ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. The Wisconsin Policy Forum is committed to those same activities and to that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

We wish to acknowledge and thank the Wisconsin Hotel & Lodging Association, the Tourism Federation of Wisconsin, and the Wisconsin Association of Convention & Visitors Bureaus, which together helped fund this research. We also want to thank the agencies which shared data used in this report, including the state Department of Revenue and the Legislative Fiscal Bureau.

The Wisconsin Hotel & Lodging Association (WH&LA) represents approximately 650 lodging properties of all sizes and types around the state. Our members provide Wisconsin hospitality experiences and overnight accommodations to travelers away from home.

Formed in 1993, the Wisconsin Association of Convention & Visitors Bureaus (WACVB) strengthens and supports Wisconsin destination marketing organizations by providing educational, marketing, and networking opportunities and tourism industry advocacy. WACVB currently has 38 members, representing more than $50 million in tourism promotional budgets to drive tourism growth in Wisconsin.

The Tourism Federation of Wisconsin (TFW) is a coalition of trade and promotional organizations actively involved in Wisconsin's tourism industry. TFW serves as the tourism industry's unified voice in government relations, cooperatively seeking to improve Wisconsin's tourism industry through supportive legislation and policies.
CHECKING IN

A Look at Wisconsin Room Tax Trends

May 2019

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The tax on hotel and other overnight stays in Wisconsin represents a relatively small but dynamic source of revenue for local governments and tourism and marketing groups in the state as well as a rising cost for travelers. Wisconsin Department of Revenue (DOR) data show the tax generated $111.9 million in 2017, a 3.7% increase over the previous year.

Since 1999, statewide collections of the room tax have more than doubled, growing faster than inflation, state personal income, or state and local taxes collectively in Wisconsin. (See Figure 1.) There are smaller taxes such as local wheel taxes or state taxes on tobacco products that have grown more quickly. Yet of the major state and local taxes in Wisconsin that produce more than $100 million annually, what is sometimes known as the “public accommodations tax” has grown most rapidly over that period.

**Figure 1: Room Taxes Outpace Other State and Local Taxes**

<table>
<thead>
<tr>
<th>% Growth by Wisconsin Tax or Economic Indicator, 1999-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room Taxes: 143.7%</td>
</tr>
<tr>
<td>Local Taxes: 79.9%</td>
</tr>
<tr>
<td>State Taxes: 50.0%</td>
</tr>
<tr>
<td>WI Personal Income: 90.3%</td>
</tr>
<tr>
<td>Inflation: 47.1%</td>
</tr>
</tbody>
</table>


The room tax, which is levied on the cost of a hotel room but not on food or other lodging amenities, is generally limited to a maximum rate of 8% and is imposed in addition to any applicable state and county sales taxes. The tax does not include overnight stays in hospitals, nursing homes, or religious or charitable institutions. The room tax is one of the few local taxes available to municipal governments in Wisconsin, though the proceeds must largely go to entities that promote tourism. With state funding for tourism stagnant over the past two decades, the room tax also amounts to one of the few means available for increasing local spending to attract overnight visitors. At the same time, it has the effect of increasing the price paid by those visitors.
In 2015, the Legislature made changes to the room tax law, requiring more of the revenues be used for tourism promotion and enacting additional reporting requirements for local governments. Municipal officials must now provide more details about how they are spending the money raised by the tax, which offers new potential insights into its use.

In this report – supported by the Wisconsin Hotel & Lodging Association, the Wisconsin Association of Convention & Visitors Bureaus, and the Tourism Federation of Wisconsin – the Wisconsin Policy Forum (WPF) analyzes trends and reporting of room tax collections to try to understand why they have grown so quickly, how they are working, and what the implications are for local governments, the tourism industry, and the broader state economy.

In putting forward this research, WPF is following in the path of its predecessor organizations. The former Public Policy Forum closely tracked local government finances in southeastern Wisconsin, including revenues such as the room tax. The former Wisconsin Taxpayers Alliance did similar work on local taxes across the state and also conducted in-depth studies of the room tax and tourism development.1

Our primary research questions include:

- What has driven the rising collections of the tax – actions to approve or increase taxes by local officials, growth in the hotel industry, or a combination?
- If tax increases played a major role, were those driven by a desire to promote regional tourism, pressure on local budgets, or other factors?
- Do the added reporting requirements provide a new window into the purpose and use of room taxes?
- Is the state adequately overseeing the tax and balancing the competing goals of attracting tourism and providing a needed source of revenue to local governments?
- How do room taxes in Wisconsin compare to neighboring states?

