



SPECIAL EXAMINATION • REPORT NUMBER 24-17 • DECEMBER 2024

State Hotel-Motel Fee

Improvements needed for more effective collection of the hotel-motel fee

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Why we did this review

The House Appropriations Committee requested this special examination of the state hotel-motel fee. Based on this request, we reviewed the extent to which the Department of Revenue (DOR) ensures all required innkeepers collect and remit the fee and the extent to which DOR ensures innkeepers are remitting the correct fee amounts.

About the State Hotel-Motel Fee

The state hotel-motel fee, first passed in 2015, is a \$5 nightly fee levied on the rental of accommodations. While initially limited to stays in hotel and motel rooms, the fee was expanded in 2021 to include more accommodation types (e.g., cabins, campgrounds). It also incorporated marketplace innkeepers, which are businesses that facilitate vacation and short-term rentals of at least \$100,000 per year. The fee is administered by DOR, the state's tax administration agency.

Since fiscal year 2016, Georgia has collected \$1.6 billion in fee revenue from the hotel-motel fee, averaging \$176 million annually. Under state law, these funds must be used for transportation purposes.

State Hotel-Motel Fee

Improvements needed for more effective collection of the hotel-motel fee

What we found

While the Department of Revenue (DOR) has identified most taxpayers subject to the hotel-motel fee, it should take additional steps to maximize revenue collected. DOR can use data to identify additional taxpayers that should be paying the fee and update taxpayer guidance to reflect current requirements. Additionally, DOR generally follows best practices for collections and audit procedures but lacks a strategic audit selection approach.

DOR has not updated guidance to reflect legislation passed in 2021.

In 2021, House Bill 317 expanded the scope of the hotel-motel fee to cover accommodations other than hotel and motel rooms. The legislation covered additional accommodation types, as well as marketplace innkeepers. However, DOR did not update all of its guidance to address the statutory changes. The agency initially issued a new policy bulletin in 2021, but it did not update its regulations to reflect the fee's expanded scope. As a result, DOR's website still includes outdated regulations and does not provide definitions of key terms (e.g., shelter and accommodation) necessary to understand the fee's broader applicability.

Additionally, DOR has not updated its audit procedures manual to include marketplace innkeepers or a current definition of the accommodation types for which the fee is required (though DOR staff said auditors receive annual trainings that include statutory updates). In our review of sales and use tax audits (with which hotel-motel fee audits should occur when relevant), we identified 19 sales and use tax audits that should have included a hotel-motel fee audit but did not.

DOR should take additional steps to identify taxpayers required to collect the fee.

While most taxpayers are remitting the fee, we identified some that likely should have been but are not. We reviewed

DOR's business registration and tax return data to assess the industry's compliance with remitting the fee. Of the approximately 5,200 taxpayers that may have been required to submit a hotel-motel fee tax return, we found 350 businesses (7%) that had never done so, although the fee may not be applicable to many of these (for varying reasons, such as a business ownership change or closure). While DOR's review of 20 taxpayers identified only one that should have been paying, a regular review of DOR data can help ensure all taxpayers subject to the fee are identified.

Additionally, DOR should expand its review to include all industries relevant to the fee, rather than its current practice of limiting reviews to only the hotel/motel industry. Other external data sets are also available to identify taxpayers not readily identifiable in DOR's data. However, DOR would need to weigh costs associated with acquiring and analyzing the data against the potential increase in revenue.

DOR follows best practices in collections and audit procedures but does not use a strategic process for audit selection.

DOR uses best practices to collect unpaid amounts when taxpayers do not pay the fee by the monthly deadline. In accordance with best practices, DOR uses automated notifications and assessments when a return is not filed or the full amount owed is not paid. If these are ineffective, a collections case is created for the Compliance Division. The division uses a risk-based strategy to prioritize cases with the greatest likelihood of collection. Between fiscal years 2016 and 2024, DOR collected \$19 million (74%) of the total \$25.5 million owed for unpaid hotel-motel fees.

DOR's audit procedures for the hotel-motel fee are also generally consistent with best practices, such as regular training and industry-specific guidance for auditors. However, DOR has not established a comprehensive strategy for selecting which accounts to audit. This strategy should reflect management's understanding of risk and the likelihood of additional revenue collection. Instead, DOR relies primarily on staff knowledge, reporting that approximately 80% of audits are selected by the individual auditors. As a result, the number and percentage of hotel-motel fee audits varied widely by county. In particular, among the 24 counties with more than 50 accounts, 9 (38%) had no audits.

What we recommend

We recommend that DOR update its guidance regarding the hotel-motel fee and explore options to identify additional taxpayers required to pay the fee. To better utilize its staff resources, we also recommend developing a risk-based audit selection strategy.

See **Appendix A** for a detailed listing of recommendations.

Agency Response: DOR agreed with the findings and recommendations. Agency responses are included at the end of each finding.

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Purpose of the Special Examination

This review of the state hotel-motel fee was conducted at the request of the House Appropriations Committee. Our review focuses on the following questions:

- To what extent does the Department of Revenue (DOR) ensure that all required innkeepers collect and remit the state hotel-motel fee?
- To what extent does DOR ensure innkeepers are remitting the correct fee amounts?

A description of the objectives, scope, and methodology used in this review is included in **Appendix B**. A draft of the report was provided to DOR for its review, and pertinent responses were incorporated into the report.

Background

State Hotel-Motel Fee

O.C.G.A. § 48-13-50.3 authorizes the state hotel-motel fee, which was first passed in 2015.¹ The statute originally required a nightly fee of \$5.00 to be levied on the rental of a hotel room² by an innkeeper. Funds collected were to be appropriated exclusively for transportation purposes.

In 2021, House Bill 317 expanded the fee's scope to include any room, lodging, or accommodation by an innkeeper (e.g., hotels/motels) or marketplace innkeeper. It also authorized the fee to be collected on additional types of accommodations (e.g., cabins, campgrounds) for which the fee was not previously required (see **Exhibit 1**). Additionally, House Bill 511—also passed in 2021—required the hotel-motel fee to be appropriated to the newly established Transportation Trust Fund within the Georgia Department of Transportation.



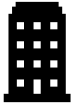

Innkeepers and marketplace innkeepers are responsible for collecting and remitting the \$5.00 fee for each night a customer is provided accommodation. As shown in **Appendix D**, certain types of stays are exempt, meaning innkeepers do not have to collect the fee, as outlined in state law and Department of Revenue (DOR) rules and regulations. This includes “extended stay rentals,” which are defined as accommodations made longer than 30 consecutive days to the same customer. The fee is collected for the first 30 days of a customer's stay; after 30 days, innkeepers are no longer required to collect the fee.

Marketplace innkeepers, typically a website, facilitate vacation or short-term rentals (including privately owned homes) of at least \$100,000 per year. See **Appendix C** for a list of additional key terms.

¹ Two bills enacted in 2015 included the creation of a hotel-motel fee. House Bill 170 was passed first, but its hotel-motel fee provision was superseded by House Bill 106, passed later in the same session.

² A “hotel” was defined in rules and regulations as a building with five or more hotel rooms under common ownership.

