

Cape Cod Chamber Position on Hotel and Motel Tax Increase
Adopted by a unanimous vote of the board of directors on 2/4/09.

Background:

Among the Governor's proposals for additional revenue in the 2010 budget submitted to the legislature are increases in both the hotel/motel tax and the sales tax levied on restaurant meals. One percent on each category would be collected and distributed state-wide according to the lottery aid formula. Another one percent would be a local option and the majority of the proceeds would stay in the community where they are collected. The cumulative effect of both new taxes if implemented would be \$300 million according to the Governor's office, levied on the tourism industry.

Chamber Position:

The Chamber strongly opposes this part of the Governor's 2010 budget, since both initiatives are a selective, unfair tax burden on an industry that is critically important to certain parts of the Commonwealth.

- On Cape Cod, the visitor industry directly employs over 20 percent of our workforce and indirectly effects most of the other 80 percent (Labor Force = 120,000)
- There are over 900 food service entities on Cape Cod and some 16,000 hotel rooms. Our restaurant density is twice the national average. The visitor industry is our base industry.
- The Cape and Islands already send considerable more sales tax revenue to the State than it receives back in local aid. (Both the local aid and lottery formulas short change our 15 towns.)
- We have very few national hotel and restaurant chains here. The majority of our businesses are locally-owned operations with fewer than 20 employees.
- The hospitality industry here is essentially low margin and seasonal. A significant percentage of our businesses really have to scramble in order to stay afloat in the winter months.
- Innovative discount packages appear regularly nowadays that essentially lower prices in order to survive. These tactics usually involve absorbing costs such as taxes.
- Wait staff is also affected by increased costs and usually settle for lower tips and fewer hours.
- Wholesale food costs are at unusually high levels, adding to the already extreme pressure on margins.
- Credit issues are exacerbated by these factors.

Rationale:

It is interesting that at the very time when the Federal Stimulus package seeks to create 499,000 jobs in the tourism industry, the State of Massachusetts is attempting to increase sales taxes on hotels and restaurants by 40 percent, thereby inadvertently jeopardizing new employment in the State's tourism industry.

Additionally, hotels and restaurants are feeling the effects of the recession in the form of empty rooms and empty tables. Consumers have cut back on discretionary spending and are eating out less frequently. Stagnant sales cause cash flow problems and ultimately credit issues that make it difficult to cover investment and operating costs. Food costs have experienced double digit price increases for commodities ranging from wheat and flour to rice and corn. Upgrades and property improvement cannot take place with these financial pressures. A shake-out is already happening with both complete closures and seasonal closures of significant numbers of our properties.

A two percent increase in taxes is a big deal and it is unfair since the sales tax will not be increased across the board for other products. Confusion is also a possibility if some towns approve the optional tax and some do not, creating a patchwork of tax differences.

We believe that by singling out hotels and restaurants, an unfair tax levy would have a significant impact on this important industry. It will have a direct effect on rooms sold and guest spending in surrounding restaurant and retail establishments. Fewer guests will have an impact on both transportation and fewer goods and services purchased from suppliers. But, most of all, these unfair taxes will add to our unemployment problem already at 8.7 percent and headed higher. The enforcement and redesign of existing tax regulations should be the center point of the administration's efforts to maximize meals' tax revenues, including the fair and equitable tax treatment for prepared-take-home meals which are currently free of meals taxes.

We do not support this unfair tax increase aimed at an important but vulnerable industry.