An Estimate of Revenue From a Tourism Tax in Montana

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Introduction and Summary

Visitors to Montana benefit from state and local government services, such as police and fire protection. However, visitors do not pay state income or property taxes which fund general government services. Visitors do pay excise taxes on gasoline and accommodations, but these taxes are earmarked for specific uses and do not pay for general government services.

One way to have visitors contribute to the cost of general government services in Montana would be to levy a selective sales tax on goods that are bought primarily or disproportionately by non-resident visitors. This report examines the potential revenue from levying a tourism tax at a rate of 1%.

This report is divided into four sections. The first section presents estimates of the annual number of visitors and their spending in Montana. The second section estimates the size of the tax base and the revenue that would be collected by a tourism tax. The third section estimates how much of that revenue would be collected from non-residents and how much would be collected from residents. The final section estimates administration and compliance costs.

A 1% sales tax on prepared food, alcohol sold by the drink, car rentals, tickets to sporting events, concerts, plays and similar events, sightseeing excursion fares, souvenirs, and recreation goods and services would generate revenue of about $15.5 million in fiscal year 2002. Residents would pay between 50% and 60% of this tax. The state's costs of administering such a tax would be at least 1% of revenue, and merchants' costs of collecting it would be about 4% of revenue.

Visitors to Montana and Their Purchases

The Institute for Tourism and Recreation Research (ITRR) at the University of Montana surveys visitors to the state every year. The ITRR estimates the number of visitors, the average stay, and how much visitors spend.

The ITRR estimates there were 9,428,000 visitors to the state in 1999, and they spent $1.588 billion while they were here. The ITRR's estimates for 1991 are 7,519,000 visitors and $1.240 billion spent. From 1991 to 1999, the average annual rates of growth were 2.9% for visitors and 3.1% for visitor spending.

The average stay for a visitor reported by the 1999 ITRR survey was 4.3 days. With 9.4 million visitors each staying an average of 4.3 days, there are on average 110,000 out-of-state visitors in Montana at any time. The state's resident population is about 880,000. Thus, on average, 11% of the people in Montana are out-of-state visitors.

Table 1 shows the ITRR's estimates of how visitor spending was divided between eight sectors of the Montana economy in 1999.

Table 1
1999 Non-Resident Visitor Spending

Sector	$ million	%
Accommodations	$ 273.50	17.20%
Auto Rental and Repairs	55.70	3.50%
Transportation Fares	8.00	0.50%
Gasoline & Oil	352.90	22.20%
Restaurants & Bars	291.40	18.30%
Groceries & Snacks	122.40	7.70%
Retail Sales	383.60	24.20%
Miscellaneous Expenses, Services	100.90	6.40%
Total	**$ 1,588.40**	**100.00%**

The retail sales and miscellaneous categories are composed of many specific types of purchases. For the purposes of estimating revenue from a tourism tax, it is useful to re-categorize these items. Table 2 shows visitors' estimated retail and miscellaneous spending reorganized into four categories.

Table 2
1999 Non-Resident Visitor Spending
Retail and Miscellaneous

Sector	$million	%
Theater and Event Tickets	$ 19.10	1.20%
Souvenirs	90.50	5.70%
Recreation	89.00	5.60%
Non-Tourist Purchases	286.00	18.00%
Total	**$ 484.60**	**30.50%**

Recreation includes ski equipment, lift tickets, sporting goods, outfitters, golf fees, bait, and hobby supplies. Non-tourist purchases includes items such as clothing, household goods, farm supplies, appliances, and used cars. This category is relatively large because Billings is a regional trade center serving northeastern Wyoming, as well as eastern Montana.

The Tourism Tax Base and Revenue

The ITRR visitor spending estimates point out seven areas of significant spending by tourists:

- sales of prepared food;
- alcoholic beverages sold by the drink;
- tickets to events such as plays, concerts, and sporting events;
- car rentals;
- sightseeing fares;
- recreation; and
- other souvenir items.

These items are included in the tax base for the revenue estimate provided here.

The primary source of information for estimating the tourism sales tax base is the 1997 Economic Census, which was conducted by the Census Bureau of the US Department of Commerce. The Economic Census gathers detailed information on business activity at the state level. The tax base estimates presented here are based on sales of businesses grouped by types of business. Many businesses sell several types of products, but all sales by a business are reported together. To estimate sales for specific types of goods and services, it is necessary to make estimates of how some industries' sales are divided between the various categories of goods and services.

The Census Bureau is scheduled to begin publishing estimates of sales grouped by types of goods and services in August 2000. This product line sales information could be used to refine the estimates presented here.

