## LSL

## WEBINAR

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

**1 CPE CREDIT** 

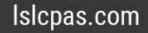
**Wed, Mar 26** 10:00AM PST

#### **Your Presenter**



Ryan Domino, CPA Partner, Assurance & Advisory



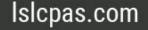


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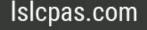
**Agenda & Learning Objectives** 

#### Agenda

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

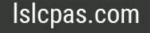
#### Learning Objectives

- 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





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### Illustration

Audit of 20 Operators

Conducted by request of the City

**Recovery Amount** 

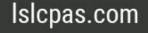
• Over \$100,000 due to the City

Statistical Sampling Error

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







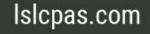
### **About Me**

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
  - CalCPA





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

#### Franchise Taxes

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

#### **TBID** Assessments

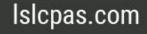
 Tourism Business Improvement District assessments for funding tourism-related services

#### **Transient Parking Taxes**

 Taxes on temporary parking services provided to non-residents







Mby Chould Vou Monitor TOTO

## Why Should You Monitor TOT?

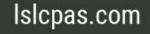
Significant portion of revenues

- 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

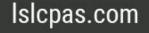
Impact of Airbnb

• 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**

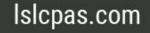
#### **Robust Municipal Code**

- 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

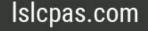
Periodic Audits of Local Operators

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

**Corporate Operators** 

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





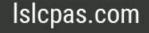
### **TOT Best Practices**



#### 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** 

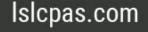
Follow-up with noncompliant operators

- Ensure corrective actions are taken
- Monitor progress and compliance

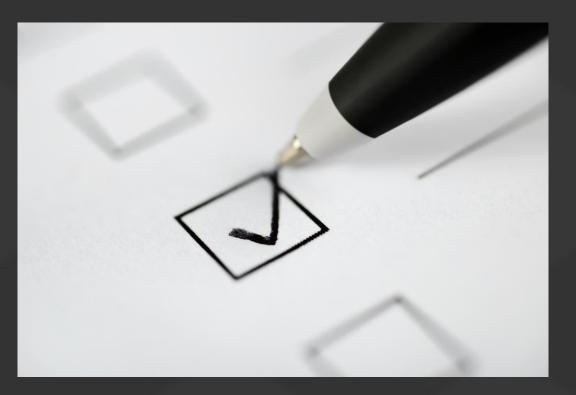
General communication to all license holders

- 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

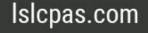
Inadequate Books and Records

• Insufficient support for TOT remitted to City

Unallowable Exemptions Claimed

• Exemptions claimed without proper documentation





# Common Issues with TOT Operators

**Exclusion of Guest Charges** 

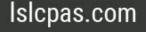
• Guest charges excluded from taxable receipt calculation

Turnover of Management or Ownership

• Lack of knowledge transfer at corporate operators

Individual Operators' Internal Controls



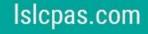


## **Polling Question #3**

Has your organization ever identified fraudulent TOT returns or remittances?

A. Yes B. No





## Challenges to Effective Monitoring

#### **Time and Resources**

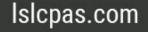
 Consider outsourcing the monitoring function

#### **Incomplete Records of Operators**

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



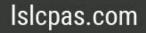






#### Questions





## **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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