As with all our reports, we aim to provide objective information that allows elected officials, stakeholders, and the public to draw their own conclusions and, if needed, take informed action.

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1 See Room Taxes and Tourism Development, Wisconsin Taxpayers Alliance, May 2012.
TOURISM INDUSTRY IN WISCONSIN

Consideration of the room tax in Wisconsin must first take tourism into account. Along with manufacturing and agriculture, tourism is one of the state’s notable industries. Visitors to Wisconsin spent $13.3 billion in 2018. That was 4.9% higher than the previous year and $4.1 billion, or nearly 45%, more than in 2010. The 2018 total included $3.6 billion in lodging spending – a 4.1% increase, according to a study funded by the Wisconsin Department of Tourism.²

In just one indication of the industry’s importance, the report found tourism activity sustained 199,100 jobs in Wisconsin in 2018. That amounted to 7.8% of the private non-farm jobs in the state and contributed $1.6 billion in state and local tax collections. Since 2011, lodging sales have risen more than overall sales in Wisconsin, meaning that the share of overall sales taxes collected from hotel and other paid overnight guests has grown. Without the state and local taxes that tourism generates, the state-commissioned report found each Wisconsin household would need to pay an additional $680 to maintain the current level of public services.

In recognition of this sector’s contribution to the Wisconsin economy, state government provides funding for tourism promotion. However, while tourist spending has increased over the past two decades, state promotional spending has declined. Without adjusting for inflation, the state was budgeted to spend $15.5 million on its Department of Tourism in fiscal year 2019 compared to nearly $16 million in fiscal 2000.³ With state funding lagging, some stakeholders may have turned to room taxes as a way to support increased local spending on attracting visitors, notwithstanding the dampening impact that higher room taxes may have on overnight lodging.

When compared to other Midwestern states, Wisconsin’s tourism department spending falls roughly in the middle. According to data collected by the United States Travel Association, Wisconsin ranked third in both total and per capita tourism department spending in fiscal year 2017 when compared to its Midwestern neighbors (Minnesota, Iowa, Michigan, and Illinois).⁴ (See Figure 2.) However, along with Illinois, Wisconsin had the lowest increase in tourism spending between fiscal 2007 and 2017. Michigan, which funds tourism promotion with proceeds from a legal settlement between the state and tobacco companies, had the largest increase, more than doubling its funding levels.

² A summary of the study can be found here: http://industry.travelwisconsin.com/research/economic-impact.
⁴ Ibid
State tourism spending for the next two years will be decided in ongoing state budget deliberations. The governor’s proposed 2019-21 state budget would provide the Department of Tourism with $7.6 million more over the next two years, a 22% increase.\(^5\) Most of that money (an additional $4 million in the first year and $1 million in the second) would go toward increasing the agency’s marketing budget, with the administration saying the money would be used to reach out to potential out of state visitors. It is currently unclear whether the proposal has support in the Legislature.

In 1967, Wisconsin first allowed municipalities to impose a room tax on the charges for short-term lodging (less than one month) provided by hotels, motels, and other establishments. (See Timeline.) Though governed by state law and tracked by the DOR, room taxes are enacted, enforced, and collected locally. The tax is generally administered by a single municipality, although groups of them may also team up to collect a common room tax in a tourism “zone.”

An example would be an area such as Door County that is recognized by travelers as a tourist destination. In that case, state law requires the local governments to establish a commission that includes members from each of the communities in the zone; the commission is charged with determining how revenues dedicated to tourism are allocated and it must report expenditures annually to all the municipalities.

**Timeline: Wisconsin Room Tax Through the Years**

- **1987**: 73 communities collect $12.6 M
- **1993**: Act 467: Caps room tax at 8%; 70% new room taxes must promote tourism
- **1995**: 173 communities collect $48.7 M
- **2000**: 139 communities collect $28.6 M
- **2005**: Act 135 defines “tourism promotion and development”
- **2007**: Great Recession hits; 261 communities collect $62.5 M
- **2008**: 259 communities collect $72 M
- **2009**: 267 communities collect $78.8 M
- **2010**: 291 communities collect $111.9 M
- **2011**: Act 55 limits room tax spending for “grandfathered” communities
- **2012**: 259 communities collect $72 M
- **2013**: 261 communities collect $62.5 M
- **2014**: 267 communities collect $78.8 M
- **2015**: 291 communities collect $111.9 M
- **2016**: 261 communities collect $62.5 M
- **2017**: 267 communities collect $78.8 M

