

May 22, 2018

MEMORANDUM

To: Councilmembers
From: Aly Pennucci, Council Central Staff
Subject: Short-term Rental Tax Repeal and Replacement

On Tuesday, May 29, legislation will be introduced that would repeal the City's tax on short-term rental operator's that was authorized by [Ordinance 125442](#). Repealing the local tax will qualify the City to receive revenue generated from a lodging excise tax that will be collected by the Public Facilities District (PFD) that operates the Washington State Convention Center. Repealing the tax also eliminates the need for City resources to implement and administer the local short-term rental tax and allows for a more equitable application of the tax for short-term rental operators.

This memo (1) provides background information on the local short-term rental tax and the lodging excise tax authorized by the state, and (2) discusses why repealing the local tax is under consideration.

City of Seattle Short-term Rental Tax (Ordinance 125442)

Ordinance 125442 imposed a per night tax on each short-term rental operator in the City of Seattle at a rate of \$8 per night for a private or shared room, and \$14 per night for an entire unit. The tax goes into effect on January 1, 2019. In addition, the ordinance outlined the Council's intent to direct the proceeds from the short-term rental tax, after covering one-time costs for implementation, ongoing administration costs, and offsetting the cost of implementing and administering the short-term rental regulatory license, to (1) community-initiated equitable development projects (i.e. projects seeking funding from the City's Equitable Development Initiative); and (2) to support investments in affordable housing.

The local tax was expected to generate \$3-6 million in revenue in 2019. The upper end of the estimate (\$6 million) assumes: (1) 600,000 short-term rental nights would be booked in 2019, and (2) that the City would achieve 100 percent compliance in year one.¹ A more conservative, and likely more realistic estimate, would assume 50 to 60 percent compliance in year one (\$3-3.6 million). The implementation costs were estimated to be \$2.8 million in the first year and approximately \$550,000 per year in ongoing costs for administration and enforcement.

State Lodging Tax

Within King County, a lodging excise tax, often described as the Convention and Trade Center Tax, is imposed on lodging businesses that have 60 or more units. The PFD that operates the Washington State Convention Center is authorized to impose this tax² and can use the revenues to support acquiring, owning, and operating a convention and trade center. Within Seattle, the lodging excise tax is applied at a rate of seven percent; the tax rate for all other areas in King County is two percent.

¹ The 600,000-night estimate was based on data obtained from [AirDNA](#) in March 2017 and input from two short-term rental platform companies that list units in Seattle.

² Revised Code of Washington [\(RCW\) 36.100.040](#). Lodging tax authorized.

On March 23, 2018, Governor Inslee signed [House Bill \(HB\) 2015](#), extending the authority for this lodging excise tax to include short-term rental businesses within King County and removing the exemption for lodging uses with fewer than 60 rooms. The bill directs any tax revenue generated from short-term rentals within Seattle to the City to support community-initiated equitable development projects and for affordable housing projects, if the City repeals the local tax. The PFD would remit payments to the City on a quarterly basis. If the local tax is not repealed, the lodging excise tax would not apply to short-term rental businesses in Seattle.

The PFD must adopt a resolution to impose this tax. The PFD is expected to discuss and act on this resolution at its meeting in late May.

Why repeal the local STR tax?

1. *Reduce costs while maintaining revenue.*

Repealing the local tax will still allow the City to receive tax revenue from short-term businesses without the cost of implementation and enforcement. Based on the same data used to estimate revenues that would be generated from the local tax, the lodging excise tax is expected to generate \$2.7 to \$5.5 million in 2019. After accounting for the implementation and ongoing administrative costs associated with the local tax, the revenue generated from the lodging excise tax will be equivalent to or slightly more than what was expected from the local tax. However, although there are clear resource savings by eliminating the cost of administering and enforcing the tax, the City also forfeits oversight authority.

2. *Equitable application of the tax.*

Because of limitations to impose additional sales tax at the local level, and limitations on taxes tied to gross sales receipts, the local tax on short-term rentals was established as a flat per night tax. The flat rate varied for a single room versus an entire unit and are slightly higher than the average amount charged per night for the lodging excise tax. In practice, this means, for example, that an entire unit rented for \$100 per night would be subject to the same \$14 per night tax as an entire unit that rents at \$300 per night. The lodging excise tax would be applied as a percentage, making the tax applied proportional to the nightly rate.

Next Steps

Following introduction of the legislation to repeal the local tax, Council will delay action until the PFD takes action confirming that the lodging excise tax will be imposed on short-term rental businesses.

In addition, the Department of Finance and Administrative Services will provide a written status update to the Planning, Land Use and Zoning Committee in June on progress made implementing the short-term rental regulatory license. If the local tax is repealed, Councilmembers may want to consider modifications to the regulatory license fees to ensure that the license fee covers the cost of administering the regulatory license given that some portion of the local tax was intended to cover the cost of implementing the regulatory license. Central staff will provide additional information on this following submittal of the status update to the Council.

cc: Kirstan Arestad, Central Staff Director
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