Avalara

The smart hotelier's guide to tax automation and compliance management

Guide

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Introduction

Hotels across the United States contributed a combined $26.1 billion in lodging taxes to state and local government revenues in 2025, according to a January 2026 report from the American Hotel & Lodging Association (AHLA). Lodging tax revenues generated by hotels are expected to reach $26.6 billion in 2026.

With billions at stake, it's no surprise hospitality tax compliance is under the microscope — and notoriously difficult to manage. Tax obligations can vary based on length of stay and how accommodations are listed and booked. Occupancy tax rates and rules differ across states, counties, and cities — and change frequently. Hawaii, Illinois, and Rhode Island are among the jurisdictions that added new taxes or expanded the tax base for existing taxes in 2026.

Taxes on rooms are just the beginning. Businesses that operate hotels, motels, resorts, bed-and-breakfasts, and short-term rentals have other tax obligations as well. A January 2025 analysis by Oxford Economics and AHLA found the U.S. hotel sector collected and remitted $2.4 billion in sales taxes from guest food, beverage, and retail purchases in 2024. Hotels also paid an estimated $23.3 billion in property taxes in 2024.

Meeting your obligations is critical to staying in good standing with tax authorities. Hospitality businesses can be hit with significant fines and penalties for noncompliance on top of owing back taxes.

Automating tax compliance helps hospitality management companies not only reduce audit risk but increase efficiency.

This guide provides an in-depth look at the most pressing tax compliance challenges for the hospitality industry, including those beyond lodging tax. It describes how occupancy tax software and automation help solve them so your company can focus on providing guests with a five-star experience.

Lodging tax landscape

State and local government revenues from lodging taxes collected by hotels

SOURCE: AHLA

How automation transforms compliance management for hotels

Managing tax and compliance obligations in the hospitality industry has traditionally been a manual, reactive process. Finance and accounting teams are often responsible for tracking changing tax rates, filing deadlines, exemption rules, and licensing requirements across dozens or hundreds of jurisdictions using spreadsheets, email, and disconnected systems.

This manual approach is highly time-consuming and inherently error-prone. Even a single mistake can result in costly penalties. The risk is widespread: A 2025 survey by Censuswide and Avalara found that nearly 60% of hotel executives received a tax audit notice in the past five years, underscoring how closely government agencies scrutinize compliance.

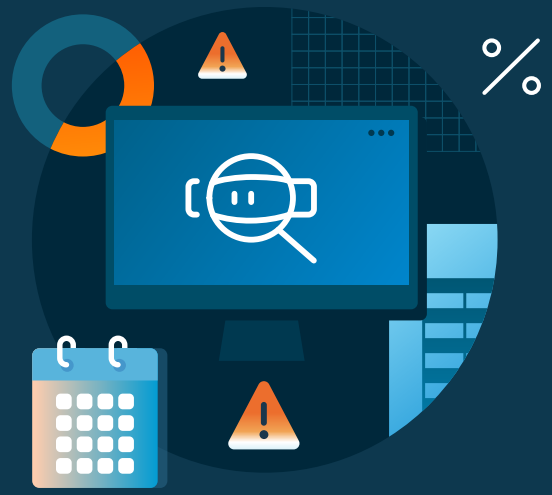
Tax compliance software built for the specific needs of the hospitality industry uses automation and AI to lessen the burden of manual tax compliance, improve accuracy, and reduce risk.

Automation embeds compliance directly into financial and operations workflows, helping your hotel operate more efficiently. By cutting time spent on manual calculations, reconciliations, and tracking filing deadlines, a dedicated tax compliance solution shifts compliance from a variable, labor-intensive cost to a predictable, repeatable process.

Tax compliance software also helps with audit readiness. A centralized digital audit trail of calculated tax, filed returns, exemption certificates, payments, and licenses helps your finance team respond more quickly and confidently to regulatory inquiries.

As your hotel portfolio expands, a tax compliance solution built for the hospitality industry scales by automatically adapting to new properties, jurisdictions, and transaction volumes.

With this foundation in place, your hospitality business is better equipped to address the industry's most complex compliance challenges.



