



Fiscal Note 2025 Biennium

Bill information:

SB0517 - Establish graduated fee on short term rentals with money going to housing (Hayman, Denise)

Status: As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$621,706	\$168,220	\$170,354	\$175,525
Proprietary	\$181,244	\$9,675,644	\$9,677,914	\$10,180,219
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Proprietary	\$9,580,000	\$10,299,000	\$10,705,000	\$11,007,000
Net Impact-General Fund Balance:	<u>(\$621,706)</u>	<u>(\$168,220)</u>	<u>(\$170,354)</u>	<u>(\$175,525)</u>

Description of fiscal impact: SB 517 creates a graduated annual fee on short-term rentals of 1% - 3% of gross receipts depending on the number of units owned by the taxpayer. This fee is estimated to generate \$9,580,000 in FY 2024, \$10,299,000 in FY 2025, \$10,705,000 in FY 2026, and \$11,007,000 in FY 2027, which would be deposited in the Housing Montana Fund in 90-6-133, MCA.

FISCAL ANALYSIS

Assumptions:**Department of Revenue (DOR)**

1. SB 517 creates an annual fee on short-term rentals to provide funding for an affordable Housing Montana Fund grant program.
2. Under current law, all short-term accommodations (less than 30 days) are subject to the lodging facility use tax of 4% and the accommodations sales tax of 4%. The short-term rental fee proposed in this bill would add a gross receipts tax on a subset of these short-term accommodations referred to as short-term rentals. Short-term rentals are defined in 15-68-101, MCA, and essentially includes houses, units in a condominium, timeshares, or other individually or collectively owned dwelling units. These short-term rentals are typically

booked through a third-party online hosting platform, who under current law collects and remits the lodging taxes on behalf of the owner.

3. The short-term rental fee in SB 517 would be a graduated fee paid by the owner of the short-term rental(s) of:
 - a. 1% of gross receipts on the first 5 units;
 - b. 2% of gross receipts on the next 5 units; and
 - c. 3% of gross receipts on any additional units over 10.
4. Owners of short-term rentals would be required to submit a return for this fee and designate the different line items for the gross receipts by each group of units owned. These returns would be required to be filed at the same time as the 4th quarter lodging tax returns, which are due by the last day of the month following the end of the quarter.
5. The Department of Revenue (DOR) does not currently have data on the specific ownership or number of short-term rentals, because the lodging taxes are currently remitted by the third-party online hosting platforms.
6. Based on lodging tax returns, it is estimated that short-term rentals make up about 25% of the accommodations market in Montana. The following table shows the calculation of estimated short-term rental fee collections starting with the HJ 2 forecasted lodging tax collections for FY 2024 to FY 2027. It is assumed that the graduated fee structure will result in a weighted average rate of 2% of short-term rental gross receipts.

FY	HJ2 Lodging Tax Collections	STR Share of Accommodations (25%)	Estimated STR Gross Receipts	Estimated STR Gross Receipts Tax (2%)
2024	\$153,271,000	\$38,318,000	\$478,975,000	\$9,580,000
2025	\$164,777,000	\$41,194,000	\$514,925,000	\$10,299,000
2026	\$171,274,000	\$42,819,000	\$535,238,000	\$10,705,000
2027	\$176,106,000	\$44,027,000	\$550,338,000	\$11,007,000

7. This revenue from the short-term rental fee would be deposited in the Housing Montana Fund for grants to be issued by the Board of Housing withing the Department of Commerce.
8. To administer the fee proposed in SB 517, the DOR would have to create a new return and collect, and audit returns from all short-term rental owners. This would be a big increase in the number of returns from the lodging tax returns that are filed by the third-party online booking companies, aggregated to the county or convention and visitor bureau (CVB) level. To handle these additional returns and attempt to verify the unit counts on the returns, DOR will need an additional audit technician and tax examiner beginning in FY 2024. The total costs for the additional 2.00 FTE would be \$171,706 in FY 2024, \$168,220 in FY 2025, \$170,354 in FY 2026, and \$172,525 in FY 2027.
9. The DOR will also have to add a new tax type in the integrated revenue information system, which will cost \$450,000 in contracted services. All DOR costs would be funded through the general fund.

Department of Commerce (Commerce)

10. The Board of Housing would rely on DOR to collect revenue and make deposits into the fund. Funds not used for administrative purposes would be disbursed as grants.
11. As the bill applies only to short-term rentals offered for a fee after June 30, 2023, and DOR is expected to collect revenues after the 4th quarter, no fees would be expected to be deposited into the Housing Montana Fund until the end of the first quarter of FY 2025.
12. Based on DOR estimates, the Board of Housing assumes approximately \$9.5 million available for grants in each FY 2025 and FY 2026, increasing to \$10.5 million in FY 2027.
13. Commerce will need 1.50 FTE for program administration. This includes one Program Specialist II position to administer the grants. Duties will include community engagement and outreach, developing application guidelines and administrative rules, conducting project reviews and ranking, engage in contract negotiation

and execution, and ongoing grant management oversight and compliance. An additional 0.50 FTE Accountant 3 will be needed to perform grant accounting duties, reconciliation, contract accruals, and processing of draws.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE (DOR)	2.00	2.00	2.00	2.00
FTE (Commerce)	1.50	1.50	1.50	1.50
<u>Expenditures:</u>				
Personal Services (DOR)	\$143,590	\$145,826	\$147,634	\$149,469
Operating Expenses (DOR)	\$478,116	\$22,394	\$22,720	\$23,056
Personal Services (Commerce)	\$133,422	\$133,422	\$135,423	\$137,454
Operating Expenses (Commerce)	\$47,822	\$42,222	\$42,491	\$42,765
Grants	\$0	\$9,500,000	\$9,500,000	\$10,500,000
TOTAL Expenditures	<u>\$802,950</u>	<u>\$9,843,864</u>	<u>\$9,848,268</u>	<u>\$10,852,744</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$621,706	\$168,220	\$170,354	\$172,525
Proprietary (06)	\$181,244	\$9,675,644	\$9,677,914	\$10,180,219
TOTAL Funding of Exp.	<u>\$802,950</u>	<u>\$9,843,864</u>	<u>\$9,848,268</u>	<u>\$10,352,744</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Proprietary (06)	\$9,580,000	\$10,299,000	\$10,705,000	\$11,007,000
TOTAL Revenues	<u>\$9,580,000</u>	<u>\$10,299,000</u>	<u>\$10,705,000</u>	<u>\$11,007,000</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$621,706)	(\$168,220)	(\$170,354)	(\$172,525)
Proprietary (06)	\$9,398,756	\$623,356	\$1,027,086	\$826,781

Technical Notes:

1. A definition for “immediate family” should be added to the bill. Section 1(2)(ii) and (2)(iii) refer to “immediate family” but the bill does not define who is included in a person’s immediate family.

NO SPONSOR SIGNATURE

Sponsor's Initials

3/28/23

Date



Budget Director's Initials

3-28-23

Date