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**Disclaimer:** This manual has been written for the purposes of a training tool and as a reference guide for the auditor. Any references to taxability, administrative policies, laws, and rules are subject to change due to administrative hearings and actions of the courts or legislature. While the content of the manual is current as of the revision date, the reader is responsible for any changes occurring after this date and should verify the current status of any information by contacting the Comptroller of Public Accounts toll free at 800-252-5555.

# Chapter 1

# Overview of Hotel Occupancy Tax

- [Introduction](#)
- [Audit Period](#)
- [Certificate of No Tax Due](#)
- [Hotel Managing Companies](#)
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## Introduction

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This procedure manual has been written as a training tool and reference guide for the auditor. Basic audit procedures and techniques are outlined in the Auditing Fundamentals Manual. This manual is applicable to Hotel Occupancy Tax Audits. Audit procedures and related characteristics unique to the hotel industry are covered in this manual. The purpose of this manual is to present suggested audit procedures that conform to standard audit practices.

Users of this manual are responsible for insuring that any statute or procedural changes that occur after the published date of this manual are taken into consideration. Taxpayers and any other users of this manual should review applicable statutes and rules and any changes that have been made to the rules or statutes. A good source of information is the Comptroller's hotel occupancy receipts files located on the "[Hotel Tax](#)" [Web page](#) on the Comptroller's website.

Updated overnight, hotel receipts are listed monthly and quarterly by city and include taxpayer numbers, addresses, capacity, and reported receipt amounts. Monthly and quarterly hotel receipt data for the state is also available by downloading compressed files, but are only current as of the date listed.

## Audit Period

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The Hotel Occupancy Tax has a four-year statute of limitations. A taxpayer may sign a waiver to extend the statute period. Refer to the [Auditing Fundamentals Manual](#) for instructions to complete the form "Agreement to Extend Period of Limitation."

For audits of entities that include tax collected not remitted or audited taxes that are in excess of 25% of reported amounts - the audit period may cover more than four years. This is due to an exception in the statute. Audit periods in excess of four years must be pre-approved by Audit's designated headquarter personnel.

## Certificate of No Tax Due

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A certificate of no tax due may be requested by either the seller or the purchaser of a business. A certificate stating the amount due or that no tax is due may be obtained from the State in the following manner. The seller, the seller's assignee, or purchaser must make a written request to the Comptroller of Public Accounts for the certificate before the sale of the business is completed. The Comptroller must issue a certificate to the requestor within 60 days after the records are made available by the seller for audit or within 60 days after receiving the written request for the certificate, whichever period expires later, but in any event not later than 90 days after receiving the written request. If any amount is found to be due, it must be paid before the certificate will be issued. Failure of the Comptroller to timely issue the certificate to the requestor will release the purchaser from any further obligation to withhold an amount from the purchase price (for taxes).

If a certificate of no tax due is not obtained by the purchaser of a business, the purchaser may be held liable for any taxes (hotel occupancy tax, sales taxes and other taxes or fees) not reported by the previous owner. For more information on a purchaser's potential tax liability, refer to Comptroller Rule 3.7 of the General Rules - "Successor Liability: Liability Incurred by Purchase of a Business."

A Certificate of No Tax Due audit is a **Priority Assignment**. The audit and write-up procedures are the same as those for a deficiency/credit or No Tax Change audit. The Processing Center must be notified by comments entered on Work Manager

that the assignment is a priority and marked as a Certificate of No Tax Due audit assignment and the audit package should be expedited. This is extremely important as the State may lose revenue if the audit is not processed timely.

## Hotel Managing Companies

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A managing company is one which manages many hotels. These managing companies do not own the hotels but are responsible for reporting the hotel occupancy tax. TEX. TAX CODE ANN. 156.053 provides that "A person owning, operating, managing, or controlling a hotel shall collect for the state the tax ...." Therefore, if a managing company is responsible for reporting the hotel occupancy tax, then the audit will be conducted on the managing company. In these cases, the managing company, per the statute, would be liable for the audit deficiency.

When conducting an audit the auditor may be dealing with a managing company that manages hotels in several different cities. It is important to determine the location of the records that will need to be examined during the course of an audit. Usually the detail records will be located at the outlet location. Pre-audit research should involve determining the type of records available (i.e., computer system utilized - whether data is available on CD, diskette, in a data format that is accessible by the auditor), also the records location, authorized contacts and their office location, auditor workspace available etc. All these topics should be discussed during the planning stages of the audit fieldwork.

## Sales Tax for Hotels

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When auditing for hotel occupancy tax the auditor should simultaneously generate and conduct an audit for sales and use tax. The same records used in the hotel audit will also need to be examined for a sales tax audit. This will alleviate the taxpayer the inconvenience of having the same records and personnel involved on two separate occasions for two separate audits. Hotels may summarize their daily receipts/revenues using the same data format or spreadsheet. If so, the reconciliation of taxes and revenues for both sales tax audit and the hotel tax audit may utilize the same data bases and data files.

If the hotel is not permitted for sales tax, the auditor should determine if the entity makes taxable sales - it may be determined that the entity should be collecting and reporting sales and use tax. If this is the case, the hotel owner or management will be required to obtain a sales tax permit to report these amounts. The taxpayer has the option to go to the nearest Comptroller of Public Accounts Enforcement Office and obtain a permit on the premises immediately. If this is not feasible, the auditor should deliver an application for a sales tax permit to the taxpayer and then arrange to have the application processed as soon as possible. If the taxpayer refuses to obtain a sales tax permit, the auditor will permit the taxpayer on the system. This is necessary to process the sales tax audit.

Hotels may summarize most of their daily receipts/revenues on the same data format or spreadsheet. Some types of revenue that the hotel may have are: restaurant sales, parking revenue, valet services, laundry services, vending machine sales, magazines or miscellaneous type sales, and payphone or telephone charges.

In addition to the examination of sales and revenues, the sales and use tax audit will encompass the examination of purchases of both assets and expenses as well as purchases of services made for the hotel's own use. These items may include the following items: furniture, televisions, computers, equipment, office supplies, leasehold improvements and taxable services such as parking, landscaping, etc.

Purchases of items provided for use by the hotel guest are also examined as these items are normally subject to sales tax. These purchases may include, but are not limited to, soaps, toothbrushes, toiletries, towels, and other items used by the guest. In-room amenities provided with the guest room: shampoo, soap, toilet paper, laundry bag, hair net, etc. are taxable to the

hotel at the time of purchase. If a separate charge is made to the hotel guest for the purchase of these items, the item may be purchased tax-free by the issuance of a resale certificate. Sales tax would be charged to the occupant when the item is resold.

Kitchen equipment for use in the hotel's restaurant (used to cook, mix, chop, or blend food or beverages) that qualifies as manufacturing equipment may be purchased tax-free with the issuance of an exemption certificate. See Rule 3.300(d).

## **Telecommunications Infrastructure Fund Assessment for Hotels**

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When auditing for sales tax, the auditor should check to see if the hotel charges for telecommunications services. In addition to being subject to sales tax, telecommunication services are subject to the Telecommunications Infrastructure Fund (TIF) assessment.

The auditor should add the TIF assessment to the audit if the hotel:

- Charges for local telephone calls;
- Marks up long distance call; or
- Charges for facsimile (FAX) services.

## Chapter 2

# Tax Law and Policy

- [Introduction](#)
- [Tax Rate](#)
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  - [Local Taxes](#)
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- [Other](#)
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## Introduction

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The Hotel Occupancy Tax law is covered in TEX. TAX CODE ANN. Chapter 156.

A hotel is any building in which members of the public obtain sleeping accommodations for consideration of \$15.00 or more per day (\$2.00 minimum for local taxes) effective October 1, 2003. Prior to that date the \$2.00 or more charge applied to both state and local tax.

The term hotel includes:

- Hotels
- Motels
- Lodging houses
- Inns
- Rooming houses
- Tourist homes, houses or courts
- Bed & breakfast
- Beach House
- Manufactured homes
- Skid mounted bunk houses
- Cabins
- Cottages
- Condominiums
- Rental Houses - Houses rented for less than 30 days
- Other buildings where sleeping rooms are furnished in return for payment of money

**NOTE:** Apartments, condominiums, and rent houses are not normally subject to hotel tax because they are usually rented for more than 30 days. When these are rented to a transient clientele they will be subject to hotel tax if they are occupied for less than 30 days. Refer to the Permanent Resident section of this manual.

The definition of a hotel **does not** include:

- Hospitals
- Sanitariums
- Nursing homes
- Dormitory or other housing facility owned or leased and operated by an institution of higher education
- Apartment buildings which only lease to permanent residents (occupancy for at least 30 consecutive days) do not meet the definition of a hotel and their rental is not subject to hotel tax.

## Tax Rates

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### State Taxes

Since September 1, 1987, the State rate has been 6% of the price paid for a room in a hotel. (See TEX. TAX CODE ANN. §156.052)

#### State Tax Rate

Sept 01, 1987 through today	=	6%
Oct. 02, 1984 through Aug. 31, 1987	=	4%
Prior to Oct. 02, 1984	=	3%

### Local Taxes

#### Statute References:

**Chapter 351. MUNICIPAL HOTEL OCCUPANCY TAXES**

**Chapter 352. COUNTY HOTEL OCCUPANCY TAXES**

**Chapter 334. SPORTS AND COMMUNITY VENUES**

The total rate charged by a hotel may include additional local hotel taxes. Additional rates are due to the following governmental authorities that may levy an additional hotel occupancy tax based upon the cost of rooms ordinarily used for sleeping.

- Municipalities may levy a tax rate not to exceed 7% , except:
  - Certain eligible central municipalities - may not exceed 9%:
    - Municipalities bordering the Gulf of Mexico with a population of more than 250,000 (effective June 18, 1999); and
    - Municipalities with a population of less than 5,000 adjacent to a home-rule city with a population of less than 80,000 (effective September 1, 2003)
  - General law municipalities bordering the Gulf of Mexico that have a boundary within 30 miles of Mexico - may not exceed 7.5% (effective June 18, 2003; expires January 1, 2006)
- Counties - rates vary according to population size of the county, whether there is a municipality within the county and whether the county borders on the Gulf of Mexico.
- Sports or community venue districts may levy a tax rate not to exceed 2%. Effective March 28, 2003, counties with a population of more than two million adjacent to a county with a population of more than one million may levy a tax rate not to exceed 3%.

### Chapter 351. MUNICIPAL HOTEL OCCUPANCY TAXES

Municipalities may impose, by ordinance, a hotel occupancy tax on the rental of a room in a hotel that costs \$2 or more per day and is ordinarily used for sleeping. Municipal hotel tax, therefore, is not due on the rental of meeting or banquet rooms. See Tax Code Section 351.002.

#### 351.003. Tax Rates

- (a) Except as provided by this section, the tax authorized by this chapter may be imposed at any rate not to exceed seven percent of the price paid for a room in a hotel.
- (b) The rate in an eligible central municipality may not exceed nine percent of the price paid for a room. This subsection does not apply to a municipality to which Section 351.106 applies.
- (c) The rate in a municipality that borders on the Gulf of Mexico and has a population of more than 250,000 or in a municipality with a population of less than 5,000 adjacent to a home-rule city with a population of less than 80,000 may not exceed nine percent of the price paid for a room.

Text of subsection (d) is effective until January 1, 2006.

- (d) A general-law municipality that borders on the Gulf of Mexico and has a boundary that is within 30 miles of Mexico may by ordinance increase the rate of the tax under Subsection (a) to a maximum rate of 7.5 percent if the increase is approved by a majority of the registered voters of the municipality voting at an election held for that purpose.

Authorized uses of municipal hotel tax revenue are provided in the Tax Code Sections 351.101 through 1075. Links to this chapter may be found under the heading “Local Hotel Taxes” on the [Hotel Tax page](#) of the Comptroller’s website.

### Chapter 352. COUNTY HOTEL OCCUPANCY TAXES

#### 352.003. Tax Rates

The commissioner’s courts of certain counties are authorized to impose, by order or resolution, a hotel occupancy tax on a hotel room that costs \$2 or more per day and is ordinarily used for sleeping. County hotel tax, therefore, is not due on the rental of meeting or banquet rooms. See Tax Code Section 352.002.

- (a) Except as provided by this section the tax authorized by this chapter may be imposed at any rate not to exceed seven percent of the price paid for a room in a hotel or, until January 1, 2001, eight percent of the price paid for a room in a hotel in a county with a population of more than 3.3 million.
- (b) The county tax rate in a municipality that has a population of 1.9 million or more may not exceed two percent of the price paid for a room in a hotel.
- (c) The rate in a county that does not have a municipality may not exceed four percent of the price paid for a room in a hotel.
- (d) The tax rate in a county authorized to impose the tax under Section 352.002(a) (12) may not exceed three percent of the price paid for a room in a hotel.
- (e) The tax rate in a county authorized to impose the tax under Section 352.002(a)(6) and that has a population of less than 40,000 and adjoins the most populous county in this state may not exceed three percent of the price paid for a room in a hotel.
- (f) The tax rate in a county that borders the Gulf of Mexico, has a population of more than 200,000, and borders the Neches River may not exceed two percent of the price paid for a room in a hotel in the county.
- (g) The tax rate in a county that is authorized to impose the tax under Section 352.002(a)(17) may not exceed two percent of the price paid for a room in a hotel.



Authorized uses of county hotel tax revenue are provided in the Tax Code Section 352.108. Links to this chapter may be found under the heading “Local Hotel Taxes” on the “Hotel Tax” page of the Comptroller’s website.

### Chapter 334. SPORTS AND COMMUNITY VENUES

The Texas Legislature authorizes counties and municipalities to establish, by resolution, sports and community venue projects. See Local Government Code Section 334.021. Venue projects may be funded by one or more types of taxes and require voter approval.

The venue district tax, which must be used to support stadiums, arenas, or other community facilities like convention centers, is in addition to the city and county hotel tax. For example, the city of Austin imposes a seven percent city hotel tax and a two percent Convention Center/Waller Creek Project hotel tax.

Another example is the city of Dallas began collecting a 5% motor vehicle rental tax on May 1, 1998 and an additional 2% local hotel occupancy tax on August 1, 1998. This revenue is used for the payment of bonds for the voter approved community and sports venue project that has since been named the American Airlines Center.

Houston voters approved a referendum in 1996 allowing a portion of hotel and rental car taxes to be spent on a new baseball park and football stadium. The sports authority was created in 1997 by the Texas Legislature to collect and distribute that tax money. The Harris County-Houston Sports Authority has helped to develop three Houston sports venues.

#### 334.254. Tax Rate

Except as provided by Subsection C, the

- (a) Tax authorized by this subchapter may be imposed by a municipality or county at any rate not to exceed two percent of the price paid for a room in a hotel.
- (b) The ballot proposition at the election held to adopt the tax must specify the maximum rate of the tax to be adopted.
- (c) A county with a population of more than two million that is adjacent to a county with a population of more than one million may impose the tax authorized by this subchapter at any rate not to exceed three percent of the price paid for a room in a hotel. Another statute, Local Government Code Section 334.256, from the, requires that when a hotel collects a sports and community venue tax, each hotel bill or receipt must include a statement that lists the entities that impose hotel taxes and their rates. See below for current and prior law.

