes of up to 3% but allows the consolidated "urban-county governments" of Lexington and Louisville to levy 4% taxes. And Pennsylvania authorizes all counties to levy rates of up to 3% but allows counties in certain population brackets to go higher, including two that can tax lodging at 4%, two that can tax it at 5%, and two that can tax it at 7%. All of the revenue from these taxes is earmarked for various projects and programs related to tourism and conventions.[55] Indiana authorizes Marion County (Indianapolis) to levy a 4% lodging tax on top of the 5% rate authorized for all counties and earmarks the additional amount for its capital improvement board of managers to fund its obligations to the Indiana stadium and convention building authority.[56] Massachusetts generally authorizes rates for cities of up to 6% but makes an exception for Boston where it allows 6.5%.[57]

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[54] Arkansas, Georgia, Kentucky, Illinois, Massachusetts, Missouri, Nevada, Utah, Washington, West Virginia, and Wisconsin make exceptions for certain cities. Arkansas, Georgia, Kentucky, Illinois, Maryland, Nevada, Oklahoma, Virginia, Texas, Utah, and Washington make exceptions for certain counties.
[55] 16 Pennsylvania Statutes, Section 1770.2, and 15 Pennsylvania Statutes, Section 1770.4.
[56] Indiana Code Annotated, Section 6-9-8-3.
[57] Annotated Laws of Massachusetts, Chapter 64G, Section 3A.

Effects of Earmarking Tax Revenue

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:[58]

Earmarking can guarantee a steady funding source for favored programs but reduces budgetary flexibility.

> ***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 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.

[58] Minnesota House of Representatives 2012.

> ***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.

Earmarks are often used to garner support for new or increased taxes, especially when referendums are required for approval.

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 and police and fire protection and may require expansion of them. 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 otherwise have, shift the burden of paying for them from lodgers to residents. According to a 1979 article from the National Tax Journal, local governments face

1) increased expenditures for local public services such as public safety, medical services, water and sewer systems, and road maintenance and
2) nonmonetary externalities such as time loss and frustration due to traffic congestions, pollution, unpleasant esthetic effects and other factors contributing to a decrease in the quality of life for local citizens.

The article goes on to say that, "to the extent that these costs are uncompensated, local citizens who do not participate in the resort activity have a legitimate concern about the increasing cost of local government and may legitimately feel that they are subsidizing the resort industry."[59]

Local officials say they know the needs of their communities and how revenue should be spent. Although destination cities like Gatlinburg and Nashville have included earmarks when proposing lodging taxes, other cases for earmarks are not as clear. For example, the city manager

[59] Combs 1979.

of Brentwood, a mainly suburban area south of Nashville adjacent to the bustling Cool Springs business district, says hotels there mainly serve business travelers. Similarly, the mayor of Mt. Juliet, which lies on the western edge of Wilson County, says demand for hotels there is driven by attractions in Nashville. Both say that earmarking lodging tax revenues for tourism would not be an effective way to spend that money.

Most Local Government Lodging Taxes in Tennessee Are Not Earmarked

Figure 3. Number of Counties by How Lodging Tax Revenue is Earmarked

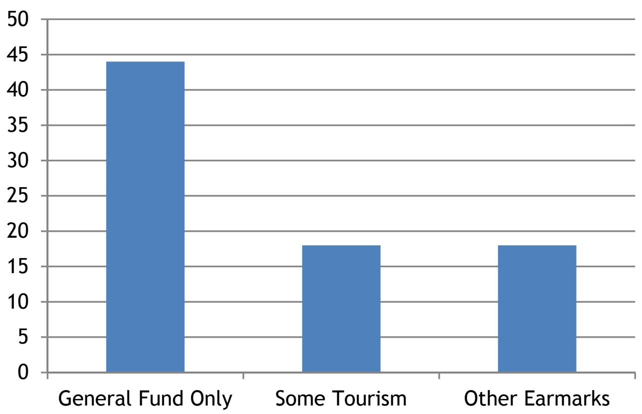
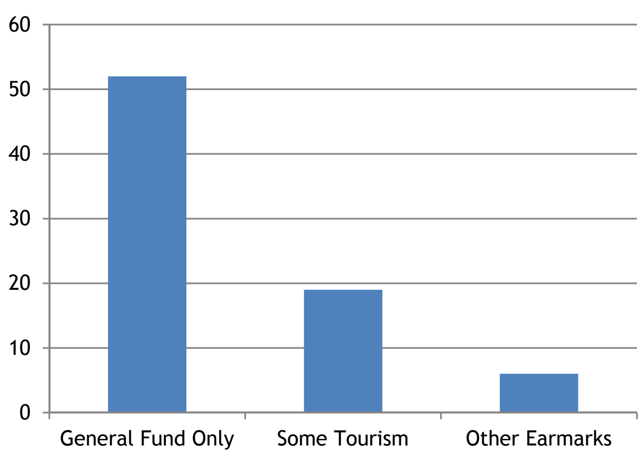


