



# WISCONSIN POLICY FORUM

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## **State Room Taxes Have More Than Doubled Since 1999** *WPF Study Examines Reasons for Growth, Trends in Collections*

MILWAUKEE – With the school year about to end and the summer break season about to begin, families may want to set aside a little more money for room taxes in their vacation budgets, according to a new report by the independent, nonpartisan Wisconsin Policy Forum (WPF).

Statewide room tax collections have more than doubled since 1999, growing faster than inflation or state and local taxes collectively in Wisconsin, according to the report, “Checking In: A Look at Wisconsin Room Tax Trends.” State Department of Revenue (DOR) data show the tax on hotel room charges and other short-term lodging generated \$111.9 million in 2017, a 3.7% increase over the previous year.

These figures may understate somewhat the actual amount of local room tax collections, which in some cases are not fully reported on the form used to generate statewide totals for the tax, WPF researchers found.

“There are smaller taxes such as local wheel taxes or state taxes on tobacco products that have grown more quickly,” the report states. “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.”

The data suggest the rise in room taxes may be driven by several factors:

- Growth 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.
- An average of more than seven municipalities per year have added a room tax since 1987. 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.
- Third, 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%. Of the state's 10 largest cities, 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.

Decisions by local officials to raise the tax may reflect in part a desire to promote their area to tourists.

“With state funding for tourism promotion 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,” the report states. “At the same time, it has the effect of increasing the price paid by those visitors.”

The room tax, which is levied on the charges for a hotel room or other short-term lodging but not on food or other 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. State law generally requires that at least 70% of room tax collections must fund efforts that increase tourism in the municipality, such as advertising, informational brochures, convention centers, and attracting events that may encourage increases in overnight lodging.

As statewide room tax collections have grown, so has the scrutiny of the tax and its uses. Over the past 25 years, the Legislature has capped tax rates, directed most of the tax revenues toward tourism promotion, required municipalities to turn the tourism portion of these funds over to outside entities, and put new reporting rules in place.

As part of the study, WPF researchers examined these new reports, randomly selecting 20 of them for review. The examination found inconsistencies in how communities complied with state rules governing the tax and the reports.

“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,” the report concludes.

The report was sponsored by the Wisconsin Hotel & Lodging Association, the Wisconsin Association of Convention & Visitors Bureaus, and the Tourism Federation of Wisconsin.

A copy of “Checking In: A Look at Wisconsin Room Tax Trends” can be [downloaded here](#).