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April 10, 2025

Honorable Members of the Los Angeles City Council
c/o Office of the City Clerk
200 North Spring Street, Room 395
Los Angeles, CA 90012

RE: TRANSIENT OCCUPANCY TAX RESPONSE TO MOTION 24-1456

Dear Honorable Members:

This motion instructs the City Administrative Officer (CAO) and the Office of Finance, with the assistance of the Chief Legislative Analyst (CLA), City Tourism Department (CTD), and hotel operators, to report back on a review of the City's Transient Occupancy Tax (TOT), other municipalities' TOT practices, closure of TOT collection and remittance loopholes, and maximizing TOT revenues in preparation for the 2028 Olympic and Paralympic Games.

The report as presented responds to the motion with a proposal for a ballot measure aimed at addressing all of these issues. The proposal can be summarized as follows:

- Increase the TOT from the current 14 percent to 16 percent;
- Address a weakness in the existing code by mandating that online travel companies (OTCs) remit TOT based on the full amount paid by the customer;
- Add specificity to the various charges for items and services which may be added onto the price of a hotel stay to which TOT must be applied; and,
- Require online home-sharing platforms to collect TOT from their customers staying at locations in the City and remit it directly to the City.

DISCUSSION

The City's TOT currently subjects any person or group who occupies room or space in a hotel (or any facility operating like a hotel) to pay a tax equal to 14 percent of the "rent" charged for the occupancy. In practice, the tax is collected by the hotel and remitted to the City on a monthly basis. Individuals who occupy a room for more than 30 days are not considered "transient" and are not required to pay the tax unless they have an agreement with the hotel to extend their "transient" status.

Comparative TOT Rates

The City's TOT was first established in 1964, with a rate of four percent. The rate has been increased over time, with moderate increases every few years, with the last increase effective in 1993, bringing the rate to the current 14 percent. Three years after that increase, California passed Proposition 218, requiring voter approval of tax increases, and the rate has not been increased since.

Most cities in California levy a Transient Occupancy Tax, with the vast majority ranging from 10 to 14 percent. There are a handful of cities with rates higher than 14 percent, including Los Angeles-adjacent cities Inglewood, Malibu, and Santa Monica, as well as Anaheim, each of which has a rate of 15 percent except for Inglewood at 15.5 percent.

Outside of California, TOT rates tend to be lower, with New York, Chicago, Houston, and Miami all under 10 percent. However, some cities are more comparable to Los Angeles, with Las Vegas at 13.38 percent and Seattle at 15.7 percent.

A list of the cities reviewed is included as an attachment.

An additional part of the tax rate that is less transparent and more difficult to compare is the variety of surcharges and additional assessments many cities add onto the base tax. Hotels over 50 rooms in Los Angeles assess an additional two percent for the Tourism and Marketing District. Denver and San Diego have similar assessments. Seattle, Santa Monica, and San Francisco have additional taxes between 1.1 and 2.3 percent for hotels in the downtown areas of those cities. These additional amounts, while not technically TOT, are felt by customers as TOT so they should be included in comparisons of tax rates.

Olympic Experience

Regarding other cities' recent experience hosting the Olympics, most recent hosts have not specifically increased hotel taxes due to the games. Every City we have reviewed generated significantly more hotel tax revenue in the year of the games. Only London, in 2012, saw less than a 10 percent increase. However, our research found that only Paris 2024 actually increased their hotel tax.

Paris had an existing Tourist Tax prior to the Olympics, which was a graduated rate based on the quality of the accommodation. These tax rates were increased in January 2024 by 160 to 200 percent.

The other example of an Olympic host City to increase the hotel tax for the games was Los Angeles in 1984, when the rate was increased from 10 to 11 percent. This was originally announced as a temporary increase, but was made permanent after the games.

Online Travel Companies

The rise of OTCs has complicated the standard hotel-occupant arrangement, as many customers now pay an OTC directly, rather than paying the hotel, and the amount the customer is paying for the right to occupy the room is no longer the same amount that the hotel sees as receipts. This is due to the online travel company business model, in which the OTC negotiates a discounted or wholesale rate for hotel rooms, but then charges the customer a higher amount for the right to occupy the room. The difference between the two is known as the OTC markup, and it represents the profit margin which makes the OTC profitable. This markup may include fees such as resort fees, service fees, or cleaning fees, or may simply be included in the price quoted to the customer by the OTC. Because the current TOT code does not include such fees in the definition of “rent” subject to taxation, the OTC markup is outside the scope of the tax.

