

Because of the increase in the vacation rental and hotel tax rates that went into effect Jan 1, 2016, there exists the potential for a reporting problem.

The current ordinance for vacation rental taxes in this area says:

Section 3.08.070 Due date—Returns and payments.

A. The tax imposed by this chapter shall be paid by the registered guest to the operator at the time that rent is paid. All amounts of such taxes collected by any operator are due and payable to the tax administrator on a quarterly basis on or before the last day of the month following the end of each calendar quarter (in the months of April, July, October and January) and are delinquent on the first day of the month following (in the months of May, August, November and February).

Commencing July 1, 2002 and for each three-month quarter thereafter, the quarters shall be consistent with the city's fiscal year (e.g., October 1, January 1 and April 1 of each fiscal year). The tax administrator has authority to classify and/or district the operators for determination of applicable tax periods, and shall notify each operator of the due and delinquent dates for the operator's returns.

B. On or before the last day of the month following each quarter of collection, a return for the preceding quarter's tax collections shall be filed with the tax administrator.

Staff have made numerous attempts to inform all business and their agents involved in collecting taxes about the timing and amount of the tax change. If experience is any indicator of what is likely to happen, hotels should be OK both in terms of collecting the proper amount and reporting properly.

Relevant to this discussion is the fact the tax system can only have one tax rate in effect at any given time. Tax forms for the Jan 2016 period will be generated at 12:01 on the morning of Feb 1st. These forms should reflect the new 9% tax rate. Anyone filing a late report for the Oct-Dec tax period will be charged at the 9% tax rate.

The most likely issues to surface the first of next month are:

- 1) Businesses that have not updated the tax rate and are therefore under collecting city taxes
- 2) Businesses that file their reports for the Oct-Dec quarter late and will be charged at 9% instead of 7%

The reasons for raising this issue now are:

- 1) To make council aware of the potential issues
- 2) To give council the opportunity to provide staff with guidance about how to respond if either of these issues arise

The good news is given the infrequent occurrence of tax increases, neither of these issues is likely to surface again for a very long time.

Recommendation:

- 1) Given the numerous attempts to contact tax collecting businesses about the rate change, businesses that under collect should still be responsible for the full amount due.
- 2) The tax system has the ability to accept adjustments to the amount of tax due. Staff should manually calculate the amount of a 2% overpayment and apply that as a credit to the amount due. Since the tax reporting is late, the system will charge both an administrative charge and a late penalty. Care needs to be taken that the credit is based on 2% of the gross receipts.