Figure 4. Number of Cities by How Lodging Tax is Earmarked



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

Forty-four of the eighty counties (55%) and fifty-two of the seventy-six cities (68%) authorized to levy lodging taxes are not required to earmark 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 six cities are required to earmark the revenue for some other purpose. See figures 3 and 4.

Although Tennessee does not earmark lodging taxes in general 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 authorizations for the tax by the state include specific earmarks. Consequently, close to half of the $154 million ($74.2 million) in lodging tax revenue collected by cities and counties in 2014 was earmarked for tourism-related expenses. That figure is comparable to the estimated 40[60]–50%[61] of lodging tax revenue that is used nationally for tourism-related purposes even though it does not include all of the lodging tax revenue collected in Tennessee that is actually used for those purposes.

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

[60] 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."
[61] Morrison 1997.

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).

Although it is impossible to tell without inspecting the financial reports of every Tennessee city and county with authority to levy lodging taxes, it appears anecdotally that, even where lodging tax revenue is not earmarked for tourism in the authorizing act, the amount actually used to support tourism in Tennessee may be substantial. For example, Wilson County, whose lodging tax revenue is not earmarked, plans to build a new $10 million expo center, which may increase business for the lodging industry.[62] Likewise, Henry and Marshall Counties spend money to promote tourism even though their lodging taxes are not earmarked for it. Henry County promotes tourism by giving money to the Tennessee River Resort District and by helping fund major fishing tournaments. Marshall County helps fund the Goats, Music and More festival, a tractor pull, a BBQ cook off, and several Babe Ruth baseball tournaments. The county prefers to support two-day events that attract visitors who stay overnight, increasing revenue for local lodging businesses as well as for the county.

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

No state that authorizes local lodging taxes mainly for certain local governments and not generally for all cities or counties or mainly for groups of cities and counties earmarks the revenue in general law. This group comprises six states: Louisiana, Mississippi, New York, North Carolina, and Vermont as well as Tennessee. On the contrary, general earmarks of lodging tax revenue in other states are tied to broad authorizations to impose local lodging taxes in all but two states: Missouri, which grants local authority only to certain categories of cities and earmarks all of the revenue, and Texas, which limits authority to certain categories and earmarks a portion of the revenue. Of the 37 states that grant broad local authority to levy lodging taxes, 14 earmark all of the revenue, 16 earmark a portion of it, and only 7 do not earmark any of it. The amount earmarked varies from 25% to 100%, with about half of states earmarking all of it, or applies only to revenue collected from rates above a certain level. See table 7.

[62] 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/

Table 7. Earmarks in States That Authorize Local Lodging Taxes

		Nature of Earmark in General Law		
		All Revenue	**A Portion of the Revenue**	**None**
Local Governments Authorized to Levy Lodging Taxes	Broad Authorization in General Law for All Counties, All Cities, or Both	**13 States** Arkansas, Colorado, Florida (counties only), Illinois, Indiana (counties only), Kansas, Michigan, Nebraska, North Dakota (cities only), South Carolina, South Dakota (cities only), Utah, Washington	**15 States** Georgia, Iowa, Kentucky, Maryland, Minnesota (cities only), Nevada, New Mexico, Ohio, Oregon, Pennsylvania (counties only), Rhode Island (cities only), Virginia (except cities), West Virginia, Wisconsin (cities only), Wyoming (counties only)	**5 States** Alabama (cities only), Alaska, Arizona (cities only), California, Massachusetts (cities only)
	Mainly Classes of Local Governments	**1 State** Missouri (cities only)	**1 State** Texas (counties only)	**2 States** New Jersey (cities only), Oklahoma (counties only)
	Mainly Individual Local Governments	**No State**	**No State**	**7 States** Delaware, Louisiana, Mississippi, New York, North Carolina, ***Tennessee***, Vermont (cities only)

Source: TACIR staff review of 50 states' statutes, November 2015.

