BILL BRIEF

SB 5334 – Short-Term Rental Excise Tax

Key Takeaways

- Allows a city or county to impose up to a 10% excise tax on most short-term rental (STR) lodging offered through an online platform (such as Airbnb or VBRO).
- This tax creates large inequities, provides the most financial benefit to large corporate hotel businesses at the cost of mom-and-pop owners, and raises costs for families who utilize STRs.
- This tax is in addition to lodging taxes and the state sales tax, potentially causing the **total tax rate on furnishing lodging at a short-term rental to be in excess of 20%.**

Background

The recent proliferation of online short-term rental platforms, such as Airbnb or VBRO, has democratized the lodging industry by allowing property owners expanded opportunity to allow guests to use their property for lodging purposes. The ease of use, financial benefits and affordability of these platforms has been a major driver of the growing popularity of these platforms for both guests and property owners.

These platforms have become a lifeline for many property owners, as almost **50% of the current users rely on the revenue derived from renting a portion or all of their property to stay in their home or pay the mortgage**. Individuals with second homes, owners of ADUs, and real estate investors have also taken advantage of the expanded short-term rental market created through these online platforms.

These **short-term rentals are subject to the same tax treatment for furnishing lodging as hotels, motels and other traditional lodging**. This includes state sales tax and lodging tax (in most cases).

The proliferation of short-term rentals has sparked much debate about how this growing market is impacting both housing affordability and housing supply. Proponents of increased taxes or restrictions on short-term rentals claim that by removing a unit from the housing supply for sole use as a short-term rental, this will further limit housing supply and drive up housing costs. Opponents of these restrictions point out that only **0.7% of the total housing supply nationwide are used as short-term rentals**, and that **chronic underbuilding due to extensive building regulations has created this problem**. Additionally, vast increases in tourism and revenue derived from tourism have been especially beneficial to small communities that do not have large lodging establishments.

Key messages

This bill would create large tax inequities between short-term rentals and hotels.

Large corporations or online platforms would benefit at the expense of individuals who provide short-term rentals or use their rental property to stay in their homes.

Almost half of all STR owners say that they rely on the revenue from renting space to stay in their own home.

This legislation picks winners and losers by providing carve outs.

We should be doing everything we can to promote tourism; this directly discourages tourism and the benefits that are derived from it.

The parameters on what the revenues from this tax could be used on are loosely defined.

Bill Status as of 4/5/2023: Passed out of FIN committee; In Rules

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What this legislation does

- SB 5334 allows a city or county to impose up to a 10% excise tax on short-term rentals marketed through online platforms.
- Exemptions to the tax are at the discretion of the imposing jurisdiction and can only be based on age or income of the property owner.
- Revenue derived from this tax must be used for affordable housing programs, homelessness shelters or related services.

Reasons to support

- It may reduce the number of viable short-term rental properties.
- It gives local jurisdictions that have many short-term rentals funding for services that they may not have otherwise.
- It makes renting a short-term rental less economical than staying in a hotel, thus potentially giving lost market share back to hotels.

Reasons to oppose

- **LARGE TAX INCREASE**: This bill allows for the potential of a 10% excise tax on top of existing taxes.
- **INEQUITABLE TAX**: This bill creates a massive inequity in tax treatment for lodging. Individual property owners may have their lodging taxed at double the rate of large corporate hotel chains.
- **DISCOURAGES TOURISM**: Studies have shown direct economic benefit from short-term rentals within communities which brings in tax revenue, revenue for local businesses, and creates jobs.
- **MARKET MANIPULATION**: The state should not tax similar activities differently which gives one type of taxpayer a direct advantage over the other.
- **BAD FOR SMALL COMMUNITIES:** Communities that do not have a well-established tourism sector have benefited the most from these platforms.

Fiscal information

- Revenues to local governments is INDETERMINITE due to uncertainty on which districts will adopt this excise tax.
- Based on fiscal year 2022 lodging data, if all jurisdictions levy a 1% tax, it could generate over $6.2 million.
- Furthermore, if all jurisdictions levy the maximum 10% tax, it could generate over $62 million annually.

Stakeholders

- 145 Pro – Association of Cities, Seattle/King County Coalition of Homelessness, WA Low-Income Housing Alliance, Statewide Poverty Action Network, South Sound Chamber of Commerce Legislative Coalition
- 9 Con – Unaffiliated

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