Changes Proposed by Tourism Industry to Tax Realignment Commission
Local Accommodations & Hospitality Tax Sub-Committee
September 8, 2010

A Short Explanation of South Carolina's Current 2% State-mandated Accommodations Tax Law:

Local accommodations businesses (hotels, motels, inns, and Bed & Breakfasts with more than 6 rooms) must collect a 2% tax on every room rented. These funds are remitted to SCDOR and are disbursed back to local governments through a provision known as "Robin Hood." Through Robin Hood, counties where more than $400,000 in Accommodations Tax revenues is collected in a fiscal year must donate a portion of their Accommodations Tax collections during the following FY to counties where less than $400,000 was collected. There were thirteen donor counties in South Carolina in 08-09: Beaufort, Berkeley, Charleston, Colleton, Florence, Georgetown, Greenville, Horry, Lexington, Orangeburg, Richland, Spartanburg, and York. This list changes annually depending upon the economy.

The chart below shows the current distribution of funds after local governments receive their Accommodations Tax *allocations*, which, in many cases, are considerably greater than their actual *collections* of Accommodations Tax. A fictional government, which is allocated $125,000 in a given year, is mandated to distribute the funds thusly:

- By current Accommodations Tax law, the first $25,000 allocated to the local government goes into its General Fund.
- Of the remaining allocation, 5% of the remaining funds are also placed into the General Fund. The remaining funds are "labeled" 30% Fund and 65% Fund, since 95% of the funds after removal of the first $25,000 remain.
- The 30% Fund is disbursed to a Designated Marketing Organization (also known as Destination Marketing Organization or DMO).
- The final 65% Tourism-Related Fund is allocated by the Local Government for promotion of the arts or for "tourism related" expenditures.

A Local Government receiving an allocation of more than $50,000 must set up an Accommodation Tax Advisory Committee to make *recommendations* on how the 65% funds should be spent. This Advisory Committee is made up of seven (7) tourism-related individuals from within the area where the tax is collected.

- It must include a majority of persons (4) representing the hospitality sector (lodging and dining)
- A minimum of two (2) from the lodging sector when applicable, and
- A minimum of one (1) from the arts and cultural sector.

This Advisory Committee reviews applications for the 65% Funds and makes recommendations to the Local Government concerning distribution. However, the Committee's recommendations are not binding. By October 1 each year, a report must be submitted to the Tourism Expenditure Review Committee regarding the projects funded through the 65% Tourism-Related Fund.

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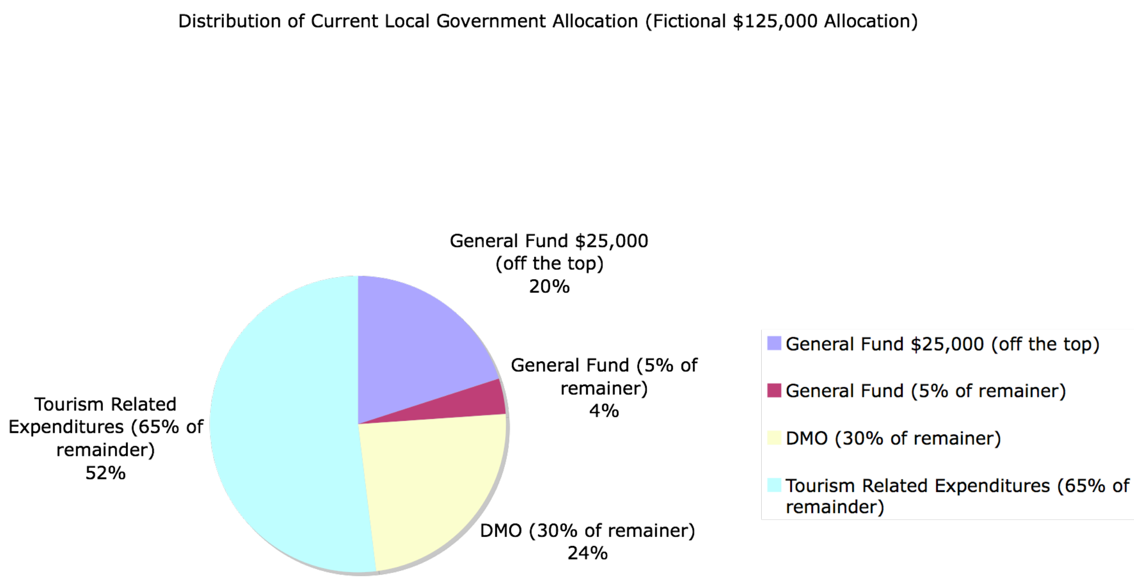
The following chart shows the distribution currently mandated for a local government receiving a $125,000 allocation:



