

# spotlight

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## AN OCCUPANCY TAX INCREASE?

*Haywood County already has a million dollars annually from existing tax*

### EXECUTIVE SUMMARY

- **Local and state officials from Haywood County have proposed a resolution that would increase the county's occupancy tax by 50 percent. Any increase in the tax rate should be put forward in a referendum, not a simple resolution by county commissioners.**
- **Haywood County currently levies a room occupancy tax of 4 percent; the proposal would give county commissioners the ability to levy an additional 2 percent, bringing the total Haywood County room occupancy tax to 6 percent, the maximum allowed by state law. Maximizing the tax rate at 6 percent would disadvantage Haywood compared to surrounding counties with lower occupancy tax rates.**
- **The occupancy tax brought in \$954,996<sup>1</sup> in revenue during the most recent fiscal year. The additional tax rate would increase that figure by a projected \$541,537 for fiscal year 2014-15<sup>2</sup> bringing the total estimated annual occupancy tax revenue for the county to \$1.5 million. Nevertheless, the benefit of a tax increase would be very concentrated in one area, Maggie Valley, while the burden of the tax would be placed on the entire county's lodging business sector.**
- **Uniform occupancy tax guidelines<sup>3</sup> require that at least two-thirds of the tax proceeds must be used to promote travel and tourism in the county, while the remainder may be used for tourism-related expenditures. Taxation is justified only for necessary purposes of government. Tourism promotion is not a necessary function of government, since it is focused on benefiting one sector of the local economy. This function can best be served by the private sector.**

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In 1983, the first occupancy taxes were approved in North Carolina. Haywood was the smallest of the inaugural counties.<sup>4,5</sup> An occupancy tax is assessed as a percentage tax on hotels or other rental accommodations within the jurisdiction of a local government. Use of the money generated from this tax is typically restricted to tourism promotion unless otherwise specified for a particular project such as beach nourishment or the construction of a convention or performing arts center. The only way a local government may levy or make changes to the tax is through authorization from the General Assembly.

As of October 2013, roughly 200 counties and municipalities in North Carolina have been given this special authorization.<sup>6</sup> All local occupancy tax rates are capped at 6 percent, with the unique exception of Mecklenburg County at 8 percent.<sup>7</sup> Over time Haywood has increased its tax rate, starting at a 2 percent rate in 1983,<sup>8</sup> increasing to 3 percent in 1985,<sup>9</sup> and finally rising to 4 percent in 2007.<sup>10</sup>

Every county that enacts an occupancy tax must establish a Tourism Development Authority for the purpose of managing revenues. The Haywood County Tourism Development Authority (HCTDA) uses a slightly different structure from those of the majority of counties in the state. Revenues from the tax are divided into two pools; the first 3 percent and last 1 percent of the tax are separated. Both pools carry the stipulation that a maximum of one-third may be used for “tourism-related expenditures” with the other two-thirds being used for “tourism promotion.” Revenues from the first 3 percent tax are spent to benefit the whole county. Revenues from the additional 1 percent are divided into five accounts based upon the zip code area from which the proceeds are collected: Canton, Clyde, Lake Junaluska, Maggie Valley, and Waynesville.<sup>11</sup>

Decisions on how to allocate funds are decided by the HCTDA. It handles funds for marketing and advertising, as well as applications for grants to fund tourism-related expenditures. Applications may ask for funding from both revenue pools if they can prove that the benefit will apply to both the entire county and the specific zip code area. Typically, one might expect a project to apply for funds from a zip code area first, and if those funds are exhausted, apply for countywide funds.

**Priorities of the HCTDA**

The HCTDA is only permitted to develop travel and tourism through certain activities, mainly focusing on marketing tourism-related businesses and publicizing opportunities for tourism to potential visitors. Some have argued that local governments should be able to use occupancy tax proceeds to fund large capital projects, such as sports complexes or ice skating rinks.<sup>12</sup> Unfortunately, this would likely violate the uniform occupancy tax guidelines, as they mandate that only one third of the proceeds from the tax can be spent on such tourism-related expenditures.

