

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/CS/HB 1241

Tax on Sales, Use, and Other Transactions

SPONSOR(S): Finance & Tax Council; Economic Development Policy Committee, Patronis and others

TIED BILLS: IDEN./SIM. BILLS: SB 2436

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Economic Development Policy Committee	8 Y, 3 N, As CS	Kruse	Kruse
2) Finance & Tax Council	14 Y, 0 N, As CS	Aldridge	Langston
3)			
4)			
5)			

SUMMARY ANALYSIS

The bill addresses state and local taxes related to the business of renting, leasing, letting, or granting a license to use transient rental accommodations.

The bill amends the law relating to local option tourist development taxes, the local option tourist impact tax, the local convention development tax, the municipal resort tax and the sales tax imposed upon the taxable privilege of renting, leasing, or letting for consideration any accommodations in hotels, motels, roominghouses, mobile home parks, recreational vehicle parks, condominiums, or timeshare resorts.

The bill defines "consideration," "rental," and "rents" as the amount received by a person operating transient accommodations, or the owner of such accommodations, for the use of any living quarters or sleeping or housekeeping accommodations in, from, or part of, or in connection with any transient accommodation. A "person operating transient accommodations" is defined as the person who conducts the daily affairs of the physical facilities furnishing transient accommodations who is responsible for providing any of the services commonly associated with operating the facilities furnishing transient accommodations, including providing physical access to such facilities, regardless of whether such commonly associated services are provided by unrelated persons. "Unrelated person" is defined as persons who are not related to the person operating transient accommodations, or the owner of such accommodations, within the meaning of s. 1504, s. 267(b), or s. 707(b) of the Internal Revenue Code of 1986, as amended.

The bill also provides that a person who operates transient accommodations, or the owner of such accommodations, must separately state the tax from the consideration charged on the receipt, invoice, or other documentation issued with respect to charges for transient accommodations. Persons who facilitate the booking of reservations who are unrelated persons are not required to separately state amounts charged on the receipt, invoice, or other documentation. Any amounts specifically collected as tax are county or state funds and must be remitted as tax.

The bill provides that the changes made by the bill shall not affect lawsuits existing on the date the act becomes effective regarding the taxes amended by the act.

The Revenue Estimating Conference estimates that the revenue impacts of the bill are negative indeterminate for General Revenue and state trust fund revenue. Local government revenue will be reduced by \$22.7 million in FY 2010-2011, with a negative indeterminate recurring revenue impact.

The bill may be a mandate requiring a 2/3 vote of the membership of each house.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

Taxation of Transient Rentals

Transient rentals are rentals or leases of accommodations for 6 months or less and include stays in hotels, apartment houses, roominghouses, tourist or trailer camps, mobile home parks or recreational vehicle parks.¹

Currently, transient rentals are potentially subject to the following taxes:

1. Local Option Tourist Development Taxes: Current law authorizes five separate tourist development taxes on transient rental transactions. Section 125.0104(3)(a), F.S., provides that the local option tourist development tax is levied on the "total consideration charged for such lease or rental."
 - a. The tourist development tax may be levied at the rate of 1 or 2 percent.² Currently, 60 counties levy this tax at 2 percent; all 67 counties are eligible to levy this tax.³
 - b. An additional tourist development tax of 1 percent may be levied.⁴ Currently 42 counties levy this tax; only 56 counties are currently eligible to levy this tax.⁵
 - c. A professional sports franchise facility tax may be levied up to an additional 1 percent on transient rental transactions.⁶ Currently 31 counties levy this additional tax; all 67 counties are eligible to levy this tax.⁷
 - d. A high tourism impact county may levy an additional 1 percent on transient rental transactions.⁸ Only Broward, Monroe, Orange, Osceola and Walton counties have been designated as high tourism impact counties eligible to impose this tax, but only Orange, Osceola and Monroe counties impose the tax.⁹

¹ These accommodations are defined in s. 212.02(10), F.S. See also Rule 12A-1.061(2)(f), F.A.C.

² Section 125.0104(3)(c), F.S.

³ Florida Legislative Committee on Intergovernmental Relations. See

<http://www.floridalcir.gov/UserContent/docs/File/data/2010LOTTrates.pdf> (last visited 3/15/10)

⁴ Section 125.0104(3)(d), F.S.

⁵ See fn. 3, supra.

⁶ Section 125.0104(3)(l), F.S.

⁷ See fn. 3, supra.

⁸ Section 125.0104(3)(m), F.S.

⁹ See fn. 3, supra.