The risk is widespread

NEARLY

60%

of hotel executives received a tax audit notice in the past five years

SOURCE: 2025 Censuswide survey

CHALLENGE #1

Ensuring accuracy when calculating and collecting lodging tax

Tax authorities refer to lodging tax by many names, including occupancy tax, sales tax, bed tax, and tourist tax. Hospitality management companies need to know when to charge guests tax and how much tax to charge. The more properties you manage, the more complicated this gets.

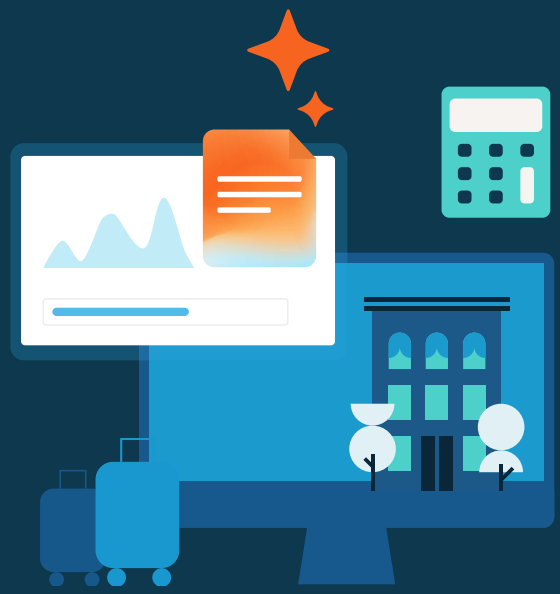
Since there's no one-size-fits-all approach to how jurisdictions regulate lodging tax, it can be difficult to track which rates and rules apply in all your property locations. Some local jurisdictions impose resort taxes and other special taxes as well. The Censuswide survey found 35% of respondents across the hotel and short-term rental sectors reported managing different rates across locations as one of the most time-consuming and challenging aspects of tax compliance.

Even if you know how much tax to collect from a guest today, that doesn't mean you'll collect the same amount from another guest tomorrow. As mentioned, tax rates and rules are subject to change. Other factors can come into play, such as tax exemptions for guests who book extended stays, typically 30 days or more although length-of-stay thresholds vary by jurisdiction.

If you list rooms with an online travel agency (OTA) like Expedia, Booking.com, Airbnb, or Vrbo, you'll need to know whether the platform collects taxes for your property. In many states, marketplace facilitator laws make OTAs responsible for collecting and remitting state and local lodging taxes. But not always.

It's also important to know whether a marketplace uses a merchant model, in which the OTA is generally responsible for lodging taxes, or an agency model, in which the hotel remits tax to authorities. Today, many OTAs offer both. Your business must be able to properly account for tax in either situation.

The technology and processes you use to calculate tax can also present challenges. Phocuswright reports the majority of U.S. hotels run on legacy property management, point-of-sale (POS), and back-office accounting systems. Trying to manage lodging tax compliance using outdated or incompatible software systems leads to inefficient work-arounds. Calculating tax manually is time-consuming and introduces the risk of human error.



35%

of respondents across the hotel and short-term rental sectors reported managing different rates across locations as one of the most time-consuming and challenging aspects of tax compliance

SOURCE: 2025 Censuswide survey

How Avalara can help

Hotel management companies juggle tax compliance across dozens, sometimes hundreds, of properties and brands. Yet, many still rely on spreadsheets and manual processes that can increase the risk of audit penalties. Some hotels only discover rate changes after they've already filed their tax returns.

Avalara solves this at two critical points in the compliance life cycle.

Avalara Tax Content Essentials

Avalara Tax Content Essentials delivers expertly researched, regularly updated lodging tax rates that can be used in point-of-sale (POS) and property management systems. The right rate is applied at the time of stay without your team manually tracking changes across thousands of jurisdictions.

Avalara Tax Content Essentials allows hospitality operators to upload their entire property portfolio and set up an automatic monthly rate file that reflects current rates — covering sales and use taxes, lodging and hospitality-specific taxes, and fees. The solution generates a monthly report with updates about upcoming rate changes, centralizing what was previously a fragmented process.