Large capital projects have already applied for and been denied existing funding from the HCTDA. For example, the Maggie Valley Ice Rink applied for \$72,026 in 2013. \$6,000 was recommended for advertising and promotion, but the rest could not be guaranteed to qualify as a tourism-related expenditure.<sup>13</sup> This sends the signal that even if the tax increase were enacted, the priority of the HCTDA is to continue on its current path of tourism promotion.

| <b>Permitted Disbursements of the HCTDA, the first 3 percent of current 4 percent tax</b> |   |
|---|---|
| <b>Travel and Tourism Promotion (2/3)</b>   | <b>Tourism-Related Expenditures (1/3)</b>   |
| Advertising or marketing an area or activity  | Increase the use of lodging facilities, meeting facilities, and convention facilities in the county by attracting tourists or business travelers to the county. |
| Publishing and distributing pamphlets and other materials                                 |   |
| Conducting market research  |   |
| Promotional activities that attract tourists or business travelers to the area            |   |

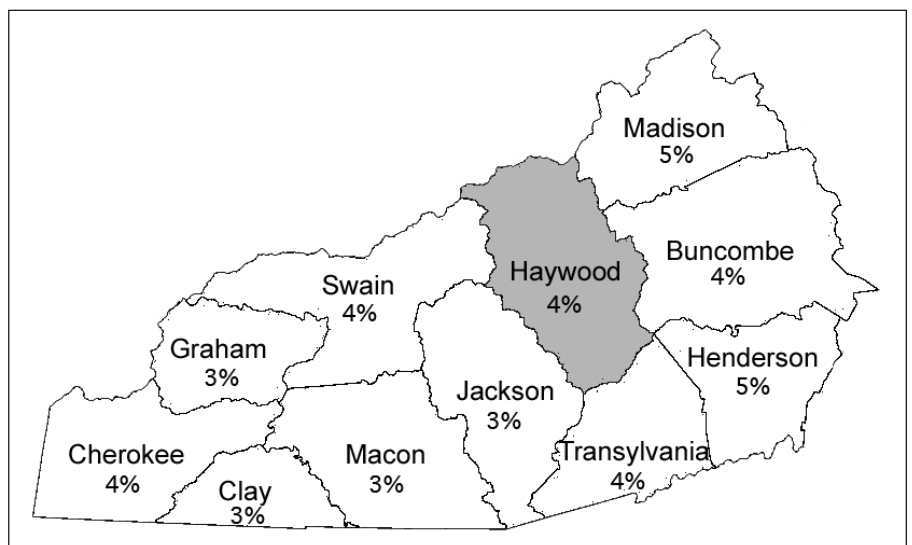
## Does Haywood County Need an Occupancy Tax Increase?

A proposed increase of 2 percent was introduced in the General Assembly during the 2013 session.<sup>14</sup> It has been estimated that this increase would collect an additional \$541,537 over the next fiscal year, bringing the total collections from the tax to almost \$1.5 million.

| Occupancy Tax Collections, Fiscal Year 2011-2012 <sup>15</sup> |      |                       |                  |                   |                                    |                    |
|--|------|-----------------------|------------------|-------------------|------------------------------------|--------------------|
| Counties and Municipalities                                    | Rate | Total Net Collections | Amount to County | Percent to County | Amount to Tourism Dev. Auth./Other | Percent to Tourism |
| Buncombe   | 4%   | 7,357,663             | 11,865           | 0.2%              | 7,345,798                          | 99.8%              |
| Cherokee   | 4%   | 163,470               | 4,904            | 3.0%              | 158,566                            | 97.0%              |
| Clay   | 3%   | 9,863                 | 1,479            | 15.0%             | 8,383                              | 85.0%              |
| Graham   | 3%   | 169,829               |                  | 0.0%              | 169,829                            | 100.0%             |
| Haywood  | 4%   | 903,891               | 19,039           | 2.1%              | 884,852                            | 97.9%              |
| Henderson  | 5%   | 1,186,405             |                  | 0.0%              | 1,186,405                          | 100.0%             |
| Jackson  | 3%   | 486,780               | 37,714           | 7.7%              | 449,066                            | 92.3%              |
| Macon  | 3%   | 508,076               | 40,646           | 8.0%              | 467,430                            | 92.0%              |
| Franklin   | 3%   | 105,486               | 3,164            | 3.0%              | 102,322                            | 97.0%              |
| Madison  | 5%   | 155,530               | 4,666            | 3.0%              | 150,864                            | 97.0%              |
| Swain  | 4%   | 379,693               | 11,391           | 3.0%              | 368,302                            | 97.0%              |
| Transylvania   | 4%   | 350,735               |                  | 0.0%              | 350,735                            | 100.0%             |

The regional average occupancy tax rate is currently 4 percent. Raising the tax to 6 percent would make Haywood's rate the highest in the region and second in collections behind Buncombe County.<sup>16</sup>