Prepared Food Sold in Restaurants

Five census categories consist of businesses that sell prepared food and little else. They are Full-Service Restaurants, Limited-Service Restaurants, Snack and Non-alcoholic Beverage Bars, Mobile Food Services, and Cafeterias. The Cafeterias category includes both cafeteria-style restaurants and workplace cafeterias.

Table 3 shows estimated receipts for these establishments from the 1997 Census.

Table 3
Sales of Prepared Food
1997 Economic Census Estimates

Industry	Receipts ($million)
Full-Service Restaurants	$ 386.60
Limited-Service Restaurants	266.40
Snack and Nonalcoholic Beverage Bars	27.60
Cafeterias	6.20
Mobile Food Services	1.50
Total	**$ 685.10**

If all food sold in cafeterias is included, the value of taxable sales is $685.1 million. Exempting sales in workplace cafeterias would reduce the tax base by an amount less than $6 million.

Drinks Sold in Bars

All establishments that are primarily in the business of selling alcoholic beverages by the drink are included in the single Census category "Drinking Places." The 1997 Economic Census estimate of receipts from these establishments is $152.4 million.

Some restaurants sell drinks and many bars sell food. If both food and drink are subject to the tourism tax, this will not affect the estimate of the total tax base.

Some bars charge for entertainment and/or gambling. Casinos and other gambling establishments sell food and drinks. The 1997 Economic Census estimate for revenue of gambling establishments is $156.6 million. If we assume that the value of food and drink sales at gambling establishments is similar to the value of entertainment and gambling at bars, the net effect of counting all revenue of drinking places and not counting any revenue of casinos should be close to zero. Until the Economic Census estimates of sales by product categories are available, sales of Drinking Places can be used as an estimate of sales of alcoholic beverages.

Food, Drinks, and Other Items Sold at Hotels, Motels, and RV Parks

Montana has a 4% use tax on lodging charges. The lodging facilities use tax applies only to lodging charges, and excludes other charges for items such as food, transportation or entertainment. Food, drinks and other items sold at lodging facilities could be included in the base for a tourism tax.

The value of these other sales can be estimated by taking the difference between total revenue of lodging facilities and room charges, which currently are taxed. Two Economic Census industries are subject to the lodging facilities use tax: "Traveler Accommodation" and "RV Parks and Recreational Camps." Combined revenue for these industries for 1997 was $334.9 million. Lodging facilities use tax revenues for 1997 were $9.76 million, which implies a tax base of $244.4 million. Subtracting lodging charges from total industry receipts gives an estimate of non-lodging sales of $90.5 million. Table 4 shows this calculation.

Table 4
Food, Drinks, and Other Revenue of Hotels, Motels and RV Parks
1997 Economic Census Estimates and Accommodations Tax Receipts

Industry	Receipts ($million)
Traveler Accommodation	$ 298.60
RV Parks and Recreational Camps	36.30
Total	**$ 334.90**
less: Taxed Lodging Charges	244.40
Non-Lodging Receipts	**$ 90.50**

This figure may slightly overestimate sales of other goods and services at lodging facilities because facilities with single room rates less than 60% of the state per diem rate are exempt from the accommodations tax. Consequently, a portion of the $90.5 million may represent accommodations charges for these type of rooms that would be exempt from both the accommodations tax and any tourism tax.

Auto Rentals

The Economic Census combines income from both long-term leases and short-term rentals of vehicles. Most long-term leases from Montana car dealers will be to residents, and should not be included in the base for a tourist tax. The ITRR reports that visitors to Montana in 1999 spent $55.7 million on car rentals and repairs, but does not track rentals and repairs separately. The Economic Census has a separate category of automobile repair. In 1997, revenues totaled $248 million in Montana. Visitors are 11% of the people in the state on the average day. If they make 11% of expenditures on car repairs, their spending on repairs would be $27.3 million. Subtracting this from visitors' $55.7 million spending on rentals and repairs leaves an estimate of visitor rentals of $28.4 million.

The Economic Census estimate of total car rental and lease payments is $39.2 million. Subtracting $28.4 million of visitor rentals from this leaves $10.8 million of car lease and rental payments by residents. How the estimates are distributed between leases and rentals is unknown. If residents make 5% of total car rental payments, total car rental payments are $29.8 million.

Tickets to Sporting Events, Concerts, Plays, and Similar Events

Table 5 shows revenues for businesses that sell admission tickets to special events or to sites such as amusement parks or museums.

Table 5
Tickets to Events or Sites
1997 Economic Census Estimates

Industry	Receipts ($million)
Performing Arts Companies	$ 127.60
Amusement Parks and Arcades	8.20
Spectator Sports	3.00
Promoters of Performing Arts, Sports, and Similar Events	2.40
Concession Operators of Amusement Devices and Rides	0.80
Museums, Historical Sites, and Similar Institutions	0.30
Total	**$ 142.30**

Some of these organizations have other sources of revenue. Total receipts of these organizations probably overstate the receipts from ticket sales.