Avalara AvaTax for Hospitality

Avalara AvaTax for Hospitality tackles both the calculation and the compliance work that follows. The solution delivers real-time, location-specific tax calculation across properties. Through APIs, AvaTax for Hospitality seamlessly integrates with your property management system and other systems you already use.

AvaTax for Hospitality works in tandem with Avalara Tax Content Essentials and Avalara Returns for Hospitality to create an end-to-end compliance workflow, from getting rates right at the point of sale to ensuring taxes for every jurisdiction are calculated, filed, and paid on time. For tax and finance leaders, this creates greater control, standardization, and visibility without increasing head count or administrative burden as your lodging business grows.

CHALLENGE #2

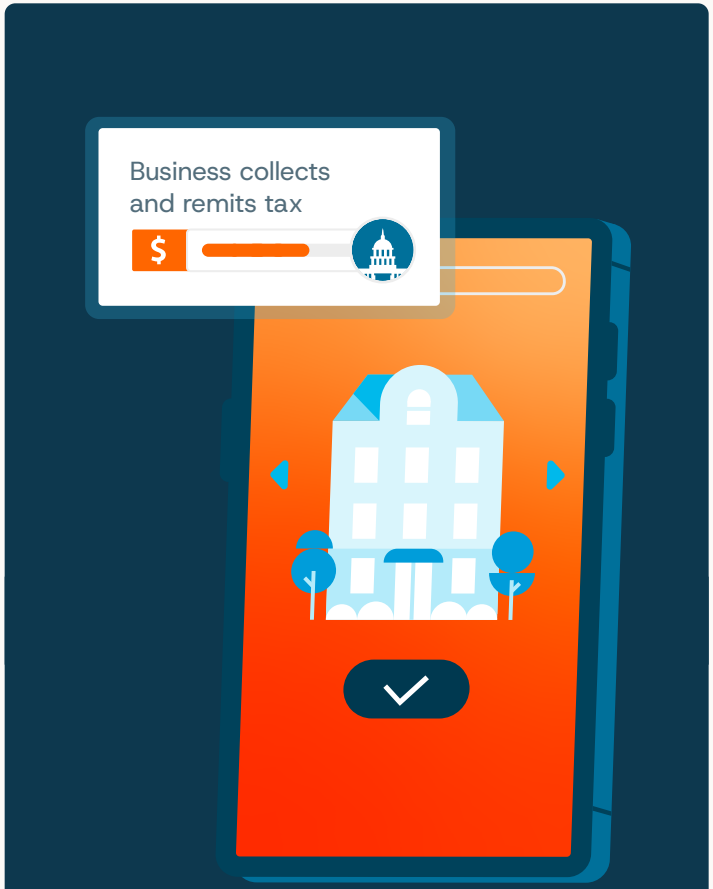
Reducing the burden of occupancy tax returns filing and remittance

After you've figured out how much tax to collect, you must remit tax to the appropriate authorities. Some tax agencies require you to file monthly, while others have quarterly, semiannual, or annual deadlines.

The Censuswide survey found that 37% of respondents in the hospitality industry believe filing returns is one of the most time-consuming and difficult aspects of tax compliance. Tracking deadlines and manually filing returns are particularly burdensome if your hospitality management company has properties in more than one jurisdiction. The process is even harder for teams that need to piece together tax data stored in disparate systems. These manual processes can lead to filing late or inaccurate returns, which in turn can lead to fines and audit penalties.

Remember that online travel agencies may collect and remit part or all of the tax owed on your behalf, but your business is generally still responsible for filing returns and paying any remaining tax owed.

Paying a third-party service to handle tax remittance on behalf of your hotel management company can be burdensome, and costs can add up significantly across a large property portfolio.



37% of hospitality businesses say filing tax returns is a top compliance hurdle

SOURCE: Censuswide

How Avalara can help

Automation provides a more efficient way to prepare and file returns and remit lodging tax. A tax compliance solution built for the hospitality industry reduces manual effort and improves accuracy by preparing returns using transaction data already captured through calculation. Your finance team can save time when filing schedules, jurisdictional requirements, and tax remittance are managed within a centralized platform.