Under Los Angeles Municipal Code section 21.7.2(f), OTCs are equally liable for collection and remittance of the tax on “rent” as the hotels. However, the City has little or no visibility into transactional accounting between the OTCs and the hotels because, in practice, the OTCs collect the tax and remit it to the hotels, who then remit it to the City. The issue addressed in the subject motion concerns whether the OTCs are remitting the tax based on the full amount paid by the customer (including the markup) or the wholesale amount the OTC pays the hotel. Unfortunately, given the structure of the tax reporting, the only way for the City to determine this is by auditing the hotels and hoping the OTC has provided enough information for the City to determine how much the customer actually paid.

Recently, the City of Anaheim sought to address a similar situation with respect to its transient occupancy tax in relation to OTCs. Anaheim has historically generated a similar, though slightly higher, amount of TOT revenue than the City of Los Angeles, and has a similar, though not identical, legal structure which was originally adopted in a pre-ecommerce world, making it a good example for comparison.

In November 2022, voters in Anaheim passed Measure J, which explicitly required OTCs to collect the City’s hotel tax based on the full rate guests are charged for accommodations. It also explicitly defined a list of other charges related to hotel stays, such as parking fees, resort fees, pet cleaning fees, pool and spa usage, and late checkout fees, and included these in the basis for the tax. According to the Argument in Favor of Measure J printed in the ballot, these changes could generate an additional $3 million annually in hotel tax. While there is still uncertainty regarding the exact financial impact, receipts seem to have exceeded the initial estimate, with an increase of $7-8 million in the first year.

Definition of Applicable Charges

Currently, the TOT code simply defines rent, the basis for the tax, as “the consideration charged for the occupancy of space in a hotel”. Which specific charges that one might find on a hotel bill that are considered part of the consideration charged for occupancy is left up to rules and guidelines managed by the Office of Finance. Over the years, Finance has collaborated with the Office of the City Attorney to make sure that these rules are reasonable and consistent with current case law, but this information has never been specifically notated in the code.

This lack of specificity can cause confusion and even audit findings for hotels which are trying to comply with the law but are not sure if certain charges are applicable.

To address this issue, the proposed ballot measure includes language listing out a variety of common fees and charges which are included in the definition of rent. These include standard charges such as resort and destination fees, housekeeping fees, charges for additional guests and pets, among others. It should be noted that the intent of this new language is to codify the City’s current practice, not change how it should be applied.

Home Sharing Platforms

Currently, four different home sharing platforms have tax collection agreements with the City. Under the terms of these agreements, the platform agrees to collect the appropriate TOT for locations within the City and remit that money to the City on a monthly basis. These platforms remitted $30 million in TOT to the City in 2024.

Hosts who rent through platforms that do not have these agreements are required to register with Finance independently, including getting a business tax registration certificate (BTRC), and collect and remit the TOT directly. Almost 1500 individual hosts collected and remitted TOT last fiscal year, bringing in approximately $4 million.

Enforcement of the TOT requirements outside of the scope of the tax collections agreements is virtually impossible, as Finance does not have the resources to investigate them and audits would not be cost effective. Instead, it is recommended that the City require all home sharing platforms to collect TOT as a part of the transaction they are facilitating and remit it to the City. This would have no impact on the platforms currently operating with tax collection agreements, but would establish an equal requirement for all similar businesses.

Hospitality Industry Input

Finance has engaged in discussions with two different groups from the Hospitality industry in relation to the elements of this proposal. Regarding the OTC language, we met with representatives from the California Hotel and Lodging Association. This group represents a large group of operators and has worked with a number of cities in California, including Anaheim, to address this issue. We collaborated with them in developing the proposed ordinance language.