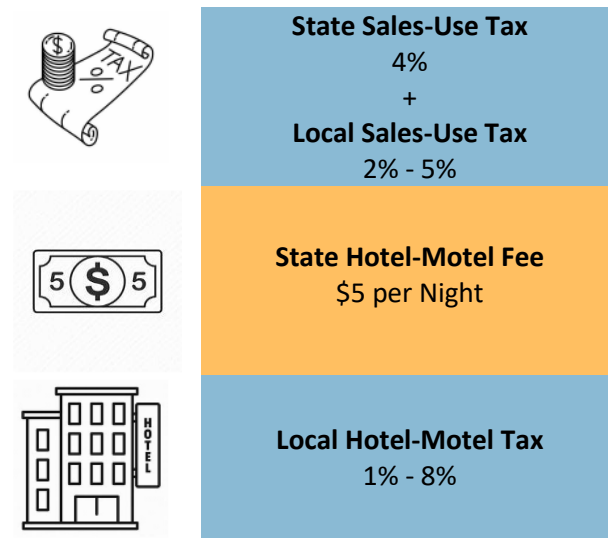
Exhibit 1
2021 legislation expanded the hotel-motel fee

		2015 Legislation	2021 Legislation
	Fee amount	\$5 nightly fee	\$5 nightly fee
	Accommodation type	Any hotel or motel room	Any room, lodging, or accommodation ¹ (e.g., hotel, motel, inn, lodge, tourist camp or cabin)
	Innkeeper definition	Operates a hotel or motel room	Operates accommodations subject to licensing or taxation by a city or county
	Marketplace innkeeper definition	N/A	Facilitates the provision of accommodations on behalf of another entity, if the total annual rental value is \$100,000 or more

¹ Excludes accommodations that do not provide physical shelter.
 Source: House Bills 170, 106, and 317

In addition to the hotel-motel fee, innkeepers³ must remit state and local sales and use taxes and a local hotel-motel tax (see **Exhibit 2**). The state sales and use tax is 4% of the base hotel rate, while local sales and use tax is between 2% and 5% and the local hotel-motel tax is between 1% and 8%. The local sales and use tax includes sales taxes such as Special Purpose Local Option Sales Tax (SPLOST) and Transportation Special Purpose Local Option Sales Tax (TSPLOST).

Exhibit 2
Georgia innkeepers collect and remit state and local taxes and fees



Source: O.C.G.A. § 48-13-50-51 and DOR FY23 Annual and Statistical Report

³ For the remainder of the report, the term “innkeepers” will include marketplace innkeepers, unless otherwise specified.

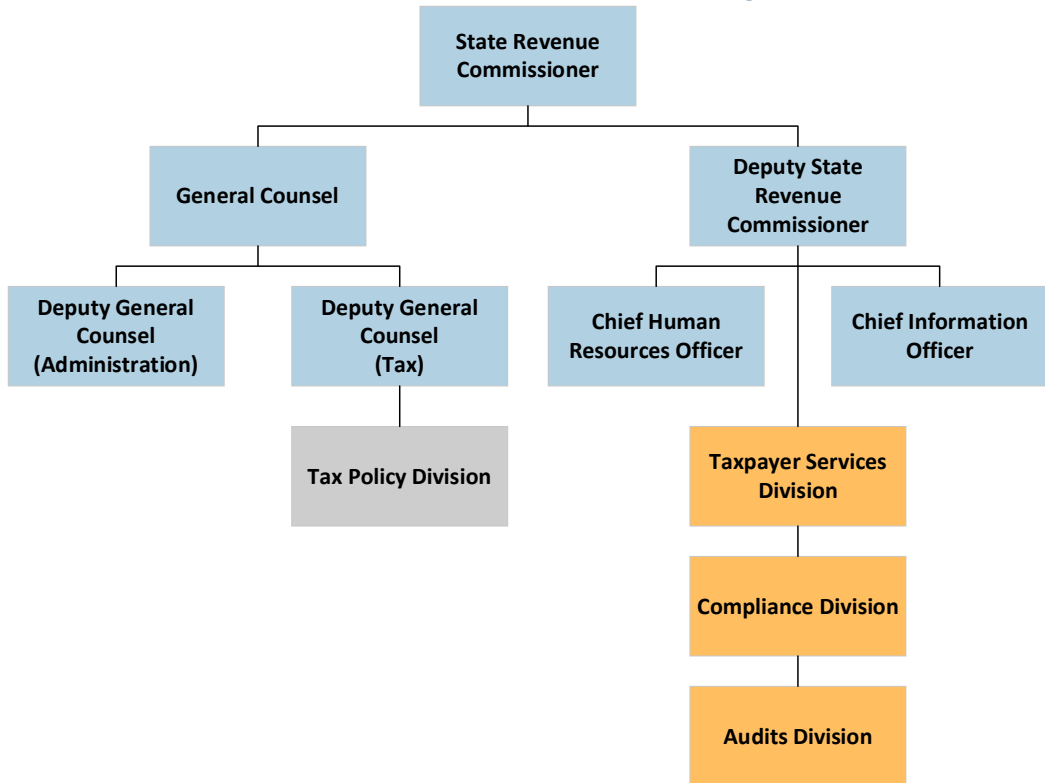
Hotel-Motel Fee Administration

DOR is responsible for collecting the state hotel-motel fee from innkeepers, along with the state sales and use tax and other taxes and fees (e.g., corporate and individual taxes, business license fees such as liquor license). Local governments collect the local hotel-motel tax imposed on innkeepers.

As shown in **Exhibit 3** and discussed below, DOR’s Taxpayer Services, Compliance, and Audits divisions are primarily responsible for implementing the hotel-motel fee (along with various other taxes and fees). The Tax Policy Division also assists with the hotel-motel fee by creating rules and regulations based on statute, as well as other guidance documents for taxpayers. Within these divisions, work involving the hotel-motel fee is often similar to, and completed in conjunction with, sales and use tax.

Exhibit 3

Multiple divisions are responsible for administering the hotel-motel fee¹



¹ There are other DOR divisions not included in this organizational chart.
Source: DOR organizational chart

- Taxpayer Services Division** – Within Taxpayer Services, the Trust Tax Unit (eight full-time equivalents) is the primary unit that processes payments, returns, and refunds for the hotel-motel fee and provides direct support to innkeepers. In limited circumstances, innkeepers needing assistance may be helped by other Taxpayer Services staff. For example, the division’s call center may answer general taxpayer questions.

- **Compliance Division** – Compliance ensures innkeepers that are delinquent in filing their return or remitting payment become compliant. The division operates 11 regional offices with 130 revenue officers, in addition to an office at DOR headquarters with 20 compliance specialists. Regional offices monitor activity within their territory.
- **Audits Division** – Audits is responsible for auditing selected innkeepers' hotel-motel fee returns, which includes verifying the accuracy of the innkeeper's tax return. The division has 51 sales and use tax auditors, who also audit hotel-motel fee returns. Of these, 30 audit in-state taxpayers, while 21 audit out-of-state taxpayers.

Hotel-Motel Fee Registration and Payment

As shown in **Exhibit 4**, the hotel-motel fee process includes several steps for taxpayers to remain in good standing. To remit taxes, taxpayers must register for any applicable tax accounts using the Georgia Tax Center (GTC), a portal for taxpayers to manage their tax needs. Innkeepers must register with DOR for a state hotel-motel fee account and a sales and use tax account. When setting up a new account, innkeepers are required to identify the appropriate NAICS code(s)⁴ for their business. This process is completed online using the GTC portal.

Exhibit 4

Administering the hotel-motel fee includes several steps



Registration & Filing

- Taxpayers create hotel-motel fee accounts and file monthly returns online via GTC.
- Filed by taxpayers monthly via GTC.



Amending Returns

- If necessary, returns may be amended within three years of initial filing, which may result in a refund.
- Processed by Taxpayer Services Division.



Collections Cases

- Delinquent returns or unpaid fees may result in a collections case.
- Investigated by Compliance Division.



Audits

- Taxpayers may be selected for an audit to verify the accuracy of their returns.
- Conducted by Audits Division.

Source: DOR documents and interviews

Innkeepers collect the \$5.00 fee from the customer for each applicable night of stay. By the 20th of each month, innkeepers must use GTC to file a return for the preceding month, report the number of applicable nights, and remit the fee amount to DOR. Innkeepers are allowed to deduct vendor's compensation⁵ if returns are filed and payment is made on time. Innkeepers are still required to

⁴ The North American Industry Classification System (NAICS) is the standard used by federal statistical agencies to classify business establishments for the purpose of collecting, analyzing, and publishing data related to the U.S. economy.