Avalara Returns for Hospitality

Avalara Returns for Hospitality automates the preparation and filing of lodging tax returns and remits payments on your behalf across jurisdictions. The solution lowers risk through improved accuracy and on-time filing. It also gives your team a complete, audit-ready record of filings and payments. The AI notice assistant reduces the manual effort of responding to jurisdictional notices. Simply upload the notice PDF, and the tool extracts and prepopulates the key fields for easier triage and quicker resolution.

And with time saved, your team is freed up to focus on revenue-generating tasks.

Third-party service costs are often overlooked by hospitality businesses but they aren't an issue with Avalara. Avalara consolidates filing and remittance into a single platform, eliminating the need for a separate remittance vendor and reducing that cost burden directly. Avalara also maintains specialized liability rule content. By determining whether a marketplace or a supplier is responsible for remitting taxes across every jurisdiction and tax type, Avalara helps OTAs correctly determine and automate their compliance obligations.

When the booking engines and OTAs your properties work with apply accurate liability logic, properties and ownership groups benefit — with taxes correctly divided and assigned across jurisdictions, so every party owes the right amount to the right tax authority.

CHALLENGE #3

Handling tax-exempt hotel guests with confidence

Some guests are exempt from paying lodging tax and sales tax. Guests that qualify for an exemption may include:

- A government employee traveling on official business when payment is made directly by the government agency
- A guest representing a nonprofit organization with tax-exempt status
- A guest whose stay is paid directly by a school or religious institution

Jurisdictions have different rules for these guests than they do for those who book long-term stays. And those rules vary across jurisdictions.

In Washington state, for example, sales made directly to the U.S. government are exempt from retail sales and lodging taxes. But if the federal employee pays for the room themselves, they must pay tax, even if they will later be reimbursed by the federal agency. Washington doesn't grant tax-exempt status for state, city, or county employees.

Government employees may be exempt from California's transient occupancy tax when traveling on official government business. California law gives local governments in the state the option to impose the tax or not.

Auditors check whether businesses that provide lodging can prove proper documentation for tax-exempt sales. Your business needs to collect an exemption certificate from each guest who qualifies for a tax exemption. You also need to validate and store certificates so they're easily accessible. Missing or expired certificates can lead to fines and penalties.

How Avalara can help

Collecting all these paper forms by hand or email, scanning them, and storing them as PDFs on a shared drive might work in a pinch, but there's a better solution. Capturing and storing exemption certificates and forms in a dedicated system helps streamline the process and ensure certificates are on hand when you need them.

Automating exemption certificate management helps your hotel reduce audit risk, adapt to ever-changing tax laws, and maintain customer relationships as your company's footprint expands. Machine learning matches exemption certificates to guests, lessening manual work and improving accuracy. AI and intelligent document processing automatically validate certificates and flag incomplete or inaccurate ones for review.

Avalara Exemption Certificate Management (ECM)

Avalara Exemption Certificate Management (ECM) makes it easier to collect and store exemption certificates and forms for tax-exempt customers. The AI-first solution captures guest data and saves it as a digitally signed replication of an exemption certificate so the correct information can be reported to tax authorities and quickly found during an audit. Hotels can also upload an image of a document. Certificates are saved in a centralized repository for convenient shared access between hotel staff and finance and accounting teams.

CHALLENGE #4

Keeping track of registrations

Staying on top of registrations is tricky whether you manage a single hotel or a hotel chain.

Registering with the right tax authorities often becomes an elaborate, tedious chore. Because lodging tax is collected and remitted at multiple jurisdictional levels simultaneously — state, county, and/or city — a single property can require registrations with several different authorities at once.

How Avalara can help

Outsourcing registrations to a trusted partner saves time and helps ensure regulatory compliance.

Avalara for Hospitality Registrations

Avalara for Hospitality Registrations gets companies registered with the right tax authorities in jurisdictions where hotels are located and helps ensure they meet their lodging tax compliance obligations.

CHALLENGE #5

Managing vendor and contractor tax compliance

Many hospitality management companies hire a large number of contractors and vendors — janitorial crews, general contractors, security services, event planners, IT service providers, freelance marketing consultants, and massage therapists to name a few.

IRS regulations require your business to file Form 1099-NEC for nonemployee compensation above a certain threshold. Incorrect or missing 1099 filings can result in IRS penalties. Misclassifying workers can lead to substantial fines and legal issues.

