

Review of studies on hotel room taxes

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Update 2008: Room Taxes and Economic Impact of the Lodging Industry. American Economics Group, June 2008.

- This report finds that an increase in room taxes at hotels and motels would negatively affect all sectors in the economy by causing a significant reduction in room sales and associated visitor spending
 - For example, if room taxes increase by 2 percent, the result would be a loss of 327,000 jobs, \$10 billion in wages and \$33 billion in sales
 - This 2 percent increase in room taxes would also result in an increase of net revenue of \$1.38 billion, or roughly one-half of the expected revenue from the tax increase itself
- Even if markets are strong, hotels experience greater room revenue at lower tax rates
- However, increased room taxes can be beneficial, if a portion of room tax revenues are used to promote travel and tourism: these taxes can augment visitor spending and tax collections
 - For example, in 2008, 18.5 percent (about \$2.5 billion) of the \$13.8 billion of total room taxes was specifically dedicated to tourism promotion
- While this report presents several interesting findings, it also contradicts accepted academic norms by not including the study's methodology (the analysis is said to be based on "American Economics Group's proprietary state tax simulation model"). This lack of transparency could decrease the credibility of the report's findings, as the results cannot be replicated or peer-reviewed.

Fujii, E., M. Khaled and J. Mak. *The Incidence and Exportability of Hotel Room Taxes: some further estimates.* University of Hawaii and Victoria University, February 1988.

- This report finds that the demand for travel to Hawaii by mainland US tourists is highly sensitive to changes in the price of a vacation in Hawaii (including airfare and hotel costs)
- Tourist demand for lodging (hotel rooms) in Hawaii is elastic (-1.5), meaning that tourists will demand fewer hotel rooms as the price of the hotel room, including taxes, increases. The inverse also holds true: demand for hotel rooms will increase as price decreases.
 - Hotel room taxes can have a relatively large negative impact on tourist demand for hotel rooms in Hawaii
- The results from this study conform to general assumptions about the elasticity of demand for hotel rooms; however, it is important to note that this study only addresses demand for lodging in Hawaii, which includes the price of traveling to Hawaii from the mainland US.
- In a previous study, the authors estimated tourist demand for lodging to be -1.0. This report corrects that estimation to -1.5, showing that tourist demand for lodging is more elastic than previously assumed.

Canina, Linda and Steven Carvell. *Lodging Demand for Urban Hotels in Major Metropolitan Markets*. The Center for Hospitality Research, Cornell University, 2003.

- This report studied urban hotels in 22 metropolitan markets, including San Diego. By analyzing only urban hotels, the results of this study are differentiated from similar studies that also include data from hotels in rural markets.
 - The metropolitan markets of Boston, Dallas, Denver, New Orleans, Phoenix, San Francisco, Seattle and Washington, DC were also included in the study, representing eight (8) of the thirteen (13) cities in San Diego's competitive set.
- This report finds that for every 1 percent increase in gross domestic product (GDP, used as a measure of income), demand at urban hotels increased by 0.44 percent
 - GDP was also broken down into business income (BI) and personal income (PI): for every 1 percent increase in BI, demand at urban hotels increased by 0.12 percent, and for every 1 percent increase in PI, demand increased by 0.29 percent
- The report also finds that for every 1-point increase in the consumer-confidence index (CCI), demand at urban hotels increased by 0.03 percent. CCI measures consumers' degree of optimism in the state of the economy, expressed through savings and spending.
 - This report represents the first known connection between consumers' future income expectations and demand for urban hotels: consumers' demand for hotels is sensitive to future income expectations
- This report concludes that while demand for hotels in large urban markets does respond to changes in income, this demand is relatively inelastic; meaning that consumer demand for urban hotels is relatively insensitive to changes in price. It is important to note the contrasting conclusions of this study versus those which review aggregate data on all hotels in rural and urban areas.