Source: WPF research

When approved just over a half century ago, the act authorizing the room tax was brief and offered little in the way of prescriptions as to rates or intended purpose for the revenues. As revenues have grown over time, stakeholders and lawmakers have put more emphasis on defining and limiting the tax and its uses. The state Legislature has made a number of changes to the room tax statute over the years, such as:
For decades, municipalities could set the room tax at whatever rate they wished and had no restrictions on how they spent the collections. In June 1994, Wisconsin Act 467 capped the room tax rate at 8% and required that at least 70% of the proceeds be spent on “tourism promotion and development,” a purpose that was not defined in more detail until just over a decade later. The law also included a “grandfather clause” for local governments with a room tax in place prior to the passage of the law. Under this provision, local governments that were keeping more than 30% of room tax revenues for other purposes before June 1994 could continue to keep that same portion of the revenues generated by the tax rate that was in effect at the time.

In 2005, the room tax law was amended to spell out what was meant by “tourism promotion and development.” That year, Wisconsin Act 135 defined the term as activities “reasonably likely” to increase paid overnight stays by drawing more transient tourists into the taxing community (or zone) through marketing efforts, informational services, or a “tangible municipal development” such as a convention center.

The 2015 state budget bill (Act 55) placed restrictions on the amount of revenue that municipalities could retain under their grandfather clause, with the new limits taking effect over a five-year period that began in 2017. By fiscal year 2021, the law will allow a municipality to keep the higher of two numbers: either the amount of revenues retained in fiscal year 2010 or 30% of the room tax revenues in the current year. The remaining dollars must go to tourism promotion and tourism development.

Municipalities can exceed the state’s tax rate limit and 70% requirement for tourism promotion under certain conditions. One exemption is for local governments building convention centers in more populous counties. Those with 380,000 people or more – currently Milwaukee, Dane, and Waukesha counties – may be exempt from the tax rate cap and 70% spending restriction. A second exemption is also available to municipalities in smaller counties that are not adjacent to a county with a population of at least 380,000 and that are building a convention center or improving an existing one. This provision allows several municipalities in Brown, Winnebago, and Outagamie counties to set 10% room tax rates.

Subject to the restrictions in state law, local governments prior to 2015 could determine how to spend room tax revenues, including the portion set aside for tourism. However, under Act 55, local governments lost their authority to do so for the share of the money used to attract tourists. The law instead requires municipalities to forward that part of the room tax revenue to a tourism commission or other qualifying non-profit tourism entity, such as a local convention and visitors bureau or

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6 2015 Act 55 later revised the statutory language of “tourism promotion and development” to “tourism promotion and tourism development”) in order to exclude other forms of development. All references to tourism promotion in this report should be understood to mean both tourism promotion and tourism development.

chamber of commerce. The governing body of a tourism entity must include representation from local hotels affected by the room tax.

Over the past decade, the rise of online marketplaces such as Airbnb has allowed ordinary homeowners to provide short-term lodging and created new challenges for local governments seeking to collect room taxes. The growing popularity of these internet exchanges led the state Legislature to require “lodging marketplaces” to collect room taxes from patrons on behalf of property owners.

Under 2017 Act 59, such platforms must register with the DOR to collect room taxes (as well as sales taxes) from the customer; the platform then distributes the revenues to the appropriate taxing authority and notifies the building’s owner about the collections. As of April 2019, DOR had registered 22 active lodging marketplaces. However, only one of these businesses was from outside Wisconsin and none of them was a major player such as Airbnb, VRBO, or HomeAway.

This may be because these national companies have concluded that they do not have a nexus with Wisconsin such as an office that would require them to collect room taxes. Under last year’s U.S. Supreme Court decision in South Dakota v. Wayfair, Inc., DOR can enforce state sales taxes on out-of-state retailers. The agency, however, has not given an opinion on whether the Wayfair decision gives municipalities the authority to enforce room taxes on out of state marketplaces that have not registered or begun collecting these revenues.

**ROOM TAXES IN MILWAUKEE AND OTHER TAXES ON TOURISM**

The city of Milwaukee and surrounding communities have a special exposition district in place to collect and distribute room taxes. Under 1993 Wisconsin Act 263, the cities and villages in Milwaukee County formed what is now the Wisconsin Center District (WCD), which through DOR collects room taxes as well as taxes on car rentals and food and beverage sales.

