

Room Occupancy Tax Rates on Hotels, B&Bs, and Short-Term Rentals

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Issue

Provide the legislative history for the different room occupancy tax rates that apply to hotels and bed and breakfast establishments (B&Bs) and explain how the tax applies to short-term home rentals (e.g., Airbnb and VRBO).

Summary

Since October 1, 2017, Connecticut has imposed two tax rates on room occupancy: 15% for hotels and lodging houses and 11% for B&Bs. Under prior law and Department of Revenue Services (DRS) practice, the state imposed a 15% room occupancy tax on all such establishments, but a portion of the charges paid by B&B guests was deemed the purchase of meals and subject to the 6.35% sales tax while the balance was subject to the 15% room occupancy tax. [PA 17-147](#), §§ 12-14, applied a uniform 11% rate to rent received from B&Bs, including meal charges, thus establishing the dual room occupancy tax rate structure.

According to DRS guidance, short-term rentals of all or a portion of a home are subject to room occupancy tax at the 15% rate (DRS Special Notice 2019(9), [Room Occupancy Tax on Short-Term Rentals](#)). Under a 2019 law, qualifying short-term rental facilitators (e.g., VRBO) must collect and remit the tax on the short-term rentals they facilitate in the state ([PA 19-117](#), §§ 329 & 330). Airbnb has collected and remitted room occupancy taxes on behalf of its Connecticut hosts under an agreement with DRS reached in June 2016.

Hotels and B&Bs

Current Rates

By law, room occupancy tax applies to the total rent received for the occupancy of any room or rooms in a hotel, lodging house, or bed and breakfast establishment for a period of 30 consecutive calendar days or fewer. The tax rate is 15% for hotels and lodging houses and 11% for B&Bs ([CGS § 12-407\(a\)\(2\)\(H\)](#) & [§ 12-408\(1\)\(B\)](#)). The room occupancy tax applies in lieu of the regular 6.35% sales tax.

Under the law, a “hotel” is any building regularly used and kept open as such to feed and lodge guests that (1) receives individuals who conduct themselves properly and are able and ready to pay for accommodations when available and (2) derives a major portion of its operating revenue from renting rooms and selling food. It includes apartment hotels, but excludes B&Bs. “B&B” means any private operator-occupied house, other than a hotel or lodging house, with 12 or fewer rooms in which people are lodged for hire and a full morning meal is included in the rent. “Lodging house” means any building or portion of a building, other than a hotel, an apartment hotel or a B&B, in which people are lodged for hire with or without meals, including motels, motor inns, furnished residences, or similar accommodations ([CGS § 12-407\(a\)\(16\), \(17\) & \(42\)](#)).

The terms "hotel," "apartment hotel," "lodging house," and “B&B” exclude (1) nursing homes and assisted living facilities operated by private, religious, or charitable organizations; (2) summer camps for children operated by religious or charitable organizations; and (3) lodging accommodations at educational institutions or operated by or in the name of a nonprofit organization ([CGS § 12-407\(a\)\(17\)](#)).

History of Dual Tax Rate

This dual rate structure has applied since October 1, 2017, when the legislature imposed a uniform 11% tax rate on B&Bs ([PA 17-147](#), §§ 12-14). Under prior law, the state imposed a 15% tax on room occupancy charges at hotels and lodging houses, including B&Bs, but established special rules for apportioning room charges that included meals (as described below).

The proposal appears to have originated in a Finance, Revenue and Bonding Committee bill that would have established a 10% occupancy tax rate on B&Bs and dedicated a portion of occupancy tax revenue to the culture and tourism account ([SB 1054](#) (2017)). [Written testimony](#) submitted by Jeffrey Muthersbaugh, a B&B owner and chairperson of the Connecticut B&B Association, indicated that the uniform tax was designed to simplify record-keeping for B&B owners, promote a fair tax structure for B&B guests, and help B&Bs remain competitive.

The committee ultimately incorporated the B&B provision in [sHB 7312](#) (§§ 13-15), but increased the rate to 11% and eliminated the revenue division to the culture and tourism account. The legislature passed the bill, which became [PA 17-147](#) and was signed into law by the governor on July 7, 2017.

Special Rules for Lodging and Meals at a Fixed Price

Prior to October 1, 2017, DRS practice required B&B owners and other hotel operators to apply special rules for packages under which a guest received lodging and meals at a fixed price (i.e., the “American Plan”). Under the American Plan rules, a portion of the charges paid by guests was deemed the purchase of meals and subject to 6.35% sales tax while the balance was subject to the 15% room occupancy tax. For example, if a package included a room with breakfast only, 15% of the charge was allocated to the meal (and subject to sales tax) and 85% was allocated to the room (and subject to room occupancy tax) (DRS, Policy Statement 2003(1), [Application of Sales and Use Taxes and the Room Occupancy Tax to the Hotel and Motel Industry](#)).

DRS revised these rules following the B&B tax rate change in 2017. As of October 1, 2017, the price paid under the American Plan is subject only to room occupancy tax (i.e., either 15% or 11%, depending on the type of establishment) (DRS Policy Statement 2017(7), [Room Occupancy Tax and Sales and Use Taxes for Hotels, Motels, and Bed & Breakfasts](#)).

Room Occupancy Tax on Short-Term Rentals

A short-term rental of all or a portion of a home (i.e., for 30 consecutive days or fewer) is subject to room occupancy tax at the 15% rate (DRS Special Notice 2019(9), [Room Occupancy Tax on Short-Term Rentals](#)). As of October 1, 2019, qualifying short-term rental facilitators must collect and remit room occupancy tax on Connecticut short-term rentals that they facilitate.

Under the law, a “short-term rental facilitator” is any person who:

1. during the prior 12-month period, facilitates retail sales of at least \$250,000 by short-term rental operators by providing a short-term rental platform;
2. collects rent for occupancy and remits payments to short-term rental operators, directly or indirectly through agreements or arrangements with third parties; and
3. receives compensation or other consideration for such services.

A “short-term rental platform” is a physical or electronic place that allows short-term rental operators to display available accommodations to prospective guests. It can include a store, booth,

website (e.g., travel, home-sharing, and real estate agent sites), catalog, or dedicated software application.

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