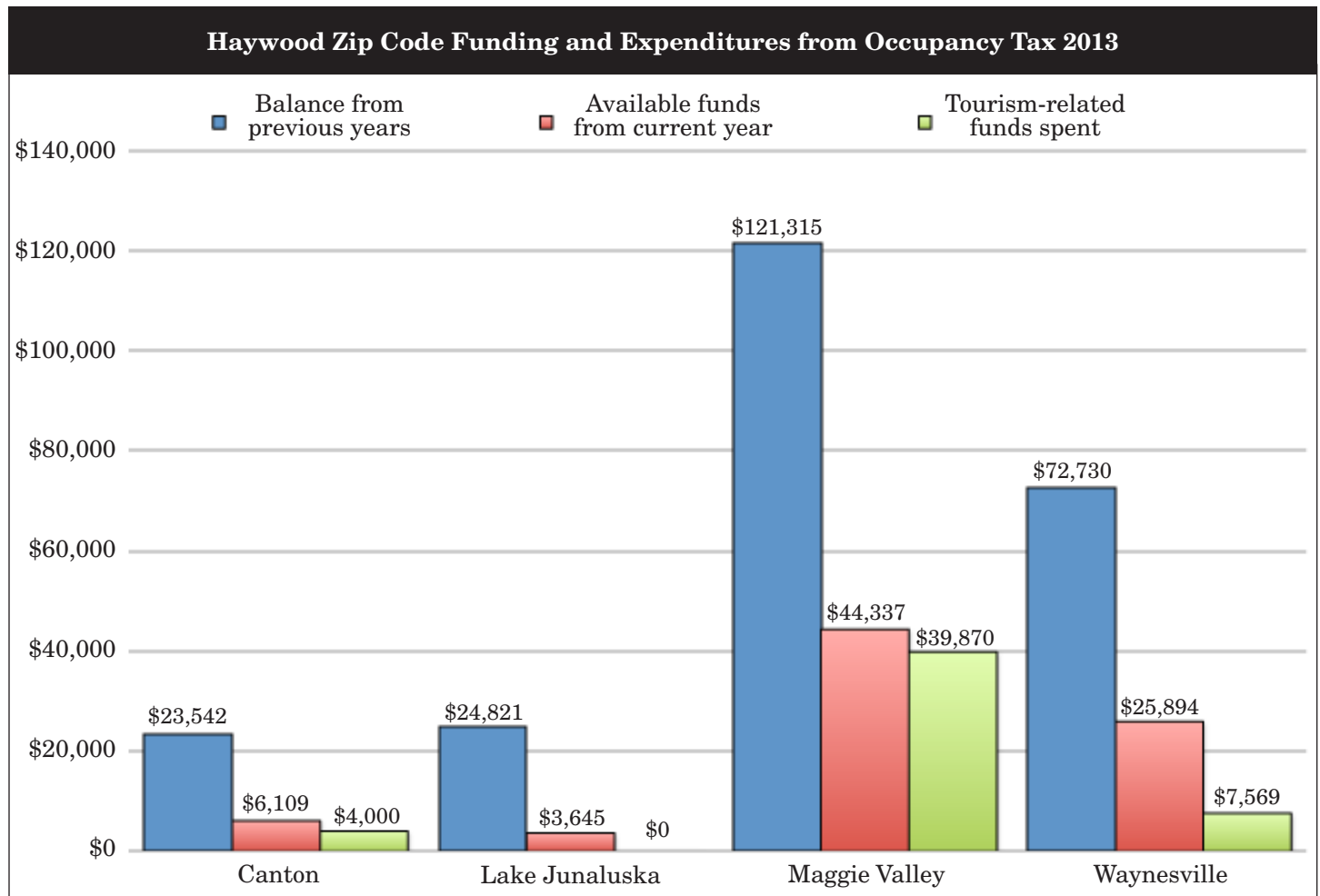
To some degree, the increased cost of the tax will be passed from the business to the consumer, thus creating more expensive accommodations in Haywood compared to surrounding counties. This becomes transparent, as a majority of reservations are made online where consumers can quickly compare rates from surrounding counties. A higher rate will initially collect more revenue, but over time the tax increase can be expected to reduce local businesses' profits depending on how much of the additional costs can be passed onto consumers. For example, if Haywood County officials approve the tax increase, a vacationing family would save up to 3 percent on the price of their hotel room or cabin rental simply by staying in neighboring Jackson County. It will not take long for savvy tourists to recognize the costs differences and choose their accommodations accordingly.



### No Shortage of Tourism Funding

Of the five zip codes within Haywood County, only four have recorded using any money for tourism-related projects since 2011. Each zip code is allotted a specific amount based on the two-thirds rule, and none have exceeded the maximum amount available. Many carry a surplus balance from year to year because the total amount collected is rarely exhausted.