#### 334.256. Notice of Tax (Local Government Code)

**Current law, effective October 1, 2003:**

- (a) Each bill or other receipt for a hotel charge subject to the tax imposed under this subchapter must contain a statement in a conspicuous location stating the applicable hotel occupancy tax rate collected by the hotel from the customer for the State of Texas (insert state rate of tax) and the tax rate and identity of each other taxing authority that has imposed a hotel occupancy tax for the room night (insert rate of tax).
- (b) If a hotel charge is subject to any additional hotel occupancy taxes, the statement required by Subsection (a) must be modified to state each additional entity that imposes a hotel occupancy tax and the rate of that tax. Prior law, effective September 1, 1997 through August 31, 2001:

Each bill or other receipt for a hotel charge subject to the tax imposed under this subchapter must contain a statement in a conspicuous location stating:

“\_\_\_\_\_ (insert name of taxing municipality or county) requires that an additional tax of \_\_\_\_\_ percent (insert rate of tax) be imposed on each hotel charge for the purpose of financing a venue project.”

Restrictions to the authorized uses of sports and community venue hotel tax revenue are provided in the Local Government Code Sections 334.2515 and 2516. Links to this chapter may be found under the heading “Local Hotel Taxes” on the “Hotel Tax” page of the Comptroller’s website.

**NOTE:** The Comptroller’s agency audits for the **state** portion of the hotel tax. If a county, city, or sport and community venue hotel tax is being collected erroneously, it may be assessed in the **state** tax audit. This tax is termed error tax and is reportable to the state as taxes collected in error. Local authorities are responsible for auditing their own taxes.

## Charges for Personal Services

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Charges for personal services (which are unrelated to the cost of the actual occupancy of the room) or charges to use a telephone are not subject to the hotel occupancy tax if they are separately stated. This includes charges for room service, messenger service, and valet service. If the charge represents an amount that would be subject to sales tax on a stand alone basis (and the charges are separately stated) then they are subject to sales tax. In these instances the hotel should obtain a sales and use tax permit and charge and collect the appropriate taxes.

**Question:** A hotel collects a separate charge for a shuttle service to and from an airport. The charge is a separate line item on the guest folio identified as ‘Airport Charge’. The room card key folder informs each guest that this amount will be deducted if they do not use the shuttle service. Would this separate shuttle service charge be subject to the hotel occupancy tax? Would it be subject to the limited sales and use tax?

**Answer:** A separately stated charge for items or services not directly related to occupying or cleaning and readying a room or space in a hotel for occupancy is not subject to the state hotel occupancy tax. The separately stated shuttle service charge is not subject to hotel occupancy tax because it is personal service and not related to occupying a room. The shuttle service charge is also not subject to the limited sales and use tax.

## Items Not Subject To Hotel Occupancy Tax (when separately stated)

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- Messenger service
- Room service
- Valet service (Personal services)
- Use of a telephone (This is subject to telecommunications tax)
- Baby sitting service
- Shuttle service

## Charges That Are Subject to Hotel Occupancy Tax

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Some other charges that, when connected with the actual occupancy of the room, are subject to the Hotel Occupancy Tax whether or not they are separately stated. Such charges include but are not limited to:

- Equipment rentals - Use of a television, rental of audio visual equipment
  - When a separately stated charge is provided with a banquet room rental charge and the hotel is the caterer - the rental charge is subject to the limited sales and use tax [Rule 3.293(f)(5)]
  - When provided in conjunction with the rental of a banquet or meeting room and the hotel is not the caterer - the rental charge is subject to state (but not local) hotel tax [Rule 3.162(a)]
- Additional bed or cot charge or rollaway rentals
- Pet Charges
- Pet Cleaning Charges
- Reservation Fees
- In-room safe rental charges
- Microwave and refrigerator rentals
- Energy Charge - A separate charge for energy that is directly related to the occupancy of the room

An example of equipment rental could be as follows. The fitness equipment is furnished in connection with the occupancy of the room would be subject to Hotel Occupancy tax. All charges for items or services, other than personal services or charges for the use of a telephone, which are furnished in connection with the actual occupancy of a hotel room are subject to hotel occupancy tax, whether separately stated or not. Rule 3.162(a) (2). Like a rollaway bed, television, microwave, or other room furnishing, hotel tax should be collected on a charge for fitness equipment in a hotel occupant’s room. Hotels would then owe sales taxes to suppliers on the purchase or rental of this equipment.

A charge for the use of fitness equipment not located in the occupant’s room, is a charge for an amusement service and would be subject to the limited sales and use tax. An example would be a separately stated charge for the use of an off-premises exercise room.

## Charges that are Subject to Sales and Use Tax

- Mandatory gratuities on food and beverages not distributed to qualifying employees (Rule 3.337). However, if mandatory gratuities are based on sale or service of alcoholic beverages, the charges are subject to the mixed beverage gross receipts tax when the hotel has a mixed beverage permit (Rule 3.1001).
- Room Service - Charges for ready to eat food are subject to sales taxes. Rule 3.293(b) Charges for alcoholic beverages are subject to mixed beverage tax or sales taxes depending on the TABC permit held. Rule 3.1001(c).
- Delivery Charges - For sales tax, delivery charges associated with the sale of a taxable item (e.g., food) are taxable. Rule 3.303(a). For mixed beverage tax, delivery charges associated with the sale or service of alcoholic beverages are taxable mixed beverage receipts. Rule 3.1001(c).
- Phone Charges - Fax and phone charges are taxable telecommunication services and are subject to sales tax. The hotel is also responsible for the Telecommunication Infrastructure Fund assessment on its receipts from charges for taxable phone calls and faxes.
- Fax transmittal service - This represents a taxable telecommunications charge. The charge to send a fax is subject to Telecommunications Infrastructure tax - the charge to receive a fax is taxable if the transmission originates in Texas. If the hotel does not retain the documentation to show the origination of the fax - then the hotel should charge tax for the receipt of faxes.
- Swim/athletic club fees
- Parking fees including Valet Parking Service
- Charges to store a motor vehicle
- Charges for movies - The rental of a movie in a hotel room is not subject to hotel occupancy taxes. Movie rentals are subject to limited sales and use taxes. The hotel should collect sales taxes on separately stated charges for movies, whether provided on video cassette, DVD, or transmitted electronically.
- Charges for internet access - Internet access services are subject to sales tax. The first \$25 of the monthly fee is exempt. Because hotels often cannot track charges per guest, they may charge and collect tax on all services. See Rule 3.366(b). The internet charges that do not exceed \$25.00 would not be subject to tax - records must be retained to support these charges. If the internet charges are purchased tax-free from the Internet Service Provider, there may also be tax due on the taxable use of these services by the hotel/management company employees.
- Rental/access charge for video games
- Sales of toiletries
  - Personal shopper charges for items that are subject to sales tax (as well as the sales price of the items) would be taxable. If the items are not subject to sales tax (such as groceries) the personal shopper charges would not be subject to tax. If the charge for these items represent a dollar for dollar reimbursements of their cost - the items would not be subject to sales tax again when resold (reimbursed by the customer).

(Refer to Hotel Occupancy Tax Rule 3.162.)

## Package Deals

If a hotel includes meals, drinks, admission to tourist attractions, or any other unrelated benefit in the charge for lodging, the hotel occupancy tax must be paid on the total charge. In order to be deducted from the amount subject to hotel occupancy tax, these charges must be separately stated on the bill to the customer. These separately stated charges might be subject to the limited sales and use tax or the mixed beverage tax.

## Charges for Guaranteed Rooms

A room charged to a customer who did not show is subject to Hotel Occupancy Tax. The definition of occupancy and occupant includes not only the use or possession but also the **right** to use or possess any room for any purpose.

A deposit that is not directly related to the room charge would **not be** subject to hotel tax because the deposit does not give the customer the right to use or possess the room. Guaranteed “no show” charge rates that are less than the room rate are not taxable, such as a percentage or sliding scale rate.

**Example:** A client has a contract to occupy 100 rooms. The client only occupies 80 rooms. The hotel bills the client for the 20 unoccupied rooms and should charge hotel occupancy taxes. Attrition or cancellation charges are subject to hotel occupancy taxes if by paying the fee the guest has paid the consideration necessary to achieve the right to occupy or use a

room in a hotel. An attrition or cancellation fee is not subject to hotel tax if the charge is less than the reserved room rate, such as a percentage or sliding scale of the room rate.

## Banquet and Meeting Room Charges

The Hotel Occupancy Tax is due on the rental of meeting and banquet rooms if the room is located in the same building (under the same roof) as the rooms with sleeping accommodations. Hotel tax is not due on charges imposed on buildings owned by a hotel which are physically separate from the hotel and which are not used for the purpose of providing sleeping accommodations. (Refer to Hotel Occupancy Tax Rule 3.162)

State hotel occupancy tax is due on lump-sum charges that include a banquet or meeting room, food and equipment. Local taxes (city, county, and sports and community venues) are not due on banquet or meeting room charges - only the state tax is due.

When a hotel serves food, the hotel is considered a food service operator and should charge sales taxes on the entire charge for food preparation and service, including items used by the customer (e.g., tables, decorations, equipment). See Rule 3.293(f).

When food is not provided, and the banquet room is located in the hotel (building with sleeping rooms), the 6% state (not local) hotel tax is due on charges for all items furnished with the room, other than charges for the use of a telephone or for personal services. Personal services do not include cleaning and readying a room for occupancy. See Rule 3.162(a).

Sales taxes are due on separately stated charges for equipment provided by the hotels in connection with a catered event. If the hotel is not providing food, equipment charges such as audio visual equipment, whether lump sum or separated, are subject to state hotel occupancy tax when provided with the rental of a room subject to hotel tax.

When the hotel has a mixed beverage permit, the 14% mixed beverage gross receipts tax is due on the total amount received from the preparation, sale, or service of alcoholic beverages, including ice and nonalcoholic beverages sold to be mixed and consumed on the premises. See Rule 3.1001(b).

Sales of soft drinks and mixers from a mini bar are subject to the limited sales and use tax, not the mixed beverage tax.

The following examples assume the banquet room is located in the hotel and the hotel holds a mixed beverage permit:

- **Cashier Fee** - sales tax or mixed beverage gross receipts tax is due, depending on what is purchased (e.g., tickets for the bar is mixed beverage tax; tickets for food is sales tax).
- **Bartender Fee** - mixed beverage gross receipts tax is due, whether or not the hotel supplies the alcoholic beverages (preparation and service of alcoholic beverages).
- **Carving Fee** - sales tax is due if the hotel charges for food (part of food service).
- **Cover Charge** - sales tax is due on the sale of an admission to an amusement service if the event or location of the service is within the State of Texas. See Rule 3.298. Cover charges may be subject to Mixed Beverage Tax if the charge is in connection with a reduced price for drinks. (Happy Hour).
- **Table Set Up** - sales tax if hotel charges for food (part of food service); state hotel tax if food not provided (readying room for occupancy).
- **Cleaning Charge** - state hotel tax (readying room for occupancy; see Note below).
- **Phone Rental or Set Up** - subject to sales tax if the hotel charges for food (part of food service); subject to state hotel tax if food not provided (for phone rental, equipment furnished with hotel room; and for phone set up, readying room for occupancy). If the hotel also charges for the phone's use, the rental/set up fee becomes part of a telecommunications service subject to both sales taxes and the telecommunications infrastructure assessment.
- **Margarita Machine Rental** - mixed beverage gross receipts tax if hotel sells or serves alcoholic beverages (preparation or service of alcoholic beverages); sales tax if hotel charges for food and does not sell or serve alcoholic beverages (part of food service); or state hotel tax if the hotel does neither (equipment furnished with hotel room).
- **Ice Carving/Ice Sculpture** - sales tax if hotel charges for food (part of food service); state hotel tax if food not provided (item furnished with room).
- **Banner Hanging Charge** - sales tax if hotel charges for food (part of food service); state hotel tax if food not provided (readying room for occupancy).
- **Bar Set Up** - mixed beverage gross receipts tax (preparation of alcoholic beverages).

**Note: Hotel tax is not due on banquet rooms located in a separate building from the hotel (building with sleeping rooms). Sales taxes would be due on these room charges if the hotel provides food. Sales taxes would also be due on cleaning fees.**

As mentioned above the hotel may be responsible for reporting Mixed Beverage Tax, which is another tax that may be audited by the Comptroller of Public Accounts auditor. An excerpt from the mixed beverage rule is shown below.

**Mixed Beverage Tax - Rule 3.1001** subsection (c) provides in part as follows:

Taxable mixed beverage receipts. The Mixed Beverage Gross Receipts Tax applies to, but is not limited to, receipts for the following items:

- (1) receipts from the sale or service of alcoholic beverages;
- (2) receipts from the sale or service of nonalcoholic beverages that are mixed and consumed with alcoholic beverages on the permittee's premises;
- (3) receipts from cover charges, door charges, entry fees or admission fees that are related to reduced prices for alcoholic beverages as described in 16 TAC sec. 45.103 (relating to Regulations of "Happy Hour"). If cover charges are determined to be related to reduced prices for alcoholic beverages, the tax base will be the entire receipts from the cover charge plus the reduced sales or service prices received for the alcoholic beverages.
- (4) as an alternative to paragraph (3) of this subsection, a permittee may elect to report the services or sales of alcoholic beverages at the normal service or selling price and exclude the cover charges, door charges, entry fees or admission fees from the tax base. The normal sales or service price is the price charged for the alcoholic beverage when no cover charge, door charge, entry fee, or admission fee is collected. When the permittee elects to use this option, the cover charges, door charges, entry fees, or admission fees will be subject to sales tax under Sec. 3.298 of this title (relating to Amusement Services);
- (5) the normal selling price of alcoholic beverages served with meals with no separate charge. If the specific alcoholic beverage is being sold or served at a promotional price at the same time as the meal, the tax base for the alcoholic beverage will be the promotional price. This subsection refers to promotions usually promoted as "free drink(s) with a meal."

## Exemptions from Hotel Occupancy Tax

These areas are discussed in greater detail in separate sections in this chapter. Not all entities will qualify - the rules and statutes should be referenced. The exemption granted for Hotel Occupancy Tax is more narrowly construed than for Sales and Use Tax. Not all organizations that are exempt from sales tax are exempt from the hotel occupancy tax. The organization claiming the exemption should apply to the Comptroller's Office for this exempt status.

If an exemption applies, then the organization or individual claiming exemption must present an exemption certificate to the hotel. Beginning October 1, 2003, hotel owners and operators may accept, in good faith, hotel occupancy tax exemption certificates when presented with documentation proscribed by the Comptroller. See section of Hotel Occupancy Tax Rule 3.161 on **Exemption Certificates and Good Faith Acceptance** for specifics.

### Exemptions include:

- Permanent Residents
- Governmental Agencies
- Charitable or Eleemosynary Organizations
- Educational Organizations
- Religious Organizations
- Rentals by Private Clubs to members
- College/University Dormitories
- Specific Nonprofit Entities

Employees of exempt organizations are also exempt when traveling on official business of the organization. The method of payment does affect the exemption. Representatives claiming an exemption who are not employees of the organization must pay with the organization's funds (organization check, credit card, or direct billing to the organization).

**NOTE:** An exempt organization that operates a hotel will not be exempt from the collection and reporting of the hotel occupancy tax.

### **Permanent Resident**

A permanent resident is any person/occupant who has or shall have the right to occupancy of any room or space in a hotel for at least 30 consecutive days without interruption. A person may be an individual, organization, or entity. A permanent resident is not subject to the Hotel Occupancy Tax.

