

Revenue Impact Analysis of Bill H. 2645

Current Law:

Massachusetts imposes an excise equal to 5.7% of the total amount of rent for short-term occupancy (90 days or less) at hotels, lodging houses, motels, and bed and breakfast establishments that rent out 4 or more rooms. This excise does not apply to residential units rented for short-term occupancy. Please refer to *M.G.L. c. 64G and St. 1969, c. 546, § 22*. Cities and towns may, by a vote of their legislative body, impose an additional excise tax of up to 6% (6.5% for Boston), please refer to *M.G.L. c. 64G § 3A*. Massachusetts also levies an additional fee on the transfer of occupancy of rooms in hotels, motels, or other lodging establishments subject to excises in the cities of Boston, Cambridge, Chicopee, Springfield, West Springfield and Worcester at a rate of 2.75% of the total amount of rent (*St. 1997, c. 152, § 9*).

Proposed Changes:

Bill H.2645 proposes the following changes, in addition to other administrative changes, to the current law that may have revenue impact:

1. The bill would broaden the scope of taxing authority for the state's room occupancy excise, the local option excise, and the convention center financing fee by adding "transient accommodations" as a form of taxable accommodation and removing the exemption for bed and breakfast homes (i.e., owner-occupied bed and breakfast facilities that rent out fewer than 4 rooms). Transient accommodations would mean any vacation, leisure, or short-term accommodation that would not otherwise qualify as a hotel, motel, lodging house, or bed and breakfast establishment.
2. The bill would reduce the length of time of a taxable occupancy from 90 days or less to 31 days or less for all types of rentals.
3. The bill would modify the exemption in chapter 64G, s. 2(b) to include lodging accommodations, including dormitories, at philanthropic and public and private educational institutions. The bill adds new language providing that the s. 2(b) exemption doesn't apply to accommodations provided "in a manner ancillary to the achievement of the religious, charitable, philanthropic or educational purposes of such institution and provided further that lodging accommodations provided by a public or private college or university that are not student dormitories or faculty housing and that are available to the general public shall be considered ancillary to the educational purpose of the educational institution".
4. The bill would add new exemption provisions exempting "lodging accommodations provided to seasonal employees by employers" and "tenancies at will or month to month leases."

Estimation:

The Department of Revenue (DOR) does not collect or maintain data about the number of bed and breakfast homes or other transient accommodations in the Commonwealth. Therefore, we have to create revenue impact estimates by using information from other sources. Combining data from

different sources, such as data from Massachusetts Office of Travel and Tourism (MOTT) and publicly available, but limited, data on accommodations listed at some leading hosting platforms, DOR estimates that sales of “transient accommodations”, including bed and breakfast homes (i.e., owner-occupied bed and breakfast facilities that rent out fewer than 4 rooms) but excluding bed and breakfast establishments (currently taxable), total about \$294 million annually. Under the bill, these sales would become taxable and generate annually 5.7% state room tax of \$16.7 million, 2.75% convention center surcharge of \$4.2 million, and local option room tax of \$16.9 million.

Due to the limitations and issues associated with these external data, such as that data from different sources may have overlap and that some transient accommodations may be not included in these data, estimation uncertainty may be high. We have used range estimates (see the table below), with the lower and upper bounds estimates to be 20% more or less than the middle-point estimates (estimates in the previous paragraph). We also suggest that these estimates should be used with caution.

Revenue Gain Estimates of Bill H.2645 (\$ Million)			
	Total Annualized Value		
	Low	Mid	High
Total	30.3	37.8	45.4
<i>5.7% State Room Excise</i>	<i>13.4</i>	<i>16.7</i>	<i>20.1</i>
<i>2.75% Convention Center Surcharge</i>	<i>3.4</i>	<i>4.2</i>	<i>5.1</i>
<i>Local Option Room Excise</i>	<i>13.5</i>	<i>16.9</i>	<i>20.3</i>

Above table measures only the revenue impact of the first change listed in the previous section. As of now, DOR is not aware of the availability of reliable data to estimate the revenue impacts brought about by other changes listed in the previous section.

Confidence Level:

Given the lack of available data on the types of accommodations being considered for taxation and exemption, it has proven difficult to create a comprehensive fiscal impact estimate for the proposal. Should additional information become available on these topics, we would need to revise or expand our estimation methodologies.

DOR takes no position with respect to the proposal.