



# Room Tax

## *The Law in Wisconsin*

~ A Basic Primer ~

### What is a “Room Tax”?

A room tax is a tax that may be authorized by a municipality on the renting of sleeping rooms at hotels, motels, resorts, inns, bed & breakfasts and other lodging facilities in the local area. The tax rate can be set from 0 – 8%, with limited exceptions.

The original intent of the room tax was to provide funding for tourism marketing and promotions, such as brochures and information services, which are utilized by the very guests paying the tax.

### Who pays the tax, and where does the revenue go?

The lodging property adds the room tax to their customer’s bill when they pay for their lodging. Room tax is charged in addition to state sales tax (and county sales tax when appropriate).

The revenue is forwarded to the municipality by each lodging property, in accordance with the schedule set by local ordinance. Currently, the property is not eligible to retain an administrative fee (allowed with state sales tax) to offset costs such as charge card processing fees, etc.

### What can Room Tax revenue be spent on?

State law requires that at least 70% of Room Tax revenue must be spent on “tourism promotion and development”, which is now also defined in the statute.

The remaining revenue (0 – 30%) is available for the municipality to spend as determined. This may include infrastructure or services supporting both those visiting the community and residents (such as police staffing at local parades or fireworks), or for other purposes determined by the municipality.

In simplified language, the portion designated for “tourism promotion and development” must be spent on marketing projects to attract tourists, tourist informational services, or municipal development significantly used by tourists. Any funded project, service, or development is required to be reasonably likely to generate paid overnight stays at multiple lodging properties (i.e. by the visitors paying room tax).

An exception occurs for municipalities imposing a Room Tax before May 1994 who had allocated less than 70% of Room Tax revenue for tourism promotion and development. Some restrictions apply, and any increases in the 1994 Room Tax rate must follow the newer state requirements.

### Who makes the decisions on what is funded by Room Tax revenue?

Expenditure decisions are made locally, within the parameters provided by state law under section 66.0615 of the Wisconsin statutes.

A single municipality may create a “Tourism Commission” of 4-6 members to contract with and oversee a local tourism entity - such as a Convention & Visitors Bureau or a Chamber of Commerce. The Tourism Entity (with Commission oversight) then selects which projects would best attract paying overnight tourists to their local area. The Commission is appointed by the chief elected official of the municipality for a 1-year term and confirmed by the municipality’s governing body. At least one of the appointees must be an owner or operator of a lodging property paying Room Tax.

If the municipality does not create a Commission, the municipal governing body may contract with a local tourism entity or directly spend the revenue on “tourism promotion and development” within the parameters and requirements of the definition in the law. Usually, a local tourism entity, with a governing board made up of business operators in the tourism industry, has more expertise in determining expenditures

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that would comply with the definition and intent of “tourism promotion and development”.

The law also allows multiple municipalities to band together to create a tourism “zone”. If they do so, they must create a “Tourism Commission” with representation and duties as noted in the law.

It is beneficial to have the input of multiple tourism business professionals, including lodging property operators, when determining how local Room Tax revenue should be spent. Lodging property operators can provide helpful overnight stay data to assist municipalities in complying with the law and as part of an evaluation of expenditures.

### **What public accountability is required?**

A “Tourism Commission” is required to report at least annually to the municipality on how Room Tax revenue was spent on "tourism promotion and development.”

Whether a Commission or the municipality directly expends the Room Tax revenue, the record of these expenditures is subject to Wisconsin’s “Open Records Law”. This means that any local tourism business, the general public, or any media interested in learning how the Room Tax revenue is spent may request and receive this record from the municipality.

### **Is Room Tax right for my community?**

Room Tax is not necessarily appropriate for all communities, and should be carefully evaluated before considering a local ordinance to authorize Room Tax. The following are just a few factors to consider when evaluating:

- Is the goal in creating a local Room Tax to increase tourism business in your community?
- What is the potential business impact on tax-collecting lodging properties in your community? Will room tax put local lodging businesses at a disadvantage with their competition in other communities that have a lower (or no) Room Tax?
- Does your community currently offer a variety of options for the traveler, such as attractions, shops, restaurants, etc. in addition to lodging, to provide a tourism product to market in order to generate paid overnight stays?
- Is a Tourism Commission with tourism industry representation proposed to help ensure that the expenditures will increase tourism business, within the requirements of the law?
- Is the proposed tax percentage low enough to be competitive with other communities?

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*This piece does not constitute a position for or against the implementation of a local Room Tax.*