Short-term rental accommodation

To rate or not to rate?

Councils from Thames-Coromandel, Queenstown, Marlborough, Rotorua and Auckland have to find fair ways to fund tourism infrastructure. **David Hammond** looks at some of the options.

On March 6 this year the Tenancy Tribunal awarded the owners of a Wellington house $1568 when their entrepreneurial tenants decided to let the owners' home on Airbnb. That same month we also heard how a Hamilton first-home buyer, Francie, rents out her house on Airbnb while she house-sits in Auckland. Responding to that story and others, IAG manager Ralf Hart reminded people that if you rent out a house on Airbnb you need to inform your insurance company as you may not be covered for that activity.

Periodically, the IRD also reminds renters of Airbnb that they are subject to tax requirements like anybody else. But what are the messages coming out from local government?

Unlike the IRD or insurance companies, local councils seem to have limited visibility of rental accommodation – whether it is Airbnb, BookaBach, Bachcare or TradeMe. Where are the warnings that rental accommodation needs to be managed under the short-term accommodation provisions of the district plan or meet fire regulations for paid accommodation?

The growing success of New Zealand tourism over the past decade has put pressure on councils nationwide to fund for tourism infrastructure and tourism capital projects such as cycleways and walkways.

Councils are exploring how to pay for this infrastructure gap in ways that do not fall heavily on the ratepayer. Funding from rental accommodation and hotel beds is on the agenda.

Thames Coromandel District Council (TCDC) is one council among several that has explored rating tourism rental accommodation. In 2015 TCDC went out to public consultation on the rating of rental baches for a $200 rate to help offset the cost of council's economic development which includes walkways, cycleways and tourism marketing.

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The TCDC rate over some 1400 rental homes would have netted some $280,000 annually. The council went out with the rate on several bases. One of them was equity.

At the time council's position was that, "all accommodation providers benefit from our investments but a large part of the sector does not contribute toward this programme".

It cited as an example, the Whangamata Beach Hop – which it described as the biggest single event in New Zealand with around 120,000 people in Whangamata for Beach Hop week.

MONEY DOWN THE PAN?

Council says that, for years, many commercial accommodation proprietors have pointed out the inequality of who pays commercial economic development rates and pan charges and who doesn't.

Motels and hotels have a raft of costly compliance legislation and struggle to compete with the growing rental accommodation sector which avoids most compliance costs.

Charging for a separate tourism rate is not in question here. At least three councils (Marlborough, Queenstown and Rotorua) have a well-established history of this rating. In Marlborough District the charge was only applied if it could be proven that the property was advertising.

Recently in Queenstown, council staff sent letters to some 800 owners found to be advertising short-term rental accommodation online but paying only residential rates on their properties.

PHOTO BY ASSE E BOSCH. COURTESY OF GO WAIHI.

2017 Beach Hop, Waihi.

PHOTO BY JOSH GENTIL. COURTESY OF GO WAIHI.

Beach Hop week attracts a huge influx of people to the Waihi and Whangamata area.

PHOTO BY ASSE E BOSCH. COURTESY OF GO WAIHI.

According to a recent article by writer Amanda Cropp on *Stuff*, the council's chief financial officer Stewart Burns said that 200 agreed to register their holiday homes as required, 300 said they were no longer renting, and staff would chase up the remainder.

Through public consultation the TCDC rate did not proceed.

The counter-arguments focused on three main points:

- the contribution that rental visitors to the Coromandel make to the economy;
- the traditional right of Kiwis to rent their homes and make a few bucks to offset their rates (at an average of $7000 income from renting annually they are hardly 'commercial'); and
- the fact that rental home owners not living on the peninsula don't receive the full benefit of services for their current rates.

The practicality of the process is also limiting. For a return of some $280,000 there would likely be a cost of around $90,000 to collect, with a dedicated person constantly updating addresses and playing cat 'n' mouse with renters.

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Councils rely on identifying properties to rate. Properties on the Coromandel do not need to identify the number of their street address on the rental accommodation site. The street is enough. If TCDC introduced the rate, the number of identifiable properties would drastically reduce and the cost to identify properties increasingly rise.

THEN AND NOW

For those councils that began this form of rating many years ago the public has a long history of acceptance in those areas. In 2017 it is arguably much harder to introduce this new form of rate in New Zealand to a better informed and better organised public.

Auckland Council is finding this out in 2017 as it signals its intent to introduce an accommodation rate to help offset the costs of tourism and economic development to the city. There is concerted opposition from the hospitality industry and Tourism Industry Aotearoa (TIA).

Research undertaken in 2016 on local government expenditure on the tourism industry (*Value for Money? Tourism Spend in New Zealand Local Government 2015/16*) found that Auckland paid only $15.30 per head of population for council tourism spending.

That compared to a national average of $37.90 per head, which rises to in excess of $100 per head in tourism centres including Thames-Coromandel, Rotorua and Queenstown.

Auckland is arguably under-investing already from general rates by this national standard.

BED TAXES

The TIA does not like the bed tax. In 2005 it wrote *The case against bed taxes: A tourism industry perspective*. Its opposition included the cost of changing business' computer systems to manage a new tax, to the unfairness. It argued that the broad benefits of tourism dollars extend into the local economy far more widely than just accommodation providers, so why target them?

TIA research showed that those tourists who would pay a bed tax ranged from 92.7 percent of visitors in one area which has a lot of hotels, down to 50.9 percent in another area with a lot of rental houses and campervans – like Coromandel. So places without a sizable commercial accommodation industry miss out.

The best study on bed taxes is probably by US-based planner and community builder Tom Knipe. In a 2011 Cornell University paper he reviewed bed tax research across the US. In contrast to the TIA research, Tom concluded that bed taxes work well in almost every measure used.

He stated that, since they were first introduced in 1946, bed taxes were in all US states except Wyoming by 2011. In addition, a state-wide bed tax for tourism promotion (on top of the local bed tax) had been introduced into 21 states.

Some key points from Tom Knipe's work that are relevant to New Zealand are:

- Bed taxes are better than airport taxes because they target higher income earners, people from outside the area, and are easily and cheaply levied;
- The hotel industry opposes bed taxes but opposition fades away if funds are spent directly on the area's tourism promotion; and
- Studies support local control of the bed tax as providing better accountability and outcomes in the area they are levied.

It is my view that the way forward for bed taxes is as follows:

- We should have the option for a bed tax to improve the principle of user (visitor) pays and capture more dollars from visitors to help pay the costs of sustainability.
- We should only bring the bed tax in if we can capture the online short-term rental market, and it should also be charged at point of campervan rental.
- The bed tax should be managed locally like any other rate or user-charge by the local council.
- There is a case for a small portion of bed taxes to be contributed from local areas to a regional pool of funding. This ensures that places like Mackenzie and Waitaki without high bed numbers can contest for a grant pool for infrastructure costs of tourism.
- The allocation mechanism should (a) ringfence an infrastructure component, (b) apply funding to destination marketing, (c) provide a small percentage to a regional pool for contestable project funding, and (d) have a portion available to match private sector funding for local projects.
- The allocation entity would be both industry and council, with this partnership locked into legislation. LG

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