As 1099 tax laws evolve, businesses need real-time updates to stay on top of changing reporting requirements. Before 2020, businesses reported nonemployee compensation on Form 1099-MISC then the IRS revived Form 1099-NEC, which hadn't been in use since 1982.

Manually tracking who qualifies for Form 1099-NEC and ensuring forms are properly filled out is time-consuming and increases the likelihood of making a mistake.

How Avalara can help

Automating 1099 tax compliance helps hospitality businesses reduce the risk of IRS penalties and takes the stress out of tax season.

Avalara 1099 & W-9

Avalara 1099 & W-9 is a complete solution for 1099 compliance. The solution automatically imports payee data and flags any errors before submitting your documents to the IRS and delivering 1099 copies to recipients. Digital tracking of contractor payments helps ensure accurate tax forms are generated at year-end. Businesses can easily retrieve forms from a central and secure location during an audit. Automated updates help hospitality businesses stay ahead of changing requirements.

CHALLENGE #6

Handling multistate property tax obligations

Hotel chains own a lot of real estate. They also own a lot of tangible personal property — items like beds, dressers, and TVs; computers for the reception desk and back office; and tables and kitchen appliances if they have a restaurant.

Hospitality companies pay property tax on both real estate and tangible personal property. Managing property tax compliance is especially complex if you have many properties across multiple jurisdictions. It can also be incredibly time-consuming.

Property tax compliance is still a paper-based process. Your business must track and respond to mailed assessment notices, returns, and bills. Some states and counties are introducing e-filing, while others still require businesses to file paper returns.

Reviewing your assessments to ensure valuations are fair is especially challenging if your property data is scattered across spreadsheets or teams.

Tracking deadlines for filing returns, submitting appeal requests, and sending payments can be cumbersome if you still use a wall calendar. Missing a due date can lead to fines and penalties, while not filing your appeal on time can mean paying more tax than you should.

How Avalara can help

An advanced automated property tax compliance solution can reduce risk and give your team more time for tasks that drive profits.

Automating data entry saves time and increases accuracy. Centralizing compliance management helps your finance team stay organized by providing immediate access to forms. System-maintained jurisdictional deadlines and autopopulated due date tracking help your team quickly spot missing notices or bills before they become liabilities.

Avalara Property Tax

Avalara Property Tax simplifies property tax compliance through automation. The solution maintains assessor forms and depreciation schedules, scans and extracts data from notices and bills, and tracks due dates. Easily compare assessments to identify appeal opportunities. When you're ready to file, Avalara Property Tax automatically generates returns, all from one secure hub.

Putting hospitality industry tax compliance challenges to bed

Hotel guest spending on lodging, transportation, retail, restaurants, and related categories in 2026 is expected to reach $804.64 billion. Having a trusted tax compliance partner can make it easier to seize new opportunities and serve guests where they are.

Avalara provides end-to-end tax compliance with automated solutions that scale with your business, whether you operate a single boutique hotel or manage hundreds of properties across the U.S.

With Avalara, hospitality businesses can reduce risk, operate more efficiently, and devote more time to ensuring their guests have a wonderful stay.

Contact us to discuss how Avalara can streamline tax compliance for your business so both you and your guests enjoy a better night's sleep.

Get in touch

Avalara

Disclaimer:

Tax rates, rules, and regulations change frequently. We hope you find this information helpful; however, this resource is for informational purposes only and does not provide legal or tax advice.

ABOUT AVALARA

Avalara is redefining how businesses manage tax and compliance by embedding AI agents directly into the tools, systems, and workflows where compliance occurs, including ERPs, ecommerce platforms, POS solutions, email applications, and web browsers. Backed by a legacy of 20+ years of providing innovative solutions for tax and compliance, these agents don't just assist — they complete tasks and do the work. Using expertise, speed, and precision, Avalara agents calculate taxes, file returns, validate data, and manage jurisdictional rules and global e-invoicing requirements. With one of the largest and regularly updated collections of tax content, Avalara Agentic Tax and Compliance™ is trusted by millions of businesses worldwide.

Learn why at **Avalara.com**.

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