Checked In, Taxed Out:

Benchmarking Tax Compliance in the U.S. Lodging Industry

Report summary

The U.S. lodging industry sits at the intersection of hospitality and regulation.

Property managers and hotel operators must effectively navigate an ever-shifting patchwork of tax rules or risk hefty penalties. From large hotel chains with hundreds of rooms to independent hosts managing a handful of short-term rentals (STRs), compliance with lodging tax requirements consumes significant time and resources for hospitality operators.

This survey of 500 respondents across the hotel and STR sectors establishes a benchmark for how the industry is managing today's tax responsibilities and how prepared businesses feel for tomorrow's changes.

The findings highlight both progress and pain points. Across both sectors, confidence in current compliance is cautious – nearly half of respondents admit they are only "somewhat confident" in their ability to remain compliant. Concerns about reliability, complexity, and cost also continue to limit AI adoption, even as operators recognize its potential.

This report aims to serve as a baseline for understanding the compliance landscape in U.S. lodging.

Avalara's role is not simply to point to challenges, but to help establish a clearer picture of the sector's maturity, providing industry leaders and regulators with the data needed to build a more resilient, technology-enabled future.

Introduction

From the peaceful ambience of small-town B&Bs to the exciting allure of luxury resorts, the multi-billion-dollar U.S. lodging industry offers something for every kind of traveler.

However, while the location, size, and cost of rooms and rentals can vary wildly, something that every lodging provider across the country has in common is the need to comply with an increasingly complex lodging tax system.

Achieving this is rarely straightforward and despite investing heavily in the resources needed to do so, many still find they have insufficient procedures in place for tax collection and reporting, or that the practices they rely on don't stand up against current tax laws.

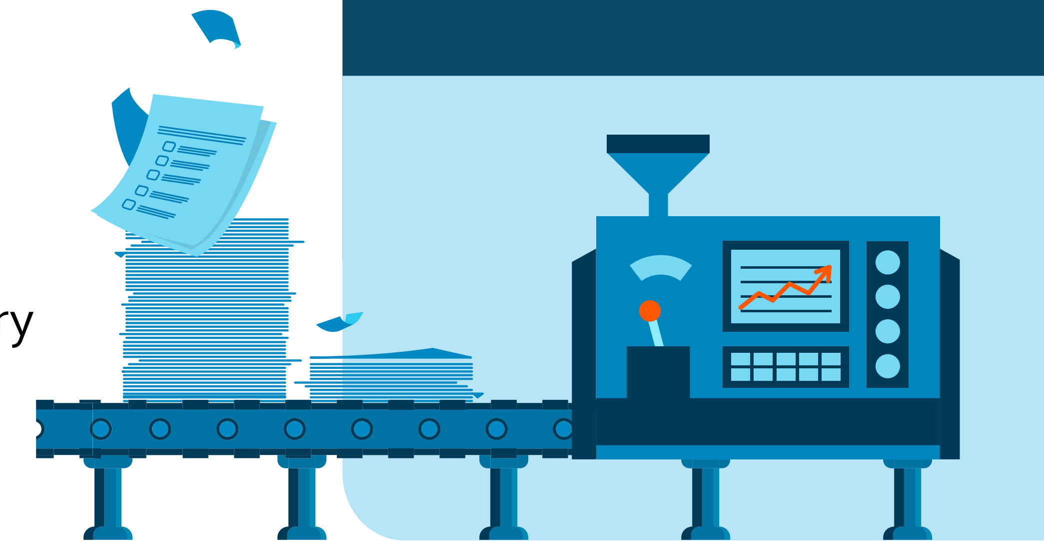
There's also a significant number of smaller boutique hotels and independent short-term rental (STR) businesses that still use basic accounting software, or even manual systems, to manage their finances and tax calculations.

However, most of these systems are simply not equipped to handle the nuances of multiple tax rates and special lodging tax rules, which can vary dramatically across different jurisdictions.

Manually handling complex tax reports is also extremely time-consuming and an inefficient use of resources, pulling staff away from their core duties and impacting both service quality and operational efficiency as a result.

To better understand how today's hotel and STR operators are navigating the ever-changing lodging tax environment, Avalara surveyed 500 leaders across the country (250 from each sector) between August 29, 2025 and September 8, 2025.

The survey uncovered a mixed picture of the state of the industry, with confidence varying wildly and a growing number of organizations turning to technology to help them achieve and maintain compliance.