Definitions of Tourism Vary Widely

There is no consensus among states about what the revenue can be spent on or what constitutes tourism or tourism promotion. Local governments and other stakeholders may have definitions that differ from those of the tourism industry. While there is no broad statutory definition of "tourism" in Tennessee, laws governing tourism development authorities[63] and authorizing metropolitan governments to tax lodging[64] define "tourism" as

- planning and conducting of programs of information and publicity designed to attract to the county tourists, visitors and other interested persons from outside the area;
- 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
- the acquisition, construction and remodeling of facilities useful in the attraction and promoting of tourist, convention and recreational businesses.

Certainly, this definition makes sense as a framework for operating tourism development agencies, but with effects like heavier traffic and increased safety risks, tourism's increased costs are much broader than this list of functions. Some local officials have said that improving fire and police service makes their cities safer and thus more attractive to visitors suggesting that definitions of tourism for earmarking purposes should include these functions as well. And although most counties' and cities' authorizations for lodging taxes do

[63] Tennessee Code Annotated, Section 7-69-102. Tourism Development Authorities are organizations that cities and counties may charter to promote tourism using lodging tax revenue.
[64] Tennessee Code Annotated, Section 7-4-101.

not define tourism, the private act authorizing Sevier County's lodging tax, as an example of one that does, defines "tourist related activities" as "infrastructure needs, advertising, marketing, chamber of commerce expenditures, and convention visitor bureau expenses all related to tourism."[65]

Definitions adopted by other states when earmarking lodging tax revenue vary widely. Some states use language like "funding tourism promotion" without defining it further. Illinois, for instance, earmarks city lodging taxes to "promote tourism and conventions within that municipality or otherwise to attract nonresident overnight visitors."[66] Other states define promotion and tourism-related facilities more narrowly. For example, Kansas defines convention and tourism promotion as "activities to attract visitors into the community through marketing efforts, including advertising, directed to . . . group tours, pleasure travelers, association meetings and conventions, trade shows and corporate meetings and travel; and support of those activities and organizations which encourage increased lodging facility occupancy."[67] North Dakota defines tourism as "recreation, historical and cultural events, guide services, and unique lodging and food services which serve as destination attractions."[68] New Mexico law states that, "proceeds from the occupancy tax shall be used only for advertising, publicizing and promoting tourist-related attractions, facilities and events"[69] but further explains that recreational and tourism facilities include "parks, pools, trails, open space and equestrian facilities."

There is no consensus among states about what revenue from tourism and lodging taxes can be spent on or what constitutes tourism or tourism promotion.

Some states allow local governments to spend lodging taxes earmarked for tourism and tourism-related infrastructure. South Carolina requires all lodging tax revenue to be kept separate from general funds and earmarked exclusively for tourism or recreational facilities but also permits spending to improve "water and sewer infrastructure to serve tourism-related demand."[70] Virginia's definition of "tourism project of regional significance" includes complementary facilities, including "facilities for food preparation and serving, parking facilities, and administrative offices, . . . theme-related retail activity by vendors or the private entity owner of the project that occurs on site and directly supports the tourism mission of the project."[71]

Some states specifically exclude the use of lodging tax revenue for certain types of developments. Virginia, for example, includes some

[65] Tennessee Private Acts of 2007, Chapter 12.
[66] 65 Illinois Compiled Statutes, Section 5/8-3-14.
[67] Kansas Annotated Statutes, Section 12-1692.
[68] North Dakota Century Code Annotated, Section 40-57.1-02.
[69] New Mexico Statutes Annotated, Section 3-38-15.
[70] South Carolina Code Annotated, Section 6-1-530.
[71] Code of Virginia, Section 58.1-3851.2.

complementary facilities as tourism projects but explicitly excludes "general retail outlets, ancillary retail structures not directly related to the tourism purpose of the project or other retail establishments commonly referred to as shopping centers or malls or residential condominiums, townhomes, or other residential units."[72] Similarly, "tourism attraction projects" in Kentucky do not include facilities that are primarily devoted to the retail sale of goods, other than Kentucky crafts and products centers, or tourism attractions where the sale of goods is a secondary component of the attraction.[73] So that hotels do not finance their competition through lodging taxes, in North Carolina "the proceeds of a room occupancy tax shall not be used for development or construction of a hotel or another transient lodging facility."[74]

Public Input Requirements for Adoption of Local Lodging Taxes

Local governments in Tennessee, like those in six other states, are authorized to hold referendums on whether to levy lodging taxes but rarely if ever do.