- e. An additional professional sports franchise facility tax no greater than 1 percent may be imposed by a county that has already levied the professional sports franchise facility tax.¹⁰ Out of 65 counties eligible to levy this tax, only 18 do.¹¹
2. Local Option Tourist Impact Tax: The local option tourist impact tax under s. 125.0108, F.S., is levied at the rate of 1 percent of the total consideration charged. Only Monroe County is eligible and does levy this tax in areas designated as areas of critical state concern because they created a land authority pursuant to s. 380.0663(1), F.S.¹²
3. Local Convention Development Tax: The convention development tax under s. 212.0305, F.S., is imposed on the total consideration charged for the transient rental. Each county operating under a home rule charter, as defined in s. 125.011(1), F.S., may levy the tax at 3 percent (Miami-Dade County); each county operating under a consolidated government may levy the tax at 2 percent (Duval County); and each county chartered under Article VIII of the State Constitution that had a tourist advertising district on January 1, 1984, may levy the tax at up to 3 percent (Volusia County).¹³ No county authorized to levy this tax can levy more than 2 percent of the tourist development tax, excluding the professional sports franchise facility tax.¹⁴
4. Municipal Resort Tax: Certain municipalities may levy the municipal resort tax at a rate of up to 4 percent on transient rental transactions.¹⁵ The tourist development tax may not be levied in any municipality imposing the municipal resort tax. The tax is collected by the municipality. Currently only three municipalities in Miami-Dade county are eligible to impose the tax.
5. State Sales Tax: The state sales tax on transient rentals under s. 212.03, F.S., is levied in the amount of 6 percent of the “total rental charged” for the living quarters or sleeping or housekeeping accommodations in, from, or part of, or in connection with any hotel, apartment house, roominghouse, or tourist or trailer camp.

In general, the local taxes are adopted by ordinance, some of which must be approved by a referendum election of the voters of the county or area where the tax is to be levied. The local taxes on transient rentals are required to be remitted to DOR by the person receiving the consideration, unless a county has adopted an ordinance providing for local collection and administration of the tax.¹⁶ Further, the use of the proceeds from each tax may only be used as set forth in the authorizing statute.

Certain rentals or leases are exempt from the taxes; these include rentals to active-duty military personnel, full-time students, bona fide written leases for continuous residence longer than 6 months, and accommodations in migrant labor camps.¹⁷

Every person desiring to engage in or conduct business in this state as a dealer or to lease, rent, or let or grant licenses to use accommodations that are subject to tax under s. 212.03, F.S., must file with DOR an application for a certificate of registration for each place of business prior to engaging in such business.¹⁸ A separate application is required for each county where property is located. Agents, representatives, or management companies that collect and receive rent as the accommodation owner’s representative are required to register as a dealer and collect and remit the applicable tax due on such rentals to the proper taxing authority.¹⁹

¹⁰ Section 125.0104(3)(n), F.S.

¹¹ See fn. 3, supra.

¹² Id.

¹³ Id.

¹⁴ Section 125.0104(3)(b), (3)(l)4., and (3)(n)2., F.S.

¹⁵ Chapter 67-930, L.O.F., amended by chs. 82-142, 83-363, 93-286, and 94-344, L.O.F.

¹⁶ See e.g., ss. 125.0104(10) and 212.0305(5), F.S. Also known as “self-administering.”

¹⁷ Section 212.03(7), F.S. See also ss. 125.0104(3)(a), 125.0108(1)(b), 212.0305(3)(a), F.S.

¹⁸ Section 212.18(3)(a), F.S.

¹⁹ Rule 12A-1.061(7), F.A.C.

In addition to the certificate of registration, each newly registered dealer also receives an initial resale certificate from DOR. The resale certificate is renewed annually for dealers with an active sales tax account, and expires on December 31 each year.²⁰ An annual resale certificate allows registered dealers to make tax-exempt purchases or rentals of property or services for resale, including re-rental of transient rental property and resale of tangible personal property. The annual resale certificate may not be used to make tax-exempt purchases or rentals of property or services that:

- Will be used rather than resold or rented.
- Will be used before selling or renting the goods.
- Will be used by the business or for personal purposes.²¹

Rental of Accommodations Online²²

Some companies have websites that specialize in offering reservations of transient rental accommodations. These are generally independent third parties who act either as an agent or a merchant and are often referred to as “internet intermediaries” or some similar term. Travel agents have been allowed computerized access to search hotel room inventories and to book discounted hotel rooms in the name of, and for the account of, other people (i.e., as intermediaries) since the 1970s.