⁵ Taxpayers may deduct 3% from the first \$3,000 combined total for each location and 0.5% from any portion over \$3,000.

file a return for months during which no fee was collected. If an innkeeper fails to file a return or pay the full amount due, a penalty of either 5% of the tax owed or \$5.00 is added, whichever is greater. If errors were made on the original return, a taxpayer may amend their return within the three-year statute of limitations. An amended return may result in a refund, which is processed by the Taxpayer Services Division.

DOR’s Compliance Division opens a collections case when an innkeeper fails to file a return, does not pay the full amount owed, or pays late. Additionally, the Audits Division may audit a taxpayer to verify their return is accurate. Both collections investigations and audits can result in DOR assessing penalties against a taxpayer.

Hotel-Motel Fee Activity Data

Approximately 4,800 taxpayers have remitted the hotel-motel fee since it was first implemented in fiscal year 2016. Annual remittance has increased from approximately 2,150 taxpayers in fiscal year 2016 to more than 3,100 taxpayers in fiscal year 2024 (a 44% increase). The largest increase occurred in fiscal year 2022 (595, or 25%) after House Bill 317 expanded applicable accommodations and innkeepers.

Marketplace innkeepers are entities that remit the fee for numerous vacation or short-term rental locations (including private cabins and homes).

In fiscal year 2024, 3,125 taxpayers submitted at least one hotel-motel fee return. As shown in **Exhibit 5**, most taxpayers (2,071, or 66%) had fewer than 10,000 nightly stays (these were mostly local small businesses).⁶ While average fee revenue and nightly stays were highest among taxpayers with more than 100,000 nightly stays (i.e., high-volume hotels and marketplace innkeepers), taxpayers with 10,000 to 100,000 nightly stays (primarily national hotel and motel brands) represented the majority (59%) of total nightly stays and fee revenue.

Exhibit 5
Most of the fee is remitted by innkeepers with 10,000-100,000 nightly stays, FY 2024

Nightly Stays	Taxpayers	Average Nights	Total Nights	Average Fee ¹	Total Fee ¹
Less than 10,000	2,071	2,637	5,464,373	\$13,182	\$27,313,990
10,000 - 100,000	1,023	23,397	23,958,725	\$116,921	\$119,726,660
More than 100,000	31	358,743	11,121,027	\$1,785,917	\$55,363,420
Total	3,125	12,966	40,544,125	\$64,728	\$202,404,070

¹ The fee amounts reflect fees shown on the return prior to the vendor’s compensation deduction.
 Source: DOR fee return data and DOAA calculations

As shown in **Exhibit 6**, the hotel-motel fee accounts in fiscal year 2024 were primarily concentrated in the Metro Atlanta area⁷ (approximately 900) and along the Georgia coast (approximately 500), as well as near Blue Ridge (approximately

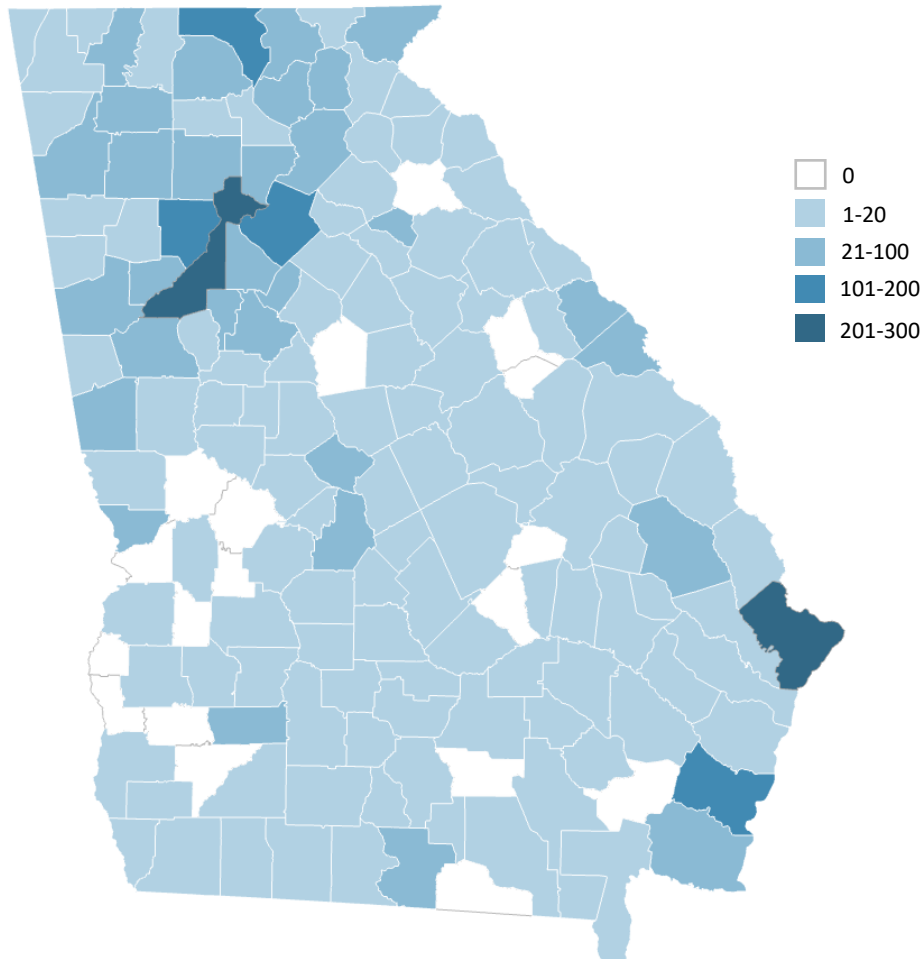
⁶ Additional information cannot be provided due to confidentiality concerns. General descriptions of the strata used to categorize taxpayers can be found in **Appendix B**.

⁷ According to the Atlanta Regional Commission, Metro Atlanta counties are Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gwinnett, Henry, and Rockdale.

200) and Macon (approximately 80). Together, these accounts represented approximately half of taxpayers remitting the fee. It should be noted that 18 counties had no hotel-motel fee accounts; therefore, no returns were filed from those counties.

Exhibit 6

Hotel-motel fee accounts are primarily concentrated around Atlanta and coastal Georgia, FY 2024

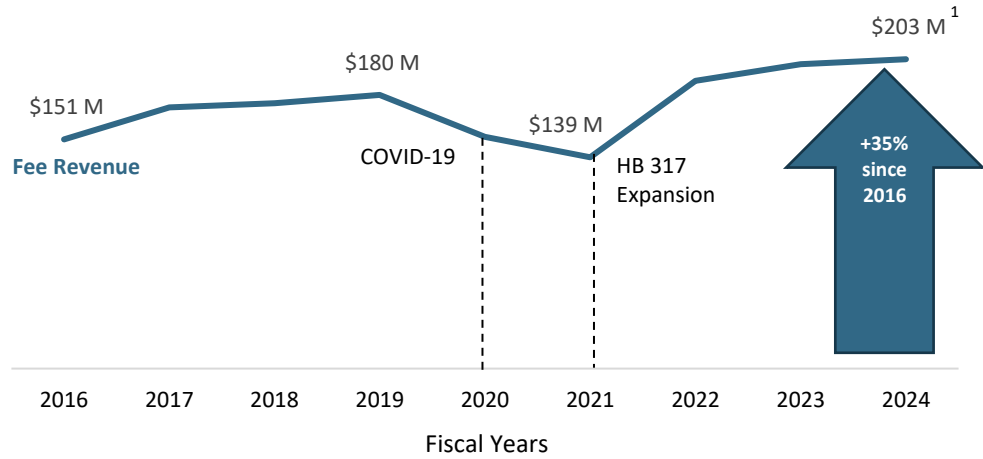


Source: DOR data

Financials

As shown in **Exhibit 7**, hotel-motel fee revenue has fluctuated since its implementation in fiscal year 2016, with an overall increase of nearly \$53 million (35%). The decrease in fiscal years 2020 and 2021 is primarily due to reduced travel during the COVID-19 pandemic, and the increase in fiscal year 2022 is due to both rebounding travel after COVID-19 and the expansion of the fee to include marketplace innkeepers and additional accommodation types.