The WCD levies a county-wide 2.5% room tax, which generated $6.7 million in 2017, as well as an additional 7% room tax in the city of Milwaukee, which brought in $14.2 million. The district has used its various revenues to help fund VISIT Milwaukee (the city’s convention and visitors bureau); finance the construction and operations of Milwaukee’s convention center; and to operate the sites now known as the UW-Milwaukee Panther Arena and Miller High Life Theater.

In 2015, lawmakers and then Governor Scott Walker gave the WCD the additional responsibility of first helping to finance and then taking ownership of the Fiserv Forum, the basketball arena for the Milwaukee Bucks and Marquette University Golden Eagles. The use of existing WCD room taxes and other revenues to help finance the Fiserv Forum means that until that debt is retired the taxes cannot be repealed without a replacement or used for other projects such as a potential convention center expansion.

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8 For more on the Wayfair decision, see Focus #14-2018: [https://wispolicyforum.org/focus/57/][1].

9 The Wisconsin Center District first imposed a 2% room tax in January 1995 and raised the rate to 2.5% in January 2011.
As Table 1 shows, each of the various state and local taxes on lodging can be relatively modest on its own but together can add up. As noted earlier, lodging and other purchases by tourists can also be subject to the state’s 5% general sales tax and the 0.5% in additional sales taxes imposed by 66 of the state’s 72 counties.

Table 1: 2019 Taxes on Milwaukee Lodging

<table>
<thead>
<tr>
<th>Tax</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Sales Tax</td>
<td>5.0%</td>
</tr>
<tr>
<td>County Sales Tax</td>
<td>0.5%</td>
</tr>
<tr>
<td>Brewers Stadium Sales Tax*</td>
<td>0.1%</td>
</tr>
<tr>
<td>Room Tax in Milwaukee County**</td>
<td>2.5%</td>
</tr>
<tr>
<td>City of Milwaukee Room Tax**</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15.1%</td>
</tr>
</tbody>
</table>

* Tax is expected to end in March 2020.
** Wisconsin Center District taxes
Source: Wisconsin Department of Revenue

In general, Wisconsin municipalities cannot levy sales taxes of any kind. However, there is one exception that is paid by travelers. A sales tax of between 0.5% and 1.25% on tourism-related retailers is levied by seven municipalities (Bayfield, Eagle River, Lake Delton, Rhinelander, Sister Bay, Stockholm, and Wisconsin Dells) that through legislative action are designated “premier resort areas.”

NEW REPORTING REQUIREMENTS

For decades, communities have had to file Municipal Finance Reports (MFR) with DOR detailing their expenditures and revenues, including the room tax. However, the 2015 changes to room tax laws included a new requirement that communities file specific room tax reports with DOR detailing collections, tax rates, and the amount of revenues spent on tourism promotion. The state does not verify information on the room tax reports; DOR simply posts them on its website for local residents, officials, and stakeholders to review.

WPF chose 20 communities at random and compared their room tax reports for 2017 (the latest year available) with information included in the more comprehensive MFRs that are also filed with DOR. Our purpose was not to audit either report, but to review them for consistency and additional insights into how communities were collecting and spending their room tax revenues. We contacted some of the communities to clarify information.

As shown in Table 2, our review found:

- In 11 of the communities, the tax collection amounts in the two reports matched (one village has a tax in place but no hotels or collections);
- In six of the communities, the differences may be explained by the municipalities only reporting the 30% or less of room tax revenues retained for general purposes on the broader

10 The room tax reports can be found on the DOR website: https://www.revenue.wi.gov/Pages/Report/r.aspx#roomtax.
MFR report; adding the 70% or more of revenues spent on tourism promotion from the room tax report – an amount that totaled $745,000 across the six communities – appears to reconcile the discrepancies;

- An official in the seventh community confirmed the small difference in that case was a reporting error; and
- In the remaining two communities, we were unable to explain the differences, which in those cases were also relatively small.

Table 2: Comparing 2017 Room Tax Reports

<table>
<thead>
<tr>
<th>Municipality</th>
<th>County</th>
<th>Reports Matched or Gap Explained</th>
<th>Difference Due to 70/30 Split</th>
<th>Difference Unexplained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbotsford C.</td>
<td>Clark</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brillion C.</td>
<td>Calumet</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burlington C.</td>
<td>Racine</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delafield C.</td>
<td>Waukesha</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Troy V.</td>
<td>Walworth</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evansville C.</td>
<td>Rock</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fort Atkinson C.</td>
<td>Jefferson</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fox Crossing V.</td>
<td>Winnebago</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron River T.</td>
<td>Bayfield</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jacksonport T.</td>
<td>Door</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lafayette T.</td>
<td>Walworth</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lake Hallie V.</td>
<td>Chippewa</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Little Chute V.</td>
<td>Outagamie</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oconomowoc C.</td>
<td>Waukesha</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plover V.</td>
<td>Portage</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plymouth C.</td>
<td>Sheboygan</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prairie du Sac V.</td>
<td>Sauk</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rib Lake V.</td>
<td>Taylor</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sister Bay V.</td>
<td>Door</td>
<td>√</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wisconsin Rapids C.</td>
<td>Wood</td>
<td>√</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Department of Revenue, WPF research