When an internet intermediary facilitates accommodation reservations acting as an agent, the intermediary is acting as a middle-man between the customer and the accommodation owner to reserve a room. Generally, the customer reserves a room with a credit card, and does not pay the hotel bill until check-out, at which point taxes are charged. In these circumstances, at the time of reservation online, the customer is typically advised that taxes may or may not be included in the total cost listed on the website. The accommodation owner compensates the agent with a commission based on the room rate set by the hotel. With this method, the room rate is subject to tax without any reduction for the commission paid. Agents do not arrange in advance of the customer’s transaction to purchase room inventory at the hotel.

Generally speaking, when an internet intermediary acts as a merchant, it enters into a contract with an accommodation owner to offer rooms to the public. The accommodation owner agrees to make rooms available for reservation at a negotiated rate.²³ The merchant agrees to pay the owner the negotiated room rate and to also forward money it collects from the customer to pay applicable taxes. The merchant advertises a room rate on the website with disclosures for separate charges for “taxes and service fees” or some similar designation.²⁴ The internet intermediary is the merchant of record for reservation of the room, and it initiates a charge to the customer’s credit card for the full room rate plus the disclosed line items. The consumer receives confirmation of the reservation from the merchant. When the accommodation owner sends the merchant an invoice for the room after the consumer’s stay, the merchant pays the negotiated room rate and the tax due on that amount.²⁵

The issue of on-line reservations of accommodations by internet intermediaries has surfaced as a result of two main factors: 1) the increase in reservations of accommodations through websites; and 2) tax laws that were adopted before the existence of internet intermediaries. There has been some dispute and question as to the proper amount against which state and local transient rental taxes are levied.

²⁰ Section 212.18(3)(c), F.S.

²¹ Annual Resale Certificate for Sales Tax (Guidelines), at <http://dor.myflorida.com/dor/taxes/resale.html> (last visited 3/15/2010).

²² Information for this section was obtained from Interim Project 2005-131, Senate Committee on Government Efficiency Appropriations (Nov. 2004); and Issue Brief 2009-320, Senate Committee on Finance and Tax (Oct. 2008).

²³ The negotiated rate is also referred to as a discounted or wholesale price or rate.

²⁴ One criticism of this practice is that the customer does not know the exact composition of the “taxes and fees” and therefore does not know how much tax is being collected and paid.

²⁵ For a detailed description of the merchant model, see, Columbus, Georgia v. Expedia, Civil Action No. SU-06-CV-1974-7 (Superior Court, Muscogee County, Ga, Sept. 22, 2008).

The Markup/Facilitation Fee/Service Fee

Internet intermediaries argue that the tourist development tax is measured by the amount paid to the accommodation owner or operator for the right to use the transient accommodation (negotiated rate) and that the facilitation fee²⁶ is not subject to tax because it is not an amount paid to the owner (generally the difference between the retail rate paid by the customer and the negotiated rate paid by the internet intermediary). They argue that the taxable incident is not the isolated receipt of the rental payment, but the exercise of the privilege – the assemblage of activities consistent with ownership. Under this line of reasoning, money received to facilitate a booking, process a reservation application, or provide a similar service, is not subject to tax when a company lacks an ownership interest in the accommodation. This position extends to the tax treatment of customer charges variously labeled as “tax reimbursements,” “tax recovery charges,” or “taxes and fees.”

Local governments interpret the law such that internet intermediaries acting as merchants are sales tax dealers and that the total amount of each transaction is taxable. The internet intermediary acts in place of the accommodation owner in renting, leasing, or letting the real property, tangible personal property, and services as part of the accommodation. Local governments contend that dividing the sale of an accommodation reservation into discrete transactions ignores the sale’s singular nature. They are concerned that allowing intermediaries to shoehorn customary accommodation services into the non-taxable category will erode the tax base.

When Taxes Should Be Remitted

Internet intermediaries argue that the tax is not due at the time money is paid by the consumer. Instead, it should be remitted by the hotel or facility, as owner of the accommodation, once the negotiated room charge is forwarded to the owner after the consumer’s stay.

Local governments argue that transient rental tax is due at the time of collection, not later when the accommodation owner is paid the negotiated rate.

Florida Department of Revenue

DOR has not taken an official position on whether tax is due on the amount collected and retained by internet intermediaries. The department has not taken a position on whether tax is due on the additional charges variously labeled as “tax reimbursements,” “tax recovery charges,” or “taxes and fees.” Additionally, DOR has not take a position on whether tax should be remitted at the time the customer pays for the reservation.