A person becomes a permanent resident by either entering into an agreement to occupy a room for 30 or more consecutive days or having actually occupied a room for 30 consecutive days.

Guests who provide written notification that they will stay for at least 30 consecutive days are permanent residents from that day forward, as long as there is no interruption in the right of occupancy for the next 30 days. **Guests without a written commitment do not become permanent residents until the 31st day, and they owe the hotel occupancy tax on the first 30 days.** Any interruption in the right of occupancy voids the exemption. See Hotel Occupancy Tax Rule 3.161 (b)(6).

Permanent residents are not required to physically occupy a room or space. Permanent residents may have the right to use or occupy different rooms in the same hotel without loss of the permanent resident exemption.

Companies can be permanent residents. Business entities such as airlines and railroads, may rent hotel rooms without having the same employee occupy the same room during the 30 days. The company, not the person occupying the room, is the renter. Therefore, the company may qualify as a permanent resident. A company may enter into a written agreement to guarantee payment of a room for 30 consecutive days. It is not necessary that the same room be rented or occupied so long as a room is rented for 30 consecutive days. Different individuals may use the rooms without affecting the exemption, but there may be no interruption in the right to occupy the rooms. To qualify for this exemption the specific number of rooms needs to be stipulated. See example below.

**NOTE:** The moving of a hotel customer from one room to another has no effect on the permanent resident status. The permanent resident exemption applies to only the number of rooms specified in the agreement.

**Example:** An airline agrees to pay for six rooms for 180 consecutive days. On days 42 through 56 the airline pays for ten rooms. The four additional rooms are not exempt from hotel tax because they exceed the number of rooms specified in the agreement and the rooms have not been rented for more than 30 consecutive days.

Effective August 26, 1991, the permanent resident exemption is valid until there is an interruption in payment, meaning there is a break in the right to use, possess, or occupy a room or space in the hotel. After the interruption the guest must once again qualify for the exemption.

### **Governmental Agencies**

U.S. government agencies and its employees (including military personnel) are exempt from state and local hotel occupancy taxes. State agencies and most state employees are not exempt and must pay state and local hotel occupancy taxes. Texas state agencies may request a refund of the hotel occupancy taxes paid.

Statutory exemption is available for certain Texas state officials that have been issued a hotel occupancy tax exemption photo ID or card. These state officials, judicial officers, heads of state agencies, the Executive Director of the Legislative Council, the Secretary of the Senate, state legislators, legislative employees, members of state boards and commissions, and designated state employees of the State of Texas (who present a Hotel Occupancy Tax Exemption Photo Identification Card when traveling on official state business) are exempt from both state and local hotel occupancy taxes.

Exempt from state and local hotel occupancy taxes are:

- Designated Texas state employees who have been issued a Hotel Tax Exemption Photo Identification Card (If a state employee has not been issued this Photo ID Card - they must pay the hotel tax to the hotel.) For the purpose of claiming an exemption, a Hotel Tax Exemption Photo Identification Card includes:
  - (A) any photo identification card issued by a state agency that states “EXEMPT FROM HOTEL OCCUPANCY TAX, under Tax Code, §156.103(d)”, or similar wording; or
  - (B) a Hotel Tax Exemption Card that states “when presented with a photo identification card issued by a Texas agency, the holder of this card is exempt from state, municipal, and county hotel occupancy tax, Tax Code, §156.103(d)”, or similar wording.

- The United States government and its employees traveling on official business representing the United States government
- Diplomatic personnel of a foreign government who present an appropriate Tax Exemption Card issued by the United States Department of State

United States government agencies and their employees traveling on official business are exempt from Texas and local hotel occupancy taxes. For example, the National Pork Board (as an agency of the federal government) is exempt from the state and local hotel occupancy taxes. Federal employees traveling on official business for the federal government may issue a hotel occupancy tax exemption certificate in the name of the exempt entity instead of paying the state and local hotel occupancy taxes. Hotels may request that the employee show proof of employment such as a government ID, business card, payroll receipt, etc.

Government contractors are not exempt from state and local hotel occupancy taxes. This includes contractors that are reimbursed by a governmental agency.

Most State employees are not exempt from Hotel Occupancy Tax [Rule 3.161(b)]. For example, State police officers are state employees and, as such, should be reimbursed by their agency when traveling on official business. The hotel tax paid by the state or reimbursed to a state employee may be refunded as provided in Rule 3.163.

A State of Texas agency may request a refund of hotel occupancy taxes paid directly to a hotel or reimbursed to employees from the agency on a state travel voucher. Comptroller's Rule 3.163 provides the procedures for state agencies to obtain refunds of hotel occupancy taxes.

On September 1, 2001, the state hotel tax refund claims were changed to be filed on a fiscal year quarter instead of a calendar year quarter. A state agency may apply for a refund of state hotel tax no later than two years after the end of the fiscal year in which the travel occurred as provided by State of Texas Travel Allowance Guide, sec. 1.17 and sec. 8.06. A state agency may apply for a refund of local hotel occupancy taxes for each calendar quarter according to the local city or county ordinance. In the absence of a local ordinance, the same time limitation that applies to the refund of state hotel occupancy taxes will also apply to municipal, county and sports and community venue hotel occupancy taxes.

The Texas Legislature does not provide hotel occupancy tax exemptions for city, county, and state police officers. Federal police officers (while traveling on official business) are exempt from state and local hotel taxes.

Police officers employed by Texas institutions of higher education may be exempt from state hotel occupancy tax while on business trips, but must pay any local hotel taxes imposed. A completed Hotel Occupancy Tax Exemption Certificate should be furnished to the hotel when claiming an exemption. Beginning October 1, 2003, police officers from non-Texas institutions of higher education are no longer exempt and must pay all hotel taxes. (See [Educational Organizations](#))

**NOTE:** Exemptions for state hotel occupancy tax are different from the exemptions for city, county and sports and community venue hotel occupancy taxes. Local government officials are not exempt from paying the state and local hotel occupancy taxes.

**Exempt** from city, county, and sports and community venue taxes:

Federal employees, foreign diplomatic personnel, and certain Texas state employees (except for state college and university personnel who must pay the local tax to the hotel and then be reimbursed by their institution.)

**Not exempt** from **either** state or local Taxes:

Local government personnel must pay all hotel occupancy taxes.

### ***Charitable or Eleemosynary***

This exemption is more narrowly construed than it is for sales tax exemptions. Charitable organizations are nonprofit organizations that devote all or substantially all of their activities to the alleviation of poverty, disease, pain, and suffering by providing food, clothing, drugs, treatment, shelter, or psychological counseling **directly** to indigent or similarly deserving members of society for little or no charge (with its funds derived primarily from sources other than fees or charges for its services).

If the organization engages in any substantial activity other than the activities described in the preceding paragraph, it will not be considered as having been organized for purely public charity, and therefore, will not qualify for exemption. No part of the net earnings of the organization may inure to the benefit of any private party or individual other than as reasonable compensation for services rendered to the organization.

Organizations that have received a letter of exemption from the Comptroller as charitable are exempt from the state hotel occupancy tax. These organizations must still pay any applicable local hotel taxes.

Although some charitable organizations are not organized for profit and they do perform services that are charitable in nature, many of these organizations do not meet the requirements necessary for the exemption under the Hotel Occupancy Tax law and statute. See Comptroller Rule 3.161 for definitions.

Some organizations that **do not** qualify for the exemption:

- Fraternities
- Sororities
- Service Clubs
- Lodges
- Professional groups
- Trade or business groups
- Medical associations
- Veterans groups
- Chambers of Commerce
- Professional associations
- Business leagues
- Information resource groups
- Research organizations
- Support groups
- Home schools
- Organizations that merely disseminate information by distributing publications
- Volunteer fire departments - while exempt from sales and use tax are not provided a hotel occupancy tax exemption by the Texas Legislature. Members will need to pay any hotel taxes imposed when traveling on official business of the fire department.

### **Educational Organizations**

A nonprofit organization or governmental entity whose activities are devoted solely to systematic instruction, particularly in the commonly accepted arts, sciences, and vocations, and has a regularly scheduled curriculum using the commonly accepted methods of teaching, a faculty of qualified instructors, and an enrolled student body or students in attendance at a place where the educational activities are regularly conducted. An organization that has activities consisting solely of presenting discussion groups, forums, panels, lectures, or other similar programs, may qualify for exemption under this provision, if the presentations provide instruction in the commonly accepted arts, sciences, and vocations.

The organization will not be considered for exemption under this provision if the systematic instruction or educational classes are incidental to some other facet of the organization's activities. No part of the net earnings of the organization may inure to the benefit of any private party or individual other than as reasonable compensation for services rendered to the organization.

Educational organizations include:

- Independent school districts,
- Public and private elementary and secondary schools,
- Texas institutions of higher education (public and private colleges, universities, junior colleges, and community colleges) as defined in Education Code Section 61.003 (out-of-state institutions of higher education were exempt from state hotel occupancy tax from September 1, 1959, through August 31, 1999, and from September 1, 2001, through September 30, 2003), and
- Regional education service centers are also educational organizations for hotel occupancy tax purposes.



The 76th Texas Legislature (1999) repealed the hotel occupancy tax exemption for non-Texas institutions of higher education. Two years later in a bill intended to make no substantive revisions to the statutes, the word “Texas” was omitted in the definition and out-of-state institutions of higher education were exempt, again. The 78th Legislature (2003) put “Texas” back into the definition and currently only Texas public and private universities, colleges, junior colleges, and community colleges are exempt.

Summary of exemption for non-Texas institutions of higher education (state hotel occupancy tax only):

- September 1, 1959 through August 31, 1999 - exempt
- September 1, 1999 through August 31, 2001 - not exempt
- September 1, 2001 through September 30, 2003 - exempt
- October 1, 2003 through present - not exempt

Some examples of organizations that do not meet the requirements for exemption under this definition are:

- Professional associations
- Business leagues
- Information resource groups
- Research organizations
- Support groups
- Home schools, and
- Organizations that merely disseminate information by distributing printed publications.

An organization that qualifies as an educational organization is a Girl Scout troop (at the troop level only). Representatives of individual troops may issue a hotel exemption certificate in the official name of the troop instead of paying the state hotel occupancy tax. To claim the exemption non-employees cannot use their own funds, but must pay with the organization’s funds (check, credit card, or direct billing). The Girl Scout general council does not qualify for the exemption. (See STAR document 200210494L).

Additionally, each individual Camp Fire Boys and Girls club under the national organization is further recognized as an educational organization and entitled to an exemption from the state portion of the hotel occupancy tax. This exemption only applies to the individual boys and girls clubs and does not extend to the national organization or any other subordinate organizations. (STAR document 200109470L).

Police officers employed by Texas institutions of higher education (while traveling on official business) are exempt from state hotel occupancy tax, but must pay any local hotel taxes imposed. For officers from non-Texas institutions of higher education, see summary of exemption for non-Texas institutions of higher education above.

### **Religious Organizations**

A religious nonprofit organization that is an organized group of people regularly meeting for the primary purpose of holding, conducting and sponsoring religious worship services, according to the rights of their sect, may qualify for exemption. The organization must be able to provide evidence of an established congregation showing that there is an organized group of people regularly attending these services. An organization that supports and encourages religion as an incidental part of its overall purpose, or one whose general purpose is furthering religious work or instilling its membership with a religious understanding, will not qualify for exemption under this provision. No part of the net earnings of the organization may inure to the benefit of any private party or individual other than as reasonable compensation for services rendered to the organization.

Examples of organizations which **do not** meet the requirements for exemption under this definition are:

- Conventions or associations of churches
- Evangelistic associations
- Churches with membership consisting of family members only
- Missionary organizations and groups who meet for the purpose of holding prayer meetings, bible study or revivals.

Missionary organizations, bible study groups, or churches that are made up of only family members do not qualify.

The State Comptroller's office may be contacted to determine the exempt status of an organization.

Exempt from **state tax only**:

Employees and representatives of nonprofit religious organizations are exempt from the **state** hotel occupancy tax when traveling on official business of the organization. The exemption does **not include** local hotel taxes; therefore, the guest must pay local tax on the hotel charges.

**NOTE:** An exempt organization that operates a hotel will not be exempt from the collection and reporting of Hotel Occupancy tax.

For more information on qualifying and applying for a letter of exemption, visit the [Comptroller's website](#) or contact the Comptroller's office toll free at 800-252-1385.

Out-of-state organizations are required to apply with the Comptroller's office for tax exemption in the same manner as in-state organizations. Charitable and religious tax-exempt organizations should have a letter from the Comptroller's office granting the exemption.

### **Specific Non-Profit Entities**

Some non-profit entities are exempt by law other than the hotel occupancy tax statutes. The qualifying entity must have a letter of hotel tax exemption issued by the Comptroller's office. Entity employees traveling on official business are exempt from state and local hotel occupancy taxes.

Examples include certain non-profit electric cooperatives, non-profit telephone cooperatives, non-profit housing authorities, housing finance corporations, public facility corporations, health facilities development corporations, and cultural education facilities finance corporations.

The reason for exemption should be written on the exemption certificate. For example, "exempt per Electric Cooperative Act, Utilities Code, Chapter 161" or "exempt per Telephone Cooperative Act, utilities Code, Chapter 162."

### **Some Rentals by Private Clubs**

Private clubs are exempt from the collection of Hotel Occupancy tax on room rentals to their members only. **These organizations must collect and report the tax on all room rentals to non-members. A private club includes:**

- The YMCA
- The YWCA
- Country clubs
- Private resorts

(Refer to Hotel Occupancy Tax Rule 3.161)

Hotel occupancy taxes are not due on the rental of rooms by a private club to its members. Who occupies the room does not make the rental taxable, as long as the member directly pays the club for the room. Hotel taxes are due on room rentals to nonmembers. Incidentally, if only members are able to rent rooms, then the rental charge is a special privilege of membership and sales taxes are due on the charge. But when rooms are also available for rent by the public, then the rental to club members is no longer a special privilege and not subject to either sales or hotel taxes.

### **College/University Dormitories**

Dormitories and other housing facilities owned or leased and operated by institutions of higher education as defined in subsection (a) (2) of Rule 3.161 and used to provide sleeping accommodations for persons engaged in educational programs or activities at the institutions are excluded from the definition of a hotel in Tax Code, Section 156.001, and their rentals are not subject to tax.

Effective October 1, 1995, hotels owned or leased and operated by institutions of higher education are not excluded and their rentals are subject to tax.

## Exemption Certificates and Good Faith Acceptance

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Anyone claiming an exemption must provide the hotel with a completed Texas Hotel Occupancy Tax Exemption Certificate (form 12-302). The certificate can be found online at the Comptroller's website or by calling toll free at (800) 252-1385.

Representatives claiming an exemption must either be employees of the organization or must pay the hotel charges with the organization's funds (organization's check, credit card, or direct billing to the organization). One exemption certificate can be used to claim exemption for more than one room. The most common organizations and individuals that qualify for hotel tax exemption are described in publication [96-224 — Hotel Occupancy Tax Exemptions](#) which is available on the Comptroller's website.

The exemption certificate should include the following information:

- The name of the hotel
- The reason the occupant is claiming the exemption
- The date (day, month and year)
- The name of the exempt organization
- The complete address of the exempt organization
- The signature of a representative of the exempt organization
- A check off for the type of exemption claimed

Certain entities may be issued identification numbers for administrative purposes, but a tax number does not guarantee that an organization is exempt. An organization does not have to provide an identification number on the certificate.