Tourist Transportation Fares

Fares for two types of transportation are assumed to be subject to the tourism tax. They are local sightseeing excursions and taxis.

The Census Bureau does not release information from the economic census that could be used to infer sales or other information about individual firms. The Census Bureau is withholding information on three of the four industry subsectors that provide transportation to tourists because there are so few firms in them. For these subsectors, it is necessary to estimate sales either as a fraction of the sales of a larger sector that contains the sector of interest or as a multiple of the sales of a smaller sector that is contained in it. Table 6 shows receipts for sectors that were reported by the Census Bureau, the estimated share of those receipts that would be subject to a tourism tax, and the estimated tax base.

Table 6
Tourist Transportation Fares
1997 Economic Census Estimates

Industry	Receipts ($million)	Estimated Tax Base / Receipts	Estimated Tax Base ($million)
Taxi Service	$ 3.2	100.0%	$ 3.2
Charter Bus Industry	6.4	15.0%	1.0
Scenic and Sightseeing Transportation, Water	1.4	137.5%	1.9
Nonscheduled Air Transportation	22.6	4.5%	1.0
Total			**$ 7.1**

The Economic Census estimate for Taxi Service does not need any adjustment.

The Charter Bus Industry category includes interstate and intercity charters, which would not be taxed, as well as local sightseeing charters. The Census Bureau reported revenues for the combined category. It also reported that there are ten firms in the total category and seven in the interstate and interurban charter subsector. If revenue in the charter bus category is earned proportionally by local and long-distance charters, and half of local charters are for tourism, 15% of the revenue of the Charter Bus Industry sector would be subject to a tourism tax.

The Scenic and Sightseeing Transportation sector includes three subsectors, Land, Water, and Other. The Census Bureau reports estimated revenue for the eight firms in the Water subsector. It does not report either revenues or number of firms for the Land and Other subsectors. It reports that there are 11 firms in the whole sector but does not give revenue for the whole sector. If the three firms in the Land and Other subsectors have the same average revenues as the eight in the Water subsector, revenues for the whole sector will be 11/8 =137.5% of revenues in the Water subsector.

The Nonscheduled Air Transportation sector includes both freight and passenger subsectors. The Census Bureau reported revenues for the 22 firms in the sector. It reported that there are 10 firms in the passenger subsector but did not report their revenues. This subsector includes medical, corporate, and personal flights as well as charter flights for sightseeing or other tourism purposes. If the ten firms in the passenger subsector have the same average revenue as firms in the sector as a whole, and 10% of their revenue is from flights for tourism purposes, then 4.5% of the revenue of the Nonscheduled Air Transportation sector would be subject to a tourism tax.

The total is relatively close to the ITRR estimate of visitors' spending on transportation fares.

Souvenirs

The ITRR estimates that visitors spent $90.5 million on souvenirs and similar items in 1999. The 1997 Economic Census estimates sales of Gift, Novelty, and Souvenir Stores at $59.8 million. Since other businesses, such as convenience stores and supermarkets, sell souvenir items, it seems reasonable to use the ITRR figure as an estimate of taxable souvenir sales.

Recreation Goods and Services

Based on the ITRR survey, visitors to the state spent $90 million on recreation goods and services in 1999. This included purchases and rentals of equipment, lift tickets, golf course fees, guides and outfitters, and bait. Sales reported by the 1997 Economic Census for the related sectors of "Skiing Facilities," "Golf Courses and Country Clubs," "Sports and Recreation Instruction," and "Sporting Goods Stores" total $131.8 million. Since residents ski, play golf, and buy recreational equipment, the Economic Census is a better estimate of taxable sales in this sector.

Potential Revenue

Table 7 shows the calculation of potential revenue from a selective sales tax on tourist items.

Table 7
Potential Revenue from a "Tourism Tax"

Tax Base Item	1997 Sales ($million)	2002 Sales ($million)	Tax Revenue FY2002 ($million)
Food Sold in Restaurants	$ 685.1	$ 798.1	$ 8.0
Drinks Sold in Bars	156.6	182.4	1.8
Food, Drinks, and Other Sold at Lodging Places	90.5	105.4	1.1
Car Rentals	29.8	34.7	0.3
Event Tickets	142.3	165.8	1.7
Sightseeing Fares	7.1	8.3	0.1
Souvenirs	90.5	105.4	1.1
Recreation Goods and Services	131.8	153.5	1.5
Total	**$ 1,333.7**	**$ 1,553.6**	**$ 15.5**

The first column shows the items included in the tax base. The second column shows estimated sales of those items in 1997. The third column shows estimated sales in 2002 assuming an average annual rate of growth of 3.1% from 1997 to 2002. This is the rate at which spending by non-resident visitors, as estimated by ITRR, grew from 1991 to 1999. The fourth column shows the revenue that would be generated in fiscal 2002 with a tax rate of 1%.

