



Municipal Accommodation Tax
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Background

Prior to the 1960s, tourism-specific taxes did not exist. However, worldwide there are now over forty different types of taxes levied on tourism. Accommodation taxes, also commonly known in other jurisdiction as “hotel taxes”, “lodging tax” and/or “tourist tax”, have grown in popularity stemming “from the widely held perception that its burden is largely borne by tourists rather than residents, with little negative impact on industry sales”. Canada has been slower to adopt accommodation taxes than other jurisdictions like the United States and Europe, which have imposed these types of taxes for a longer period of time.

On Thursday November 23, 2017, the Province of Ontario issued the Transient Accommodation Regulation 435/17, (Regulation) which came into force December 1, 2017. This Regulation provides the necessary provisions for municipalities across Ontario to implement a Municipal Accommodation Tax (MAT) on overnight and short-term (less than 30 nights) accommodation.

The intent of a MAT is to supplement funds invested by a municipality for tourism initiatives with revenues raised from visitors. It is not intended to fully replace municipal investments made in Tourism, rather, to provide additional funds for services that benefit visitors and residents alike. Most municipalities that have implemented the MAT use the additional revenues to stabilize municipal ‘base’ funding provided to Tourism activities as well as invest in programs and infrastructure that benefit visitors and residents alike.

What is an Accommodation Tax?

Municipal Accommodation Tax is applied to the purchase of short-term accommodations of all kinds, such as hotel stays, bed and breakfasts and short-term rentals such as AirBnB. (with some exceptions). It is paid by visitors when they book a room with a local accommodation provider. It is not a tax on local businesses nor residents and applies only to the accommodation part of fees charged for accommodation (excludes parking or other fees applicable to a customer).

Accommodation tax requirements vary by town, city, region and county.

Where a Municipal Accommodation Tax (MAT) is in place the tax is mandatory and providers are obligated to collect the tax from purchasers of accommodation and remit the tax to the municipality. The Act states that an implementation by-law must include:

- MAT rate (%);
- Manner to be collected;
- Exemptions & rebates;
- Penalties, interest, enforcement & collection measures;
- Audit & inspection powers;
- MAT shall not be imposed on any Crown agency etc., board of education, post-secondary institution, hospital or long-term care facility.

Municipalities are obligated to share the revenues with eligible not-for-profit tourism entities for the exclusive purpose of promoting tourism and product development within the municipality.

Which levels of government can implement a Municipal Accommodation Tax?

All single-tier and lower-tier municipalities have the authority to put a municipal accommodation tax in place. A transient accommodation tax is not a requirement for local municipalities—rather, they have the flexibility to decide if they want to put the tax in place. Upper-tier municipalities (regional or county governments) do not have the authority to implement a tax.

Can regional municipalities collect tax on behalf of lower-tier municipalities?

Yes. Local municipalities that choose to impose a transient accommodation tax could reach an agreement with a person or entity to collect the tax on a municipality's behalf and this could include a regional municipality. It is up to the discretion of the local municipality's council to design the transient accommodation tax.

Cost to Implement a Municipal Accommodation Tax

Municipal Accommodation Tax implemented in Ontario may be administered by the municipality, the tourism entity or a third-party organization. For example, the City of Peterborough negotiated with the Ontario Restaurant Hotel & Motel Association (ORHMA) to act as its collection agent under a fee for service contract. ORHMA remits amounts collected to the City. In the Region of Waterloo and City of Kingston, the tourism entity is the collecting agent. In the case of the City of Sudbury, the municipality is the collecting agent.

It is challenging to estimate the cost of administering a MAT. The mandatory tax is relatively new across the province and it is difficult to estimate costs associated with this program. In addition, each municipality administers the program differently and some are starting with an accurate and current database of accommodators (due to high participation in the existing DMF).

The City of Peterborough (administered by ORHMA) estimated \$3,000 for a one-time setup fee, plus 1% of annual revenue for ongoing administration (estimated at \$9500).

The City of Kingston, which had voluntary DMF in place before the MAT, found that start-up costs were minimal. Kingston was not able to provide an estimate of annual administration costs because it is administered by the tourism authority and not tracked separately.

The City of Sudbury administers the MAT in-house and the 2019 budget estimate for administration is \$100,000.