Effective October 1, 2003, hotels may accept exemption certificates in good faith when presented with the following supporting documentation:

- Federal employees traveling on government business - a valid government identification card;
- Designated Texas state employees - a special hotel tax exemption photo ID or card that states that holder is exempt from hotel occupancy taxes
- Foreign diplomats - a tax exemption card issued by the U.S. Department of State that exempts diplomat or mission from hotel occupancy tax, unless the card specifically excludes hotel occupancy tax
- Employees and representatives of a specific nonprofit entity or nonprofit charitable, educational, or religious organization traveling on organization business - a Comptroller's letter of hotel occupancy tax exemption or verification that the organization is on the Comptroller's list of exempted entities, such as a printed copy of the Comptroller's website listing the organization as exempt for hotel occupancy tax.

The list of organizations that have received a letter of hotel occupancy tax exemption is found on the Comptroller's website.

There are no resale provisions allowed in the Hotel Occupancy Tax Law. Therefore resale certificates are not acceptable as a substitute for the tax due. Persons who resell hotel rooms and agents who obtain rooms on behalf of another must pay tax to the hotel.

Some hotel rooms may be exempt from state tax only or exempt from both state and local taxes. The audit conducted by the Comptroller of Public Accounts will not encompass adjustments for local taxes that may have been overpaid or that may be due.

Exempt from **state tax only**:

- Employees and representatives of nonprofit religious, charitable, and educational organizations are exempt from the **state** hotel tax when traveling on official business of the organization. The exemption does **not include** local hotel taxes; therefore, the guest must pay local tax on the hotel charges. State college and university personnel must pay the local tax to the hotel.

Exempt from **city, county and sports and community venue** taxes:

- Federal employees, foreign diplomatic personnel, and certain Texas state employees who have been issued a Photo ID card (as described above).

**Not exempt** from **either** state or local taxes:

- Local government personnel **must** pay all hotel occupancy taxes.

The Texas Sales and Use Tax Exemption Certificate, form 01-339 (back), only applies to state and local sales taxes, not hotel occupancy taxes. Organizations that provide only sales tax exemption certificates must pay any hotel occupancy taxes imposed. Organizations that are exempt for both sales and hotel taxes must provide both certificates. Copies of these certificates are available on the Comptroller's Website.

A person traveling on behalf of an organization that is exempt from sales tax such as a church, school, or government agency, must pay sales taxes on all taxable purchases, even if the person is reimbursed by the organization on a per diem basis or for actual expenses. If the employee is directly paying for the bill, and not the organization, the employee must pay sales taxes on all taxable purchases (e.g., meals). See Rule 3.322(f) (6).

## Other

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### **Gift Certificates**

Taxes are not collected on sales of gift certificates. Instead, taxes are collected when the certificates are redeemed. The type of tax is determined by what is purchased with the certificate.

For example, when a gift certificate is redeemed for a meal at the restaurant, sales taxes are assessed on the amount of the meal. When the certificate is redeemed for a night's stay at the hotel, hotel occupancy taxes are charged on the amount of the room.

Gift certificates donated by the hotel are treated as coupons or discounts and no taxes are collected on the face value of donated certificates when redeemed. (No money changed hands.) Therefore, a hotel may not impose state or local hotel taxes when a room is given free of charge by the hotel.

For example, a promotion where guests pay for six days and receive the seventh day free - the seventh day is not subject to hotel tax.

A request for refund of hotel taxes erroneously paid should be made to the hotel that collected the tax.

Guests receiving certificates for free night stays may be required to pay hotel occupancy taxes, depending on the certificate. For example, a travel club furnishes certificates to members redeemable for one night lodging at selected hotels. When redeemed, the certificate represents money or a medium of exchange paid to the hotel (i.e., consideration). The travel club may declare on the certificate that taxes are the responsibility of the person using the certificate.

### **Rewards Points Redemption Programs**

A "reward points" redemption program is a marketing program where members earn reward points for stays at participating hotels. Points can be exchanged for a free room or an upgrade. When a member stays at a participating hotel, the hotel pays a percentage of the room cost to a central rewards fund. When a member redeems points, the hotel is reimbursed or credited by the rewards fund for a predetermined cost of the free room or upgrade.

Reward points redemption programs **may or may not** be subject to hotel occupancy tax, depending on the specifics of the program. Tax is due when the hotel receives consideration of at least \$15 per day for a room, unless an exemption applies. Prior to October 1, 2003, state tax was due on a room costing at least \$2 per day; local taxes still apply to sleeping rooms costing \$2 or more per day.

**To be taxable**, reimbursements or credits from the awards fund to a specific hotel must be withdrawn from that specific hotel's previous contributions to the fund. Hotel records must show that the hotel had contributed a sufficient amount to cover a specific month's reimbursement to the rewards fund, as well as administrative charges, prior to receiving payment or credit from the fund.

When a specific hotel is reimbursed or credited by contributions previously paid by that hotel to the rewards fund that hotel is, in effect, paying itself for the redeemed rooms and upgrades. There is no consideration and, thus, no tax is due.

If a hotel, however, has not previously contributed to the rewards fund an amount that covers a reimbursement or credit, including administrative charges, then there is consideration and tax is due.

## Chapter 3

# Taxpayer Records

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- [Room Revenue Balance Sheet](#)
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- [Daily Control Report](#)
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- [Monthly Summary](#)
- [Monthly Summary, Example](#)
- [Tax Report Room Revenue Sheet, Example](#)
- [Residential Hotel Record Keeping](#)
- [Deposit Agreement, Example](#)
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- [Monthly Summary Report, Example](#)
- [Room Sale Accounting System](#)

## Introduction

This chapter explains the terminology and methods of record keeping most common to the hotel industry.

## Registration Card

A guest registers his/her name and address on this card. The card will indicate the room number, room rate and date of registration. The card usually bears a folio number. An example of a Registration Card follows.

ROOM NO.	RATE	ROOM NO.	DEPART DATE	RATE	
MAY WE RESERVE A ROOM AHEAD FOR YOU?  YES ___ NO ___  IF YES, NAME _____		PLEASE PRINT			NO. IN PARTY
		LAST NAME	FIRST	INITIAL	
AT OUR HOTEL IN:  CITY _____  ADDRESS _____  STATE _____  ARRIVING _____  DEPARTING _____		HOME ADDRESS:			
		STREET _____			
		CITY	STATE	ZIP	
		REPRESENTING _____			
		COMPANY ADDRESS:			
		STREET _____			
		CITY	STATE	ZIP	
		YEAR/MAKE OF CAR	LICENSE PLATE #	STATE	
		METHOD OF PAYMENT:			
		<input type="checkbox"/> CASH	<input type="checkbox"/> CHECK		
		<input type="checkbox"/> CREDIT CARD	NAME _____		
		SIGNATURE _____			
		CLERK'S INITIAL	TIME CHECKED IN		
<b>#678901 Gracious International Inns</b>					

## Guest Folio

In addition to the information on the registration card, the folio shows the itemized charges accrued by the guest by date and department. The serial (folio) number should correspond with that shown on the registration card. The guest folio may be arranged in various forms, such as:

- Two separate copies (one for guest and hotel).
- Original and carbon (one copy for the guest; the other for the hotel).
- The guest folio and registration card may be arranged as one form, in duplicate (one copy for the guest; the other for the hotel).

An example of a Guest Folio follows.

**Gracious International Inns**  
**111 East 1st, Houston, TX. 77030**  
**(713) 660-9379**

Guest Name Auditor, Ima		Folio Number	Page 1
LBJ State Off. Bldg., 111 E. 17th		Suite Number	K1-7077
Austin, Tx. 78774		Suite Type	1123
Tx. Comptroller		No. of Guests	STQT
		Rate	1
		Account Number	80.00
			JAM

Arrive 10-Feb-03	Time 5:26	Depart 12-Feb-03	Time 7:23 AM
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Date	Description	Charges	Credits
10-Feb-03R11123	Room Charge - Studio 1-4	80.00	
10-Feb-03T21123	State Occupancy Tax	4.80	
10-Feb-03T31123	City Tax	5.60	
10-Feb-03T41123	County Tax	3.20	
11-Feb-03R11123	Room Charge - Studio 1-4	80.00	
11-Feb-03T21123	State Occupancy Tax	4.80	
11-Feb-03T31123	City Tax	5.60	
11-Feb-03T41123	County Tax	3.20	
12-Feb-03MC 7:23	Paid-Mastercard XXXXXXXXXXXXXXX790		187.20
Checked Out		0.00	

## Room Revenue Balance Sheet

The Room Revenue Balance Sheet is prepared daily. This report records the room number, the occupant's last name and the number of occupants per room. An example of a Room Revenue Balance Sheet follows.

### ROOM REVENUE BALANCE SHEET

TOTAL ROOM

DAY \_\_\_\_\_ DATE \_\_\_\_\_ LOCATION \_\_\_\_\_ REVENUE \$ \_\_\_\_\_

CLERK \_\_\_\_\_

RM NO	NO BR	LAST NAME	S O	CK O	ROOM REV	RM NO	NO BR	LAST NAME	S O	CK O	ROOM REV	RM NO	NO BR	LAST NAME	S O	CK O	ROOM REV
100						238						201					
102						240						203					
104						242						205					
106						244						207					
108						246						209					
110						248						211					
112						250						213					
114						252						215					
116						254						217					
118						256						219					
120												221					
122												223					
124												225					
126												227					
128												229					
130						101						231					
132						103						233					
134						105						235					
136						107						237					
138						109						239					
140						111						241					
142						113						243					
144						115						245					
146						117						247					
148						119						249					
						121						251					
200						123						253					
202						125											
204						127											SUB-TOTAL
206						129						No. of Sgl. ____ No. of Dbl. ____ No. of Rms. Occ. ____ No. of Rms. Vac. ____ No. of Guests ____					
208						131											
210						133											
212						135											
214						137											
216						139											
218						141											
220						143											
222						145											
224						147											
226						149											
228																	
230																	
232																	
234																	
236																	
		SUB-TOTAL						SUB-TOTAL									



## Daily Control Report

---

This report is used to balance the total room sales. The key totals are usually printed on this report from the posting machine. The night auditor reconciles the report, and amounts in the adjustments column could indicate:

- An entry error on the register
- An adjustment for tax-exempt transactions
- A sale rung up on an incorrect key

## Daily Report

---

The night auditor of a hotel summarizes the total receipts for each day on a daily report. This report includes:

- Room rentals
- Banquet room rentals
- Food sales
- Beverage sales
- Gift shop sales
- Telephone charges
- Vending machine sales
- Other miscellaneous sales or services

The daily report may also include:

- Room and food statistics, such as:
  - Number of rooms occupied - single
  - Number of rooms occupied - double
  - Number of complimentary rooms
  - Average daily rate
  - Number of breakfast, lunch and dinner covers
- Sales tax payable.
- Hotel Occupancy Tax payable.
- Cash account and credit card accounts

## Housekeeper's Report

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This report is prepared the following morning on the basis of the maids' reports and inspection of the rooms by the housekeeper and her assistants. The information as to occupancy and baggage in the rooms is summarized on the report. The printed form of the report contains a list of all room numbers, with a small blank space after each to show the status of each room by means of symbols. In most cases the following symbols give sufficient information:

- “/” means occupied, baggage in room.
- “X” means occupied, no baggage.
- “B” means baggage, room not occupied.
- “O” means room out-of-order

“Occupied” refers to overnight occupancy and it means that someone slept in the room.

## City Ledger

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This is a record book showing the customers who will be billed directly by the hotel.

## Monthly Summary

The hotel will summarize the information from the daily reports to a monthly summary. An example of a monthly summary that summarizes all receipts and a monthly room revenue sheet that summarizes only room receipts are shown. Also note on the room revenue sheet that there is a tax-exempt revenue breakdown.

### Monthly Summary, Example

MONTHLY SUMMARY FINANCIAL STATEMENT - PROFIT & LOSS RECAP		
Date <u>08-31-90</u>	<u>7</u> Months Ending <u>August</u>	
Month of <u>August</u>		
ITEMS	PRIOR YEAR	ACTUAL
% Occ. - Trans. Group		
Total % Occ.		
Average Rate		
Total Revenues		
<b>ROOMS</b>		
Sales		213,262.01
Payroll & Burden		61,085.89
Other Expenses		26,874.25
Dept. Profit		126,301.87
<b>FOOD</b>		
Sales - Outlet		48,730.26
- Banquet		1,190.03
Net Sales		49,920.29
Misc. Sales		-
Banq. Rm. Rental		354.50
Total Revenues		50,274.79
Cost of Sales		25,026.32
Payroll & Burden		31,862.03
Other Expenses		7,716.26
Dept. Profit		(14,339.82)
<b>BEVERAGE</b>		
Sales - Outlet		17,585.41
- Banquet		392.30
Net Sales		18,177.71
Cover Chg.		-
Misc.		-
Total Revenues		18,177.71
Cost of Sales		5,026.58
Payroll & Burden		6,556.80
Other Expenses		2,200.00
Music & Ent.		4,097.10
Dept. Profit		(1,701.77)
<b>Minor Depts. (Net)</b>		
Gift Shop		719.97
Movies		-
Telephone		(1,509.98)
Laundry & valet		28.67
Other Income		7,032.88
Gross Oper. Inc.		116,581.82

### Tax Report Room Revenue Sheet, Example

TAX REPORT		
ROOM REVENUE SHEET		
		Date: <u>September, 1999</u>
TOTAL ROOM REVENUE		\$ <u>769,523.01</u>
PUBLIC ROOM REVENUE		<u>19,827.00</u>
AIRLINE ROOM REVENUE NON-TAXABLE		( <u>8,338.50</u> )
*TAX EXEMPT ROOM REVENUE		( <u>464.00</u> )
TOTAL TAXABLE REVENUE		<u>780,547.51</u>
TOTAL TAX DUE		<u>54,638.33</u>
TOTAL TAX COLLECTED FROM SCH REPORT		<u>54,616.03</u>
OVER <u>(SHORT)</u>		<u>22.30</u>
<b>*TAX EXEMPT REVENUE BREAKDOWN</b>		
<u>ROOMS</u>	<u>REVENUE</u>	<u>TAX NOT COLLECTED</u>
COMPTROLLER OF THE CURRENCY		\$ <u>9.24</u>
EASTERN AIRLINES (THIS WAS A CONTRACT ROOM)		<u>4.88</u>
UNIVERSITY OF OKLAHOMA		<u>3.50</u>
COMMUNITY SERVICES		<u>3.56</u>
CITY OF HURST		<u>1.75</u>
FEDERAL INTERMEDIATE CREDIT BANK		<u>3.50</u>
PATCO		<u>5.25</u>
_____		
_____		
TOTAL	\$ <u>464.00</u>	<u>32.48</u>
 <u>FOOD</u>		
COMPTROLLER OF THE CURRENCY		\$ <u>6.80</u>
UNIVERSITY OF OKLAHOMA		<u>5.48</u>
CITY OF HURST		<u>5.90</u>
FEDERAL INTERMEDIATE CREDIT BANK		<u>1.12</u>
PATCO		<u>10.88</u>
AMERICAN DIABETES ASSN.		<u>12.12</u>
_____		
_____		
TOTAL	\$ <u>966.00</u>	<u>48.30</u>

### Residential Hotel Record Keeping

A residential or semi-residential hotel may not need to keep daily records as they cater to a clientele that stays for long periods of time. The following two forms are usually found in the records of a residential hotel, but may be found in connection with a hotel that caters to overnight customers.

