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Hospitality Disrupter Eyed for State, Local Revenue

By Finance New Mexico

AirBnb is not just another billion-dollar Silicon Valley start-up, although with a market value estimated at $30 billion, the company certainly qualifies. No, AirBnB is a disrupter, a company that has caused a fundamental change in the hospitality industry. And like any change, this one has produced winners and losers.

The winners include almost 3,500 people across New Mexico who have turned their spare bedrooms — and second homes — into a source of income. In Santa Fe, for example, there are nearly 1,000 people renting space. In Angel Fire, the average rental is more than $350 per night.

The losers include the tax coffers of the state and local governments that collect a "lodger's tax" from every overnight guest at a hotel. A 2015 study found that Santa Fe was losing $2.1 million annually in lodger's taxes. And at a time when the state faces a $69 million deficit — a number that is expected to almost quadruple next year — every lost dollar hurts.

But that money is not irretrievable. Last July, Santa Fe and Taos inked deals with AirBnB. The company will collect the lodger's tax from property owners who rent space through their site and pay it to the municipalities. Randy Randall, director of Tourism Santa Fe, told the *Santa Fe New Mexican* that he expected the city to reap $1 million in much-needed revenue.

Now the New Mexico Hospitality Association, which represents the hotel industry, is about to enter the picture. While the Hospitality Association is still studying the problem, their strategy will have two prongs.

The first is directed at the local level, according to the association's president and CEO, Jen Schroer. This spring the association will publish a "Best Practices Handbook" that will inform all stakeholders, including property owners and municipal leaders, about the lodger's tax, what is required and what is possible. At the same time, the association will launch a program of grassroots education in the localities, encouraging them to make their own deals with AirBnB.

At the state level, the association is targeting what Schroer calls a "loophole" in the state tax code. That loophole exempts all properties with less than three rooms from the lodger's tax. The state, however, doesn't define what constitutes a "room." Does it mean less than three rooms to rent? Do a kitchen and bathroom count as one room? Right now, the questions are left for municipalities to answer. In the meantime, the tax goes uncollected.

Nationally, AirBnB has been in some well-documented disputes with cities like New York and New Orleans. But the company seems to be adopting a more conciliatory approach, and has reached settlements with both cities. Schroer reports no problems with AirBnB and says that her organization is "working collaboratively" with the company.

Still, the lodger's tax is only one of the issues raised by AirBnB's success. Lodgers in hotels pay a gross receipts tax. Should that tax apply to rentals procured through AirBnB? If so, would it apply to products purchased from Amazon? Another problem is that some people are taking properties off the residential market and using them exclusively as tourist rentals. Santa Fe is experiencing this phenomenon, which obviously tightens the rental market and raises rents.

When it comes to AirBnB, the term "disrupter" seems all too fitting. State and local governments — and property owners — must find ways to adapt.

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