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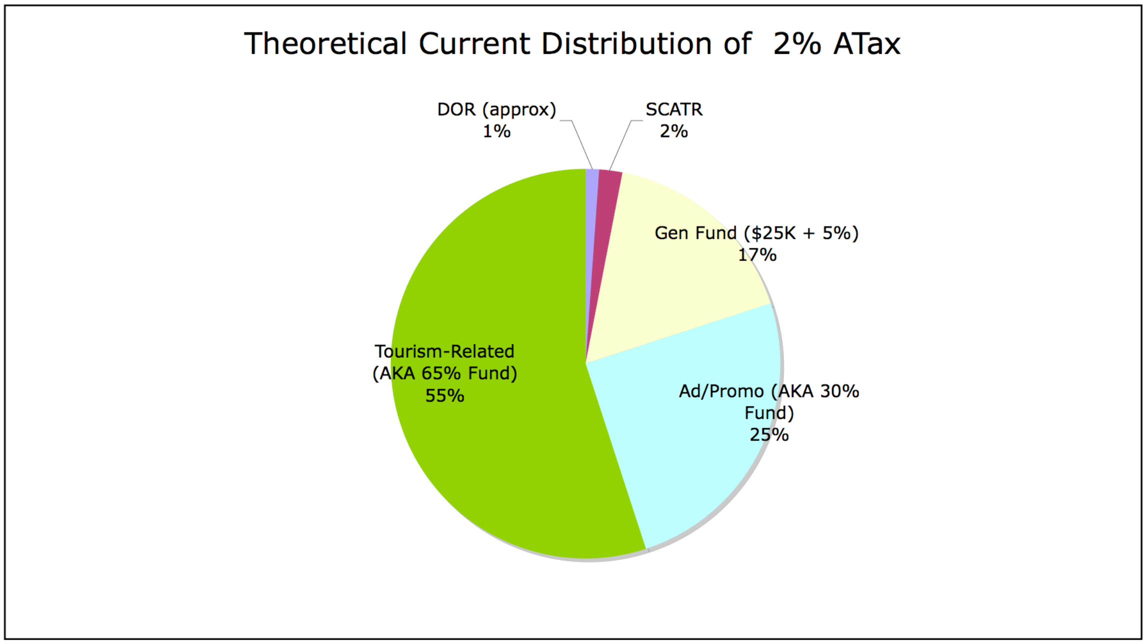
In theory, the 2% Accommodation Tax funds collected statewide are now distributed to local governments by SCDOR in the following manner:

1. A fee is paid to SCDOR for administration and management.
2. 2% is disbursed to the 11 SC Tourism Regions
3. Remaining funds are allocated to local governments and divided in the manner shown in the chart above.

This chart shows the theoretical expenditure of the 2% State-mandated Accommodations Tax under current law:



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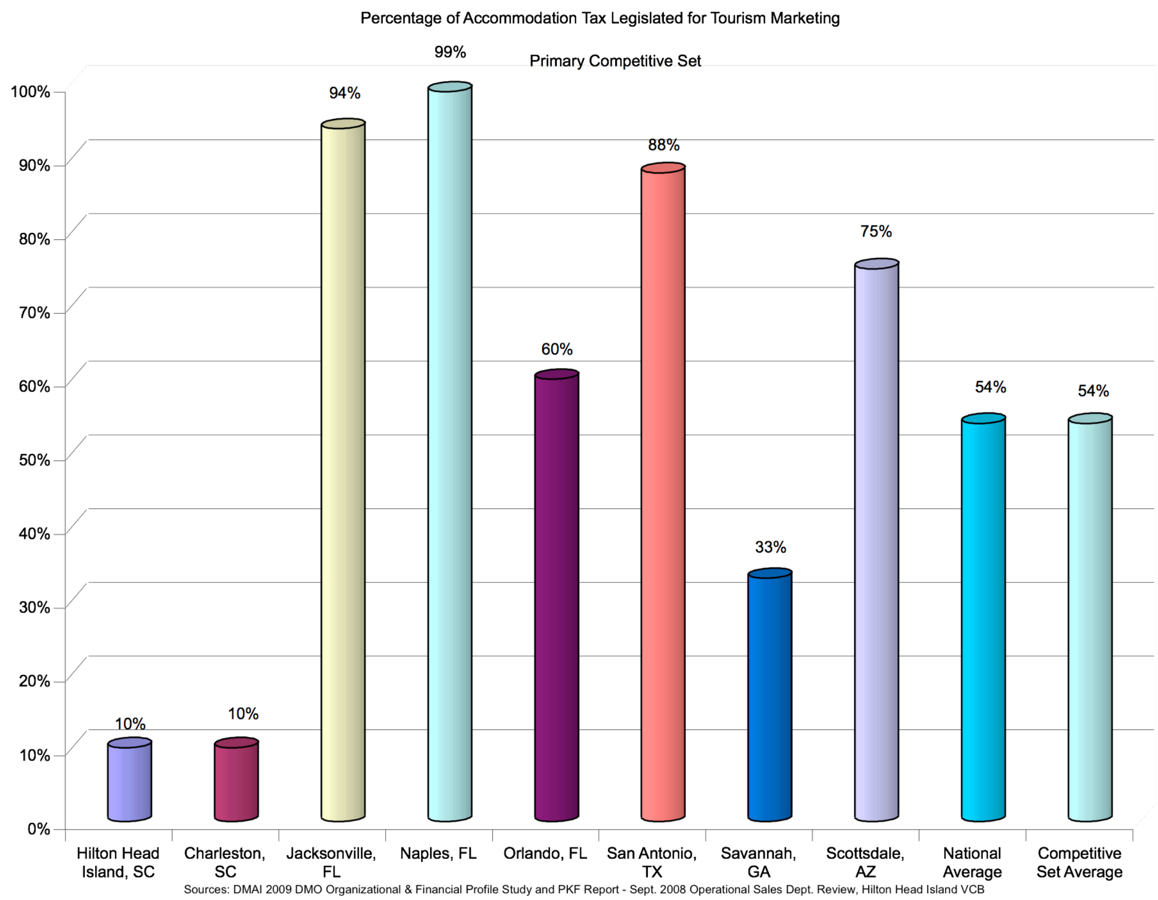
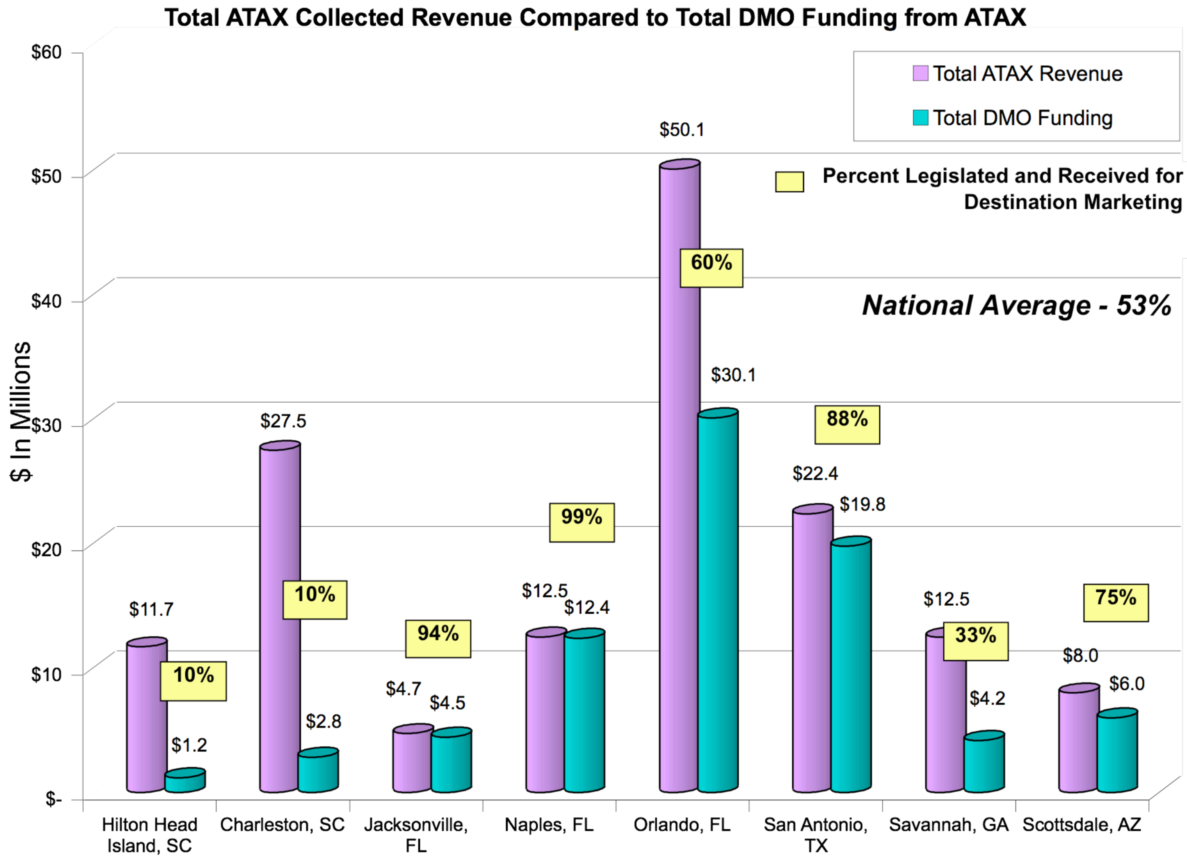
The following charts show disbursement of tourism-related taxes in some of South Carolina's destinations as compared with competitors:



And DMO funding compared to Accommodations Tax collections:



Sources: DMAI 2009 DMO Organizational & Financial Profile Study and PKF Report - Sept. 2008 Operational Sales Dept. Review, Hilton Head

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In order to move the Tourism Industry toward the goal of increasing the Industry's statewide economic impact to $40 Billion by 2020, the Joint Task Force formed by the SC Tourism Alliance and the SC Chamber of Commerce's Tourism Committee proposes the following changes to Tourism-Related Taxes:

Change nomenclature:

1. Rename 2% Accommodations as State-mandated Accommodations Tax
2. Rename 1 ½ - 3% (Local option) Accommodations Taxes as Locally Imposed Accommodations Tax

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Proposed Changes to State-mandated 2% Accommodations Tax:

1. Of all State-mandated Accommodations Taxes collected a portion will be disbursed to the SC Department of Revenue for management fees

Impact: No Change

2. Of all State-mandated Accommodations Taxes collected, 5% will be disbursed quarterly to SC Department of Parks, Recreation, and Tourism to fund statewide marketing projects, to include the operation of the SC Welcome Centers. Annual reports on the use of these funds will be made to the Tourism Expenditure Review Committee.

Impact: Currently no Accommodations Tax funds are dedicated to the South Carolina Department of Parks, Recreation, and Tourism. At 09-10 tax collections and costs, this change would add $2.1 Million to the SCPRT marketing fund budget and ensure the funding of the state's Welcome Centers 7 days per week 365 days per year.

3. Of all State-mandated Accommodations Taxes collected, 5% will disbursed quarterly in equal portions to each of the 11 South Carolina Tourism Regions (SCATR) to fund Tourism Marketing projects. Annual reports on the use of these funds will be made to the Tourism Expenditure Review Committee, as is done currently.

Impact: At 09-10 tax collections, this change would increase SCATR's Accommodations Tax funding from its current $838K to $2.1M.