**Deposit Agreement** - A deposit agreement is usually required at a residential hotel. The deposit agreement normally will show the:

- Date of occupancy
- Date of notice
- Date of vacancy

## Deposit Agreement, Example

DEPOSIT AGREEMENT									
LOCATION	NOTICE OF SURRENDER & REQUEST FOR REFUND OF DEPOSIT	UNIT #							
<p>TENANT grant a LANDLORD'S LIEN TO THE _____ and give the _____ a right to take possession of all property not exempt under Article 5236d, Sec. 2, V.A.T.S. in the event of a breach of this Deposit Agreement by TENANT.</p> <p>FOR ALL purposes under this Deposit Agreement <u>time shall be of the essence.</u></p> <p>Rentals are from 12:01 A.M. to 12:00 Midnight.</p>									
NAME: _____	DEDUCTIONS: (Specify)								
NO. IN PARTY: _____									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>DATE OF OCCUPANCY: _____</td></tr> <tr><td>DATE OF NOTICE: _____</td></tr> <tr><td>DATE OF VACANCY: _____</td></tr> </table>	DATE OF OCCUPANCY: _____	DATE OF NOTICE: _____	DATE OF VACANCY: _____	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>CLEANING EXPENSE: (IN EXCESS OF NORMAL USE) _____</td></tr> <tr><td>SUPPLIES: _____</td></tr> <tr><td>REPAIRS: (IN EXCESS OF NORMAL USE) _____</td></tr> <tr><td>OTHER: _____</td></tr> </table>		CLEANING EXPENSE: (IN EXCESS OF NORMAL USE) _____	SUPPLIES: _____	REPAIRS: (IN EXCESS OF NORMAL USE) _____	OTHER: _____
DATE OF OCCUPANCY: _____									
DATE OF NOTICE: _____									
DATE OF VACANCY: _____									
CLEANING EXPENSE: (IN EXCESS OF NORMAL USE) _____									
SUPPLIES: _____									
REPAIRS: (IN EXCESS OF NORMAL USE) _____									
OTHER: _____									
<p><b>SEMI-MONTHLY PLAN</b>                      NO PETS - NO WATER BEDS - 3 MONTHS PLUS 2 WEEKS NOTICE BEFORE MOVING (3 1/4 mos. min. stay) OR DEPOSIT WILL BE FORFEITED. LATE CHARGES TO BE PAID AFTER 3RD DAY.                      Initial _____</p>	<p>AMOUNT OF DEPOSIT: _____                      TOTAL OF DEDUCTIONS: _____                      REFUNDABLE AMOUNT: _____</p>								
<p><b>MONTHLY PLAN</b>                      NO PETS - NO WATER BEDS - 3 MONTHS PLUS 2 WEEKS NOTICE BEFORE MOVING (3 1/2 mos. min. stay) OR DEPOSIT WILL BE FORFEITED. LATE CHARGES TO BE PAID AFTER 3RD DAY.                      Initial _____</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>FAILURE OF TENANT TO GIVE AGREED NOTICE PRIOR TO VACATING PREMISES SHALL INTITILE _____ TO RETAIN SECURITY DEPOSIT AS LIQUIDATED DAMAGES.</td></tr> </table>		FAILURE OF TENANT TO GIVE AGREED NOTICE PRIOR TO VACATING PREMISES SHALL INTITILE _____ TO RETAIN SECURITY DEPOSIT AS LIQUIDATED DAMAGES.						
FAILURE OF TENANT TO GIVE AGREED NOTICE PRIOR TO VACATING PREMISES SHALL INTITILE _____ TO RETAIN SECURITY DEPOSIT AS LIQUIDATED DAMAGES.									
<p><b>NOTICE:</b>                      IT IS MY UNDERSTANDING THAT A REASONABLE AMOUNT MAY BE DEDUCTED FROM MY DEPOSIT FOR ANY CLEANING OR REPAIRS NECESSARY TO PREPARE SAID APARTMENT FOR FUTURE OCCUPANCY.                      _____                      GUEST SIGNATURE</p>	<p>MAIL REFUND TO:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>NAME: _____</td></tr> <tr><td>ADDRESS: _____</td></tr> <tr><td>CITY: _____ STATE: _____</td></tr> <tr><td>ZIP: _____</td></tr> <tr><td>SIGNATURE OF MANAGER: _____</td></tr> </table>		NAME: _____	ADDRESS: _____	CITY: _____ STATE: _____	ZIP: _____	SIGNATURE OF MANAGER: _____		
NAME: _____									
ADDRESS: _____									
CITY: _____ STATE: _____									
ZIP: _____									
SIGNATURE OF MANAGER: _____									

## Monthly Summary Report

A residential hotel may not prepare daily room rental reports but instead prepare weekly or monthly room rental reports. The monthly summary report will show:

- The unit number
- The deposit amount
- The check-in date
- The occupant of the room
- The period of payment
- The base rate
- Possibly the check-out date

### Monthly Summary Report, Example

MONTHLY SUMMARY REPORT

Location: Houston South Address: 1015 Colter Drive  
 Month: June Week Ended: 25<sup>th</sup> Prepared By: Chet Ryan

Unit No.	Deposit Amount	Type Of Unit	Occupant	Date Occupied	Rental Method M S W	Base Rent Due	Am. Collected (Office Use Only)	Date Paid To
101	50.00	1 Bd.	Wend. Wiss	1-12-76	✓	170. <sup>00</sup>	170. <sup>00</sup>	7-12 7-12
102			MOTEL					
103	50. <sup>00</sup>	1 Bd.	Warren Ash	4-15-77	✓	170. <sup>00</sup>	170. <sup>00</sup>	7-15 7-15
104			MOTEL					
105			MOTEL					

### Room Sale Accounting System

The steps involved in a typical room sale accounting system are as follows:

**STEP 1**

As the guest registers, a registration card is completed. Other departments of the hotel are immediately notified, and a notice of registration is placed in the room rack. The room rack is an index of all occupied vacant guest rooms. It is constructed in the same manner as a rack for time cards.

**STEP 2**

The night auditor of the hotel posts the following daily information to the customer's folio, usually after 12:00 midnight:

- Room charge
- Tax
- Phone charges
- Bar charges
- Restaurant charges
- Any other charges

After the daily charges are posted, the customer's folio will have the balance due as of that date.

**STEP 3**

After all daily charges have been posted, then the night auditor can obtain from the posting machine the total room charges, total tax, total phone call charges, total bar charges and the total restaurant charges for the day.

**STEP 4**

The night auditor will usually verify the correctness of the total room charges by the following computation.

Room Sales for Proceeding Day	\$840.00	
Add: Total Rate for new Arrivals	450.00	
Total New Rate of Charges	22.00	
-----		
Total	\$1,312.00	
Deduct: Total Rate of Departures	\$395.00	
Total Old Rate of Charge	28.00	423.00
Balance: Room Sales for the Day	\$889.00	
	=====	

**STEP 5**

The night auditor prepares a room revenue balance sheet or a room control sheet.

**STEP 6**

The total room charges shown on the room revenue sheet are compared with the amounts shown on the daily control sheet.

**STEP 7**

The daily report is prepared from the information on the room revenue sheet and the daily control sheet.

**STEP 8**

The staff accountant verifies the night auditor's reports with the receipts; the accountant checks the room rack to determine if all rooms rented were reported.

The staff accountant may also check the housekeeping report to determine if all receipts taken were reported to examine the report for errors. (This is a good internal control measure.)

**STEP 9**

The Comptroller of the hotel will prepare monthly summary sheets from the daily reports.

## Chapter 4

# Audit Procedures

- [Introduction](#)
- [Pre-Audit Research](#)
- [Entrance Conference](#)
- [Visual Inspection](#)
- [Examination of Gross Receipts](#)
- [Reconciliation of Tax Collected to Tax Reported](#)
- [Reconciliation of Monthly Summary to General Ledger](#)
- [Reconciliation of Daily Reports to Monthly Summary](#)
- [Reconciliation of Daily Report to Folios](#)
- [Alternative Records](#)
- [Deductions](#)
  - [Bad Debts](#)
  - [Permanent Residents](#)
  - [Audits on Residential or Semi-Residential Hotels](#)
  - [Audits on Transient Hotels](#)
  - [Exempt Organizations](#)
- [Sampling Procedures](#)
- [Exit Conference](#)
- [Audit Plan](#)
- [Hotel Occupancy Tax Checklist](#)

### Introduction

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This section discusses audit procedures for hotel tax audits. The actual procedures employed will depend on the records available. The auditor should utilize all available records and worksheets and computer data of the taxpayer. Computer records are considered books and records and may be requested by the auditor if considered necessary to conduct the audit.

Tests should be made in accordance with generally accepted auditing procedures. The auditor will schedule exceptions noted and be prepared to discuss these exceptions with the taxpayer.

### Pre-Audit Research

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After the audit assignment has been received, certain information concerning the taxpayer's account and the business should be obtained through pre-audit research before an initial contact is made with the taxpayer.

Pre-audit research includes reviewing the following:

- Taxpayer's response to the Audit Questionnaire
- Computer Terminal Inquiry (Refer to Appendix A)
- History
- Prior audit

Refer to the hotel checklist in this chapter for additional detail on pre-audit research.

### **History Analysis**

The history should be reviewed and analyzed before contacting the taxpayer. Compare the taxable receipts reported for each period and note significant variances. The significant variances might indicate:

- Over-reported taxable receipts
- Under-reported taxable receipts
- Seasonal business
- Out-of-business for part of a period

The capacity for each outlet should be reviewed to determine if reasonable receipts are reported.

Refer to Appendix A for details of the data on the history.

### **Entrance Conference**

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The entrance conference should include a discussion of the following:

- The taxpayer's interpretation of Hotel Occupancy Tax
- The taxpayer's business operations
- The taxpayer's accounting system
- The taxpayer's reporting procedure
- The taxpayer's clientele

Outlet data from the taxpayer's history should also be verified in the entrance conference to determine if any file maintenance is necessary. Refer to the checklist for a list of the questions to ask the taxpayer.

### **Visual Inspection**

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A tour of the premises should be made prior to beginning the examination of the audit records. Look for:

- The location of meeting and banquet rooms and facilities
- Evidence of new construction or remodeling
- The number of rooms in the hotel as compared to the capacity shown on the history
- Vending machines (e.g., soft drink machines, etc.)
- Other sales or services offered to clientele

### **Examination of Gross Receipts**

---

Total room receipts must be examined and verified by the auditor. The comparison of total room receipts per the taxpayer's records and reported taxable room receipts should indicate:

- If the taxpayer had deducted any sales, and
- If taxable receipts were reported correctly.

Total room receipts should be reconciled for the entire audit period. Total room receipts should be reconciled with the general ledger and/or income tax return. Usually, a separate account is set-up for banquet room receipts.



Meeting and banquet receipts from the general ledger should be combined with the room receipts from the general ledger and compared with the reported total room receipts and the reported taxable receipts shown on the taxpayer history.

Differences may be a result of:

- Bad debts
- Exempt sales - taxpayer only reports taxable receipts
- Banquet room receipts not being reported
- Computation errors
- Posting errors
- Bar receipts included in total receipts
- Restaurant receipts included in total receipts
- Gift shop receipts included in total receipts
- Vending machine income included in total receipts
- Tax collected included in total receipts

The differences from the reconciliation with the general ledger and/or income tax return should be analyzed to determine if further examination of records is necessary. If there are some unexplained differences, then discuss the differences found with the taxpayer. Many of the differences found in the reconciliation may be of no consequence to Hotel Occupancy Tax. The taxpayer may be able to readily explain the differences. The auditor can then verify the taxpayer's explanation rather than spending unnecessary time searching for the nature of the differences.

## Reconciliation of Tax Collected to Tax Reported

---

Analyze the records to determine if there are separate accounts for the different types of taxes collected by the hotel (sales, hotel, mixed beverage taxes). If there are separate accounts, then analyze the Hotel Occupancy Tax account to determine if both state and local taxes are included in the same account. If local tax is included, then the local rate should be determined and the amount separated. If there are not separate accounts for the different types of taxes collected, review the Monthly Summary for the Hotel Occupancy Tax collected. The reconciliation of state hotel tax collected to tax reported will be done for every report period in the audit period. Any exceptions noted in this reconciliation should be scheduled and discussed with the taxpayer.

Reconcile the state tax per taxpayer's records with the reported amount of tax for the entire audit period. The differences may include:

- Posting errors in the general ledger
- Non-posting of tax paid
- Tax reported but not collected
- Tax collected but not reported

The extent to which the Monthly Summary and the Daily Reports are examined will depend on the analysis and review of the:

- Taxpayer's history
- Visual inspection of premises for additional taxable receipts
- Material errors found in the reconciliation of gross receipts
- Material errors found in the reconciliation of the tax accrual account

The taxes collected should be scrutinized in detail for all report periods. Anomalies or periods with large under-reporting should be examined to determine the cause of the under-reporting.

If the additional taxes assessed in the audit are greater than 25% of the taxes reported (this is based on a calculation done on a report period basis -not a total calculation) additional procedures may need to be employed. For example, the expansion of the audit period (to earlier periods than originally planned), may be necessary. An under reporting by 25% or more qualifies as an exception to the statute of limitations. Therefore, the audit period may end up covering more than the standard four year period. If this is the case Audit Headquarters personnel should be contacted to obtain written permission to expand the audit period beyond the statute of limitations. Additional penalty may be assessed on the audit adjustments if the taxpayer intentionally under-reported their tax liability to the State or if the audited taxes exceed reported amounts by 25% or more.

## Reconciliation of Monthly Summary to General Ledger

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The Monthly Summaries should be totaled on a quarterly or yearly basis and compared to the reconciliation of gross receipts. The purpose of this procedure is to check internal control and to verify that no posting errors went undetected.

**NOTE:** A formal schedule is not necessary. If differences are noted during the reconciliation then a schedule should be prepared to document any inconsistencies.

A review of the Monthly Summaries may indicate why there is a difference in the reconciliation of receipts. If there is an unexplained difference in the receipts reconciliation, then the Monthly Summaries can be used to narrow the time period in which the differences occurred. The results can indicate the procedures to use to reconcile the daily reports.

## Reconciliation of Daily Reports to Monthly Summary

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The type and materiality of the differences noted in the reconciliation of the Monthly Summaries to the taxpayer's records will determine the size and type of sample required for daily reports.

The sample may be random or it may cover a specific time period.

Random sampling should be used when the differences are distributed over the entire audit period or when it is desirable to test internal control procedures.

After the sample has been chosen, the daily reports should be compared to the monthly reports to verify posting of the accounts. The daily reports may also be compared to the daily revenue balance sheet to detect errors that were not detected in the taxpayer's accounting system.

For more information regarding sampling procedures, refer to the Audit Division *Sampling Manual*.

## Reconciliation of Daily Report to Folios

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A reconciliation of the daily report to the taxpayer's folios is not necessary to verify gross receipts unless the taxpayer's internal control is nonexistent or ineffective.

