H.B. 161
136th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Bird and J. Thomas

Local Impact Statement Procedure Required: No

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Highlights

- State sales and use tax revenue may increase between $15 million and $48 million per year and county sales and use tax revenue may increase between $3 million and $10 million annually due to the bill's mandatory extension of the tax to short-term rental properties, rather than just hotels.
- Local government lodging tax revenue may increase between $3 million and $32 million per year due to the bill's mandatory extension of the tax to short-term rental properties.
- The bill requires that the rental platform, instead of the rental's owner, collect and remit the associated lodging and sales and use taxes, if applicable. If tax compliance increases under the bill, actual revenue increases may be greater than the estimates provided.

Detailed Analysis

Short-term rentals

The bill requires (1) a political subdivision to subject short-term rental stays to the subdivision's lodging tax, (2) a county to subject short-term rental stays to the county sales and use tax, (3) revenue from all short-term rental stays to be subject to the state sales and use tax, and (4) the operator of the short-term rental platform to collect and remit all lodging and sales and use taxes on behalf of owners of hotels and short-term rentals.

Lodging tax

The bill requires any subdivision currently levying a lodging tax or levying such a tax in the future to extend it to short-term rental properties. The bill defines short-term rental properties as establishments that are advertised and used as sleeping accommodations for transient guests with four or fewer rooms, whether in one or more structures. Continuing law defines a hotel as an establishment in which five or more rooms are used for the accommodation of transient guests, i.e., persons occupying sleeping accommodations for less than 30 consecutive days.

Political subdivisions are allowed to alter the definition of hotel for the purpose of their lodging tax. In calendar year (CY) 2023, 71 of the 88 counties administered a county-level lodging tax. Roughly 49% of these counties held all establishments liable for taxation, including those with fewer than five rooms.

Fiscal effect

The fiscal effect will be more pronounced for those local governments that either do not impose the lodging tax on short-term rentals with fewer than five rooms or otherwise lack enforcement of the tax on such short-term rentals.[1] LBO is aware that some municipalities currently impose an excise tax, which is equal to the lodging tax rate, on short-term rentals with fewer than five rooms. If these subdivisions choose to repeal their equivalent excise taxes when a mandatory lodging tax is introduced, the increase in their lodging tax collections will be offset by a decrease in their short-term rental excise tax collections.

Assuming the bill's effective date is January 1, 2026, LBO estimates that the extension of lodging taxes as required by the bill may increase local governments' tax collections by $3 million to $32 million per year.

Sales and use taxes

Under the bill, both county and state sales and use taxes must be extended to short-term rental stays. Current law applies the state sales and use tax to lodging with five or more rooms, and the county sales tax base is identical to the state tax base.

Fiscal effect

Assuming the bill's effective date is January 1, 2026, LBO estimates that the extension of sales and use taxes as required by the bill may increase annual state tax collections between $15 million and $48 million while also increasing annual county tax collections between $3 million and $10 million.

Methodology

Lodging tax rates and collections are available at the county, city, village, township, and convention facilities authority level from the Department of Taxation.[2] From this information, LBO identified lodging revenues (the tax base) for each county government. The variation in lodging revenues in counties that tax all lodging compared to counties with similar populations that tax only establishments with five or more rooms may be used to identify additional revenue that would be liable for taxation if the latter counties taxed all lodging. Aggregating across all counties, the estimated lodging revenues generated by short-term rentals with fewer than five rooms that are not currently taxed by a county may be estimated for the entire state.

[1] The tax is paid by the guest, and a few municipalities have a voluntary withholding contract with the "hosting platform," which presumably increases tax compliance.

[2] Refer to the Ohio Department of Taxation's Table S-4, which is found on tax.ohio.gov by navigating to "Resources For RESEARCHERS" and selecting "Tax Data Series."

LBO identified 32 counties that apply their lodging tax to short-term rentals with fewer than five rooms and 33 that do not. The taxable status for such short-term rentals in the remaining six counties that levy a lodging tax could not be determined. There are 16 additional counties that do not levy a lodging tax but contain municipalities that do and one county that does not levy a lodging tax at any level of government. LBO estimates that the lodging tax base would increase between 1% and 9% under the bill in counties that currently only levy a tax on lodging with more than five rooms.

Assuming the same proportion of counties tax short-term rentals with fewer than five rooms among counties for which LBO could not identify lodging tax policies, and that all noncounty subdivisions within each county follow the same policy as the county, the statewide estimated increase in lodging tax collections is projected to be between \$3 million and \$32 million per year, if all lodging taxes were applied to short-term rentals with fewer than five rooms.[3] The estimated annual increase in state sales and use tax collections is projected to be between \$15 million and \$48 million. For county sales and use tax collections, LBO projects an annual increase between \$3 million and \$10 million.

The additional tax collections under the bill would be lower if the proportion of subdivisions that currently tax all lodging is higher than assumed, as the bill would not affect collections in these subdivisions. The opposite would hold true if the proportion of subdivisions that tax all lodging is lower than assumed.

For short-term rental stays that are purchased through a rental platform, the bill also changes the entity responsible for paying the tax from the owner of the rental to the short-term rental platform. Therefore, the actual increase in tax collections may be substantially higher if there are many establishments operating on short-term rental platforms such as Airbnb or Vrbo that are currently not tax compliant but will become so under the bill.

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[3] The estimated range of tax collections accounts for the expected decrease in bookings from an increase in taxation. The sensitivity of hotel revenues to increases in taxation was derived from recent academic literature on the topic.