This analysis confirms what the Wisconsin Taxpayers Alliance and LFB have found previously: the amounts that are reported to DOR on the MFR and then compiled by the agency for statewide room tax revenues understate what is actually collected, potentially by a notable amount. Some municipalities do not report all of the taxes collected on the MFR, with some local officials noting that their government may not actually touch the full amount. For instance, hotels in the Village of Little Chute in Outagamie County send room tax collections to a bank that serves as a fiscal agent and divides up the funds, which ultimately go to the village, an exhibition center, and the area convention and visitors bureau. In 2017, the village reported on the MFR the 11.5% of taxes that it received and retained but not the 88.5% that went to the exhibition center and visitors bureau.11 The difference is

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11 Village officials note they did report the full amount collected on their room tax report. They said the village also spent the lion’s share of the taxes it retained on tourism promotion, so that 98.5% of the 2017 revenues from their community ultimately went for that purpose.
worth noting because the data reported on the MFR is used to generate statewide room tax figures used by WPF and other groups to track trends for the public.

The review also included a look at the increasing state requirements on communities that were collecting a room tax in May 1994 and are making use of the “grandfather clause” to retain more than 30% of room tax revenues. Under Act 55, in 2017 these grandfathered municipalities could retain the greater of either 30% of their current year room tax revenues or the room tax amount the community retained in fiscal year 2014. The rest is required to go to tourism promotion.

Of the 20 communities reviewed, 15 reported assigning at least 70% of their 2017 collections to tourism promotion, which would put them in compliance with the law. Based on the reports, at least two of the communities reviewed reported retaining more than 30% of their room tax collections in 2017, which in these cases did not appear to comply with state statutes. One of those communities reported spending 100% of its room tax revenues for road repairs. The other community reported retaining less than 30% before 1994 and therefore appeared to be ineligible to retain 42% of 2017 room tax revenues as it reported to DOR.

The 2017 reports for the remaining three communities did not provide enough information to make clear whether the municipalities had complied. Two communities reported 1994 room tax collections but did not report detailed 1994 room tax expenditures. In addition, because their reports did not include 2014 room tax information, it could not be determined from the DOR report whether the municipalities were in compliance with the modified grandfather provisions. One of the three communities reported to DOR room tax collections and expenditures from 1993. However, because it reported no 2014 room tax information, it again could not be determined whether the municipality was in compliance.

The room tax reports also yielded some other details worth noting. One village reported distributing slightly more to a tourism committee than it collected in room taxes. Meanwhile, one town reported collecting $25,932 in room taxes in 2017 but did not list any spending on tourism. As mentioned above, the town used room tax funds to help repair a road running through a wildlife area offering recreational opportunities that had been damaged by flooding. The funds were spent by the town and did not flow through a tourism entity.
ROOM TAXES ON THE RISE

For decades after its creation, the room tax was a negligible source of revenue for local governments. In 1981 – the first year in WPF’s records – statewide room tax collections totaled just $4.1 million, or 0.2% of all taxes collected by local governments and school districts in Wisconsin. The room tax has increased substantially in the intervening decades, with collections falling in only two recession years (2001 and 2009). It now totals 1.1% of all local tax collections – a figure that shows both how much it has grown and how it remains a relatively small source of revenue for local governments.¹²

Nevertheless, the room tax merits attention by policymakers because it is collected from a limited set of taxpayers (lodgers) by a limited set of businesses, which means it can have more impact on those transactions. In 2017 – the most recent year available – municipalities in the state reported collecting $111.9 million in room taxes, including $20.3 million collected by the Wisconsin Center District in Milwaukee County. Local rates around the state ranged from 1% to 10% in addition to the applicable sales tax.