**NOTE:** This procedure will more commonly be used to verify non-taxable room receipts.

## Alternative Records

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If records are not available or insufficient, then the following may be used:

- City Hotel returns
- Bank statements
- Estimated deficiency

The taxpayer's City Hotel returns may be used to compare state amount reported; however, since this is an internal report it may not be reliable. The taxpayer's bank statement may also be used to obtain gross taxable receipts by adding the deposits for each period. When bank statements are used, an allowance should be made for deposits verified as non-receipts such as loans.

If records are not available, then the taxpayer's return must be estimated. To establish an estimate, use room capacity and average room charge.

## Deductions

---

The non-taxable room receipts that a taxpayer may claim are:

- Bad debts
- Permanent residents
- Exempt organizations.

The nature of these non-taxable room receipts and the procedures used to verify them will be discussed in this portion of the chapter.

### **Bad Debts**

The Hotel Occupancy Tax Return does not allow for the deduction of bad debts; even so, it is the policy of the Comptroller's office to allow the deduction. If a taxpayer has not taken a deduction for a bad debt(s), then a credit should be allowed.

Bad debts are allowed when they are written off the taxpayer's Federal Income Tax Return or when past history indicates that the debt recorded in the general ledger will be written off on the Federal Income Tax Return.

The audit procedure used should verify that the bad debt deduction is valid. The procedure should consist of checking the taxpayer records to determine if there is an account related to bad debts. If there is not a bad debt account, determine how bad debts are handled by the taxpayer.

If there is a bad debt account, analyze the account to determine if the bad debt(s) related to hotel receipts can be separated into taxable and nontaxable groups. If a large number of the customers are exempt or permanent residents, the hotel bad debt account must be further analyzed to determine which debts specifically relate to customers that were charged hotel tax. Only the bad debts that were originally treated as a taxed transaction should be written off as a bad debt (for State tax purposes).

The taxpayer records should be examined for recoveries of bad debt(s) which have previously been written off and not subsequently reported. If this is the case the hotel tax should be reported in the period it is recovered.

The State does not allow Credit interest for bad debts. Any refunds due to bad debts should be scheduled on a separate exam so that credit interest can be waived on that particular exam. A footnote needs to be added that this exam contains bad debts and no credit interest will be granted on bad debts.

### **Permanent Residents**

The number of permanent residents is significant at residential hotels and semi-residential hotels. Refer to Chapter 2 for the definition and policies regarding permanent residents.

Some hotels that may cater to permanent residents are residential hotels. These are hotels that cater to a clientele that normally stays longer than 30 days. The clientele may not have a formal lease agreement but usually pays on a weekly or monthly basis with a deposit agreement.

Residential hotels will sometimes have transient tenants when rooms are available.

Semi-residential hotels cater to both the transient and permanent resident clientele. Semi-residential hotels usually designate the number of rooms needed for overnight stay as well as those for permanent residents.

Transient Hotels usually do not have many permanent residents. These hotels cater to clientele who stay overnight or for a short period of time.

**NOTE:** In the Entrance Conference and the initial examination of the audit records, the type of hotel should be established. The extent of the audit procedure used will depend upon the type of clientele of the hotel.

### **Audits on Residential or Semi-Residential Hotels**

**For a residential or semi-residential hotel**, two revenue accounts are usually kept for clientele: one for clientele designated as transient and another for permanent clientele. The revenue accounts will normally be traceable to a monthly receipts journal that summarizes the receipts of each day.

A residential and semi-residential hotel will normally have either a revenue card by room or a Monthly Summary Report instead of a daily revenue balance sheet that should show:

- The check-in date
- The occupant of the room
- The period of payment

- The base rate, and
- Possibly the check out date

(An example of a Monthly Summary Report is in Chapter 3.)

The frequency of payment (i.e., weekly, semi-monthly or monthly) would indicate the probability of a resident staying less than 30 days. A client paying monthly is more likely to stay more than 30 days.

If monthly summaries are nonexistent or inadequate, then the deposit agreement should be examined. The deposit agreement normally will show the date of occupancy and vacancy.

Initially, the deposit agreement may be sampled to determine if the number of clientele who remain less than 30 days is significant. If this test indicates that a significant number of the hotel's clientele stay less than 30 days, then the auditor should trace the number of clientele who remained less than 30 days to:

- The room revenue balance sheets, and
- Use the average room rate times the length of occupancy.

If these records are not available for residential or semi-residential hotels, then examination of the customer's folios may be required.

### **Audits on Transient Hotels**

Permanent residents are rare in transient hotels; therefore, the taxpayer does not usually keep detail summary records for transient hotels. Information regarding permanent residents may be taken from the Room Revenue Sheet or the folio.

The Room Revenue Sheets will show the customer's name and hotel room number. The auditor may obtain these for the period that the exemption was claimed to determine if the customer stayed for 30 consecutive days.

If the Room Revenue Balance Sheet is inadequate or unavailable, then the folios must be examined.

**NOTE:** Extensive examination of folios should not be necessary unless there are no Summary records through which differences can be specifically identified.

Folios are usually filed by the date of the last charges. Therefore, folios can be randomly sampled by days. The folios will show the date of arrival and the date of departure for determining if a customer qualifies as a permanent resident. The registration card may indicate the client's expected length of stay. It may be necessary to examine the registration cards to determine if the first 30 days are exempt.

A transient hotel may claim a substantial amount of deductions if it caters to companies such as railroads or airlines. These companies reserve rooms for their personnel. The number of rooms contracted or paid for are usually not the same each day. Refer to Chapter 2 for treatment of permanent residents.

The records necessary to determine the minimum number of rooms rented include the:

- City ledger (billing)
- Daily revenue balance sheet
- Folios

Sampling auditing techniques may be used if the records are numerous or unavailable.

### **Exempt Organizations**

Some organizations that contract and pay the hotel directly for rooms are exempt from Hotel Occupancy Tax. Refer to Chapter 2 for the definition and policies regarding exempt organizations. Some organizations exempt from sales tax ARE NOT exempt from paying hotel occupancy tax. These organizations may contract for a banquet or meeting room within a hotel as well as for room rentals; both need to be verified. When an exempt organization contracts and pays for a room, the taxpayer should obtain a Hotel Occupancy Tax Exemption Certificate. (Refer to Hotel Occupancy Tax Rule 3.161.)

Non-taxable room rentals must be verified. To determine if these non-taxable room rentals are valid a sample may be taken. The size and nature of the sample would depend on the materiality of the exemptions claimed and the summary records available for verification of the exemptions. If a material error is found, then the sample period may be expanded.

Some hotels may summarize the exemptions claimed on a monthly or daily report. Additional sources of verification are:

- City ledger (billing), and
- Texas Hotel Occupancy Tax Exemption Certificates

The folios may need to be examined if there are no summary records. Some taxpayers may attach the exemption certificates to the folios.

## Sampling Procedures

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The taxpayer's records may indicate that it will be necessary to perform a sample audit because the records are one of the following:

- Detailed, voluminous or complex
- Inadequate or insufficient

The sample period should be randomly selected. Refer to the *Sampling Manual* for details on how to sample. A "Notification of Sampling Procedures for State Tax Audit" must be completed and given to the taxpayer prior to implementation of the sample procedures.

If an estimated audit is performed rather than a sample, a "Notification of Estimation Procedures for State Tax Audit" must be completed and given to the taxpayer prior to implementation of the estimation procedures.

## Exit Conference

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At the conclusion of the audit, the auditor must explain to the taxpayer the audit procedures and results. If the taxpayer disagrees with the audit results, the auditor should be certain to understand the disagreements voiced by the taxpayer.

The billing, request for payment and redetermination procedures should also be discussed at this time. Refer to the exit conference section of the *Auditing Fundamentals Manual* for more information on what items need to be discussed with the taxpayer during the exit conference.

## Audit Plan

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The Record of Audit Planning, Activities, and Results is the form that documents the audit plan for every hotel audit and should be completed as the audit progresses. Continuation pages are available for use and generally will be necessary to record all information. It is important for the auditor to document all appropriate and pertinent information. Refer to the *Auditing Fundamentals Manual* for documentation that is required.

## Hotel Occupancy Tax Checklist

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The checklist is only an aid to the auditor to ensure that all areas have been considered. The auditor will need to adapt and check areas as the taxpayer's business activity and records warrant. Use this checklist to complete the audit plan.

### I. PRE-AUDIT RESEARCH

- A. Examine Work Item Detail of Agency Work Manager for:
  1. Taxpayer under audit
  2. Reason for audit request
  3. Examine prior audit if any
  4. Research statute and rules
  5. Review information supplied on and with the Audit Questionnaire

6. Search the World Wide Web to see if the Hotel has a website. If so, examine site for amenities provided, locations, services available to the clients, policy regarding charges for guaranteed rooms and no-shows, etc.
7. If the hotel is owned by a public company the financials may be available on the World Wide Web
- B. Verify that the Taxpayer's Information Letter and the Audit Questionnaire were sent to the taxpayer - copies should be included in the audit folder
- C. Examine the Audit Questionnaire completed by the taxpayer to determine:
  1. Contact and location of the records
  2. The individual (owner, partner, corporate officer) that has the authority to sign the Agreement to Extend Period of Limitation
  3. Description of the business activity
  4. Availability of computer records
  5. The individual (owner, partner, corporate officer) that should receive the "Notification of Sampling Procedures" and/or "Notification of Estimation Procedures"
  6. Special instructions
- D. Review Reported Information on the History:
  1. Title information
    - a. Compare information with Agency Work Manager
    - b. Date of history (should be current)
  2. Outlet Information
    - a. Trade name
    - b. Status
    - c. Status date
    - d. First sale date
    - e. Capacity
    - f. Last report filed
  3. Data File
    - a. Were all outlets reported that were in business?
    - b. Compare the taxpayer receipts reported for each period and note significant variance.
    - c. Compare each outlet's occupancy capacity to taxable receipts reported to determine if reasonable taxable receipts are reported.
  4. Open Collection Records
  5. Prior Audit Information
- E. Run terminal inquiries
  1. MTSUMM.taxpayer #.(Master inquiry and summary status for all applicable taxes)
  2. MTBALS.taxpayer #. (Multi-tax balance)
  3. XICOLL.taxpayer #.75. (Open collection record)
- F. Examine Prior Audits, if any, for:
  1. Periods audited
  2. Method of accounting
  3. Audit procedure
  4. Errors noted in the previous audit
  5. Prior contact person and location of records
- G. Examine other documents for additional information including:
  1. Correspondence with taxpayer or with others in reference to the taxpayer
  2. Any other sources such as newspaper articles, magazine stories, etc.
  3. Hotel Occupancy Tax Accounts, Mixed Beverage Accounts and any other taxes and fees the hotel may be responsible for
- H. Review Hotel Law, Rules, Manual Procedures and Microfiche
- I. Set an appointment via telephone

1. Inform taxpayer of audit period
2. Inform taxpayer of other taxes to be audited
3. Determine the location of the records needed to conduct the audit.
4. Determine whether records are computerized or manual and the method of filing the exemption certificates, daily records, purchase invoices and revenue reports.

## II. ENTRANCE CONFERENCE

- A. List taxpayer's representatives who attend the entrance conference in the audit plan
- B. Discuss the taxpayer's understanding of the Hotel Occupancy Tax Law and Rules
- C. Discuss the taxpayer's business operations
  1. Type of hotel (transient, residential or semi-residential)
  2. Whether the hotel(s) has banquet/meeting rooms
  3. Whether the hotel(s) caters to exempt customers
- D. Discuss the taxpayer's accounting systems and reporting procedures
  1. Are records kept per the cash or accrual method?
  2. What types of records are available and how are they filed?
  3. Who are the personnel who prepare the report and have there been changes?
  4. What are the step-by-step procedures used by the taxpayer to prepare hotel returns? (Ask for the preparer to walk through this process for you)
  5. What internal control checks are used to insure that all taxable receipts are reported?
- E. Discuss audit procedures
  1. Audit period
  2. Sampling and projection procedures
  3. Possibility of using C.A.M.S. (Computer Audit Menu System)
  4. Possibility of obtaining statute extension agreement
- F. Discuss historical data from the history or the system with the taxpayer
  1. Changes in ownership
  2. If the hotel is operated as a sole proprietor, partnership or corporation
  3. If taxpayer is permitted for all applicable taxes
  4. Information on related firms

## III. TOTAL ROOM RECEIPTS

- A. Visual inspection of premises - items to look for:
  1. Location of meeting and banquet rooms. Observe if banquet/meeting room(s) are located in the same building with the sleeping accommodations, because only then are the receipts subject to Hotel Occupancy Tax.
  2. The number of rooms in the hotel as compared to the capacity shown on the history
  3. New construction repair to real property (taxable purchases)
  4. Restaurants and gift shops (sales tax)
  5. Vending machines (sales tax)
- B. Analyze taxpayer's records (e.g., general ledger and/or Income Tax Return) to determine if all receipts are being reported or if taxpayer claims exempt room rental receipts. Some examples of receipts which are subject to Hotel Occupancy Tax which may not be included as taxable room rental receipts are as follows:
  1. Charges that are connected with the actual occupancy of the room, such as television rental and the furnishing of additional beds or cots
  2. A room charged to a customer who did not show is subject to Hotel Occupancy Tax - a deposit that is not directly related to the room charge would not be subject to Hotel Occupancy Tax
  3. Cancellation fees for reservations canceled within 30 days of the scheduled check-in date. If the cancellation fee is the same price as the room rate, the entire charge is taxable.
  4. Banquet/meeting room charges when they are located in the same building with the sleeping accommodations.

- C. Reconcile tax collected to tax reported by comparing the amounts to the general ledger, monthly summaries and daily summaries. Remember: the city portion of the Hotel Occupancy Tax may be included in the same account. The City Hotel Occupancy Tax is not audited by the Comptroller's agency.
- D. Reconcile daily reports to folios. The folio shows the itemized charges accrued by the guest by date and by department. (This step is only necessary when the taxpayer's internal control is nonexistent or ineffective)
- E. Randomly choose a preliminary test period which will determine the following:
  - 1. Types of records used by the taxpayer
  - 2. How the taxpayer is calculated the reported amounts for Hotel Occupancy Tax
  - 3. Scrutinize the test period to determine types of errors, if any, the taxpayer may have made
  - 4. That the preliminary test period is representative of the entire audit period

#### IV. BAD DEBTS/TAX-EXEMPT ROOM RECEIPTS

- A. Review taxpayer's records for **bad debts** claimed in error or **bad debts** not claimed.
  - 1. Review general ledger to determine if there is a bad debt account.
  - 2. Review taxpayer's Federal Income Tax Returns to determine if bad debts were written off. Bad debts are allowed only if they are written off or if past history indicates that the bad debts recorded in the general ledger will be written off the Federal Income Tax Returns.
  - 3. Determine if the bad debt account relates only to hotel receipts and determine which debts relate to customers that were charged Hotel Occupancy Tax.
  - 4. The general ledger and/or Income Tax Returns should be examined for recoveries of bad debts that have previously been written off. These recoveries should be reported as taxable receipts if tax was originally due on the transactions.
  - 5. Bad debts should be scheduled on an exam separate from other tax adjustments and a footnote added that credit interest will not accrue on bad debts.
- B. Review taxpayer's records to determine if exemptions were claimed and if so for what types of reasons. (If for example Permanent Resident exemptions were claimed).
  - 1. A permanent resident is an occupant who has the right to occupancy of any room for at least 30 consecutive days. The moving of a customer from one room to another has no effect on the permanent resident status. Intention to occupy the premises in excess of 30 days must be presented to the hotel at check-in or prior to qualify as permanent resident status. If documentation is not presented - after the first consecutive 30 days have passed - the 31st day will be considered exempt.
  - 2. A Company such as an airline or a railroad may contract for lump rentals of hotel rooms without having the same employees occupy the same rooms during the 30-days; in this case, the company would qualify as a permanent resident.
  - 3. Review the following available records for a residential or semi-residential hotel
    - a. Revenue cards by room
    - b. Monthly summary report
    - c. Deposit agreements
    - d. Accounts receivable for frequency of payment
  - 4. Review the following available records for a transient hotel.
    - a. Room revenue sheets
    - b. Registration cards
    - c. Folios
- C. Review taxpayer's records to determine if tax-exempt room rental receipts (deductions) were properly claimed for exempt organizations.
  - 1. Determine if the exempt organization paid for the accommodations by reviewing the city ledger (billing).
  - 2. Determine if exemptions are being claimed for governmental persons - U.S. Government and State of Texas personnel **only**.
  - 3. Determine if the taxpayer is claiming exemption for municipal or county governments (they are not exempt from Hotel Occupancy Tax).