Exhibit 7
Hotel-motel fee revenue increased by nearly \$53 million since implementation, FY 2016-2024



¹ The FY 2024 revenue amount is unaudited.

Source: DOR Annual and Statistical Reports and DOR Comparative Summary of State General Fund Receipts

Between fiscal years 2020 and 2023, DOR collected, on average, \$336 million in sales and use tax revenue annually for accommodations and \$170 million in hotel-motel fee revenue. The hotel-motel fee is small compared to other state taxes. For example, in fiscal year 2023, DOR collected \$200 million in hotel-motel fee revenue, while motor fuel tax was \$837 million.

Requested Information and Recommendations

Finding 1: DOR has identified most taxpayers required to pay the hotel-motel fee but should take additional steps to improve compliance.

We identified a limited number of taxpayers that were likely required to pay the hotel-motel fee but did not file a return or submit any payments between fiscal years 2016 and 2024. The Department of Revenue (DOR) has not identified all of these taxpayers, nor has it updated taxpayer guidance to reflect the fee's current legislative requirements.

Taxpayers report their industry to DOR using a NAICS (North American Industry Classification System) code. A regular review of relevant codes would help ensure taxpayers subject to the fee are identified.

Taxpayers required to collect taxes and fees must register for applicable accounts (e.g., sales and use tax, hotel-motel fee) through the Georgia Tax Center (GTC) to remit the revenue to DOR. During account registration, taxpayers enter their information as well as location address and NAICS code. Each month, the taxpayer uses their hotel-motel fee account to submit a return in GTC. (See registration and return process discussed on page 4 for more information.)

We reviewed GTC business registration data and hotel-motel fee tax return data to determine the extent to which DOR identified taxpayers subject to the fee. Between fiscal years 2016 and 2024, we identified approximately 5,200 taxpayers that may have been required to submit the fee. Among them, 350 (7%) had never submitted a hotel-motel fee return. To identify these taxpayers, we limited the registration data to accounts with a sales and use tax return and a NAICS code related to hotel-motel fee industries, and we performed a text search on business names with key terms related to hotel-motel fee innkeepers and accommodation types (e.g., bed and breakfast, inn). These taxpayers were then compared to hotel-motel fee tax return data.

It should be noted that some of the taxpayers we identified may not be subject to the fee—DOR completed an initial review of 20 and determined that only one should have been remitting the fee. Other identified taxpayers were not subject to the fee for various reasons. These taxpayers included a business that changed ownership but did not close the original account and a restaurant that operated at a hotel (which was paying the fee under a different account).

Regular review of taxpayers with relevant NAICS codes is necessary to ensure taxpayers subject to the fee are identified. DOR staff indicated the Compliance Division conducts a quarterly review, but we could not confirm this because DOR did not retain documentation. Additionally, DOR's review relies only on the hotel-motel NAICS code (as shown in **Exhibit 8**). While this population represents the majority of hotel-motel fee taxpayers, it does not include other relevant industries, such as bed-and-breakfast inns and recreational and vacation camps. Our expanded review included additional relevant NAICS codes and identified 91 taxpayers that would require additional investigation, which represented approximately 25% of the 350 that did not submit a return. These taxpayers would not be identified using the hotel/motel code.

Exhibit 8

DOR's review excludes applicable industries

NAICS Code	Definition	DOR Review
721110	Hotels (except Casino Hotels) and Motels	✓
561599	All Other Travel Arrangement and Reservation Services	✗
721191	Bed-and-Breakfast Inns	✗
721199	All Other Traveler Accommodation	✗
721211	Campgrounds and Campsites	✗
721214	Recreational and Vacation Camps (except Campgrounds)	✗

Source: North American Industry Classification System and DOR interviews

DOR's review could also be expanded to include external sources. External data may identify innkeepers that have not registered for a sales and use tax account or that used a different NAICS code during registration. For example, free data from the Georgia Department of Public Health includes information from county inspections of taxpayers applying for or renewing an official tourist accommodation classification (this includes taxpayers qualifying as innkeepers⁸). DOR could also contract with a third-party company that collects short-term rental information, though this would involve a monetary cost. Both options would require use of DOR's internal resources to analyze the data and take corrective action as necessary. DOR would need to weigh these costs against the potential increase in revenue.

Finally, DOR could further ensure all relevant taxpayers have registered for and pay the fee by:

- Updating Guidance** – DOR has not provided taxpayers with updated information following statutory changes in the hotel-motel fee applicability, which would increase voluntary compliance. When the hotel-motel fee innkeeper definition expanded in July 2021, DOR issued a policy bulletin with the new statutory definitions (though it did not define key terms such as “accommodation” or “shelter”), as well as limited guidance regarding the change. However, DOR did not update its regulations, so outdated hotel-motel fee regulations are still posted on DOR's website. Finally, Taxpayer Services Division staff indicated they received questions (e.g., on the marketplace innkeeper definition) after the expansion, but the Frequently Asked Questions page on DOR's website remains under construction.

Additionally, DOR indicated it had conducted outreach (i.e., notification

⁸ Department of Public Health data includes various accommodation types such as bed and breakfast inns, hotels, motels, campgrounds, and recreational vehicle parks, but it does not include marketplace innkeepers because they do not have two or more furnished rooms on a common property.

letters) around 2017 targeting entities with the hotel-motel NAICS code that had not registered for the hotel-motel fee accounts. However, this outreach effort was not repeated after the 2021 expansion.

- **Improving System Controls** – DOR has not implemented controls in its account registration system (GTC) to suggest taxes and fees that may be required based on the taxpayer’s self-selected industry NAICS code(s). Suggesting taxes and fees relevant to the industry selected could help the taxpayer comply with applicable laws. This issue is not limited to the hotel-motel fee but affects other taxes and fees as well. It should be noted that this mechanism would require changes to the GTC portal, which would incur a cost and must be weighed against DOR’s other planned changes.

DOR staff indicated that nonpayment of the fee is low risk, citing the franchisee/franchisor relationship. Hotel and motel chains usually involve a franchisee that owns and operates the individual location and a franchisor that owns the brand name and, according to DOR, helps ensure the franchisee is current with taxes. However, this relationship does not necessarily apply to other types of businesses subject to the fee, particularly once the innkeeper definition was expanded in 2021.

RECOMMENDATIONS

1. DOR should develop a strategy to review business registration data using industry-relevant NAICS codes and compare to those remitting the fee.
2. DOR should explore available industry data to determine its use in identifying taxpayers required to remit the fee.
3. DOR should issue new regulations for the hotel-motel fee and update the Frequently Asked Questions on its website.
4. DOR should develop an outreach strategy to inform taxpayers of the hotel-motel fee requirements.
5. DOR should explore changes within its accounts registration portal to help taxpayers identify applicable taxes and fees.

DOR Response: *The agency agreed with the finding and recommendations.*

Recommendation 1.1: *“DOR will continue to periodically review relevant industry-specific NAICS codes to verify all relevant businesses are registered and verify that they are remitting the hotel/motel fee.”*

Recommendation 1.2: *“DOR will explore available industry data to determine whether it would augment the current capabilities.”*

Recommendation 1.3: *“The Office of General Counsel (OGC) was already in the process of updating those regulations. The expected completion date is June 30, 2025. An updated list of FAQs is in process of completion by [the Taxpayer Services Division (TSD)]. They have an expected completion of June 30, 2025.”*

Recommendation 1.4: *“The Compliance Division’s new Outbound Call Center (Initial Contact Team) will update its procedures to include verification of [hotel-motel fee] compliance by the end of FY2025.”*

Recommendation 1.5: *“TSD will discuss changes to GTC for taxpayers registering online for Sales & Use Tax accounts to include a specific indicator for the Hotel Motel Fee registration with a website link for more information about other taxes and fees.”*

Finding 2: DOR follows best practices for hotel-motel fee collections.