Who Would Pay?

Food and drinks account for two-thirds of the revenue from a tourism tax, but two-thirds of sales in these sectors are to residents rather than non-residents. It is not known how ticket and recreation services sales are divided between residents and non-residents, but sales to residents probably are significant. Most sales in the car rental, sightseeing fares, and souvenirs sectors are to non-residents. The fraction will depend on exactly which goods and services are taxed.

Table 8 shows an estimate of taxes that would be paid by nonresidents in each of the sectors.

Table 8
Non-Resident Tourism Tax Payments

Category of Sales	Estimated FY2002 Tax Revenue ($million)	Estimated Non-Resident Percentage	Estimated Tax Revenue from Non-Residents
Food and Drinks	$ 10.9	33%	$ 3.6
Car Rentals	0.3	95%	0.3
Event Tickets	1.7	50%	0.8
Sightseeing Fares	0.1	90%	0.1
Souvenirs	1.1	90%	0.9
Recreation Goods and Services	1.5	50%	0.8
Total	**$ 15.5**	**42%**	**$ 6.5**

The estimate for food and drinks is the ratio of the ITRR's estimate of non-resident visitor spending on these items to the Economic Census estimate of total spending. Almost all car rentals are assumed to be made by non-residents because non-resident rentals account for almost three-fourths of total rental and lease payments. The remainder of revenue in the car rental and lease sector would account for fewer than 3000 leased cars in Montana. The fractions of sales assumed to be made to non-residents in the other sectors are very rough guesses based on the fact that residents make significant purchases in the recreation and tickets sectors, but not in sightseeing fares and souvenirs.

With these estimates of resident and non-resident purchases in each sector, non-residents would pay 42% of the tourism tax. Even if the fraction of sales to non-residents were 90% for tickets, sightseeing fares, souvenirs, and recreation goods and services, residents would still pay 50% of the tourism tax.

Limiting the tax to the three categories where non-residents are estimated to account for at least three-fourths of the sales would limit tax receipts to $1.5 million.

Administration and Compliance Issues

A tourism tax would require state resources for administration and would impose costs on merchants who collect the tax. There have been several studies of the administration and compliance costs of state sales taxes. The results of these studies have been summarized by John Due and John Mikesell, in their book Sales Taxation: State and Local Structure and Administration, and by Joel Slemrod, in a chapter titled

"Which Is the Simplest Tax System of them All?" in Economic Effects of Fundamental Tax Reform edited by Henry Aaron and William Gale. Estimates of state administration costs range from 0.4% to 1.0% of revenue collected. Estimates of merchants' compliance costs range from 2.0% to 3.8% of revenue collected.

The administration and compliance costs for a selective sales tax aimed at tourists is likely to be a larger fraction of revenue collected than is typical for a general sales tax. The Department of Revenue would have to process tax returns for and audit almost as many merchants as it would with a general sales tax, but would collect much less revenue.

Merchants who collect a sales tax incur several kinds of costs. They must track which of their sales are taxable and must charge customers tax based on the taxable portion of their purchases. They must keep records of taxable sales as well as total sales. Periodically, they must calculate their tax liability, complete a tax return, and submit payment.

In sectors where all or most products were taxed, merchants' costs of collecting the tax and accounting for collections and payments would be comparable to their costs with a general sales tax. In sectors where few products are taxed, merchant's costs are likely to be comparable to their costs with a general sales tax, but they would collect much less tax revenue.

For merchants who already collect the lodging tax, there may be no additional costs, or costs may actually be lower if they are allowed to collect, track, and pay a tourism tax together with the lodging tax.

Using the upper end of the range of reported sales tax administration and compliance costs as estimates of the costs of a tourism tax gives estimated administration costs of 1% of $15.5 million, or $155,000, and estimated compliance costs of 3.8% of $15.5 million, or $589,000.

The estimate of revenue from a tourism tax presented above assumes perfect compliance with the law. However, there are two compliance problems that are likely to be worse with a tourism tax than with a general sales tax. One is that merchants are likely to make more errors in deciding whether sales are taxable. In most states, the general sales tax exempts a few, well-defined categories of sales, such as food and prescription drugs. Souvenirs, recreation services, and tickets are not as clear-cut. The other problem is that merchants who have a very small fraction of sales subject to the tax may not comply at all, either intentionally or out of ignorance.