4. Review the Texas Hotel Occupancy Tax Exemption Certificates the taxpayer has on file and the exempt organization list on CICS.
- D. Other records which can be reviewed when taxpayer's records are unavailable or inadequate are:
1. Bank statements
  2. City hotel returns
  3. Federal Income Tax returns

## V. EXIT CONFERENCE

- A. Explain to the taxpayer the audit procedures performed. This would include a discussion of the following:
1. All records examined
  2. A detail description of audit procedures utilized, audit adjustments and flow of audit package
  3. Minor errors for which no adjustments were made
  4. Applicable law, rulings and proper reporting procedures
  5. Additional information the taxpayer may obtain to reduce the liability
  6. Taxpayer's disagreements with the audit - these should be clearly understood by the auditor and documented
  7. The reconciliation conference should be offered if the taxpayer disagrees.
  8. The "What If I disagree with my audit results" brochure should be given to the taxpayer.
- B. Other procedures which should be discussed with the taxpayer include:
1. The billing process (whether penalty waiver will be recommended and policies and procedures pertaining to penalty and interest). The "What If I disagree with my Audit" brochure should be given to the taxpayer.
  2. Payment should be requested.
  3. Redetermination procedures explained.

# Chapter 5

# Audit Write-Up

- [Introduction](#)
- [Deficiency Audit](#)
- [Credit Audit](#)
- [No Tax Change Audit](#)
- [Amended Audits](#)
- [Schedules and Forms](#)
- [Audit Cover Letter, Example](#)
- [Audit Report, Example](#)
- [Index to Working Papers, Example](#)
- [Audit Adjustment Report](#)
- [Audit Adjustment Report , Example](#)
- [Tax Adjustment Summary](#)
- [Tax Adjustment Summary, Example](#)
- [Exam 100, Example](#)
- [Exam 200, Example](#)

## Introduction

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The result of an audit will be either a deficiency (tax is due to the state) a credit audit (taxes are due to the taxpayer) or a no tax change audit. A no tax change means that the reported amounts were correct and no audit adjustments are required. The write up procedures are different depending on the audit results.

The write up of a hotel audit is considered a manual audit write up as opposed to a sales tax audit (an uploaded audit) which is an automated tax. Since the hotel tax is not automated on the system the actual tax amounts need to be calculated by the auditor on excel schedules. These schedules are discussed later in this chapter.

## Deficiency Audit

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A deficiency audit will be an audit that results in the taxpayer owing additional hotel tax to the State of Texas. This could be the result of exemptions that were claimed but were unsupported by exemption certificates. The hotel could have claimed deductions for permanent residents that did not meet the statutory qualifications of permanent residents. The taxpayer has the right to disagree with the audit results if they feel the audit is not accurate in its assessment.

## Credit Audit

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A credit audit may arise from one of the following:

- Posting error by the taxpayer
- Receipt of Exemption Certificates

- Charging tax to a permanent resident in error
- Bad Debts

If a credit arises from tax collected in error from a customer, then the credit should not be given to the hotel until it has been refunded to the customer.

Before the refund is given to the hotel, the auditor must verify by one of the following procedures that the hotel has refunded the money to its customer.

- The auditor may verify a canceled check from the hotel paid to the customer for the refund of taxes.
- If the customer still does business with the hotel, then the auditor may verify the posting of a credit memo to the customer's account.

Credit interest will accrue on reporting periods due on or after January 1, 2000. Credit interest will not accrue on the refund amounts until after the hotel refunds the tax to the customer or applies the refund to the customer's account via a credit memo.

**NOTE:** Credit interest does not accrue on bad debts.

**Audit Procedure:**

Entry dates for the audit may or may not always coincide with the original transaction date. Footnotes should explain the original date of the transaction and the specifics regarding the entry. If a refund is due the hotel - credit interest will not apply until the date the hotel refunded the tax to the customer or credit has been given. In this instance dates may need to be altered for entry to the audit exam or an interest restart date may be given to an entire exam to process the correct beginning date for interest calculations.

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## No Tax Change Audit

When an audit examination results in no adjustments, then a No Tax Change audit should be prepared. Refer to the *Auditing Fundamentals Manual* for specifics.

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## Amended Audits

An amended audit is an adjustment to a completed audit. Refer to the *Auditing Fundamentals Manual* for write-up procedures for an amended audit.

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## Schedules and Forms


Audit write-up includes completion of the following:

- Record of Audit Planning, Activities, and Results
- Exhibits (i.e., room agreements, monthly summaries, etc)
- Exams (schedules) and Supplemental Exams (supporting schedules)
- Index to Working Papers (Template)
- Audit Adjustment Report (Form)
- Tax Adjustment Summary (Auditor generated Exam)
- Audit Cover Letter (Template)
- Audit Report (Template)

See the *Auditing Fundamentals Manual* for specific examples or explanations of the documents, exhibits, templates and/or forms listed above.

A few of these documents are shown below.

## Audit Cover Letter, Example

	<p><b>COMPTROLLER OF PUBLIC ACCOUNTS</b>  P.O. BOX 13528  AUSTIN, TX 78711-3528</p>
<p>August 18, 2003</p> <p>Thomas R. Garza  President  ABC Hotel, Inc.  123 Main Street  San Antonio, Texas 78220</p> <p>RE: Taxpayer Number 12345678903</p> <p>Dear Mr. Garza:</p> <p>Our audit, conducted in accordance with the Hotel Occupancy Tax Statute, is complete. The audit covered the period April 1, 2002 through March 31, 2003 and resulted in an adjustment in the amount shown on the attached Texas Notification of Audit Results. We have included a pre-addressed envelope for your payment convenience. For an explanation of the interest calculations, contact the Audit Processing Section of the Revenue Refund Division at 1-800-531-5441 extension 3-4479.</p> <p>We have waived the penalty for periods which were originally filed on time. However, we have not waived interest. Interest waiver is considered only where written, documented proof exists that a taxpayer relied to its detriment on misinformation from the State. If you disagree with our decision, you may request a redetermination hearing by our Legal Services Division.</p> <p>Audit adjustments are explained on the enclosed Audit Report.</p> <p>At the exit conference, you agreed with the audit results. You were provided with the brochure "Dispute Resolution Conference" (Form 96-321-T) and advised of your right to meet with a dispute resolution officer. I also provided you with the brochure "What if I don't agree with the results of my audit?" (Form 96-129) and advised you of the requirements necessary to initiate a formal redetermination hearing.</p> <p>If you have any questions please contact me in the Audit Headquarters Audit Office at 512/463-3900. Thank you for your cooperation during the audit.</p> <p>Ima Nauditor  Auditor</p>	

**NOTE:** Please use the FORM OPTION for the cover letter template when printing the cover letter to submit to the Review Processing Center (RPC).

## Audit Report, Example

**AUDIT REPORT, EXAMPLE**

AUDIT REPORT

ABC Hotel, Inc.  
Taxpayer Number 12345678903  
April 1, 2002 through March 31, 2003

This report summarizes adjustments made in the audit.

1. A detail examination was completed for Exam 100. Adjustments were made for disallowed exemptions claimed.
2. A detail examination was completed for Exam 200. Adjustments were made for banquet room rentals not taxed.

## Index to Working Papers, Example

ABC Hotel, Inc.  
San Antonio, Texas  
TP#12345678903

**INDEX TO WORKING PAPERS**


DESCRIPTION	PAGES
AUDIT ADJUSTMENT REPORT	1
TAX ADJUSTMENT SUMMARY	1
Exam 100                      DISALLOWED EXEMPTIONS	1
Exam 200                      TAXABLE BANQUET ROOM RENTALS	1

## Audit Adjustment Report

The Audit Adjustment Report (AAR) is a form that needs to be completed by the auditor. The amounts on this form should be subtotaled by column. The AAR shown on the index is the automated computer prints that the Processing Center will add to the final audit package that is mailed to the taxpayer. This is the result from the information input by the Processing Center from the manual form prepared by the auditor.

Double check the amounts shown on the AAR manually to ensure that the tax entered on that form is the correct tax amount as shown on the Exam schedules. Differences noted could be rounding formulas in the excel spreadsheet.

## Audit Adjustment Report, Example

 00-477 (Rev. 5-89/3)	Taxpayer name <div style="border: 1px solid black; padding: 2px;">ABC Hotel, Inc.</div>	Prepared by <div style="border: 1px solid black; padding: 2px;">IN</div>	Date <div style="border: 1px solid black; padding: 2px;">08/01/2003</div>
<b>AUDIT ADJUSTMENT REPORT</b>			
Tax code <div style="border: 1px solid black; padding: 2px;">7 5</div>	Taxpayer number <div style="border: 1px solid black; padding: 2px;">1 2 3 4 5 6 7 8 9 0 3</div>	Ending period <div style="border: 1px solid black; padding: 2px;">0 3 1</div>	
<b>PIAADD / PIAUPD</b>			
<b>PENALTY AND INTEREST AUDIT INFORMATION</b>			
Audit type <input checked="" type="checkbox"/> O - Original      4 - Original Fraud <input checked="" type="checkbox"/> A - Amended      8 - Amended Fraud	Collection Record no. _____ (For Tax code 12 only)		
Beginning period _____	Calculation date (Optional for auditor) _____		
Auditor ID _____	Field Office _____		
Destination (For RPC only) _____	Reports requested <input checked="" type="checkbox"/> Y		
Determination <input checked="" type="checkbox"/> N	Waiver granted <input checked="" type="checkbox"/> Y    Y - YES    N - NO		
Open Collection records <input checked="" type="checkbox"/> N    Y - YES    N - NO	Motor vehicle type <input type="checkbox"/> S - Seller    P - Purchaser		
Total tax adjustment      \$ _____			
POSTMARK DATES		REFUND PAYMENTS	
_____ \$ _____		_____ \$ _____	
_____ \$ _____		_____ \$ _____	
_____ \$ _____		_____ \$ _____	
_____ \$ _____		_____ \$ _____	
<b>PITADD / PITUPD</b>			
REPORT PERIOD	TAX ADJUSTMENTS	REPORT PERIOD	TAX ADJUSTMENTS
02-2	\$ 744.66		\$ .
02-3	697.20		.
02-4	718.40		.
03-1	389.70		.
	.		.
	.		.
	.		.
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	.		.
Sub total	.	Sub total	.
(key [PF1])			
REPORT PERIOD	TAX ADJUSTMENTS	REPORT PERIOD	TAX ADJUSTMENTS
	\$ .		\$ .
	.		.
	.		.
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	.		.
Sub total	.	Sub total	.
GRAND TOTAL			\$ 2,549.66

Form 00-477 (Back)(Rev. 5-89/3)

**TAX CODES COVERED BY THIS FORM**

Fuels Taxes	- 06	Minerals Taxes	- 10	Motor Vehicle	- 14	Gross Receipts	- 23
	07		11		15		24
	08		19	Mfg. Housing	- 46	Interest Earned	- 48
Hotel Tax	- 12		20	Tobacco Prods.	- 18	Cigarette	- 31
IMC	- 45		21				
			22				

**PENALTY AND INTEREST WAIVER**  
(If "Waiver Granted," then complete the following.)

Tax code          Taxpayer number                          Ending period

PIWAVR   7 5      1 2 3 4 5 6 7 8 9 0 3      0 3 1

"Enter"          .....

Original P & I Waiver ..... Y                          Fraud penalty ..... N          **Y - YES  
N - NO**

Audit penalty & interest waiver code      A P      **NW - No waiver  
AP - Audit penalty  
AI - Audit interest  
AA - Audit penalty & interest**

Periods NOT included

Return penalty waiver code ..... N W      **NW - No waiver  
RP - Return penalty**

Periods included

Return interest waiver code ..... N W      **NW - No waiver  
RI - Return interest**

Periods included

Random interest waiver code ..... N W      **NW - No waiver  
RW - Random waiver**

Penalty amount ..... \$ \_\_\_\_\_ . \_\_\_\_\_

Interest amount ..... \$ \_\_\_\_\_ . \_\_\_\_\_

Interest restart date (Optional) .....

## Tax Adjustment Summary

Section 1.01 This is the auditor generated excel schedule that summarizes the tax due for all report periods in the audit. The Exams (that are referenced as sources for the numbers on the Tax Adjustment Summary) should be listed on the index and included in the audit package. The Tax Adjustment Summary should be totals that are forwarded from all Exam schedules that contain audit adjustments. The Excel spreadsheets should be double checked for any formulas and rounding that may affect the calculation of the tax. This is important as rounding may change the tax due. Double check the AAR manually to ensure that the tax entered is correct and that there are no math (rounding) errors.