DOR is generally effective at identifying and addressing instances in which registered taxpayers have not paid the fee by the monthly deadline. Specifically, DOR sends automated notifications when taxpayers do not file or remit payment as required. Additionally, DOR uses a risk-based methodology to prioritize the work of its compliance staff when cases are moved to collections. As a result, most of the fee amount owed from these taxpayers has been collected.

Taxpayers must submit a hotel-motel fee return and pay the total fee owed by the 20th of each month. DOR’s GTC portal automatically calculates this amount based on the number of nights reported by the taxpayer. Taxpayers then remit payment based on the amount reflected on their return. Approximately \$1.6 billion has been collected between fiscal years 2016 and 2024, or an average of \$176.4 million per year.

In the same period, approximately 4,000 collections cases were initiated against 2,300 taxpayers⁹ that did not file a return or remit payment by the monthly deadline. These cases are handled by DOR’s Compliance Division, which is responsible for collecting unpaid taxes from all registered taxpayers. For example, if a taxpayer owes \$1,000 in fees according to their return but pays only \$100— whether intentionally or in error—the division would work to recover the additional \$900.

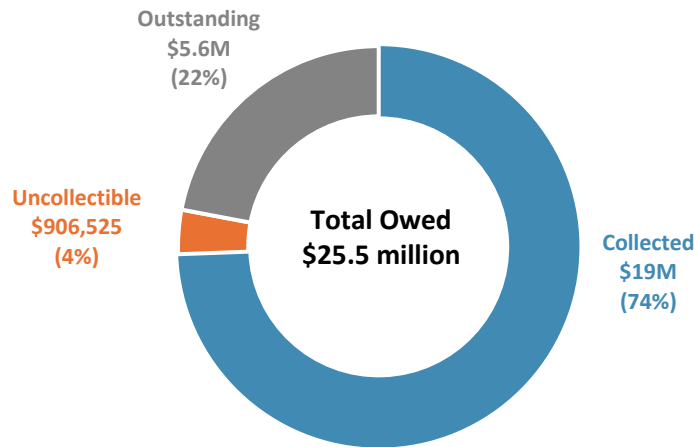
DOR has collected most of the total fee amount owed in collections cases originating between fiscal years 2016 and 2024. Of the \$25.5 million in expected fee collection from the nearly 4,000 delinquencies, DOR has recovered \$19 million (74%), as shown in **Exhibit 9**. (This \$19 million represents 1% of the total \$1.6 billion in hotel-motel fees DOR has collected since fiscal year 2016.) From the \$6.5 million still outstanding, the division has categorized

⁹ Some taxpayers generated more than 10 cases in the period reviewed.

approximately \$906,500 (14%) as uncollectible¹⁰—meaning DOR’s efforts to recoup monies due have failed and staff do not believe it will be collected (e.g., the business has closed). For \$4.5 million (69% of the \$6.5 million outstanding), the taxpayer is on a payment plan or other collection action such as a lien, and taxpayers for the remaining \$1.1 million (18%) are in the early stages of collections.

Exhibit 9

DOR has collected most of the fee owed from collections, FY 2016-2024



Source: DOR collections data

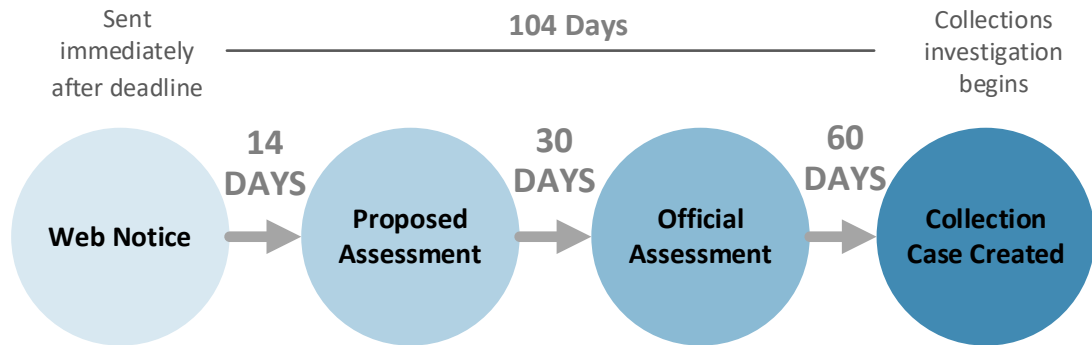
Taxpayers with no nightly stays in a given month are still required to file a return. Failure to file results in penalties.

DOR’s collections process aligns with best practices that recommend providing taxpayers with timely notifications to encourage payment. As shown in **Exhibit 10**, DOR uses an automated notification process, through its information system known as ITS, to inform taxpayers at regular intervals when they have not filed and/or remitted payment for the fee by the monthly due date or next cycle¹¹ date. While the web notice reminds taxpayers to submit their return and/or remit payment, proposed and official assessments serve as additional reminders and include penalties (e.g., late filing penalty) prior to the creation of a collections case. Collections cases are created 104 days following the initial web notice.

¹⁰ DOR writes off remaining fee liabilities after the statute of limitations passes for the money to be recovered despite DOR’s collection efforts.

¹¹ The compliance cycles renew on the 20th of each month.

Exhibit 10
DOR uses an automated notification system for noncompliance



Source: DOR documents and interviews

Once a collection case is created, DOR uses a risk-based strategy to determine whether collections cases will be assigned to staff or sent to an unassigned queue.¹² This strategy helps DOR prioritize its resources by focusing on cases with higher likelihood of significant revenue collection. Between fiscal years 2016 and 2024, the division averaged approximately 550 hotel-motel fee collections cases annually.

DOR Response: *The agency agreed with the finding.*

Finding 3: The hotel-motel fee refund controls are not clearly defined, but few problems were identified.

DOR has not adequately documented controls for processing the hotel-motel fee refunds requested by taxpayers, which could contribute to inconsistencies or inaccuracies. However, we did not identify any widespread problems in the sample of refunds reviewed.

Per O.C.G.A. § 48-2-35, taxpayers are entitled to a refund for any taxes or fees that have been erroneously or illegally collected within the three-year statute of limitations. To do so, taxpayers can either amend their original return or submit a refund claim. If approved for a refund, the taxpayer may decide to use the approved amount to offset liability for other tax types (e.g., withholding tax) instead of receiving the refund. If the taxpayer has an outstanding hotel-motel fee liability, DOR’s system will automatically use the refund amount to offset the liability.

