Understanding accommodations and hospitality taxes

South Carolina local governments have perennially sought alternate revenue sources to decrease their dependence on the property tax. In the early 1980s, the Advisory Commission on Intergovernmental Relations suggested a menu of alternate tax sources that local governments could adopt, as they needed. The Commission emphasized the need for alternate general revenue funds in light of the Reagan Administration's threat to repeal federal general revenue sharing, which had relieved the fiscal pressure on local governments since 1972. (The federal government ended its revenue sharing program in 1986.)

State Accommodations Tax

From the list of alternate revenue sources, a statewide tax on accommodations received the greatest support. Because of a rapidly growing tourism industry, state lawmakers found it more palatable to tax tourists instead of residents. The state accommodations tax, passed in 1984, levied a 2 percent tax on the rental of rooms within the state. In FY 2009, the state collected $41,941,268.

As with most legislation, the accommodations tax bill did not come out of the legislative process in the same form it was introduced. While the final bill did allow councils to use some of the revenues for the general fund, the hospitality industry convinced the legislature to require a significant portion of the new revenue be used for tourism promotion and "tourism-related expenditures."

The law defined travel and tourism as "the action and activities of people taking trips outside their home communities for any purpose, except daily commuting to and from work."

The Act set up three tiers of counties that dictate expenditures and ensures all counties receive a minimum distribution amount.

Originally set at $50,000, the minimum distribution amount increases each year by 75 percent of the previous year's percentage increase in state accommodations tax revenue collections. For example, if the collections increased by 8 percent, the minimum distribution would increase by 6 percent (75 percent of 8 percent). Over the years, the compounding effect has increased the minimum distribution from $50,000 to $149,404 for FY 2009.

State Accommodations Tax in FY 2009

- 42 municipalities must report expenditures to Tourism Expenditure Review Committee.
- The total state accommodations tax collected: $41,941,268.
- The 11 tourism districts received 2 percent or $837,629.
- The Department of Revenue received $520,636 for its role in collecting the tax and operating the state's Tourism Expenditure Review Committee.

Counties with collections of $50,000 or less

The county and the municipalities within it receive the amount of tax revenue collected within their jurisdiction. The supplement received by the county to reach the minimum distribution amount is divided among the entities (county government and municipalities within the county) based on population.

Counties with collections of more than $50,000 but less than $400,000.

The county and the municipalities within it receive the amount of tax revenue collected within their jurisdiction.

In addition, counties in this tier receive a supplement. Originally set at $15,000, the supplement amount increases each year by 75 percent of the previous year's percentage increase in collections. Over the years, the compounding effect has increased the supplement to $43,242 for FY 2009. The supplement is divided among the entities (county government and municipalities within the county) based on population.

Counties with collections $400,000 or more

These counties contribute to a fund used by the state treasurer to ensure all counties in the first tier receive the minimum distribution and all counties in the middle tier receive the supplement. The state treasurer determines the amount needed to be withheld to make these distributions. This year the treasurer withheld 20 percent of the collections. The 13 counties in this third tier contributed $3,445,831 to supplement the remaining counties.

Any excess funds withheld are returned each August to the contributing counties. The funds are distributed back to the jurisdictions based on their percentage of collections within the county.

Administration of the State Accommodations Tax

Municipalities in counties that collect $50,000 or less in state accommodations tax are exempt from any administrative requirements for the state accommodations tax. The municipal council can use any revenue received, including the supplemental distribution, as general fund revenue.

Municipalities in counties that collect more than $50,000 can use the first $25,000 plus 5 percent of the balance, as general fund revenue. Councils must allocate 30 percent of the remaining balance to a special fund used for advertising and tourism promotion. The city must select one or more organizations, such as the chamber of commerce, convention and visitor bureau, or regional tourism commission, to manage this fund. The organization(s) chosen must have an existing, ongoing tourist promotion program. Council must allocate the remaining funds and any interest earned to a special fund used for tourism-related expenditures.

$100,000	state accommodations tax collection
- 25,000	used for general fund
- 3,750	5 percent of balance - used for general fund
$71,250	

$21,375 (30 percent of $71,250 - used for special fund for advertising/ tourism promotion)

$49,875 (remaining balance - used for special fund for tourism-related expenses)

For municipalities in counties collecting more than $50,000 and receiving more than $50,000 at the municipal level, council must appoint a seven-member advisory committee to make recommendations on how to spend state accommodations tax revenue. The majority of the committee members must represent the municipality's hospitality industry, with at least two members from the lodging industry, if applicable in the area. One member must represent the area's cultural organizations.

