D.C. Tax Revision Commission Policy Options

Policy Option #6: Increase the Sales Tax on Commercial Parking, Hotels, Rental Cars and Restaurant Meals

MEMORANDUM

Proposal: Increase sales taxes sales tax on non-resident consumption
Tax Type: Sales
Origin: Public
Commission Goal: Competition

Current Law

D.C. has a special sales tax rate of 18% for commercial parking, 14.5% for transient accommodations (hotels) and 10% for rental vehicles and restaurant meals.

Proposed Change(s)

1) Raise the sales tax rate on commercial parking from 18% to 20% or 25%.

2) Raise the sales tax rate on hotels from 14.5% to 15.5% or 16%.

3) Raise the sales tax rate on rental cars from 10% to 12%.

4) Raise the sales tax rate on restaurant meals from 10% to 11%.

Reason for Change

People visiting D.C. use commercial parking lots, hotels, rental cars and restaurants disproportionately. As a result, these taxes will, to some degree, be "exported" to non-residents. D.C.'s current tax rates are relatively equivalent to similar taxes in other major cities but these rates might be raised and stay competitive.

Here are the commercial parking, hotel, rental car and restaurant tax rates* for a few comparable cities:

Commercial parking sales tax:

- New York City: 18%
- Philadelphia: 20%
- Chicago: 20%
- San Francisco: 25%

Hotel sales tax:

- New York City: 14.375% plus $3.50 per day per room
- Philadelphia: 14.5%
- Chicago: 16.4%
- San Francisco: 17%

Rental car sales tax:

- New York City: 19.875%
- Philadelphia: 9%
- Chicago: 23%

Restaurant sales tax:

- New York City: 8.875%
- Philadelphia: 8%
- Chicago: 10.75%
- San Francisco: 8.75%

**Please note that in many jurisdictions the tax rate is a combination of a state sales tax rate, local sales tax rate and additional special sales tax rate.*

Pros

- Increasing these taxes will shift more tax burden to non-residents, which could allow for the lowering of taxes on D.C. residents and/or businesses.
- Taxes on consumption and tourism are a means to compensate a city for the costs imposed by non-residents, which D.C. cannot impose directly. "Exporting" taxes is one of the few tools available to broaden the base of D.C.'s tax burden.
- Taxing parking, hotels, rental cars and restaurants diversifies D.C.'s tax revenues.
- These industries profit from their location in D.C. and they should compensate D.C. for providing a desirable location.

Cons

- D.C. already collects a lot of taxes on these industries and raising taxes further may be difficult, though such decisions are clearly marginal judgments. [Please see William Fox paper.]
- If D.C. increases the costs of commercial parking, hotels, rental cars and restaurants many consumers may purchase these services in neighboring jurisdictions. Non-residents may even be deterred from even entering D.C. if services tied to visits are appreciably higher.
- D.C. residents who use these services must also pay the higher tax rate, and these sales taxes may be regressive.
- <u>Specific to the parking tax</u>: An increase will raise the tax burden on D.C. businesses that provide parking for their employees.

Revenue Impact

The Office of Revenue Analysis has made the following estimates for changes in tax rates during the first year of implementation:

Non-Resident Consumption Taxes	
Increase the commercial parking sales tax rate from 18% to 25%	$15 million
Increase the commercial parking sales tax rate from 18% 20%	$3 million
Increase the hotel sales tax rate from 14.5% to 15.5%	$11 million
Increase the hotel sales tax rate from 14.5% to 16%	$17 million
Increase the rental car sales tax rate from 10% to 12%	$1 million
Increase the restaurant meal sales tax from 10% to 11%	$28 million