Tennessee, like nearly all other states, does not require public hearings before adopting local lodging taxes. Of the 44 states that authorize local lodging taxes, thirteen[75] require lodging taxes to pass a referendum at least in certain circumstances, and six states[76] require public hearings, although three of those require them only for counties. Local governments in Tennessee, like those in six others states, are authorized to hold referendums on whether to levy lodging taxes[77] but rarely if ever do. Home rule cities in Tennessee can also hold referendums on lodging taxes but generally choose the option of approving them by two-thirds votes of the local legislative body at two consecutive meetings.[78] Although this does not ensure public participation, it does ensure that the proposal is at least discussed in public on at least two occasions. State laws authorizing some other local taxes in Tennessee go further and require referendums, but the burden of those taxes fall mainly on local residents. For example, local option sales taxes require approval by referendums of the residents of the cities and counties levying them; all county voters for a countywide tax and only city voters for a city tax.[79]

[72] Code of Virginia, Section 58.1-3851.2.
[73] Kentucky Revised Statutes, Section 148.851.
[74] General Statutes of North Carolina, Section 160A-215.
[75] Alaska, Arkansas (only for counties), California, Colorado, Florida (only for counties), Iowa, Missouri, Nebraska (only for cities), Nevada (only for counties), Oklahoma (only for cities), South Carolina (only for cities), Wisconsin (only for cities; counties not authorized), and Wyoming.
[76] Maryland (counties only), Minnesota, Nebraska (counties only; cities require referendum), North Carolina, Virginia (counties only), and West Virginia.
[77] Tennessee Constitution, Article XI, Section 9.
[78] Tennessee Code Annotated, Section 67-4-1402(b).
[79] Tennessee Code Annotated, Section 67-6-705.

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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

Amy New, Assistant Commissioner of Rural Development
Tennessee Department of Economic and Community Development

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
University of Tennessee Municipal Technical Advisory Service

Appendix A: 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

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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)".

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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 or 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.

*House sponsor changed from Representative Lynn to Representative M. White.

Appendix B: 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.