As Figure 3 shows, the $111.9 million in statewide room tax collections in 2017 represented a 144% increase over the $45.9 million collected in 1999.¹³ Over the same period, the growth in the room tax outpaced increases in inflation (47.1%), personal income in Wisconsin (91.6%), and gross domestic product for the state’s accommodations sector (69.2%).¹⁴

Figure 3: Room Tax Collections Rose Rapidly in Recent Years
Room Tax Collections Reported by Local Taxing Entities, 1999 to 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Room Tax Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$45.9</td>
</tr>
<tr>
<td>2001</td>
<td>$62.5</td>
</tr>
<tr>
<td>2003</td>
<td>$72.0</td>
</tr>
<tr>
<td>2005</td>
<td>$111.9</td>
</tr>
</tbody>
</table>

Source: Wisconsin Department of Revenue

¹² These numbers come from WPF’s annual “Total Taxes” report. See the most recent edition here: https://wispolicyforum.org/research/state-and-local-tax-burden-falls/.

¹³ We looked at 1999 and 2017 because for those years data is generally available for both the tax collected by each municipality with a room tax as well as the rates imposed by most of those communities.

The room tax data reported by municipalities to DOR and cited here represent the best figures available and are useful in analyzing collection trends. As discussed above, however, they are understated since some municipalities are reporting to the state only the room taxes being retained for general expenses and not the larger amounts used for tourism promotion. The 2017 figure above also does not include just over a half million dollars for that year that DOR kept to cover the costs of administering the Wisconsin Center District taxes.

**BREAKING DOWN THE INCREASE**

The increase in room tax collections during the past several years can be attributed to three factors. First, a portion of the increase reflects growth that occurred naturally from increased numbers of visitors and increases in lodging charges. For example, data collected for the state Department of Tourism showed a 31.3% increase in overnight visits in Wisconsin between 2009 and 2017. This increase may reflect factors such as population growth, hotel construction, and the marketing efforts of both public and private entities.

Second, since 1987, an average of more than seven municipalities per year have added a room tax. In 1999, 169 municipalities in Wisconsin levied a room tax, according to DOR data. By 2017, the number had risen to 291, or nearly 16% of the state’s cities, villages, and towns. This trend substantially increased overall room tax collections as well as costs for lodgers, though the impact is tempered by the fact that, as of 1999, the state’s largest cities had already adopted the tax.

Finally, many communities have raised their room tax rates. In 1999, the median room tax rate in the state was 5%, according to data from surveys done by the Legislative Fiscal Bureau (LFB) and WPF’s predecessor, the Wisconsin Taxpayers Alliance. By 2017, the median rate had risen to 5.5%. Here, the state’s 10 largest cities did contribute to the increase, as all but two (Milwaukee and Waukesha) raised their rates over the period. For example, Appleton set its rate at 10% – a seven percentage point increase – and Racine and Oshkosh both raised their rates by three percentage points.

We analyzed the respective roles played by each of those factors in the $66 million increase in room tax collections between 1999 and 2017:

- First, we looked at the 122 communities that reported collecting the tax for the first time during that period and found they brought in $13.1 million in 2017, accounting for up to 19.9% of the overall increase, according to DOR and LFB data.\(^\text{15}\) (See Figure 4.)

- Next, we examined the communities that already had a room tax in 1999 but adjusted their rates between that time and 2017. Unfortunately, while there were 169 such municipalities, the DOR and LFB records provide complete rate and tax collection data for both years for only 138. Within that group, 45 left rates the same, 88 adopted increases, and five decreased rates. Our analysis shows that taxes in those municipalities in 2017 were $12.4

\(^\text{15}\) In a few cases, the first-time reporting of a room tax by a local government may not reflect an entirely new tax. For instance, following a 1999 agreement, some room taxes collected in Brown County began to be reported by the county rather than municipalities, making it difficult to assign these amounts to the three categories. For that reason, some of the Brown County collections assigned to this category may arguably fall into the other two.
million higher than they otherwise would have been because of the net effect of the rate changes. In addition, taxes collected by the Wisconsin Center District were $1.3 million higher because of a 2011 increase from 2.0% to 2.5% in the countywide room tax. The total rate changes account for an additional 20.8% of the statewide increase in room tax collections.

- The remaining $39.1 million (59.2%) of the increase in room tax collections could be due to various factors. A portion of that could reflect rates rising in some of the 25 generally small communities where no information on rates is available. Most of that amount, however, likely is due to increased hotel revenues because of such factors as hotel construction, growth in the region’s population and economy, private and public marketing efforts, and inflation.