Regarding the rate change proposal, we met with several industry representatives including the Los Angeles Tourism and Marketing District, the Hotel Association of Los Angeles and the Los Angeles Tourism Department. Finance presented the concept that was being proposed, and the industry representatives gave feedback. Additional information was provided after the meeting, including a discussion of headwinds facing the local tourism economy and data on the competitiveness of Los Angeles in the convention industry and relative to local alternatives.

To summarize this input, the industry representatives believe that increasing the cost of traveling to Los Angeles at a time when tourism is very cost-sensitive and Los Angeles itself is losing market share is not the best way to increase tourism-related revenue. Instead, they recommend allocating available funds to actions and programs that will drive increased visitor volume. Increasing the number of visitors results in relatively broad-based revenue growth, with visitors spending more than $200 at local businesses for every $100 spent on lodging. This additional spending generates both sales tax and business tax, and supports jobs and the local economy beyond the hospitality industry, as opposed to a simple tax increase, which would generate none of those multiplier effects.

Given this information, should the Council choose to place a TOT increase on the ballot, it would seem logical and beneficial to invest at least a portion of the additional revenue back into efforts to generate additional tourism to the City.

POTENTIAL BALLOT MEASURE

Under California law, a City is not allowed to impose, extend, or increase a tax without voter approval. As proposed, this would be a general tax increase, and would therefore require approval by more than 50 percent of the electorate. Given the strict interpretation of this requirement, all of the individual pieces discussed in this report would need to be approved by the voters to take effect.

In this context, should the Council desire to implement these changes, it is recommended that the City Attorney work with this Office to prepare and present all of the necessary documents to place a single, unified TOT revision proposal before the voters.

The language to be presented should achieve the following goals:

- Increase the TOT rate from 14 to 16 percent;
- Revise the definitions of tax applicability to explicitly include OTC charges and markups as taxable charges;
- Add a requirement that operators disclose all OTCs providing payments;
- Add language clarifying the applicability of TOT to certain common fees and charges; and,

- Add language requiring any organized platform or marketplace facilitating short-term rental of property within the City to collect applicable TOT at the time of payment and remit the money collected to the City.

POTENTIAL REVENUES

Increasing the TOT from 14 to 16 percent would generate an estimated $50 million in General Fund revenue annually. This figure would be higher in 2028.

The second moving clause instructs Finance to report on the amount of TOT currently paid by OTCs and how much revenue could be gained with the proposed change. As noted above, since the OTCs remit the tax through the hotels and do not have active TOT taxpayer accounts with Finance, we do not have information on the amount of TOT currently paid. Regarding the potential revenue from the changes, this would depend on the current basis as well as the details of what the voters eventually approved. Based on the projected $7-8 million increase Anaheim has seen, on a tax base somewhat higher than the City's, a reasonably conservative estimate of the impact of this change would be an increase of $5 million annually

RECOMMENDATIONS

Should the Council desire to place a measure on the ballot to update the City's Transient Occupancy Tax code as proposed by the subject motion, and/or as amended in this report, the Council should:

REQUEST the Office of Finance to work with the CLA, CAO, and City Attorney to identify and develop specific recommended amendments to Article 1.7 of the Los Angeles Municipal Code for Council consideration in time for a measure to be placed on the Spring 2026 ballot consistent with the proposals herein.

If you have any questions or require further information, please contact Matt Crawford, Assistant Director of Finance, at matthew.crawford@lacity.org.

Sincerely,

Diana Mangioglu
City Treasurer / Director of Finance

Attachment

Attachment

Comparison of Cities' TOT Rates

Los Angeles: 14% + 2% on hotels over 50 rooms

Local

Santa Monica: 15% for hotels, $17% for home sharing, TMD variable 1-2.25%
Culver City: 14%
Malibu: 15%
Inglewood: 15.5%
Beverly Hills: 14%

Other California

San Francisco: 14% 2-2.25% downtown
San Diego: 10.5% + 2% on hotels over 70 rooms
Anaheim: 15% + 2% in resort district

Across the Nation

New York City: 5.875% + $1.50/unit/day
Chicago: 4.5%
Houston: 6%
Seattle: 15.7% + 2.3% in downtown
Miami: 6%
Denver: 10.75% + 1% on hotels over 50 rooms
Las Vegas: 13.38%