SENATE BILL NO. 850

PASSED: April 20, 2015

RON RAMSEY
SPEAKER OF THE SENATE

BETH HARWELL, *SPEAKER*
HOUSE OF REPRESENTATIVES

APPROVED this 8th day of May 2015

BILL HASLAM, *GOVERNOR*

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, Louisville, Maryville, Rockford)	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%
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%	0.50%		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%	0.50%	**5%**		**14.75%**	2.75%	10%		19.75%
Cheatham	Kingston Springs	7%	2.25%	0.50%	**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	Pegram	7%	2.25%	0.50%	**5%**		**14.75%**	2.75%	10%		19.75%
Chester	(except Henderson)	7%	2.75%		4%		13.75%	2.75%	4%		13.75%
Chester	Henderson	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Claiborne		7%	**2.25%**		3%		**12.25%**	2.75%	3%		12.75%
Clay		7%	2.75%		2.50%		12.25%	2.75%	2.50%		12.25%
Cocke	(except Newport)	7%	2.75%		3%		12.75%	2.75%	3%		12.75%
Cocke	Newport	7%	2.75%		3%	**2%**	**14.75%**	2.75%	3%	5%	17.75%
Coffee	(except Manchester, Tullahoma)	7%	2.75%				9.75%	2.75%			9.75%
Coffee	Manchester	7%	2.75%			6%	15.75%	2.75%		6%	15.75%
Coffee	Tullahoma	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Crockett		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Cumberland		7%	2.75%		7.50%		17.25%	2.75%	7.50%		17.25%
Davidson	(except Goodlettsville)	7%	**2.25%**		6%		**15.25%**	2.75%	6%		15.75%
Davidson	Goodlettsville	7%	**2.25%**		6%	3%	**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%
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%	0.50%	5%		14.75%	2.75%	5%		14.75%
Fentress		7%	**2.50%**		5%		**14.50%**	2.75%	5%		14.75%
Franklin	(except, Tullahoma, Winchester)	7%	**2.25%**		7%		**16.25%**	2.75%	7%		16.75%
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%**		5%		**14.25%**	2.75%	5%		14.75%
Grundy	Monteagle	7%	**2.25%**		5%	5%	**19.25%**	2.75%	5%	5%	19.75%
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, Collegedale, East Ridge)	7%	**2.25%**		4%		**13.25%**	2.75%	4%		13.75%
Hamilton	Chattanooga	7%	**2.25%**		4%	4%	**17.25%**	2.75%	4%	4%	17.75%
Hamilton	Collegedale	7%	**2.25%**		4%	4%	**17.25%**	2.75%	4%	4%	17.75%
Hamilton	East Ridge	7%	**2.25%**		4%	4%	**17.25%**	2.75%	4%	4%	17.75%
Hamilton	Lakesite	7%	**2.25%**		4%		**13.25%**	2.75%	4%	4%	17.75%
Hamilton	Red Bank	7%	**2.25%**		4%		**13.25%**	2.75%	4%	4%	17.75%
Hamilton	Soddy-Daisy	7%	**2.25%**		4%		**13.25%**	2.75%	4%	4%	17.75%
Hamilton	Walden	7%	**2.25%**		4%		**13.25%**	2.75%	4%	4%	17.75%
Hancock		7%	**2.00%**				**9.00%**	2.75%			9.75%
Hardeman		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Hardin	(except Adamsville, Savannah)	7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Hardin	Adamsville	7%	**2.50%**		5%	5%	**19.50%**	2.75%	5%	5%	19.75%
Hardin	Savannah	7%	2.75%		5%	5%	19.75%	2.75%	5%	5%	19.75%
Hawkins	(except Kingsport, Rogersville)	7%	2.75%				9.75%	2.75%			9.75%
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%	2.75%		5%		14.75%	2.75%	5%		14.75%
Henry	McKenzie	7%	2.75%			5%	14.75%	2.75%		5%	14.75%
Hickman		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Houston		7%	2.75%		5%		14.75%	2.75%	5%		14.75%
Humphreys		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)	
Jackson		7%	2.75%				9.75%	2.75%			9.75%
Jefferson		7%	2.75%		4%		13.75%	2.75%	4%		13.75%
Johnson	(except Mountain City)	7%	**1.50%**		5%		**13.50%**	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%**		7%		**16.50%**	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%	**3.50%**	**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%**	**0.50%**	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%
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%	0.50%		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%

County	City	Actual Tax Rates						Authorized Tax Rates			
		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)	
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%
Monroe	Sweetwater	7%	2.25%	0.50%	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%			9.75%
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%	0.50%	3%		12.75%	2.75%	3%		12.75%
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 Harriman, 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%	**2.50%**			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%		**2.50%**		**12.25%**	2.75%	5%		14.75%
Rutherford	LaVergne	7%	2.75%		**2.50%**	2.50%	**14.75%**	2.75%	5%	2.50%	17.25%
Rutherford	Murfreesboro	7%	2.75%		**2.50%**	2.50%	**14.75%**	2.75%	5%	2.50%	17.25%

		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)	
Rutherford	Smyrna	7%	2.75%		**2.50%**	2.50%	**14.75%**	2.75%	5%	2.50%	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%
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%			**2.50%**	**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%			**2%**	**11.75%**	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%	0.50%	5%		**14.75%**	2.75%	5%	5%	19.75%
Shelby	Bartlett	7%	2.25%	0.50%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Collierville	7%	2.25%	0.50%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Germantown	7%	2.25%	0.50%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Lakeland	7%	2.25%	0.50%	5%	5%	19.75%	2.75%	5%	5%	19.75%
Shelby	Memphis	7%	**2.25%**		5%	**1.70%**	**15.95%**	2.75%	5%	5%	19.75%
Shelby	Millington	7%	2.25%	0.50%	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%	0.50%	5%		14.75%	2.75%	5%		14.75%
Sullivan	(except Bristol, Kingsport, and Johnson City)	7%	**2.25%**				**9.25%**	2.75%			9.75%
Sullivan	Bristol	7%	**2.25%**			5%	**14.25%**	2.75%		5%	14.75%
Sullivan	Kingsport	7%	**2.25%**	**0.25%**		7%	**16.50%**	2.75%		7%	16.75%
Sullivan	Johnson City	7%	**2.25%**			7%	**16.25%**	2.75%		7%	16.75%
Sumner	(except Goodlettsville and White House)	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)	
Sumner	Goodlettsville	7%	**2.25%**		5%	3%	**17.25%**	2.75%	5%	3%	17.75%
Sumner	White House	7%	2.25%	0.50%	5%		14.75%	2.75%	5%		14.75%
Tipton	(except Atoka, Covington, Munford)	7%	**2.25%**		5%		**14.25%**	2.75%	5%		14.75%
Tipton	Atoka	7%	2.25%	0.50%	5%		14.75%	2.75%	5%		14.75%
Tipton	Covington	7%	2.25%	0.50%	5%		14.75%	2.75%	5%		14.75%
Tipton	Munford	7%	2.25%	0.50%	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%
Williamson	Brentwood	7%	**2.25%**		4%	4%	**17.25%**	2.75%	4%	4%	17.75%
Williamson	Fairview	7%	2.25%	0.50%	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, Mt. 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 actual rates below the rate authorized by the General Assembly.