4. Of the remaining State-mandated Accommodations Taxes collected, disbursement will be made to the counties and municipalities using the current disbursement procedures, as follows:

    a. For county areas *collecting* under $50,000 (Not a change, but inserted for clarity):
        i. These local governments will be funded at the same amount disbursed in FY09-10, with municipalities receiving same portions as directed under current law
        ii. 100% of that portion allocated to the local government may be placed into the General Fund

Impact: No change – held harmless. Future local government allocations should increase/decrease according to local business patterns but not due to ever-growing "Robin Hood" supplements thus allowing those areas that are producing increased revenues to receive more of the benefit from future increases in their revenues.

b. For county areas *collecting* between $50,000 and $400,000:
   i. The Accommodations Tax Supplement will be capped at FY 09-10 funding level, but will not be less than the FY 09-10 allocation
   ii. The Accommodations Tax funds allocated will be divided equally between two funds
      1. 50% Allocated to the Local Government to be placed in the General Fund
         a. Local Accommodations Tax Advisory Committee governing the allocation of that portion becomes optional
         b. NO report to TERC regarding use of these funds

Impact:

A. These local governments would continue to receive at least the same funding as in 09-10 (held harmless as above)
B. The current "65% Fund" through which local arts and cultural organizations, Convention & Visitors Bureaus, and Regional Tourism offices received funds via grants would no longer be mandated.
C. Local governments would no longer submit reports to the Tourism Expenditure Review Committee (TERC) for oversight of expenditures, thus simplifying the process for the local governments.

      2. 50% Allocated to Designated Marketing Organization (DMO)
         a. DMO must have an ongoing program of tourism promotion currently in place, and
         b. DMO must annually report expenditure of the funds to the Local Government and to TERC.
         c. If no local Designated Marketing Organization program exists, these funds *must* either be invested with the Regional Tourism Office or placed into a Product Development Project Fund designated to build tourism attractions in the region

Impact:

A. The Designated Marketing Organization would have a more predictable funding stream enabling them to plan and execute marketing for the area more effectively,
B. While quality of life events and organizations that impact tourism still have funding opportunities with the 50% of the funds now allocated to the local government or through Locally-Imposed accommodations and hospitality taxes.
C. In low-concentration of Tourism areas, Product Development funds could be amassed to enable emerging tourism areas to plan and fund the building of tourism attractions for the area.

c. For county areas collecting more than $400,000:
   i. 50% Allocated to the Local Government to be placed in the General Fund
      1. Accommodations Tax Advisory Committee governing the allocation of that portion becomes optional
      2. NO report to TERC regarding use of these funds.

Impact:

A. The current "65% Fund," now managed by City or County Council through the Accommodations Tax Advisory Committee grants which local arts and cultural organizations, Convention & Visitors Bureaus, and Regional Tourism offices received funds would no longer be mandated.

B. Local governments would no longer submit reports to the Tourism Expenditure Review Committee (TERC) for oversight of expenditures, thus simplifying the process for the local governments.

   ii. 50% Allocated to Designated Marketing Organization
      1. DMO must have an ongoing program of tourism promotion currently in place, and
      2. DMO must annually report expenditure of these funds to the Local Government and to TERC.

Impact:

A. The Designated Marketing Organization would have a more predictable funding stream enabling them to plan and execute marketing for the area more effectively,
B. While quality of life events and organizations that impact tourism still have funding opportunities with the 50% of the funds now allocated to the local government or through locally imposed accommodations and hospitality taxes.

5. Recommend adding language in Section 12-36-920 A to include collection of State-mandated Accommodations Tax, Locally imposed Accommodations Tax and Local Hospitality Taxes and Fees … "on timeshare maintenance fee."

Impact:

A. This change would "level the field" of competition between traditional hotel/motel/B&B properties and the Timeshare industry, which now enjoys an unfair advantage in the market.
B. In 09-10 terms, this is estimated to increase SC Tax Revenues by approximately $10 M.