Below is a table showing the four zip code areas reporting tourism-related expenditures from the occupancy tax revenue and how much each spent. Maggie Valley is consistently the leader in terms of occupancy tax collections and expenditures. The majority of the funds are spent on annual events, such as a Labor Day celebration or the Apple Harvest Festival. In this capacity, the revenues from the tax are not spent to generate new tourism through additional projects, but instead spent to maintain current expectations for tourism at these multiple annual events.<sup>17</sup> Examples of these expenditures include trashcans for downtown events, festival grounds lighting, hiring a special events director, and portable toilets.



## Concluding Recommendations:

The HCTDA website says, “The bottom line is this: The more money collected as a result of the occupancy tax means more money with which to promote and market the county. That, in the end, means more visitors and business for you.” In reality, it just means more money is being taken from businesses and consumers and spent in a way that someone else thinks is best.

1. Taxation is justified only for necessary purposes of government. Tourism promotion is not a necessary function of government.
2. Maximizing the tax rate at 6-percent would unfavorably position Haywood in comparison to surrounding counties.
3. Any increase in the tax rate should be put forward in a referendum, not a simple resolution by county commissioners.
4. The current countywide tax has an uneven benefit-to-burden ratio across the five zip code areas. All carry a surplus of tourism funds from year to year, suggesting that additional funds are not needed across all zip code areas.
5. If additional funds are needed for a specific area of the county, then an occupancy tax at the municipal level, rather than a countywide increase, should be put to a referendum.

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## Endnotes

1. Data provided by HCTDA
2. Legislative staff provided the projected amount of the tax increase for the 2014-15 fiscal year. At the time of printing, this figure has not been made public. The figure was based upon figures from the North Carolina Department of Revenue and the forecasted growth of the Leisure and Hospitality portion of North Carolina’s Gross State Product. It was not made clear if an adjustment was made in the forecast calculation to account for lost business due to the tax increase.
3. The House Occupancy Tax Subcommittee sets the uniform occupancy tax guidelines.
4. SL 1983-908 included Mecklenburg, Haywood, Buncombe, Forsyth, and New Hanover counties. The bill also included the municipalities of Ocean Isle Beach, Town of Topsail Beach and Surf City. [ncga.state.nc.us/EnactedLegislation/SessionLaws/PDF/1983-1984/SL1983-908.pdf](http://ncga.state.nc.us/EnactedLegislation/SessionLaws/PDF/1983-1984/SL1983-908.pdf)
5. [osbm.state.nc.us/ncosbm/facts\\_and\\_figures/socioeconomic\\_data/population\\_estimates/demog/pop7095.html](http://osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/demog/pop7095.html)
6. [canons.sog.unc.edu/wp-content/uploads/2013/11/OCCUPANCY-TAX-OVERVIEW-TABLE.pdf](http://canons.sog.unc.edu/wp-content/uploads/2013/11/OCCUPANCY-TAX-OVERVIEW-TABLE.pdf)
7. *An Act Relating to NASCAR Hall of Fame Financing General Assembly of North Carolina Session Law 2005* Codified as SL2005-68.
8. *An Act to Authorize Counties to Levy One-half Percent Sales and Use Taxes and to Designate How Part of the Revenue from These Taxes Shall be Used, to Allow Certain Cities to Spend Sales Tax Revenue on Housing, and to Authorize Various Transient Occupancy Taxes General Assembly of North Carolina Session Law 1983: 908* Codified as SL1983-908.
9. *An Act Authorizing Buncombe and Haywood Counties to Levy an Additional One Percent Room Occupancy and Tourism Development Tax General Assembly of North Carolina Session Law 1985:* Codified as SL1985-942.
10. *An Act to Authorize Haywood County to Levy and Additional One Percent Occupancy Tax and to Make Other Administrative Changes North Carolina General Assembly Session Law 2007:* Codified as SL2007-337.
11. [ncga.state.nc.us/Sessions/2007/Bills/House/PDF/H1013v3.pdf](http://ncga.state.nc.us/Sessions/2007/Bills/House/PDF/H1013v3.pdf)
12. Town of Maggie Valley, Special Called Board of Alderman Meeting Minutes, February 25, 2013
13. Haywood County Tourism Development Authority. *2013/2014 Funding Worksheet.*
14. Senate Bill 318 and House Bill 307.
15. [nccommerce.com/LinkClick.aspx?fileticket=SjNMxlwzIt0%3d&tabid=641&mid=4662](http://nccommerce.com/LinkClick.aspx?fileticket=SjNMxlwzIt0%3d&tabid=641&mid=4662)
16. 2013 Occupancy Tax Tables
17. G.S. 160A-215 (f1)