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Nebraska's Lodging Tax

This NebGuide describes Nebraska's lodging tax, how it is used and its benefits.

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Like many states, Nebraska charges a tax on overnight lodging accommodations. Sometimes called a bed tax or occupancy tax, this levy is available on a county by county basis as desired by county commissioners or supervisors. As of 1996, 45 Nebraska counties opted to impose a lodging tax on their guests. That same year, total government revenues from the lodging tax were over $6 million. The funds gathered in this manner provide the funding for the Nebraska Division of Travel and Tourism and for county marketing efforts.

Nebraska Visitors Development Act

The Nebraska Visitors Development Act was established in 1980 and amended in 1988 and 1989. The act:

- creates a fund for general promotional activity aimed at attracting visitors to Nebraska,
- provides for a lodging tax on hotels to establish a State Visitors Promotion Cash Fund, and
- authorizes counties to appoint a visitors committee and impose a lodging tax on hotels to establish a County Visitors Promotion Fund.

By definition of the act, overnight lodging accommodations include hotels, motels, tourist homes, campgrounds, courts, lodging houses, inns, bed and breakfasts, state-operated hotels and nonprofit hotels. Any occupancy up to 30 days is included in the lodging tax. When a county adopts a lodging tax, every one of the above facilities in that county must then collect the additional lodging taxes as adopted by the county.

Nebraska's Lodging Tax

The lodging tax is an additional sales tax added to the charges for overnight accommodation, but not to the charges for food, beverage, or other personal services. If the county opts for the tax they must collect a 1 percent sales tax to be paid to the State Visitors Promotion Cash Fund to fund the Division of Travel and Tourism and their programs. They then have the option of choosing an additional tax from 1 percent to 2 percent with proceeds paid to the County Visitors Promotion Fund to fund a county Convention and Visitors Bureau or its visitor promotion activities. In 1998, 49 counties charged the full 2 percent, one county 4 percent, and one county charged 1 percent. A typical county with 5 percent sales tax, a 2 percent county lodging tax and 1 percent state lodging tax would charge a total of 8 percent as sales tax on motel room charges. For example, if a guest stayed in a room that cost $50 a night, taxes on the room would be an additional $4 per night for that room. In some states and cities, total taxes on hotel rooms have climbed to 20 percent. Nebraska lodging taxes are modest in comparison to most areas of the country.

Establishing a Lodging Tax

To establish or change a lodging tax in Nebraska, the governing body of any county, in effect the county board of commissioners or supervisors, may adopt a resolution to impose the lodging tax. Before adopting the resolution they must hold a public hearing. Then, the county supervisors are empowered to establish the lodging tax. To impose the tax, the county board also must create a County Visitors Promotion Fund and a visitors committee. Lodging taxes are sent by the lodging facilities to the state Department of Revenue, who keep a very small administrative fee (3 percent of the total collected), and then return the moneys to the county. Once the resolution has been adopted, contact must be made with the Department of Revenue to implement collection. These lodging taxes may not be placed into the General Fund.

Managing a Lodging Tax

A visitors committee and County Visitors Promotion Fund are established after the public hearing to administer lodging taxes. The visitors committee is an advisory committee to the county board. The fund is to "be used generally to promote, encourage, and attract visitors to come to the county and use travel and tourism facilities within the county." This committee consists of five members appointed by the county board. Two members of the committee must be from the hotel industry. The committee members serve without compensation except for expense reimbursement for terms of four years. However, two of the initial appointees serve two-year terms only. The committee will elect a chairperson and vice-chairperson from among its members to serve two-year terms.

Exceptions to Nebraska's Lodging Tax

In 1988 and 1989, an amendment to the Nebraska Visitors Development Act allowed counties with a population over 300,000 to levy an additional 2 percent lodging tax to be placed into a County Visitors Improvement Fund. These funds are to "be used to improve the visitor attractions and facilities in the county." In effect, this amendment allowed Douglas County to impose a total 5 percent lodging tax and use the additional 2 percent to pay for tourism facilities, which is not allowed in other counties. However, these funds cannot be used to support gambling. They may be used for marketing at the discretion of the visitors committee.

Another exception to Nebraska's Lodging Tax developed in 1996 when the city of Kearney adopted a five year 2 percent occupation tax, authorized by State Statute 16-205, on lodging properties to pay for the feasibility study for a proposed attraction near the city and Interstate 80.

Other exceptions would require legislative amendments to the Nebraska Visitors Development Act or a local city application of State Statute 16-205.

Benefits of a Lodging Tax

A local lodging tax provides a number of benefits for tourism developers and the local community. The lodging tax can be beneficial because it:

1. Provides funding for tourism marketing and development staff at a convention and visitors bureau or chamber of commerce. It has been found that the most efficient use of promotional funding is first in professional staff, even if the position is only part-time.

2. Provides funding for marketing and advertising activities. Even the smallest lodging tax dollars can be put to good use to enhance awareness about a community and what it has to offer.

3. Establishes a standard measure from which to monitor tourism trends in the community.

4. Furnishes a tool to make rough estimates of the economic impact of tourism.

Opposition to a Lodging Tax

Some people oppose instituting a lodging tax because they feel it hurts their ability to compete with other properties or other disposable spending; however, the difference between a $53 room cost and a $54.50 room rate will have little or no bearing on consumer choices. Most consumers tend to pay no attention at all to tax rates unless they are excessive.

Others feel that collecting a lodging tax is tedious and cumbersome. Nevertheless, all properties collect a sales tax anyway; therefore, a lodging tax will not change collection practices in any substantial way.

Monitoring Tourism Trends with Lodging Tax Figures

Because lodging taxes are collected monthly, they provide an excellent indicator of tourism patterns and trends in an area. By charting the amount of lodging tax collected, a county can visualize the variability of their unique seasonality and track changes in tourism lodging revenues from one year to the next. Lodging tax measures, however, must be combined with other indicators because rising room rates tend to push up lodging tax collection each year.

Estimating Economic Impact with Lodging Tax Figures

A rough estimate of the economic impact of tourism on a county also can be calculated using lodging tax measures. To make this calculation, a county divides its lodging tax revenues by its lodging tax rate, and then divides that by the percentage of tourism spending in the county that goes for lodging. The percentage of tourism spending that goes for lodging comes from local surveys of visitor spending or from an interpolation of statewide surveys of visitor spending.

The formula is:

$$= \frac{\text{lodging tax revenue / lodging tax rate}}{\text{percent spent on lodging}}$$

For instance, a county that collects $10,000 of lodging tax in one year with a 2 percent tax rate has lodging sales of $500,000 ($10,000/.02). If lodging spending is estimated to be 25 percent of total tourist spending, the total direct economic impact can be estimated at $2,000,000 ($500,000/.25).

Communities can establish or change county lodging tax by encouraging elected county officials to hold a public hearing and adopt a resolution to establish a visitors committee, a County Visitors Promotion Fund, and levy a lodging tax. Existing lodging tax figures, available from the Department of Revenue, can be utilized to monitor tourism trends and estimate total economic impacts from tourism.

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