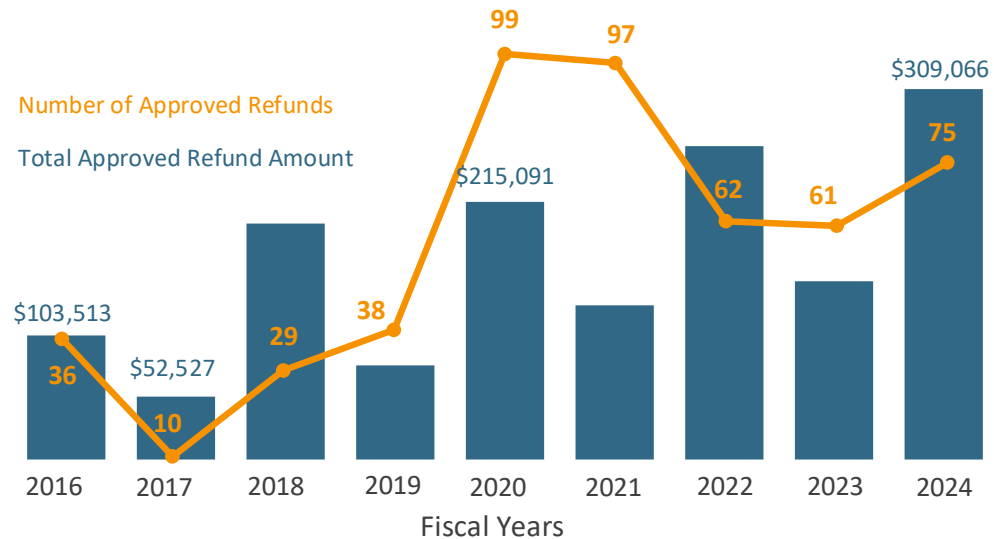
Between fiscal years 2016 and 2024, DOR’s Taxpayer Services Division processed 654 refunds for the hotel-motel fee (both amended returns and requested refund

¹² Compliance staff are assigned collections cases from the unassigned queue once they have exhausted cases in their respective regions.

claims), resulting in 515 refunds¹³ worth approximately \$1.5 million issued back to taxpayers. As shown in **Exhibit 11**, the amount of hotel-motel fee refunds issued has increased overall, although there have been year-to-year fluctuations. DOR indicated that spikes in refund amounts are typically due to one or two large refunds. Approved refunds ranged from \$5 to nearly \$150,000, with a median of approximately \$380.

Exhibit 11

Hotel-motel fee refunds¹ have increased overall despite annual approval fluctuations, FY 2016-2024²



¹ Graphs do not include hotel-motel fee refunds that were approved and used to offset other tax liability.

² DOR indicated spikes in refund amounts are typically due to one or two large refunds.

Source: DOR refund data

We reviewed a sample¹⁴ of refunds (117 of 654 total refunds) from fiscal years 2016 to 2024 and did not find any widespread problems (e.g., refunds erroneously paid or rejected). However, we did find that DOR lacked a clear system of controls for the hotel-motel fee refunds, as described below.

- **Insufficient Written Procedures** – During the course of the audit, DOR developed written hotel-motel fee refund procedures.¹⁵ These procedures do not ensure staff processing refund claims know when to approve or deny the claim; for example, they do not contain guidance regarding what documentation is sufficient to support the request.
- **Unclear Batch Processing Controls** – Between fiscal years 2016 and 2024, approximately \$307,000 in fee refunds across 51 taxpayers were

¹³ The other 139 refunds were generally either used to offset other tax liability or were returned to DOR (typically due to an incorrect taxpayer address).

¹⁴ This was a non-representative sample; results cannot be extrapolated. See **Appendix B** for additional details.

¹⁵ DOR initially provided written procedures from October 2023 that covered the overall refund process. However, staff indicated those procedures had not been implemented due to inaccuracies and the need for additional details.

automatically approved by DOR's system. DOR staff were unsure of the parameters for when refunds are automatically approved by the system without a tax examiner's review.

- **Unclear Supervisory Review Policy** – DOR staff were unsure of when a fee refund would require a supervisor's review. We received conflicting answers as to whether supervisors review all fee refunds or only those larger than \$10,000, and the current procedures do not specify. We reviewed seven approved refunds greater than \$10,000 and found five had a supervisory review.

RECOMMENDATIONS

1. DOR should formalize written procedures that provide tax examiners with adequate guidance regarding whether a hotel-motel fee refund should be approved or denied.
2. DOR should reassess its system of controls around the fee refund and determine whether additional controls are needed.

DOR Response: *The agency agreed with the finding and recommendations.*

Recommendation 3.1: *“Documentation will be updated by June 30, 2025.”*

Recommendation 3.2: *“DOR will reassess its refund controls and procedures to determine if additional controls are needed.”*

Finding 4: DOR's audit procedures align with best practices but lack a strategic process for selecting audits.

DOR audits the hotel-motel fee in conjunction with sales and use tax audits but has not done so in a manner that ensures the efficient use of resources. While procedures regarding how to audit the fee are consistent with best practices, DOR has not established a strategy for selecting which accounts to audit. Additionally, auditors have not always included the fee when auditing the sales and use tax.

DOR auditors verify the accuracy of tax returns and refund claims in the state, which is critical to ensuring compliance with tax laws. The Audits Division employs 51 sales and use tax auditors, who also audit hotel-motel fee returns. (Another 66 auditors review other taxes, including individual income tax and various excise taxes.) Depending on their business activities, taxpayers audited for sales and use tax may also be required to submit the hotel-motel fee, which would also be subject to an audit. According to DOR staff, the fee would be audited simultaneously with a sales and use tax audit.

DOR’s procedures for auditing the fee align with many industry best practices, as shown in **Exhibit 12**. DOR provides industry-specific guidance (e.g., how to audit retail, auto dealers, hotels) to staff as well as monthly and annual trainings. During the audit review, auditors stratify taxpayer records based on the dollar amount of the invoice to select a sample for review. When the audit is complete, taxpayers may use an appeals process to address any disagreements with the assessment.

Exhibit 12
DOR audit procedures align with many best practices

Best Practice	DOR Audits
Staff receive audit training regularly	✓
Industry-specific audit guidance is provided	✓
Audits are selected using a risk-based process	✗
Staff select records based on a stratified sample	✓
Appeals process is available to taxpayer	✓

Source: Analyst review of industry publications, DOR audit manual, and DOR interviews

One area not included in DOR’s procedures is a risk-based selection strategy for identifying which taxpayers will undergo a sales and use tax audit, which would include the hotel-motel fee as relevant.¹⁶ Best practices recommend a comprehensive strategy that reflects management’s understanding of risk and the likelihood of additional revenue collection. This could include recent legislative changes, business size, or prior noncompliance. The Internal Revenue Service (IRS) uses risk-based scoring¹⁷ to help identify candidates for audit, but a risk assessment could take other forms. For example, management can identify audit candidates by reviewing internal and/or external data (e.g., tax returns, ratios), reviewing completed audits, and using local auditor knowledge.

DOR has primarily relied on individual auditor knowledge rather than formulating a more comprehensive statewide strategy for selecting audits. DOR estimated that 80% of sales and use tax audits are selected by auditors, but we could not verify this percentage due to data limitations. DOR indicated auditors propose audits based on observations of capital projects, branding changes, additional research, and related audits. DOR also stated that assignments are typically within 50 miles of the auditor’s residence (auditors may travel farther if there are sufficient concerns about a taxpayer’s compliance, but this is rare).

DOR’s practice of relying on auditor selection has led to inconsistencies in hotel-motel fee audit frequency across the state. According to DOR data, 149 hotel-motel fee audits have been conducted since fiscal year 2016. A third of the audits occurred in two counties—Richmond (30) and Chatham (19). Audit concentration