Source: TACIR review of Tennessee Code Annotated, private acts, and various hotel and local government websites, November 2015.

Appendix D: Authorized State and Local Tax Rates on Lodging by State

Appendix D: Authorized State and Local Tax Rates on Lodging by State

State	State Lodging and Sales Taxes Applied to Lodging	Local Lodging Taxes		Local Sales Taxes on Lodging	
		City	County	City	County
Alabama	4%	Unlimited	Varies	n/a	0.55%
Alaska	None	Referendum	Referendum	Referendum	Referendum
Arizona	5.50%	Unlimited	Varies	Unlimited	3.30%
Arkansas	8.50%	3%*	3%*/Referendum	Referendum	Referendum
California	n/a	Referendum	Referendum	n/a	n/a
Colorado	2.90%	Referendum	2%/Referendum	Referendum	Referendum
Connecticut	15%	n/a	n/a	n/a	n/a
Delaware	8%	Varies	n/a	n/a	n/a
Florida	6%	Varies	3%*/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	6.50%	2%	2%	3%	1%*
Kentucky	7%	3%**	3%**	n/a	n/a
Louisiana	4%	Varies	2%/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	5.70%	6%*	n/a	n/a	n/a
Michigan	6%	5%	5%	n/a	n/a
Minnesota	6.88%	3%	n/a	0.75%	1%
Mississippi	7%	Varies	Varies	n/a*	n/a
Missouri	4.23%	Varies**	5%*/Referendum	Referendum	3%
Montana	7%	n/a	n/a	n/a	n/a
Nebraska	6.50%	Referendum	4%	2%	1.5%/referendum
Nevada	1%[a]	1%*	2%*/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	5.13%	5%	5%	1%	0.44%
New York	4%	Varies	Varies	4%*	3%*
North Carolina	4.75%	Varies	Varies	n/a	2.75%
North Dakota	5%	3%	n/a	Referendum	Referendum
Ohio	5.75%	3%	3%	n/a	1.50%
Oklahoma	4.50%	Referendum	5%**	Referendum	2%*
Oregon	1%	Unlimited	Unlimited	n/a	n/a
Pennsylvania	6%	Varies	3%*	n/a	n/a*
Rhode Island	12%	1%*	n/a	n/a	n/a
South Carolina	7%	3%/Referendum	3%	1%	6%
South Dakota	5.50%	1%	n/a	2%	n/a
Tennessee	7%	Varies**	Varies**	Combined 2.75%/Referendum	
Texas	6%	7%*	2%**	n/a	n/a
Utah	4.70%	1%*	4.25%*	1%*	1.25%*

State	State Lodging and Sales Taxes Applied to Lodging	Local Lodging Taxes		Local Sales Taxes on Lodging	
		City	County	City	County
Vermont	9%	Varies	n/a	n/a	n/a
Virginia	4.30%	Varies	2%*	1%	1%
Washington	6.50%	2%*	2%*	0.5%*	0.5%*
West Virginia	6%	6%*	6%	1%	n/a
Wisconsin	5%	8%*/Referendum	n/a	n/a	0.50%
Wyoming	4%	4%/Referendum	4%/Referendum	n/a	3%

*Certain counties and cities authorized to levy higher rates.

**Certain categories of cities or counties have general authorization to levy local lodging taxes.

[a] Nevada's 1% local tax is effectively a state tax because the state requires the tax to be levied by all cities and counties and 3/8 of the revenue to be remitted to the state.