### Tax Adjustment Summary, Example

ABC HOTEL, INC. SAN ANTONIO, TEXAS TAX ADJUSTMENT SUMMARY				Auditor initials: IN PAGE 1 OF 1 TP#17412345678	
(1) REPORT PERIOD	(2) DISALLOWED EXEMPTIONS FROM SCH. 100	(3) TAXABLE BANQUET ROOM RENTALS FROM SCH. 200	(4) TOTAL TAXABLE ADJUSTMENTS COL. 2 * COL. 3	(5) TAX RATE	(6) TOTAL TAX ADJUSTMENTS COL. 4 * COL. 5
02-2	\$3,441.00	\$8,970.00	\$12,411.00	6%	\$744.66
02-3	2,870.00	8,750.00	11,620.00	6%	697.20
02-4	2,325.00	9,615.00	11,940.00	6%	716.40
03-1	2,425.00	4,070.00	6,495.00	6%	389.70
Total Tax Adjustment	\$11,061.00	\$31,405.00	\$42,466.00		\$2,547.96



**Exam 100, Example**

ABC HOTEL, INC.  
 SAN ANTONIO, TEXAS  
 DISALLOWED EXEMPTIONS

EXAM 100  
 PAGE 1 OF 1  
 TP#17412345678

CUSTOMER	SOURCE	DATE	Reported EXEMPTIONS	DISALLOWED EXEMPTIONS	NOTES
B.A Clendennen	Folio	4/2/2002	\$525.00	\$525.00	
B.A Clendennen	Folio	4/10/2002	350.00	350.00	
Texas Art	Folio	4/18/2002	290.00	290.00	
Mrs. Mary West	Folio	5/9/2002	750.00	0.00	Permanent Resident
Unknown	Folio	5/20/2002	444.00	444.00	
Unknown	Folio	5/21/2002	250.00	250.00	
Unknown	Folio	6/5/2002	969.00	858.00	
Unknown	Folio	6/13/2002	352.00	352.00	
Unknown	Folio	6/23/2002	372.00	372.00	
Bob Branley	Folio	6/30/2002	96.00	0.00	U.S. Dept. of Labor

TOTAL 02-2 \$3,441.00  
(1)

Mark Matula	Folio	7/1/2002	\$185.00	\$185.00	
Joyce Pike Lewis	Folio	7/15/2002	175.00	175.00	
Unknown	Folio	7/22/2002	555.00	555.00	
Unknown	Folio	8/15/2002	785.00	785.00	
Delores Garcia	Folio	8/20/2002	747.00	0.00	Permanent Resident
Clyde Bunnell	Folio	8/24/2002	794.00	0.00	Permanent Resident
Monte Churchill	Folio	9/2/2002	747.00	0.00	Permanent Resident
Hector Garcia	Folio	9/15/2002	741.00	0.00	Permanent Resident
Lois Ferguson	Folio	9/28/2002	575.00	575.00	
Unknown	Folio	9/30/2002	595.00	595.00	

TOTAL 02-3 \$2,870.00  
(1)

Bill Belt	Folio	10/10/2002	\$250.00	\$250.00
Unknown	Folio	10/13/2002	165.00	165.00
Unknown	Folio	11/14/2002	870.00	870.00
Tom Buttons	Folio	11/20/2002	970.00	0.00 Permanent Resident
Marian Dickens	Folio	12/21/2002	325.00	325.00
Chester Donnell	Folio	12/28/2002	540.00	540.00
Sharon Callis	Folio	12/28/2002	175.00	<u>175.00</u>

TOTAL 02-4

\$2,325.00

(1)

Eddie Dexter	Folio	1/9/2003	\$350.00	\$350.00
Unknown	Folio	1/13/2003	265.00	265.00
Unknown	Folio	2/14/2003	770.00	770.00
Bill Bailey	Folio	2/20/2003	970.00	0.00 Permanent Resident
Chato Barato	Folio	3/12/2003	225.00	225.00
Chester Sosa	Folio	3/28/2003	440.00	440.00
Mark Calloway	Folio	3/28/2003	375.00	<u>375.00</u>

TOTAL 03-1

\$2,425.00

(1)

Footnote (1)

Amounts forwarded to Tax Adjustment Summary by Quarter

**Exam 200, Example**

ABC HOTEL, INC.  
 SAN ANTONIO, TEXAS  
 TAXABLE BANQUET ROOM RENTALS

Exam 200  
 PAGE 1 OF 1  
 TP#17412345678

MONTH	SOURCE	TAXABLE AMOUNT	NOTES
04/30/2002	General Ledger	\$2,250.00	(2)
05/31/2002	General Ledger	2,345.00	(2)
06/30/2002	General Ledger	<u>4,375.00</u>	(2)
TOTAL 02-2		<u>\$8,970.00</u>	(1)
07/31/2002	General Ledger	\$3,320.00	(2)
08/31/2002	General Ledger	3,060.00	(2)
09/30/2002	General Ledger	<u>2,370.00</u>	(2)
TOTAL 02-3		<u>\$8,750.00</u>	(1)
10/31/2002	General Ledger	\$1,955.00	(2)
11/30/2002	General Ledger	2,040.00	(2)
12/31/2002	General Ledger	<u>5,620.00</u>	(2)
TOTAL 02-4		<u>\$9,615.00</u>	(1)

01/31/2003	General Ledger	\$1,135.00(2)
02/28/2003	General Ledger	1,060.00(2)
03/31/2003	General Ledger	<u>1,875.00(2)</u>
TOTAL 03-1		<u>\$4,070.00</u>
		(1)

## FOOTNOTES:

(1) Amounts forwarded to the Tax Adjustment Summary by Quarter.

(2) The Banquet room is located in the same building with the sleeping accommodations. Taxpayer did not realize that banquet room rentals were subject to the tax - tax was not charged. The Taxpayer did not maintain records as to which customers rented the banquet room. Total amounts were scheduled from the monthly general ledgers.

# Appendix A

# Reporting Data

- [Terminal Inquiry](#)
- [Audit History](#)
- [Summary Information Page, Example](#)
- [Outlet Summary Information, Example](#)
- [Report Information, Example](#)
- [Data Information by Outlet, Example](#)
- [Summary of All Outlet Returns, Example](#)
- [Payment Information, Example](#)
- [Collection Information, Example](#)
- [File Maintenance](#)

## Terminal Inquiry

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The following terminal inquiries may be helpful when conducting hotel audits.

The XICOLL should always be examined to determine if the taxpayer's reported data is balanced on the system. Any unfiled returns, underpayments, overpayments or other anomalies will be shown here.

- MTSUMM.taxpayer#. (displays master inquiry and summary status for all applicable taxes indicating the taxes the taxpayer is currently set up for on the system.)
- MTBALS.taxpayer#. (displays the current outstanding tax balance of the taxpayer)
- XICOLL.taxpayer#.tax-type. (displays all open and closed collection records on the taxpayer's account)
- PYWRNT.payee id#. (displays prior fiscal year payment information - refunds)
- XIXREF.taxpayer#. (cross-references assigned refunds and successor/predecessor liabilities)
- XIREFS.taxpayer#.tax-type.sub-type. (displays refunds for a specified period)
- MTIGDI.taxpayer# (displays multi-tax document index transactions by taxpayer)
- LISUMM.indicator.case id or bankrupt id. (displays bankruptcy summary information)
- NAMNUM.search code.exactness code.zip code.taxpayer name. (displays name vs. number)
  - Search Code:
    1. Personal
    2. Business
    3. Bond Company
  - Exactness Code:
    1. Personal Code Match
    2. Narrow Search
    3. Wide Search

## Audit History

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### History Format:

The Audit History is divided into the following sections:

- Summary Page
- Active Outlets During Audit Period
- Report Information
- Data Information By Outlet
- Summary of All Outlet Returns
- Payment Information
- Collection Information

The history information in the *Auditing Fundamentals Manual* is also applicable to Hotel Occupancy Tax. An audit should not be started without a current Audit History. As with all other taxes, an Audit History for the Hotel Occupancy Tax is requested via XIRPTS on the CICS System.

### Summary Information Page, Example

PROGRAM: T00141	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03
	HOTEL	PAGE: 1
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031	
	SUMMARY INFORMATION	
TAXPAYER # 12345678903		
ABC HOTEL, INC.	PHONE NUMBER: 210 - 123-4567	
123 MAIN STREET	SEC ADDRESS : NO	
SAN ANTONIO TX 78220	CNTY/ST CODE : 015	
	FIELD OFFICE : 2H60	
LAST REPORT FILED: 032	ACCOUNT STATUS: QUARTERLY - 001	
OPEN LIABILITIES: 0	RESP BEG DATE: 01/01/2000	
OPEN CREDITS: 0	RESP END DATE:	
OPEN NON-FILERS: 0	ORGANIZATION TYPE: CORPORATION	
TOTAL NON-FILERS: 0	PAYEE HOLD WAIVED:	
NUMBER HOT CHECKS: 0	AUDIT STATUS: NEVER AUDITED	
PRIORITY FLAG: NO	MGMT HALT STATUS: NO MGT HALT	
PPA: NO	REROUTE DEST:	
LIENS: 0	BANKRUPT STATUS: NO	
JUDGEMENTS: NO	CALC FLAG: CALCULATE	
BART/VDA ASSIGNMENT: NO	ACTIVE OUTLETS: 1	

	PRIOR AUDIT	PRIOR AUDIT	PRIOR AUDIT	PRIOR AUDIT	PRIOR AUDIT
AUDIT TYPE	TO	TO	TO	TO	TO
PERIOD					
AMOUNT					
HOURS SPENT					
ERROR CODES					
AUDIT OFFICE					
AUDITOR					
ASSESSED TAX					
REPORTED TAX					

Besides useful taxpayer information, prior audit information would be listed on this page.

## Outlet Summary Information, Example

PROGRAM: T75140	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03
	HOTEL	PAGE: 2
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031	
	ACTIVE OUTLETS DURING AUDIT PERIOD	
TAXPAYER #:	12345678903	
TAXPAYER NAME:	ABC HOTEL, INC.	
OUTLET NUMBER:	00001	
	ABC HOTEL	
	123 MAIN STREET	
	SAN ANTONIO, TX. 78220	
LOCATION STATUS:	ACTIVE	
FIRST TAXABLE SALE DATE:	01-01-2000	
OOB DATE:		
LOCATION CAPACITY:	20	

The information for each outlet will include:

- Address
- First sale
- Status
- Status date
- Capacity (The number of rooms available for occupancy. This should give you a good indication of the size of the hotel.)



### Report Information, Example

PROGRAM: T75142	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03
	HOTEL	PAGE: 3
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031	
	REPORT INFORMATION	
TAXPAYER # 12345678903		
TAXPAYER NAME: ABC HOTEL, INC.		
SUBTYPE: -		

PERIODS	ESTIMATED RETURNS	NON-FILER RETURNS	LATE RETURNS	VALID JUDGMENT PERIODS	VALID CERTIFICATION PERIODS
001					
002					
003					
004					
011					
012					
013					
014					
021			X		
022					
023					
024					
031					

The Report Information section will list any “Estimated Returns,” “Non-Filer Returns,” “Late Returns,” “Valid Judgment Periods,” or “Valid Certification Periods” during the requested period. An “X” will appear in the applicable period and category. XIDATA or XIPMTS inquiries should be run to ensure that there were not any amended returns during the period. The DUE DAY inquiry can be used to determine the correct due date for a report period. Returns should not be considered late if no amounts subject to taxes were reported (“zero returns”).

## Data Information by Outlet, Example

PROGRAM: T75141	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03
	HOTEL	PAGE: 4
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031	
	DATA INFORMATION BY OUTLET	
TAXPAYER # 12345678903		
TAXPAYER NAME: ABC HOTEL, INC.		
OUTLET: 00001		
	ROOM	TAXABLE
PRD	RECEIPTS	RECEIPTS
-----	-----	-----
001	14,358.00	14,358.00
002	17,364.00	17,364.00
003	15,680.00	15,680.00
004	17,199.00	17,199.00
011	11,989.00	11,989.00
012	12,997.00	12,997.00
013	12,187.00	12,187.00
014	9,046.00	9,046.00
021	10,180.00	10,180.00
022	10,645.00	10,645.00
023	10,234.00	10,234.00
024	8,935.00	8,935.00
031	9,510.00	9,510.00
	<u>160,324.00</u>	<u>160,324.00</u>
A=AMENDED PERIOD		
E=ESTIMATED PERIOD		
T=TRANSFERRED OUT		

The Data Information by Outlet will be listed by period for each outlet that was active within the requested period. The auditor should examine all reported amounts for any fluctuation in amounts that appear to be unusual. These fluctuations may indicate a change in personnel, accounting procedures, or internal control. These fluctuations need to be considered when choosing periods for preliminary testing or sampling.

### Summary of All Outlet Returns, Example

PROGRAM: T75142	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03
	HOTEL	PAGE: 5
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031	
	SUMMARY OF ALL OUTLET RETURNS	
TAXPAYER # 12345678903		
TAXPAYER NAME: ABC HOTEL, INC.		
OUTLET: 00001		
PRD	ROOM RECEIPTS	TAXABLE RECEIPTS
<hr style="border-top: 1px dashed black;"/>		
001	14,358.00	14,358.00
002	17,364.00	17,364.00
003	15,680.00	15,680.00
004	17,199.00	17,199.00
011	11,989.00	11,989.00
012	12,997.00	12,997.00
013	12,187.00	12,187.00
014	9,046.00	9,046.00
021	10,180.00	10,180.00
022	10,645.00	10,645.00
023	10,234.00	10,234.00
024	8,935.00	8,935.00
031	9,510.00	9,510.00
	160,324.00	160,324.00
A=AMENDED PERIOD		
E=ESTIMATED PERIOD		
T=TRANSFERRED OUT		

This report is in the same format as the Outlet Return Data. It summarizes the data information for all outlets.

## Payment Information, Example

PROGRAM: T00145	COMPTROLLER OF PUBLIC ACCOUNTS	DATE: 07/19/03						
	HOTEL	PAGE: 6						
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031							
	PAYMENT INFORMATION							
TAXPAYER #: 12345678903								
TAXPAYER NAME: ABC HOTEL, INC.								
PERIOD	PMK DATE	PAYMENT DESC	AMOUNT	XFER TAX	XFER PER	XFER TP#	CANCEL DATE	CANCEL REF
001	4/20/01	LC-REPORT PAYMENT	861.48					
		TOTAL	861.48					
002	7/20/01	LC-REPORT PAYMENT	1,041.84					
		TOTAL	1,041.84					
003	10/20/01	LC-REPORT PAYMENT	940.80					
		TOTAL	940.80					
004	1/20/02	LC-REPORT PAYMENT	1,031.94					
		TOTAL	1,031.94					
011	4/20/02	LC-REPORT PAYMENT	719.34					
		TOTAL	719.34					
012	7/20/02	LC-REPORT PAYMENT	779.82					
		TOTAL	779.82					
013	10/20/02	LC-REPORT PAYMENT	731.22					
		TOTAL	731.22					

**NOTE: SUBSEQUENT PERIODS WOULD BE CONTAINED ON CONTINUING PAGES**

This report lists the postmark dates and types of payments made during each period. Hotel Occupancy Tax may be due on monthly or quarterly reports.

\*If a taxpayer owes less than \$500 for a calendar month or \$1,500 for a calendar quarter, the taxpayer qualifies as a quarterly filer and the taxes are due and payable on the 20th day after the end of the calendar quarter.

### Collection Information, Example

PROGRAM: T00148	COMPTROLLER OF PUBLIC ACCOUNTS				DATE: 07/19/03	
REQUESTED BY: AUDITOR, IMA	TAXPAYER HISTORY FROM 001 TO 031				PAGE: 9	
	COLLECTION INFORMATION					
TAXPAYER #: 12345678903						
TAXPAYER NAME: ABC HOTEL, INC.						
----- PERIOD -----	AUD #	TAX DUE	PENALTY DUE	INTEREST DUE	BALANCE DUE	DESCRIPTION
HOTEL - TAX CODE 75:						
	032	.00	.00	.00	CANNOT COMPUTE	UNAPPLIED PMT
*** END OF COLLECTION INFORMATION ***						

This section of the Audit History lists any collection activity for the taxpayer during the requested period.

### File Maintenance

In order to set-up a new hotel on the system, a Texas Tax Questionnaire-Hotel Occupancy Tax Form (Form AP-102) should be completed by the responsible parties. This questionnaire is not a permit application. There is no provision for the issuance of permits for Hotel Occupancy Tax at this time. This form is available for viewing on the [Comptroller's website](#).

**NOTE:** During the course of an audit note in the Audit Plan any file maintenance that is needed. If file maintenance is required - there should be an employee in the local audit field office or local enforcement office that is capable of updating all information online. All corrections to the taxpayer's account should be made prior to submitting the audit package to the RPC for processing.