Figure 4: Local Changes Added to Rise in Room Tax Collections
Factors that Contributed to the Rise in Room Taxes, 1999-2017

To a certain extent, this analysis overly simplifies the factors driving the increase by isolating them. For instance, a community with no room tax in 1999 might have passed one in 2001, increased its rate in 2005, and then experienced inflationary growth in the tax collections in the years since. Nevertheless, the analysis shows that decisions by local governments to impose or raise taxes account in some sense for roughly 41% of the increase in the tax since 1999.

**INCREASE COULD STEM FROM MULTIPLE FACTORS**

While the above analysis provides insight into the impacts of local government decisions to adopt room taxes or increase rates, such an exercise does not explain the factors that caused local elected officials to make such decisions in the first place. Sorting out this question is difficult given that a tangle of different factors could be at work.

Part of the growth may reflect a desire at the local level for more funding to spend on tourism promotion as well as lagging tourism funding at the state level. Part of the growth in the room tax may correspond with a desire for more spending on tourism-related facilities. For example, Green Bay and six other communities in Brown County levy a 10% room tax to help pay for the Resch arena and KI convention center. This rate – higher than the 8% levy in place in each community in 1999 – would not even be possible under state law without the presence of the convention center. The room taxes going through the Green Bay Area Room Tax Commission also could eventually be used to help fund Brown County’s planned $93 million expo center.16

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16 Green Bay Press Gazette, “**Expo center first look: Residents see potential in plans to replace Brown County arena,**” Feb. 4, 2019.
Another possible factor is the revenue constraints faced by many municipalities, including state-imposed caps on property taxes and stagnant state aid, as well as their limited local revenue options. The room tax would be at best an imperfect response to these pressures, given that only a part of it can be captured for general government use. Still, growth in room taxes may be driven at least in part by these challenges.

The growth in room taxes actually slowed somewhat in the 10 years since the state put property tax limits in place in 2006 as compared to the previous 10 years. That comparison may be flawed, however, given that room taxes fell substantially in 2009 amid the Great Recession. In addition, the highest number of communities adding a room tax in one year occurred in 2007, when 21 started collecting taxes on people using hotel and motel rooms. That increase came both in the wake of the passage of levy caps but also in the run-up to the economic downturn.

Legislators going back to the 1990s appear to have been concerned that municipal leaders would turn to higher room taxes for general expenses rather than tourism development. This tension can be seen in the original decision in 1994 to restrict a substantial portion of room tax revenues to tourism promotion and in subsequent efforts to define tourism promotion in state law.

17 For more on municipal funding challenges, see WPF’s February 2019 report: Dollars and Sense: Is it time for a new municipal financing framework in Wisconsin?
NEIGHBORING STATES

Like Wisconsin, many neighboring states and their municipalities have enacted similar taxes on short-term lodging to generate revenue for tourism promotion and support general state and local budgets. As Table 3 shows, combined sales and room taxes place Wisconsin on the upper end among neighboring states, though these general rates can vary within each state depending on the locality.

### Table 3: Sales and Room Taxes by State

<table>
<thead>
<tr>
<th>State</th>
<th>Statewide Sales Tax</th>
<th>State Room Tax Rate</th>
<th>Local Room Tax or Fee Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>WI</td>
<td>5%</td>
<td>None</td>
<td>Typically up to 8%</td>
</tr>
<tr>
<td>IL</td>
<td>None</td>
<td>6%</td>
<td>Varies</td>
</tr>
<tr>
<td>IA</td>
<td>None</td>
<td>5%</td>
<td>Up to 7%</td>
</tr>
<tr>
<td>MI</td>
<td>6%</td>
<td>Up to 6%*</td>
<td>Varies</td>
</tr>
<tr>
<td>MN</td>
<td>6.875%</td>
<td>None</td>
<td>Varies</td>
</tr>
</tbody>
</table>

* Tax can be collected by state or county and varies by locality.

Sources: National Conference of State Legislatures; HVS Lodging Tax Report

ILLINOIS

The state hotel operators tax is imposed on 94% of gross receipts from room rentals under 30 consecutive days. Illinois collects this 6% tax on hotel stays statewide but does not impose a sales tax on these transactions.18

In addition to the Illinois room tax, which brought in $272.8 million in 2017, the state allows county, municipal, and quasi-public authorities to levy local taxes on hotel stays.19 In Chicago, for instance, local room taxes are imposed by the city, Cook County, and two authorities. The effective 2018 state and local tax rate on hotels in Chicago works out to 17.39%, according to The Civic Federation (a WPF peer organization in Chicago).20

IOWA

Iowa levies a statewide 5% excise tax on hotels and motels. The tax generated $48.5 million in 2017.