From initial research, it appears that start-up and annual administration costs are significantly lower in those areas with an existing DMF that had strong industry participation. Given the fact the City has the authority to retain a portion of the MAT for administration, the cost is unlikely to be a burden on the property tax.

What do Municipalities use the Municipal Accommodation Tax for in communities?

The Ontario Regulation prescribes how revenues are to be shared between the municipality and eligible not-for-profit tourism organizations. Fifty percent (50%) of the net revenues of the MAT must be paid to an eligible tourism organization at least one-time annually. The Regulation states that the revenue must be used for the "promotion of tourism", "promoting tourism" and "development

of tourism products". The remaining fifty percent (50%) of the net revenues remains with the municipality and its use is unrestricted.

A portion of the taxes collected must be allocated to tourism initiatives by legislation; however, it is the intention for most municipalities that have approved a MAT that the revenue collected that they have discretion over will also be allocated to tourism. Controls and measures for monitoring and administration would need to be included in an agreement on the use of MAT funds. (e.g. Chicago imposes a 4.5% Hotel Accommodations Tax, 4% Shared Housing Surcharge, and 2% Domestic Violence Surcharge on the listing price including any cleaning fee for reservations 29 nights and shorter. Airbnb collects and remits these taxes and fees in Chicago.)

Opportunity

As legislation mandates the Municipal Accommodation Tax in Ontario is being utilized as a revenue-generating tool to offset other line items in municipal budgets.

Offsetting other budget item lines is the opportunity to designate dollars to affordable and attainable housing that was previously allocated to tourism.

The risk however, especially for municipalities that are strapped for resources that intend to allocate revenue that they have discretion over to specific items, like affordable or attainable housing, it may be tempting for municipalities to utilize this revenue to offset spending in other areas.

Municipal Accommodation Tax- Stratford

Stratford City Council approved in principle the establishment of a mandatory Municipal Accommodation Tax (MAT) for accommodators in the City of Stratford. It is estimated that this MAT will come into effect by mid-2023 to allow time to set up the processes required to administer the MAT.

A. Local Accommodation Providers & Exemptions

All eligible hotel transient accommodator doing business and/or facilitating business transactions within the boundaries of Stratford will be required to collect and remit any MAT implemented by the City. The mandatory tax will be applied on all rooms sold for overnight accommodations with other hotel services being exempt (i.e. meeting rooms, food & beverage services etc.).

The Regulation sets out mandatory exemptions from the MAT (noted above). The term "transient accommodations" was purposely left undefined to provide municipalities with the flexibility to determine the type of short-term accommodations the tax would apply to. It is within Council's discretion to exempt these types of accommodation:

- Treatment centres, house of refuge or reform;
- Charitable, non-profit philanthropic corporations organized as a Hospice, shelters for the relief of the poor or for emergency;
- Seasonal camping & trailer parks;
- Accommodation provided by an employer to employees in premises operated by the employer.

Council can also consider exempting certain operators, if the application sufficiently meets eligibility criteria developed. For example, a traditional Bed and Breakfast could be exempted if it met the following criteria:

- The Bed and Breakfast establishment meets the definition of the Zoning By-law 201-2000, as amended;
- The Bed and Breakfast establishment is occupied and operated by the property owner, and is classified in the residential property tax class;
- The Bed & Breakfast directly invoices for the accommodation, and not a third-party home-sharing listing entity.

Consideration can also be given to the length of stay. Some municipalities have chosen to not apply MATs to accommodations that are rented for a period of more than 30 days.

In structuring a Municipal Accommodation Tax, it is possible to phase in the tax among transient accommodations. For example, short-term rentals (such as Airbnb) could be included in the program in phase 2. Short-term rentals often occur in dwelling types such as detached houses, townhouses and apartment buildings and are operated by owner occupants, tenants, property investors and management companies. The applicability of the MAT to these short-term rentals may be premature until short-term rentals can be fully researched and are accounted for in the City's Zoning By-law.

Accommodators will require time to implement changes to their billing system, staff training, and education on the terms of a new MAT and remittance requirements.

B. Revenue Estimates

In order to provide the Committee with accurate estimates of revenue that could be generated from a Municipal Accommodation Tax, statistics such as the number (and type) of transient rooms, occupancy rates and average room rates (for all accommodators) is needed. This information is not available at this time and would need to be collected.

