



The taxpayer's watchdog for over 80 years

ARIZONA TAX RESEARCH ASSOCIATION

ATRA OPPOSES HB2161/SB1101

Tourism Marketing Authorities

HB2161/SB1101 proposes to allow lodging entities to vote to turn nonprofit tourism agencies into governmental entities with the authority to add up to a \$5 per room night tax for the purposes of tourism promotion in a region or area.

ATRA's top concern is the granting of governmental status and taxation authority to a quasi-private entity. This is a unique precedent for Arizona. Though this bill gives these groups governmental standing, their makeup is largely unchanged. The existing leadership in the private entity becomes the new governing board with only one elected official added.

There is nothing currently stopping these private entities from fundraising with lodging companies for tourism promotion—this bill simply allows it to become mandatory as a tax. It is collected as TPT by the Dept of Revenue; it certainly is a tax complete with audits and penalties like any other sales tax. This is a precedent that should not be encouraged in government. There are many nonprofits who work solely for a governmental organization who do not have taxation authority but would envy this setup.

Local governments have the authority to promote their cities or regions for tourism. Instead of creating a new layer of government, cities and counties should budget and spend on tourism as it meets their priorities. If they need more money to do that, the tax should be for them to administer, not a third-party.

The rate structure is fairly loose. Though there is a cap and the tier structure is based on room night charges, there's nothing stopping an authority for charging the maximum amount for one tier and nothing for another tier. This could allow one type of lodging to "gang up" on others. There's nothing guaranteeing an equitable tier structure and little to stop it from changing to something inequitable after the authority is created.

Arizona is already a high sales tax state for lodging. Nearly the entire state has a total lodging rate higher than 10% and in some areas, it is higher than 12%. Many tourist areas such as Sedona, Scottsdale, Marana, and Cave Creek are at or near 14%. Though \$5 per night may sound modest, it takes the total tax bill to an amount many will begin to see as egregious. A considerable number of Arizonans vacation in Arizona, meaning this will be a tax increase on Arizonans.

ATRA is sympathetic with the tourism industry who has been devastated by COVID, however granting quasi-governmental status and taxation authority to private entities is not sound policy.

ATRA Encourages Lawmakers to Oppose HB2161 & SB1101