Litigation in Florida²⁷

Litigation over these matters has ensued, both across the country and across the state of Florida. The following are examples of cases in Florida being actively litigated:

Orange County, Florida v. Expedia, Inc., et. al. (2006-CA-0021 04) Ninth Judicial Circuit, Orange County, Florida

Orange County, Florida, self-administers the local tourist development tax. In 2006, it brought a lawsuit against internet intermediaries Expedia and Orbitz to determine whether tax is due “on the difference between the wholesale price and the retail price they receive for the rooms when they re-sell them.”²⁸ The trial court dismissed the case, ruling that the county must complete audits first to estimate taxes

²⁶ Also known as the “markup” or a “service fee.” A facilitation fee generally involves money received to facilitate a booking, process a reservation application, or provide a similar service.

²⁷ Lawsuits in other states “are based on the specific language of each jurisdiction’s taxing scheme and on the variety of causes of action pled....” Orange County v. Expedia, Inc. et al., 985 So.2d 622, 630 (5th DCA, 2008), rehearing denied, Expedia, Inc. v. Orange County, 999 So.2d 644 (Fla., 2008) (unpublished disposition).

²⁸ Orange County, at 2.

due. The appellate court reversed the trial court. The opinion did not suggest who might eventually win, only that the county is entitled to know whether it can lawfully assess the tourist development tax before attempting to audit the companies. Jurisdiction is now with the trial court to hear and evaluate the case.

Leon County, et. al. v. Expedia, Inc., et. al. (2009-CA-4319) Second Judicial Circuit, Leon County, Florida

Leon, Flagler, Lee, Manatee, Pinellas and Polk counties filed suit in November, 2009 against fourteen internet intermediaries, including Expedia, Inc., Orbitz Worldwide, Inc., Priceline.com, Inc., and Travelocity.com, Inc. Similar to the Orange County action, these counties are seeking declaratory relief. This case is still in its early stages.

Orbitz, LLC, et. al. v. Broward County, Florida, et. al. (37 2009 CA 000126) Second Judicial Circuit, Leon County, Florida

Orbitz, LLC and seven other internet intermediaries were audited by Broward County, resulting in assessments against the companies. All have filed suit in Leon County contesting those assessments. This case is still in its early stages.

State of Florida, Office of the Attorney General, Department of Legal Affairs v. Expedia, Inc., Orbitz, LLC, and Orbitz, Inc. (37 2009 CA 004303) Second Judicial Circuit, Leon County, Florida

The Attorney General's Office has filed suit against Expedia, Inc., Orbitz, Inc. and Orbitz, LLC, pursuant to Chapter 501, Part II, the Florida Deceptive and Unfair Trade Practices Act (the "Act"). Section 501.204(1) of the Act provides that "unconscionable acts or practices, and unfair or deceptive acts or practices in the conduct of any trade or commerce are hereby declared unlawful." This case is still in its early stages.²⁹

Compensation for Information Relating to a Violation of the Tax Laws

Section 213.30, F.S., permits the Executive Director of the Department of Revenue to compensate persons who provide information to the Department that leads to the punishment of or collection of taxes from any person or to the identification and registration of a noncompliant taxpayer. The statute provides the conditions under which compensation may be paid. Employees of the Department or any other state or federal agency may not be compensated.

Effect of Proposed Changes

Taxation

As described above, transient rentals are potentially subject to the following taxes:

- Local Option Tourist Development Taxes (imposed under s. 125.0104, F.S.)
- Local Option Tourist Impact Tax (imposed under s. 125.0108, F.S.)
- State Sales Tax (imposed under s. 212.03, F.S.)
- Local Convention Development Tax (imposed under s. 212.0305, F.S.)
- Municipal Resort Tax (imposed pursuant to Chapter 67-930, L.O.F.)

Sections 1, 2, 3, 4 and 6 of the bill amend each of these provisions of law in the same manner as follows:

“Consideration,” “rental,” and “rents” are defined as the amount received by a person operating transient accommodations, or the owner of such accommodations, for the use of any living quarters or

²⁹ Deputy Attorney General Bob Hannah appeared before the March 17, 2010, Economic Development Policy Committee meeting and stated for the record that the Attorney General has not taken an official position on this issue, but is seeking clarification from the court.

sleeping or housekeeping accommodations in, from, or part of, or in connection with any transient accommodation. A “person operating transient accommodations” is defined as the person who conducts the daily affairs of the physical facilities furnishing transient accommodations who is responsible for providing any of the services commonly associated with operating the facilities furnishing transient accommodations, including providing physical access to such facilities, regardless of whether such commonly associated services are provided by unrelated persons. The terms do not include payments received by unrelated persons from the lessee, tenant or customer for facilitating the booking of reservations for or on behalf of the lessees, tenants or customers at transient accommodations. “Unrelated person” is defined as persons who are not related to the person operating transient accommodations, or the owner of such accommodations, within the meaning of s. 1504, s. 267(b), or s. 707(b) of the Internal Revenue Code of 1986, as amended.