By October 1 of each year, the advisory committee must report to the state's Tourism Expenditure Review Committee how all state accommodations tax funds were spent, with the exception of the amount used as general fund revenue (first $25,000 and 5 percent of the balance). TERC has the authority to investigate the expenditures and can require the entity to repay any funds not spent in accordance with the law.

"Tourism related expenditures" include

- advertising and tourism promotion to develop and increase tourist attendance through publicity
- arts and cultural events promotion
- construction, maintenance and operation of facilities for civic and cultural activities, including construction and maintenance of access and other nearby roads and utilities for the facilities
- criminal justice system, law enforcement, fire protection, solid waste collection and health facilities when required to serve tourists and tourist facilities. The amount is based on the estimated percentage of costs directly attributed to tourists.
- public facilities such as restrooms, dressing rooms, parks and parking lots used to service tourism
- tourist shuttle transportation

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Annual municipal information updates set to begin

It's that time of year again!

On October 26, the Municipal Association will send municipal clerks forms to verify and update their city's information for the Association's database. These forms include both demographic and municipal official contact information.

The demographic information gathered includes basic information about each municipality (election date, form of government, city hall hours). On the contact information form, the Association collects addresses, phone numbers and e-mail addresses for all elected officials and key staff.

The Association uses the contact information to communicate with municipal officials throughout the year on legislative issues, training opportunities and a wide array of other important information. "Every department, program and service of the Association uses this one centralized database," explained Miriam Hair, executive director. "Therefore, it is extremely important to have complete, accurate and up-to-date information."

While the Association maintains the information throughout the year and sends update forms to clerks after each municipal election, staff does a complete update each fall in preparation of printing the annual municipal officials directory. The directory is a comprehensive publication that lists information about each city and town, as well as the councils of governments, state agencies and legislators.

The deadline to return the forms is November 13.

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- control and repair of waterfront erosion
- operation of visitor information centers

Local Accommodations and Local Hospitality Taxes

As part of the Local Government Fiscal Authority Act of 1997, the General Assembly authorized both the Local Accommodations Tax (SC Code 6-1-500) and the Local Hospitality Tax (SC Code 6-1-700). Municipal or county councils can impose the taxes by ordinance passed by a positive majority. Although there is no requirement to conduct a public hearing before passing the ordinance, it is highly recommended. The entity, not the state, is responsible for collecting the revenue.

Local Accommodations Tax

The local accommodations tax is levied on the rental or charges for accommodations. The cumulative rate may not exceed 3 percent. If the municipality has not already imposed a 3 percent local accommodations tax, the county may impose a tax up to 1.5 percent without consent of the municipal council. To go beyond 1.5 percent within the municipal limits, the county must receive the municipal council's consent by resolution.

Council must use the revenue exclusively for the following purposes:

1. tourism-related buildings including, but not limited to, civic centers, coliseums, and aquariums;
2. tourism-related cultural, recreational or historic facilities;
3. beach access, beach renourishment or other tourism-related lands and water access;
4. highways, roads, streets and bridges providing access to tourist destinations;
5. advertisements and promotions related to tourism development; or
6. water and wastewater infrastructure to serve tourism-related demand.

Local Hospitality Tax

A county or municipality may impose a hospitality tax on the sales of prepared meals and beverages. The cumulative total of the tax may not exceed 2 percent. A county may impose a 1 percent hospitality tax within the municipal limits, without the municipal council's consent if the municipality has not already imposed the maximum 2 percent. The municipal council must consent, by resolution, for the county to impose a local hospitality tax more than 1 percent within the municipal limits.

Council must use the revenue generated by the local hospitality tax exclusively for the following purposes:

1. tourism-related buildings including, but not limited to, civic centers, coliseums and aquariums;
2. tourism-related cultural, recreational or historic facilities;
3. beach access, beach renourishment or other tourism related lands and water access;
4. highways, roads, streets and bridges providing access to tourist destinations;
5. advertisements and promotions related to tourism development; or
6. water and wastewater infrastructure to serve tourism-related demand.

Six counties collect more than $900,000 in state accommodations tax (Beaufort, Charleston, Georgetown, Greenville, Horry and Richland). In these counties, municipal and county councils can use revenue from the local accommodations and local hospitality tax to provide for the operation and maintenance of these facilities listed above. These services include police, fire protection, emergency medical services, and emergency preparedness operations directly related to those facilities.

All other counties may use up to 20 percent of the revenue to provide these additional services to tourism-related facilities.