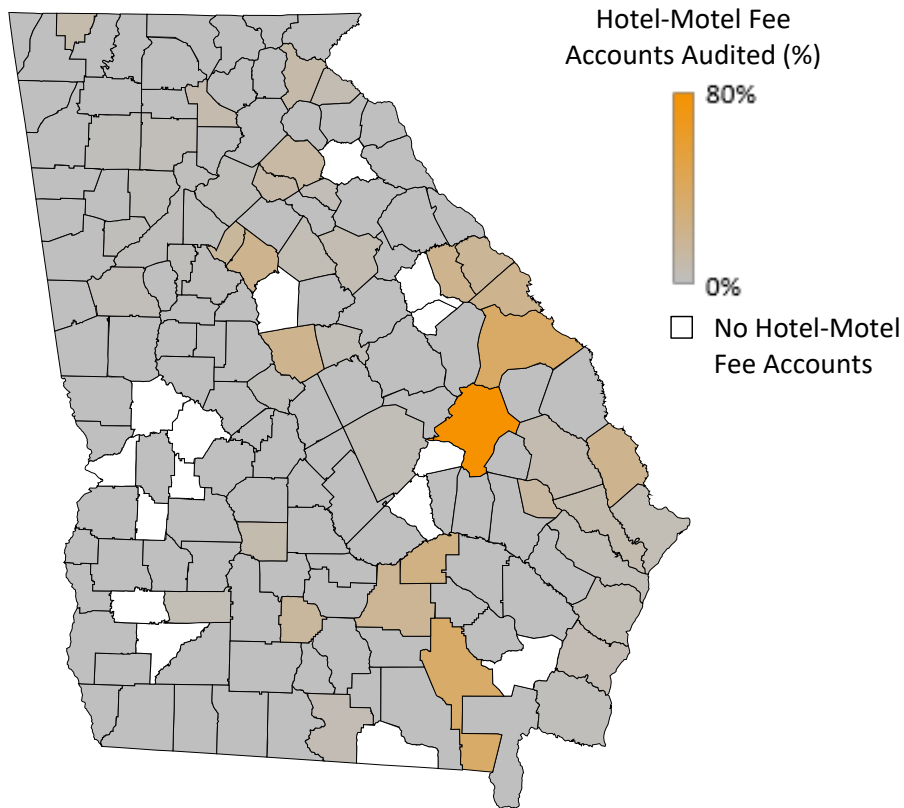
¹⁶ The audit may also include other taxes under sales and use tax such as the Title Ad Valorem Tax Fee.

¹⁷ The IRS uses computer scoring to rate taxpayer returns’ potential for change based on past IRS experience with similar returns and potential for unreported income. IRS staff select taxpayers for audit from those with highest-scoring returns.

did not always coincide with where the most accounts were located. In particular, some counties with a significant number of hotel-motel fee accounts had no audits (e.g., Fannin and Muscogee, which have 171 and 84 accounts, respectively). As shown in **Exhibit 13**, the percentage of hotel-motel fee accounts audited has varied significantly—Chatham’s 19 audits represent 4% of the 447 accounts, while 80% (8) of the 10 accounts in Emmanuel County have been audited.

Exhibit 13

The percentage of hotel-motel fee accounts audited varied widely, FY 2016-2024



Source: DOR fee monthly return data and analyst calculations

Based on our review of sales and use tax audits over the past five years, additional hotel-motel fee audits should have been conducted. Between fiscal years 2020 and 2024, 55 sales and use tax audits included a hotel-motel fee audit (2.6% of the 2,152 sales and use tax audits completed). Using NAICS codes, we identified an additional 19 sales and use tax audits that should have included a hotel-motel fee audit.¹⁸ These included major hotel chains in several counties across Georgia.¹⁹

¹⁸ The audit team identified NAICS codes relevant to the fee and then reviewed sales and use tax audits with these NAICS codes that did not include a hotel-motel fee audit (see **Appendix B** for additional methodology description). This is likely a conservative estimate because NAICS codes are selected by the taxpayer. DOR confirmed these 19 should have had a hotel-motel fee audit.

¹⁹ Additional information cannot be provided due to confidentiality concerns.

Additionally, since July 2021 (when statute expanded the types of taxpayers eligible for the fee) DOR has only audited one entity that falls under the new definition and has not audited any marketplace innkeepers. DOR's audit procedures have not been updated to reflect the statutory changes (i.e., the inclusion of tourist camps and cabins, campgrounds, and marketplace innkeepers). DOR indicated auditor training was provided at the time of the statutory change.

It should be noted that DOR has used random selection to audit the fee in the past. During the initial fee rollout in fiscal year 2018, DOR used the hotel/motel NAICS code to randomly select 11 accounts to audit.²⁰ Of these audits, just over half (6) had no additional fee due, while the remainder (5) resulted in a total assessment of nearly \$18,500, with fees and penalties. As a result, DOR concluded the industry to be highly compliant. However, DOR has not repeated this analysis since the statutory expansion in 2021. In particular, marketplace innkeepers—while in the hospitality industry—function differently from hotels and motels. As a result, the extent of the current population's compliance is unknown.

RECOMMENDATIONS

1. DOR should develop a risk-based strategy for audit selection.
2. DOR should update its policies and procedures manual to reflect the current hotel-motel fee legislation.
3. DOR should reiterate to staff its policy to include the hotel-motel fee in sales and use tax audits when appropriate.

DOR Response: *The agency agreed with the finding and recommendations.*

Recommendation 4.1: *“DOR will develop a risk-based strategy for audit selection.”*

Recommendation 4.2: *“The Audits Division is currently updating all audit manuals, an action item on the DOR Strategic Plan slated for completion by the end of Fiscal Year 2027.”*

Recommendation 4.3: *The agency agreed with the recommendation.*

²⁰ Random sampling is typically used to evaluate a population's overall compliance. With a sufficient sample, results can be generalized to the population.

Appendix A: Table of Findings and Recommendations

	Agree, Partial Agree, Disagree	Implementation Date
Finding 1: DOR has identified most taxpayers required to pay the hotel-motel fee but should take additional steps to improve compliance. (p. 8)		N/A
1.1 DOR should develop a strategy to review business registration data using industry-relevant NAICS codes and compare to those remitting the fee.	Agree	
1.2 DOR should explore available industry data to determine its use in identifying taxpayers required to remit the fee.	Agree	
1.3 DOR should issue new regulations for the hotel-motel fee and update the Frequently Asked Questions on its website.	Agree	End of FY25
1.4 DOR should develop an outreach strategy to inform taxpayers of the hotel-motel fee requirements.	Agree	End of FY25
1.5 DOR should explore changes within its accounts registration portal to help taxpayers identify applicable taxes and fees.	Agree	
Finding 2: DOR follows best practices for hotel-motel fee collections. (p. 11)		N/A
No recommendations		
Finding 3: The hotel-motel fee refund controls are not clearly defined, but few problems were identified. (p. 13)		N/A
3.1 DOR should formalize written procedures that provide tax examiners with adequate guidance regarding whether a hotel-motel fee refund should be approved or denied.	Agree	End of FY25
3.2 DOR should reassess its system of controls around the fee refund and determine whether additional controls are needed.	Agree	
Finding 4: DOR's audit procedures align with best practices but lack a strategic process for selecting audits. (p. 15)		N/A
4.1 DOR should develop a risk-based strategy for audit selection.	Agree	
4.2 DOR should update its policies and procedures manual to reflect the current hotel-motel fee legislation.	Agree	End of FY27
4.3 DOR should reiterate to staff its policy to include the hotel-motel fee in sales and use tax audits when appropriate.	Agree	

Appendix B: Objectives, Scope, and Methodology

Objectives

This report examines the Department of Revenue's administration of the state hotel-motel fee. Specifically, our examination set out to determine the following:

1. To what extent does the Department of Revenue (DOR) ensure that all required innkeepers collect and remit the state hotel-motel fee?
2. To what extent does DOR ensure innkeepers are remitting the correct fee amounts?

Scope

This special examination generally covered activity related to the state hotel-motel fee administered by DOR that occurred from fiscal years 2016 to 2024. Information used in this report was obtained by reviewing relevant laws, rules, and regulations; reviewing agency documents (e.g., operating procedures); interviewing agency staff; conducting a site visit to review hotel-motel fee refunds; reviewing industry publications; and reviewing audits in other states that addressed similar fees for rental accommodations. Additionally, we obtained and analyzed hotel-motel fee data from DOR's Integrated Tax Solution (ITS) database, which included data on taxpayer information, tax returns, collections cases, refunds, and audits. We assessed the data and determined it was sufficiently reliable for our analysis.

Due to legal restrictions, specific information relating to the risk-based strategy used by DOR's Compliance Division, refund claim thresholds used by DOR's Audits Division, and specific taxpayer information is omitted from the report.

