

Tax on AirBnB / VRBO-type Transactions

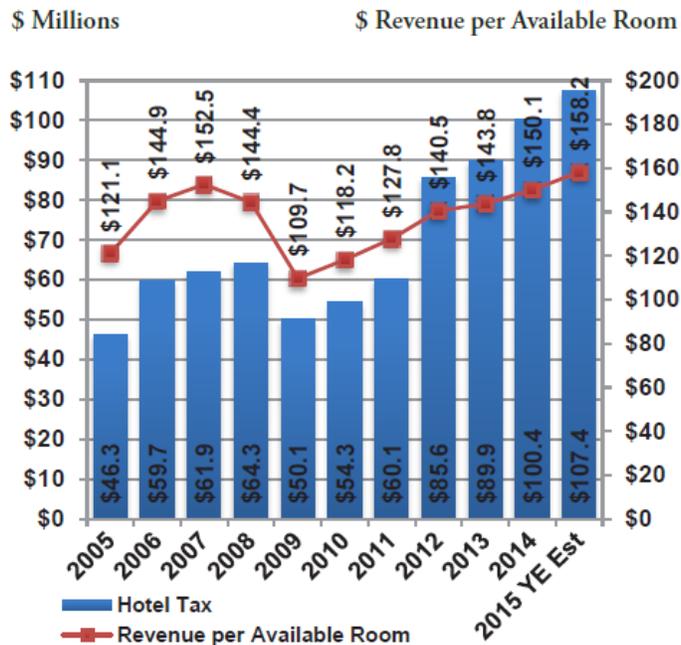
Hotel Tax on AirBnB / VRBO-type Transactions: Short-term vacation rentals are subject to the City's hotel accommodations tax, and website facilitators, such as AirBnB, are required to collect the hotel tax on transactions that occur through their websites.

Background

The City receives revenue from two hotel-specific taxes¹:

- The hotel accommodations tax of 4.5%, which is controlled and administered by the City with revenues flowing into the City's corporate fund.
- The municipal hotel operators' occupation tax of 1%, which is controlled and administered by the State, with a share distributed to the City. These distributions from the State flow into the City's special events and hotel operators' occupation tax fund, and can be used only to fund the promotion of tourism and cultural and recreational activities in Chicago.

HOTEL ACCOMMODATIONS TAX REVENUE



Historically, revenue from both of these taxes has reflected tourism to Chicago as well as trends in the broader economy. Revenues from the hotel accommodations tax experienced a sharp decline in 2009 and remained low into early 2011, coinciding with the recession's impact on tourism, business, and convention-related travel. The second half of 2011, however, saw hotel occupancy and room price begin to recover.

Strong growth continued into 2012 with average revenue per available room at \$140.50 for the year and hotel tax revenues at \$85.6 million, reflecting both the continued climb in local hotel sales and the increase in the hotel accommodations tax rate from 3.5% to 4.5%. In 2014, revenue per available room was up 4% over 2013 and hotel tax revenues were \$100.4 million.

Revenue from the State municipal hotel operators' occupation tax followed a similar pattern on a smaller scale, growing from \$13.8 million to \$18.4 million between 2005 and 2008, followed by a drop in 2009 with the downturn in the economy. Revenue began to pick up again in 2011, reaching \$21.2 million in 2014 and expected to grow to \$22.8 million in 2015.

Additional information on the revenue history for these hotel taxes can be found on pages 15 and 28 of the 2015 Annual Financial Analysis.

¹ In addition to the two taxes discussed in this document, hotel rental in Chicago is also subject to the following: the Illinois Sports Facilities Authority Hotel Operator's Tax, the Metropolitan Pier and Exposition Authority (MPEA) Hotel Tax, and the State of Illinois Hotel Tax. The effective hotel tax rate in the city is 16.4%.

Revenue Impact

Prior to 2015, AirBnB / VRBO-type transactions were subject to the tax, but website facilitators were not required to collect the tax, making enforcement difficult. As part of the 2015 budget, the City amended the Municipal Code governing the City's hotel accommodations tax to require website facilitators such as AirBnB / VRBO to collect the full 4.5% hotel accommodations tax on transactions that occur through their websites. This amendment is expected to have an estimated annual revenue impact of \$1 million.

Legal Authority

As discussed above, the City controls and administers the hotel accommodations tax. The City has the authority to increase this tax by amending the MCC. However, under general uniformity principals, the City cannot tax similar transactions differently – as such, there would need to be a policy-related reason to increase the hotel accommodations tax *only* for AirBnB / VRBO-type transactions. Ill. Const. Art. IX Sec. 2.

The State's municipal hotel operators' occupation tax is applied to hotel *operators*, and the State has not required payment or collection by facilitators such as AirBnB / VRBO. 35 ILCS 145. Any change to the rate or application of the municipal hotel operators' occupation tax would require a change in State law.