



LSL



# WEBINAR

**Maximizing Transient Occupancy Tax Revenue:  
Don't Leave Money on the Table**

1 CPE CREDIT

**Wed, Mar 26**  
**10:00AM PST**



# Your Presenter



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# Agenda & Learning Objectives

## Agenda

- Introduction
- Why Should You Monitor TOT?
- TOT Best Practices
- Common Issues with TOT Operators
- Q & A

## Learning Objectives

- Identify risks associated with the collection of TOT and similar revenue
- Learn best practices to respond to those risks
- Learn common challenges monitoring TOT revenue



# Introduction







# Illustration

## Audit of 20 Operators

- Conducted by request of the City

## Recovery Amount

- Over \$100,000 due to the City

## Statistical Sampling Error

- Extrapolated to total TOT population
- Indicated possibly over \$1 million not remitted to the City





# About Me

13 years of experience working with local government

## Audit and Attestation Work

- Financial statement audits
- Single audits
- Other compliance audits
- TOT and other compliance procedures

## Professional Involvement

- CSMFO
- GFOA
- CaICPA

# Principles in this webinar can also apply to...



## Franchise Taxes

- Taxes imposed on businesses for the privilege of operating within a jurisdiction

## TBID Assessments

- Tourism Business Improvement District assessments for funding tourism-related services

## Transient Parking Taxes

- Taxes on temporary parking services provided to non-residents







# Why Should You Monitor TOT?

## Significant portion of revenues

- TOT is on average 5% to 10% of a city's annual revenues
- In tourist areas, TOT often accounts for 30% to 40% of annual revenues

## Growth in hotel industry revenues

- TOT is expected to grow as hotel industry revenues have increased over 28% nationwide since 2013

## Regional growth outpacing national average

- San Diego County, Wine Country, Los Angeles, and Orange County, and Coachella Valley have experienced fast-paced growth
- These regions are projected to exceed inflationary growth into 2025



# Why Should You Monitor TOT?

## Self-reported Taxes

- TOT is reported by the taxpayers themselves

## Inconsistent Monitoring

- Different cities have varying levels of monitoring TOT compliance

## Impact of Airbnb

- The rise of Airbnb and similar platforms affects TOT compliance

## Frequent Turnover

- Ownership or management changes in hotel properties complicate tracking



# Polling Question #1

What percentage revenue does TOT represent for your organization's total revenues?

- A. Less than 5%
- B. 5% to 10%
- C. 10% to 20%
- D. More than 20%



# TOT Best Practices



## Robust Municipal Code

- Penalties for noncompliance
  - Ensure adherence to municipal regulations
  - Discourage violations through fines and penalties
- Provisions for periodic audits of operators' books and records
  - Regularly review operators' books and records
  - Identify discrepancies and ensure accuracy

## Monitoring Procedures

- Develop procedures for monitoring TOT revenues for unusual fluctuations
- Check remittances against license holders
- Follow-up on indications of lost revenues



# TOT Best Practices



## Policy for Collecting Penalties and Interest

- Ensure compliance with remittance deadlines

## Periodic Audits of Local Operators

- Corporate operators audited routinely
- Individual operators using Airbnb audited at random

## Corporate Operators

- Major sources of revenue
- Lower risk of noncompliance
- Easier to audit

# TOT Best Practices



## Random Audits for Individual Operators Using Airbnb

- Minor sources of revenue
- High risk of noncompliance
- Traditionally difficult to audit

## Best Practice for Frequency of Audits

- All operators audited at least once every three years, specifically corporate operators

## Timing of Audits

- Between Federal tax deadlines



# Enforcing Audit Findings

## Follow-up with noncompliant operators

- Ensure corrective actions are taken
- Monitor progress and compliance

## General communication to all license holders

- Discuss audit results and enforcement plans
- Encourage operator compliance
- Protect identifiable information and confidentiality
- Highlight common findings and shortfalls
- Help operators address deficiencies



## Polling Question #2

Does your organization's municipal code allow for periodic audits of operators and does your organization actually do them?

- A. Yes, Yes
- B. Yes, No
- C. No, No







# Common Issues with TOT Operators

## Low Rate of Responsiveness

- Often 40% or higher on average
- Varies between corporate and individual operators

## Inadequate Books and Records

- Insufficient support for TOT remitted to City

## Unallowable Exemptions Claimed

- Exemptions claimed without proper documentation



# Common Issues with TOT Operators

## Exclusion of Guest Charges

- Guest charges excluded from taxable receipt calculation

## Turnover of Management or Ownership

- Lack of knowledge transfer at corporate operators

## Individual Operators' Internal Controls



# Polling Question #3

Has your organization ever identified fraudulent TOT returns or remittances?

A. Yes

B. No

# Challenges to Effective Monitoring

## Time and Resources

- Consider outsourcing the monitoring function

## Incomplete Records of Operators

- Reconcile license holders against remitters
- Create and enforce short-term rental policies requiring operator license







# Questions



# Polling Question #4

Based on today's learning,  
assess your organization's TOT monitoring:

- A. We're doing a good job
- B. We could do better but on the right track
- C. We need to improve
- D. TOT isn't really relevant to my organization



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