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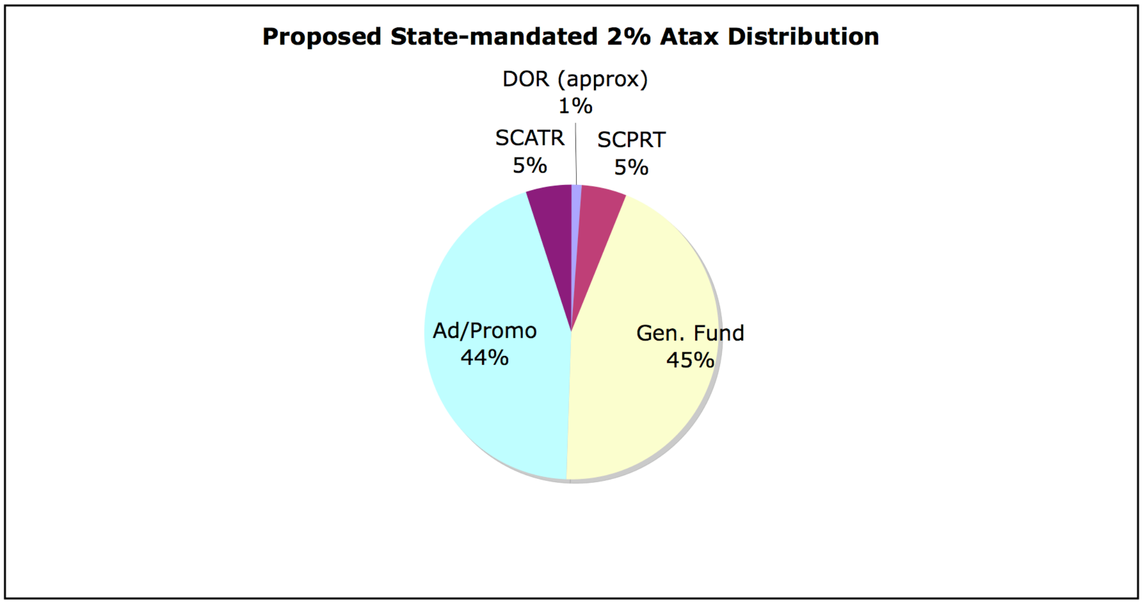
This chart shows the Proposed Distribution of the State-mandated 2% Accommodations Tax:

(The actual Ad/Promo and General Fund amounts would be approximately 44.5% each.)



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Proposed Changes to Admission Tax:

1. SC Department of Revenue will remit a percentage of all Admissions taxes to SC Department of Parks, Recreation, and Tourism for a Product Development Fund, which, when implemented, will increase the Admission Tax collections for the state coffers.

Impact: This change would enable South Carolina to move toward the goal of increasing the economic impact of the Tourism Industry to $40 Billion by 2020 through a statewide program of building regional tourism attractions to build critical mass in areas off the coast.

2. SC Department of Revenue will remit a percentage of Admissions taxes to SC Department of Parks, Recreation, and Tourism as dedicated funding for the South Carolina State Park system.

Impact: This change would provide a dedicated source of revenue to improve State Park facilities, which collect and remit all state & local transaction taxes, including Accommodations, Sales and Admissions taxes

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Proposed Changes to Locally Imposed Accommodations Tax (Currently 1.5 – 3%):

1. Local governments will remit all Locally imposed Accommodations Taxes collected to SC Department of Revenue, who will remit, after collection of administrative and management

charges for SCDOR and TERC, the remainder to the local government where the funds were collected.

2. Local governments will submit annual reports to TERC (Tourism Expenditure Review Committee) for oversight of these expenditures.
3. Grandfather those funds already legally committed.

Impact:

A. Reporting would be simplified for businesses, which would be able to remit tax payments to one entity (DOR) rather than having to remit and file with the sate and multiple jurisdictions.

B. Collections would be more transparent, since all taxes would be reported to DOR in a single format versus hundreds of local collection entities, forms, etc.

C. This change would require local governments to utilize tourism-related taxes for the purposes for which they were instituted and provide oversight of those expenditures by TERC.

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Proposed Changes to Local Hospitality Taxes and fees:

1. Local governments will remit all Hospitality Taxes and Fees collected to SC Department of Revenue, who will remit, after collection of administrative and management charges for SCDOR and TERC, the remainder to the local government where the funds were collected
2. Local governments will submit annual reports to TERC (Tourism Expenditure Review Committee) for oversight of these expenditures.
3. Grandfather those funds already legally committed.

Impact:

A. Reporting would be simplified for businesses, which would be able to remit tax payments to one entity (DOR) rather than having to remit and file with the sate and multiple jurisdictions.

B. Collections would be more transparent, since all taxes would be reported to DOR in a single format versus hundreds of local collection entities, forms, etc.

C. This change would require local governments to utilize tourism-related taxes for the purposes for which they were instituted and provide oversight of those expenditures by TERC.

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