



April 16, 2024

Chair Rest and members of the Senate Committee on Taxes:

On behalf of the 838 members of the League of Minnesota Cities, I appreciate the opportunity to share background on SF 3976.

### **Issue**

Under current law, online travel companies are not paying lodging taxes to cities and counties with locally administered lodging taxes on the share of the revenue they retain from an individual booking. This creates an inequity between cities and tax statutes themselves, since these online travel companies are paying sales tax on these purchases. It also creates an inequity in how lodging at the same location is taxed. If someone goes directly to a hotel website to book a room, they pay lodging tax on the full amount of their purchase. But that is not the case when they book through an online travel company.

Under current law if a taxpayer books a \$100 room over the phone or via the hotel website, they pay any local lodging tax on that whole \$100. If they book that same room at that hotel through an online travel company, they only pay local lodging tax on the portion of the price that is retained by the hotel. So, if the hotel and online travel company have an agreement that the hotel retains 90% of the purchase price, online travel companies are not paying local lodging tax on that \$10 that stays with them.

### **Background**

Most local lodging taxes are imposed under general authority. Under this authority cities can impose the tax by ordinance. The local government may use 5 percent of the proceeds for administration costs but the remaining 95 percent of the revenues from a tax imposed under the general authority must be used to fund a local convention or visitor's bureau for tourism and convention center promotion. This proposal would not alter the allowable uses of local lodging taxes.

In 2011, the legislature amended Minn. Stat. § 297A.61 to define accommodation intermediaries and clarified that their services are subject to the state sales tax as part of the tax imposed on lodging. Local lodging taxes collected by the state for local units of government under Minn. Stat. § 469.190, subd. 7, also clearly apply to services provided by these accommodation intermediaries since these taxes are required under Minn. Stat. § 270C.171 to use the definition for tax base contained in the general sales tax statute. There are state administered local lodging taxes in seven cities (including Minneapolis, St. Paul, and Rochester) and two counties. As a result there is a disparity in the tax base different cities place on the local lodging tax.

Over 120 cities have local lodging taxes that are administered locally, a number of which are done through joint powers authorities. Over 90% of the cities with a locally administered lodging tax have a rate of 3%. The vast majority of these cities are located in Greater Minnesota, where the dollars go to fund the promotion of tourism in the city.

**Proposal**

Section 1 would align the lodging tax base with the sales tax base and ensure that cities with locally administered lodging taxes have the same tax treatment as state administered lodging taxes. This would provide a level and uniform playing field between cities and ensure that more than just a select few have a broader lodging tax base. Section 2 would allow a local government that collects its own lodging tax to choose to limit the required filing and remittance of the tax by accommodation intermediaries to once per year. This bill would not alter what the proceeds of the local lodging tax can be used for, nor would it change the lodging tax rate or base beyond aligning locally administered lodging taxes and state administered lodging taxes.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Nathan Jesson".

Nathan Jesson  
Intergovernmental Relations Representative