

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6564
BILL NUMBER: SB 238

NOTE PREPARED: Feb 23, 2024
BILL AMENDED: Feb 22, 2024

SUBJECT: Innkeeper's Tax.

FIRST AUTHOR: Sen. Maxwell
FIRST SPONSOR: Rep. Zimmerman

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Jefferson County Innkeeper's Tax*: The bill authorizes Jefferson County to impose its innkeeper's tax at a rate of 8% (instead of 5% under current law). The bill provides that, if the tax rate is increased to more than 5%, the portion of the tax rate that exceeds 5% expires on December 31, 2045.

Howard County Innkeeper's Tax: The bill provides that the county fiscal body of Howard County may adopt an ordinance that would impose the innkeeper's tax on a person engaged in the business of renting or furnishing rooms, lodgings, or accommodations located within an inn, a hotel, or a motel for a period of more than 30 days. (Current law limits the imposition of the innkeeper's tax to renting or furnishing rooms, lodgings, or accommodations for periods of less than 30 days.)

The bill provides that an ordinance would not apply to existing rooms, lodgings, or accommodations that were not subject to the 30 day threshold prior to January 1, 2024. The bill also provides that an ordinance may not become effective until after April 30, 2024, and must expire before July 1, 2025.

The bill requires the county fiscal body, if an ordinance is adopted, to reduce the tax for any person subject to the innkeeper's tax from 8% (current law) to 6% until the ordinance expires. The bill also allows the county fiscal body to return the tax rate to 8% after the ordinance expires.

Elkhart County Innkeeper's Tax: The bill authorizes Elkhart County to impose its innkeeper's tax at a rate of 8% (instead of 5% under current law).

Knox County Innkeeper's Tax: The bill specifies that the Knox County innkeeper's tax rate may not exceed

8% (rather than 6%) but that the innkeeper's tax may not exceed 7% (rather than 5%) under specified conditions. The bill also provides for the distribution of the revenue.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) *Howard County Innkeeper's Tax:* The extended innkeeper's tax in Howard County would be collected and remitted to the Department of State Revenue (DOR) in the same manner as the innkeeper's tax within a period of less than 30 days under current law. The DOR should be able to implement the bill's requirements within existing levels of staff and resources.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) The counties (Jefferson, Howard, Elkhart, and Knox) could potentially incur a one-time increase in costs if they hold an additional public hearing to discuss a proposed ordinance regarding the innkeeper's tax.

If the counties change the innkeeper's tax, the county fiscal officer would update the innkeeper's tax forms and instructions. The county fiscal bodies should be able to implement the bill's provisions within existing levels of staff and resources.

Explanation of Local Revenues: (Revised) *Jefferson County Innkeeper's Tax:* The bill authorizes the county fiscal body to increase the innkeeper's tax rate to 8%. Assuming the maximum tax rate allowed, the estimated revenue increase for Jefferson County is \$0.56 M in CY 2025 and \$0.57 M in CY 2026. Additional revenue could also be collected in CY 2024, depending on when the rate increase goes into effect.

The bill provides that, if the tax rate is increased to more than 5%, the portion of the tax rate that exceeds 5% expires on December 31, 2045.

(Revised) *Howard County Innkeeper's Tax:* The bill provides that the county fiscal body of Howard County may adopt an ordinance that would impose the innkeeper's tax on certain rentals with a duration of more than 30 days. The ordinance may not become effective until after April 30, 2024, and must expire before July 1, 2025. The bill provides that an ordinance would not apply to existing rooms, lodgings, or accommodations that were not subject to the 30 day threshold prior to January 1, 2024. Under the ordinance, the innkeeper's tax rate would be reduced from 8% (current law) to 6% and would return to 8% after the ordinance expires.

The extended innkeeper's tax would potentially significantly increase the innkeeper's tax base, while the innkeeper's tax rate reduction from 8% to 6% has an offsetting effect. The overall impact on local tax revenue during the time the ordinance is effective is indeterminable and would depend on the hotel demand in Howard County.

(Revised) *Elkhart County Innkeeper's Tax:* The bill authorizes the county fiscal body to increase the innkeeper's tax rate to 8%. Assuming the maximum tax rate allowed, the estimated revenue increase for Elkhart County is \$1.92 M in CY 2025 and \$1.95 M in CY 2026. Additional revenue could also be collected in CY 2024, depending on when the rate increase goes into effect.

(Revised) *Knox County Innkeeper's Tax:* The bill authorizes the county fiscal body to increase the innkeeper's tax rate to 8%, but the innkeeper's tax may not exceed 7% under specified conditions. Assuming the maximum tax rate allowed, the estimated revenue increase for Knox County is \$0.19 M in CY 2025 and

\$0.19 M in CY 2026. Additional revenue could also be collected in CY 2024, depending on when the rate increase goes into effect.

The estimations assume inelastic demand under the innkeeper's tax rate change for Jefferson County, Elkhart County, and Knox County.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Jefferson County, Howard County, Elkhart County, Knox County.

Information Sources: Legislative Services Agency, *Indiana Handbook of Taxes, Revenues, and Appropriations*, FY 2023. Department of State Revenue, County Innkeeper's Tax Collections, <https://www.in.gov/dor/business-tax/tax-rates-fees-and-penalties/county-innkeepers-tax/>.

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