Government auditing standards require that we also report the scope of our work on internal control that is significant within the context of the audit objectives. All of our objectives address aspects of the internal control structure relating to DOR's administration of the state hotel-motel fee. Specific information related to the scope of our internal control work is described by objective in the methodology section below.

Methodology

To determine the extent to which DOR ensures all required innkeepers collect and remit the hotel-motel fee, we reviewed current and previous versions of state laws, rules, and regulations to identify which taxpayers are considered innkeepers for the purpose of the fee. We interviewed DOR staff, reviewed DOR's website, and reviewed the tax registration process to determine how DOR identifies and notifies taxpayers responsible for collecting the fee. We reviewed best practices regarding notification to taxpayers of applicable laws from the Organization for Economic Cooperation and Development (OECD) and the Government Accountability Office (GAO) and compared them to DOR's processes.

We interviewed DOR staff and reviewed North American Industry Classification System (NAICS) codes from the U.S. Census Bureau to identify industries that align with statutory requirements for the hotel-motel fee. As a result, we identified five NAICS codes in addition to the code for hotels/motels and obtained DOR's sales and use tax business registration data from fiscal years 2016 to 2024 for taxpayers that selected any of the six NAICS codes. We also obtained DOR's hotel-motel fee monthly tax return

data for fiscal years 2016 to 2024 for taxpayers that registered and/or remitted the fee. We compared the business registration data with the hotel-motel fee monthly tax return data to identify taxpayers that did not have an associated hotel-motel fee tax return. We then conducted a text analysis of the business registration data for these taxpayers, searching for key terms such as “inn,” “bed and breakfast,” and “lodge” that indicate the taxpayer may be statutorily required to remit the hotel-motel fee. Using this methodology, we identified 350 taxpayers that may have been required to but did not remit the fee. DOR conducted an initial review of 20 of these taxpayers and indicated 19 were either remitting the fee as required under a different account or were not required to collect the fee.

We interviewed DOR staff and reviewed training materials to determine how DOR identifies and addresses instances where a taxpayer has not filed the monthly return or paid the full fee amount, as required. We reviewed best practices from OECD and GAO regarding this type of taxpayer noncompliance and compared them to DOR’s processes. We obtained and analyzed DOR data regarding hotel-motel fee collections cases that had been opened between fiscal years 2016 and 2024.

To determine the extent to which DOR ensures innkeepers are remitting the correct fee amounts, we interviewed DOR staff about controls in place in ITS and the Georgia Tax Center when taxpayers remit the fee. We reviewed best practices regarding refund and audit procedures, including internal guidance and risk assessments from the OECD and the GAO and compared them to DOR’s processes.

We interviewed staff from DOR’s Taxpayer Services Division regarding hotel-motel fee refund processes and the controls in place to ensure refunds are not erroneously paid or rejected. We reviewed two versions of the operating procedures for refunds, including an unimplemented version from October 2023 and a version created during the course of the audit. We obtained and analyzed hotel-motel fee refund data to identify trends in the number and the amount of refunds issued. We looked at trends by fiscal year, based on the refund request date because the filing period was often unavailable.

We also conducted a site visit to DOR’s central office to review a sample of hotel-motel fee refunds to determine whether the process followed what staff had described. We reviewed a total of 117 refunds, which included both a random sample (80) and a non-random sample (37). Due to time constraints, the random sample reviewed was not large enough to project results to the full population. The non-random sample included refunds with a status of “rejected,” refunds approved for amounts greater than \$5,000, refunds with approved amounts more than \$1,000 larger than the requested amount, and refunds that took more than 31 calendar days to process.

We interviewed staff from DOR’s Audits Division and reviewed DOR’s audit procedures manual to determine how DOR verifies the accuracy of tax returns and remittances. We compared DOR’s audit procedures with best practices from OECD and the Internal Revenue Service. We obtained hotel-motel fee audit data and analyzed it to determine the number of taxpayers that had been audited and the percentage of taxpayers audited by county. We also obtained sales and use tax audit data to determine whether DOR always conducted hotel-motel fee audits when conducting a sales and use tax audit at applicable entities.

We treated this review as a performance audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides

a reasonable basis for our findings and conclusions based on our audit objectives.

If an auditee offers comments that are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, auditing standards require us to evaluate the validity of those comments. In cases when agency comments are deemed valid and are supported by sufficient, appropriate evidence, we edit the report accordingly. In cases when such evidence is not provided or comments are not deemed valid, we do not edit the report and consider on a case-by-case basis whether to offer a response to agency comments.

Appendix C: Key Terms and Definitions

Key Term	Definition ¹
Innkeeper	Any person or entity that rents accommodations to the public and is required by their local government to pay business and occupation taxes for operating a hotel, motel, inn, lodge, tourist camp, tourist cabin, campground, etc. A “marketplace innkeeper” is also considered an innkeeper for the purposes of the hotel-motel fee.
Marketplace Innkeeper	A person or entity that facilitates the rental of accommodations by providing services such as marketing, taking reservations, and processing payments on behalf of a marketplace seller. A marketplace innkeeper must collect and remit the hotel-motel fee if combined total sales from its sellers equals or exceeds \$100,000 in the previous or current calendar year.
Marketplace Seller	For the purposes of the hotel-motel fee, a property owner (such as the owner of a vacation rental) who lists their property for rent through a physical or online marketplace that is operated by a marketplace innkeeper.
Hotel	A building that has 5 or more hotel rooms under common ownership, regardless of the name of the facility and regardless of how the facility classifies itself. Example: A guest rents a cabin at a facility that has 10 free-standing cabins on a single property. Each cabin is offered as a single accommodation, and the guest renting the cabin has access to all the rooms in the cabin. The cabin is not a “hotel” because it does not have 5 or more hotel rooms.
Hotel Room	A room (or suite of conjoined rooms offered as a single accommodation) (i) In a hotel (ii) That is used to provide private sleeping accommodations to paying customers, and (iii) That typically includes linen or housekeeping service. A room is a hotel room only if the customer has the right to exclude other customers from the room. Example: A facility consists of rooms with beds for rent. A customer renting a bed in a room does not have the right to exclude another customer from renting a bed in the same room. Since the room is not a private sleeping accommodation, it is not a “hotel room.” Example: A camp provides overnight sleeping accommodations in multi-bed, single-room cabins. The guest provides their own bedding. The accommodations provided by the camp are not “hotel rooms” because they are not private and because the camp does not provide linen service. Example: A hotel rents a suite with two bedrooms, two bathrooms, and a kitchen at a nightly rate of \$400. The suite comprises one “hotel room.”
Extended Stay Rental	An accommodation rented for at least 31 consecutive days.

¹ Definitions here are simplified for the reader. Please refer to statute and regulation for more specific legal definitions.
 Source: O.C.G.A. §§ 48-13-50 and 48-8-2 and DOR Rule 560-13-2

Appendix D: Hotel-Motel Fee Exemptions

Exemption		Description ¹
Regulatory	Federal Government	Rooms rented to federal employees.
	Foreign Diplomats	Rooms rented to members of a diplomatic foreign mission.
	Student Housing	A facility providing housing to students, so long as the facility does not also provide typical hotel services (e.g., housekeeping).
	Special Care Facilities	A facility licensed by the state of Georgia that provides care to people needing special assistance due to age, illness, or mental or physical incapacity.
	Rooms Used by the Hotel	Rooms used by the hotel in order to provide hotel services.
Statutory	Residential Displacement	Accommodations provided as a result of a natural disaster.
	Complimentary Accommodations	Rooms and/or facilities provided without charge.
	State Government	Rooms rented to Georgia state or local government employees.
	Extended Stay Rentals	An accommodation rented for at least 31 consecutive days. The fee is collected for the first 30 days and is no longer collected on or after the 31 st day.
<p>¹ The descriptions here are simplified for the reader. Please refer to statute and regulation for more specific legal definitions. Source: O.C.G.A. § 48-13-51 and Rule 560-13-2-.01</p>		

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