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TOT Amnesty for Homeowners of Short-Term Rentals in Los Angeles

Gary Sperling <sperling_gary@yahoo.com>

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Cc: Raine Phillips <raine@la-stra.org>, LA-STRA <RobertCraig2015@yahoo.com>, Gary Sperling <sperling_gary@yahoo.com>

BY EMAIL:

**Sharing Economy Work Group
Attn: Sharon Gil and Richard Williams
Los Angeles City Clerk Office
200 N. Spring Street, Room 360
Los Angeles, CA 90012**

Re: TOT Amnesty for Homeowners of Short-Term Rentals in Los Angeles

Dear Members of the Sharing Economy Work Group,

I am writing to address potential first steps for the City of LA to most effectively collect transient occupancy tax (TOT) from a rapidly-growing segment of its economy, short term home rentals ("STRs"). According to an "Economic Impact Study" conducted by the Los Angeles Short-Term Rental Alliance, ("LA-STRA") attached below, STR's in the Los Angeles area could account for close to \$30M in TOT revenue.

Until very recently, most STR owner-operators did not know they were required to register their businesses and/or collecting TOT. Now that the issue has emerged, most are prepared to comply.

The City of Los Angeles is now notifying STR owners of the obligation to pay the TOT. However, if the City announces that prior, unpaid TOT will be collected, and audits of prior years conducted (with added interest and penalties), many STR homeowners will, unfortunately, not comply. Registration and taxpaying will be evaded due to the onerous

burden that prior-year TOT presents.

I have attended several meetings of STR owners, many of whom are single men and women having a hard time paying their rent and/or mortgages in these expensive times. Many are otherwise unemployed. Every meeting I've attended includes not only STR owners who explain that if it were not for their ability to rent that back bedroom or even their entire house, they would have lost their homes to foreclosure; that they could not pay for food and necessities. These individuals that also include some professional Property Managers cannot possibly face a tax bill representing more than 50% (3-4 times 14% plus interest and penalties) of what they have been collecting each year.

The City Finance Office wants STR homeowners to register and to start paying taxes. **The single largest deterrent to any STR homeowner is the fear of being prosecuted for prior years.**

Ideally, the City can have all its STRs registered and on a current, tax-paying basis. This will allow the City to better understand how large the industry is, how many participants there are, where they are located and what problems exist. Fair regulation begins with registration. The largest obstacle to registration is the threat of retroactive tax collection and the highest degree of TOT compliance will occur if there is amnesty. It is also likely that current TOT taxes will not be paid by many who are afraid that a single payment in 2015 will trigger an audit that they cannot afford.

What to do? How can the city encourage registration and maximize current tax payments? The City Council should direct the City Attorney to draft a regulation that provides that **any STR homeowner who registers and pays all current TOT taxes on or after a specific date will be exempt from any prior uncollected and unpaid TOT**. If this happens I predict that virtually every STR homeowner will comply. Sometimes the best solution to a long-lingering, previously-ignored problem is to start anew and grant amnesty to those who were unaware and not in compliance. **Amnesty from retroactive TOT taxes** would be the fastest way to get all the STR homeowners registered and on a current taxpaying basis.

Let's create a governing community in which all the stakeholders can come safely to the table and participate. Let's create an environment that will encourage every STR homeowner to register and collect and pay the TOT tax. Let's remove the fear of tax-collector-induced bankruptcy and replace it a fresh, inclusive solution.

By implementing TOT amnesty, the City can ensure STR homeowners will understand and comply with their TOT obligations. The city coffers will swell. The City will have data on all the STR within its borders. It can then intelligently and fairly start regulating this growing, important new industry.

Yours truly,

Gary Sperling

Attachment: LA-STRA - Economic Impact Study

BCC:

L.A. Department of Planning
California Coastal Commission
Council District 11
City of L.A. Legislative Analyst
City of Finance
City Attorney
Mayor Eric Garcetti
City Councilman