The bill also provides that a person who operates transient accommodations, or the owner of such accommodations, must separately state the tax from the consideration charged on the receipt, invoice, or other documentation issued with respect to charges for transient accommodations. Persons who facilitate the booking of reservations who are unrelated persons are not required to separately state amounts charged on the receipt, invoice, or other documentation. Any amounts specifically collected as tax are county or state funds and must be remitted as tax.

Compensation for Information Relating to a Violation of the Tax Laws

The bill amends s. 213.30, F.S., to permit compensation to a county government for information leading to the punishment of or collection of transient rental sales tax from any person or the identification and registration of any person liable for transient rental sales tax. The bill provides the conditions under which compensation may be paid.

The bill provides that the changes made by the bill shall not affect lawsuits existing on the date the act becomes effective regarding the taxes amended by the act.

The bill provides an effective date of July 1, 2010.

B. SECTION DIRECTORY:

- Section 1. Amends s. 125.0104(3), F.S., to provide definitions and to specify how taxes are to be stated on receipts, invoices or other documentation.
- Section 2. Amends s. 128.0108(1), F.S., to provide definitions and to specify how taxes are to be stated on receipts, invoices or other documentation.
- Section 3. Amends ss. 212.03(1) and (2), F.S., to provide definitions and to specify how taxes are to be stated on receipts, invoices or other documentation.
- Section 4. Amends s. 212.0305(3), F.S., to provide definitions and to specify how taxes are to be stated on receipts, invoices or other documentation.
- Section 5. Amends section 213.30, F.S., to also permit compensation to a county government for information leading to the punishment of or collection of transient rental sales tax from any person or the identification and registration of any person liable for transient rental sales tax. Provides the conditions under which compensation may be paid.
- Section 6. Amends ss. 1 and 3 of ch. 67-930, L.O.F., to provide definitions and to specify how taxes are to be stated on receipts, invoices or other documentation.
- Section 7. Provides that the changes made by the bill shall not affect lawsuits existing on the date this act becomes effective regarding the taxes amended by this act.
- Section 8. Provides an effective date of July 1, 2010.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference estimates that the impacts of the bill are negative indeterminate for General Revenue and state trust fund revenue.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference estimates that the bill will reduce local government revenues by \$22.7 million in FY 2010-2011. The recurring revenue impact is negative indeterminate.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill may prevent consumers from paying higher taxes, because the bill clarifies that amounts received by unrelated persons from the lessee, tenant or customer for facilitating the booking of reservations for or on behalf of the lessees, tenants or customers at transient accommodations is not taxable.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Section 18(b), Article VII of the State Constitution specifies that, “[e]xcept upon approval of each house of the legislature by two-thirds of the membership, the legislature may not enact, amend, or repeal any general law if the anticipated effect of doing so would be to reduce the authority that municipalities or counties have to raise revenues in the aggregate, as such authority exists on February 1, 1989.”

Because of the impacts on local tourist development taxes, this bill reduces the authority that counties have to raise revenue. No exemption applies, therefore the bill may be a mandate requiring a 2/3 vote of the membership of each house.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

On March 25, 2010, the Finance and Tax Council adopted a strike-all amendment, which:

- Revised the definition of the terms “consideration,” “rental,” and “rents” to include amounts received by a person operating transient accommodations, or the owner of such accommodations. Also clarified that those terms do not include payments received by unrelated persons from the lessee, tenant or customer for facilitating the booking of reservations for or on behalf of the lessees, tenants or customers at transient accommodations.
- Revised the definition of “person operating transient accommodations.”
- Revised the definition of “unrelated persons” to mean persons who are not related to the person operating transient accommodations, or to the owner of such accommodations.
- Removed the provision that stated that the changes made by the bill were clarifying and remedial in nature.
- Added a provision that states that the changes made by the bill shall not affect lawsuits existing on the date the act becomes effective regarding the taxes amended by the act.

The bill was reported favorably and the analysis has been updated to reflect the council substitute.

On March 17, 2010, the Economic Development Policy Committee adopted a strike-all amendment, which:

- Revised the definition of “unrelated person” to reference sections in the Internal Revenue Code of 1986, as amended.
- Revised the definition of “person operating transient accommodations.”
- Clarified when persons facilitating the booking of reservation must separately state any amounts charged on a receipt.
- Amended other sections of law noted by the Department of Revenue where transient rentals also are subject to a tourist impact tax or a municipal resort tax.

The bill was reported favorably and the analysis has been updated to reflect the committee substitute.