Cities and counties (outside city boundaries) may impose additional local hotel and motel taxes of up to 7% on stays of 31 days or less.21 Local sales taxes may not be applied to hotel stays, however.

21 The Iowa Department of Revenue has more details: [https://tax.iowa.gov/hotelmotel-tax-0](https://tax.iowa.gov/hotelmotel-tax-0).
Michigan

Charges for temporary lodging of less than one month are subject to the Michigan statewide 6% use tax (similar to a sales tax). The use tax generated $81.4 million in 2014, the last year for which figures are available.

There is also a separate accommodations tax that can be collected by either the state or county treasurer, according to another WPF peer group, the Citizens Research Council of Michigan. The tax is charged to lodgers and varies according to both the local unit of government and the number of rooms in the hotel. Rates are either 3% or 6% in the city of Detroit; 1.5% or 5% in other communities in counties with more than 700,000 people (Wayne, Oakland, and Macomb); and up to 5% in counties with fewer than 600,000 people.

Subject to local industry approval and state review, Michigan law also allows for assessments of up to 5% on hotel stays for convention and tourism marketing.

Minnesota

Minnesota collects the 6.875% state sales tax on lodging stays of under 30 days and local sales taxes also apply, with the tax generating $154.3 million in 2017. In addition, the state allows local room taxes.

Besides the state sales tax, Minneapolis imposes a 2.125% lodging tax, 0.15% county sales tax, 0.5% county transit sales tax, 0.5% city sales tax, and 3.0% Minneapolis entertainment tax.

St. Paul imposes a 3% tax on hotels with fewer than 50 rooms and a 6% levy on larger facilities in addition to state and local taxes. Rochester imposes a 7% lodging tax in addition to state and local sales taxes.

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22 See the 2019 edition of the Outline of the Michigan Tax System.
23 HVS report
CONCLUSION

Room taxes represent one of the fastest rising sources of state or local revenue in Wisconsin. That trend results from a combination of factors, including a rise in visitor stays and lodging spending, a rise in the number of municipalities opting to levy the tax, and increases in local tax rates. Since 1999, the tax has grown more rapidly than inflation or the hotel industry itself in the state as 122 additional communities have started collecting the tax and at least 88 more have raised their rates.

Our research did not delve deeply into the reasons behind the rising rates and increased municipal use of room taxes. We can posit, however, that some local decisions may have been prompted by a desire to increase spending on attracting tourists. Our research shows that state funding for tourism promotion has been flat, which may have prompted local leaders to use revenue from room taxes to help compensate. Such efforts, of course, have to be weighed against the added cost to a hotel stay.

Tight local budgets also may have played a role. Room taxes are one of the few taxes available to municipalities in the state, which face constraints on revenues such as property taxes and state aid.

Overall, combined sales and room tax rates in Wisconsin are on the upper end in the region though results vary by locality. In setting limits on room taxes, policymakers must balance the tax and its impact on hotels, lodgers, and the state’s tourism industry with competing goals such as providing financial flexibility to local governments. That is worth noting in part because only counties can levy local sales taxes in Wisconsin. Municipalities in the state largely cannot tax sales, which prevents them from using that mechanism to require tourists to contribute to the municipal services and infrastructure they use. At the same time, however, visitors do contribute indirectly to local services by frequenting businesses such as restaurants and hotels that pay property taxes and local fees.

As statewide room tax collections have grown, so has the scrutiny of the tax and its uses. The Legislature has capped tax rates, directed most of the revenues toward tourism promotion, required municipalities to turn these tourism funds over to outside entities, and put new reporting rules in place. Over the next two years, the state will finish phasing in limits on how much room tax revenue can be retained by local governments subject to the state’s grandfather clause.

Going forward, state officials and lawmakers may want to consider whether:

- Additional guidance to municipalities is needed to ensure uniform reporting of the tax.
- New state funding could or should play a larger role in promoting tourism in the state.
- The proceeds of the room tax are being distributed reasonably and the right entities have responsibility for spending the money.
- Other mechanisms, such as an expanded “premier resort area” tax or other forms of local sales taxes, would provide an appropriate alternative to room taxes for communities that are tourist destinations and incur costs associated with those visitors.

In the coming years, the room tax – and the attention it receives – will likely continue to grow along with the lodging industry itself and the number of communities around the state adding the tax and increasing rates. We hope this report provides an objective lens for the public and policymakers to better understand the tax and consider how to oversee it going forward.