The Stratford Tourism Alliance collects approximately \$95,000 annually through the voluntary Destination Marketing fee, with only 10 participating accommodators. Using the City of Peterborough as an example, their 2019 budget estimated that the old Destination Marketing Fee would have raised approximately \$125,000. The new MAT is estimated to generate approximately \$930,000.00.

Similarly, in 2017 Kingston collected \$1.7M through the voluntary DMF from 24 hotels. They found an additional 763 hotel/motel and bed & breakfast rooms that were not applying the voluntary DMF. In April, 2019 they estimated the mandatory MAT will generate \$3,280,000.

Assuming a modest estimate of \$20M in accommodation revenues in the City of Stratford, applying a 4% MAT, the City could raise up to \$800,000.00 annually.

Acting under the assumption that the implementation and ongoing administration of the MAT could cost up to \$100,000 (using the City of Sudbury estimate), then the net MAT to be shared could be \$700,000. The Regulation sets out the formula for splitting the net funds when a DMF was in existence before the implementation of the MAT.

C. MAT Revenue Share – The Municipal Portion

It is anticipated that any revenue generated from a Municipal Accommodation Tax would be variable from year to year depending on the economy and the number and type of large events taking place. While the municipal portion of the MAT is not restricted by Ontario Regulation, it is also susceptible to variability.

In considering the implementation of this tax, Council may consider placing the MAT revenues in a reserve fund for the first year. Since a revenue amount cannot be accurately estimated or included in the 2020 budget, placing the revenue in a reserve will allow staff to determine the amount collected and then make budget estimates for 2021. Segregation of these funds will also demonstrate transparency and accountability to the hospitality industry.

Highlighting Local Expertise: Dr. Nonie Brennan

Helping our neighbors come “home” has been the driving theme of Dr. Nonie Brennan's career. In every role Dr. Brennan has held, she has brought a visionary, systems-change perspective and a grass-roots collaborative approach that drives efficiency, shares learning, aligns funding, and increases positive community outcomes.

From 1997 to 2002, Dr. Brennan served as the Executive Director of the Volunteer Center of Battle Creek where she led programming to help volunteers meaningfully contribute to their community and brought the first 2-1-1 Call Center to the state of Michigan to help people in need navigate to community services. In 2003, Dr. Brennan became the Executive Director of the Emergency Fund, which she grew to become the largest provider of homelessness prevention funding in the state of Illinois. She co-launched Chicago's Homelessness Prevention Call Center and effectively navigated an organizational merger with the Chicago Alliance to End Homelessness. In 2011, Dr. Brennan was selected as the Chief Executive Officer of All Chicago Making Homelessness History, where she served until her retirement in 2019. Under her guidance, All Chicago grew to become a national and internationally recognized leader in proven practices that prevent and end homelessness.

Notable achievements under Dr. Brennan's leadership include securing, distribution, and monitoring of over \$80 million in public and private funding to prevent and end homelessness for Chicago's homeless system annually; and implementing Chicago's “Plan 2.0 – A Home for Everyone,” in partnership with Chicago's Department of Family and Support Services. She has been instrumental in leading the systems change in Chicago over the last 15 years that has led to an overall decrease in homelessness by 23%.

Dr. Brennan was elected to the King's University College Board of Directors in 2019, served on the National Public Housing Museum Board of Directors, was appointed by Chicago's Mayor Rahm Emanuel to the Community Development Advisory Board and was appointed by Governor Engler to the Michigan Community Service Board. Dr. Brennan served as a part-time faculty member at DePaul University, and as Senior Advisor to the Institute of Global Homelessness. She holds a Doctor of Business Administration from Case Western Reserve University's Weatherhead School of Management, and M.S. in Public Service from DePaul University and a B.A. in English and History from King's University College at Western University. She has received recognition for her visionary leadership through a Special Tribute from Michigan's Governor John Engler and the Alumni of Distinction Award from King's University College in 2015. In 2017, she received an Honorary Doctor of Laws from Western University.

Dr. Brennan and her husband Michael Peirce are owners of the Village Bookshop in Bayfield, Ontario Canada where they reside.

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