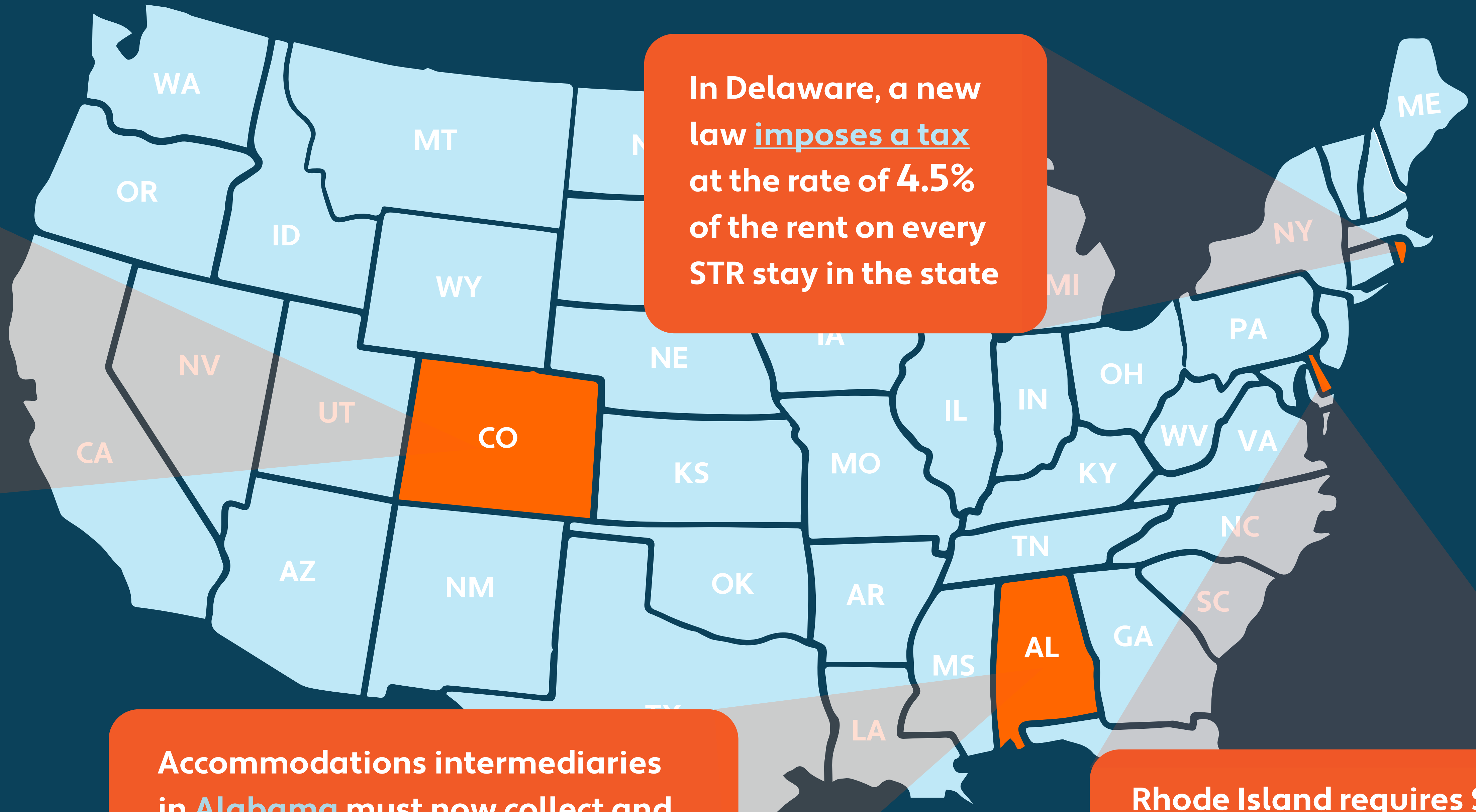


The Growing Burden of Compliance

As everyone who has ever filed taxes knows, achieving tax compliance in any walk of life is far from easy, and the lodging industry is no exception.

Constantly changing rules at both the state and local level, tricky legal wording, and complex tax calculations make keeping up with the system a near-permanent battle.

For example, in the last two years, changes to STR tax compliance rules include:



According to a new law in Colorado, no city or county that has a local lodging tax can apply additional reporting requirements or standards to an accommodation's intermediary that aren't similarly applied to all marketplace facilitators

In Delaware, a new law imposes a tax at the rate of 4.5% of the rent on every STR stay in the state

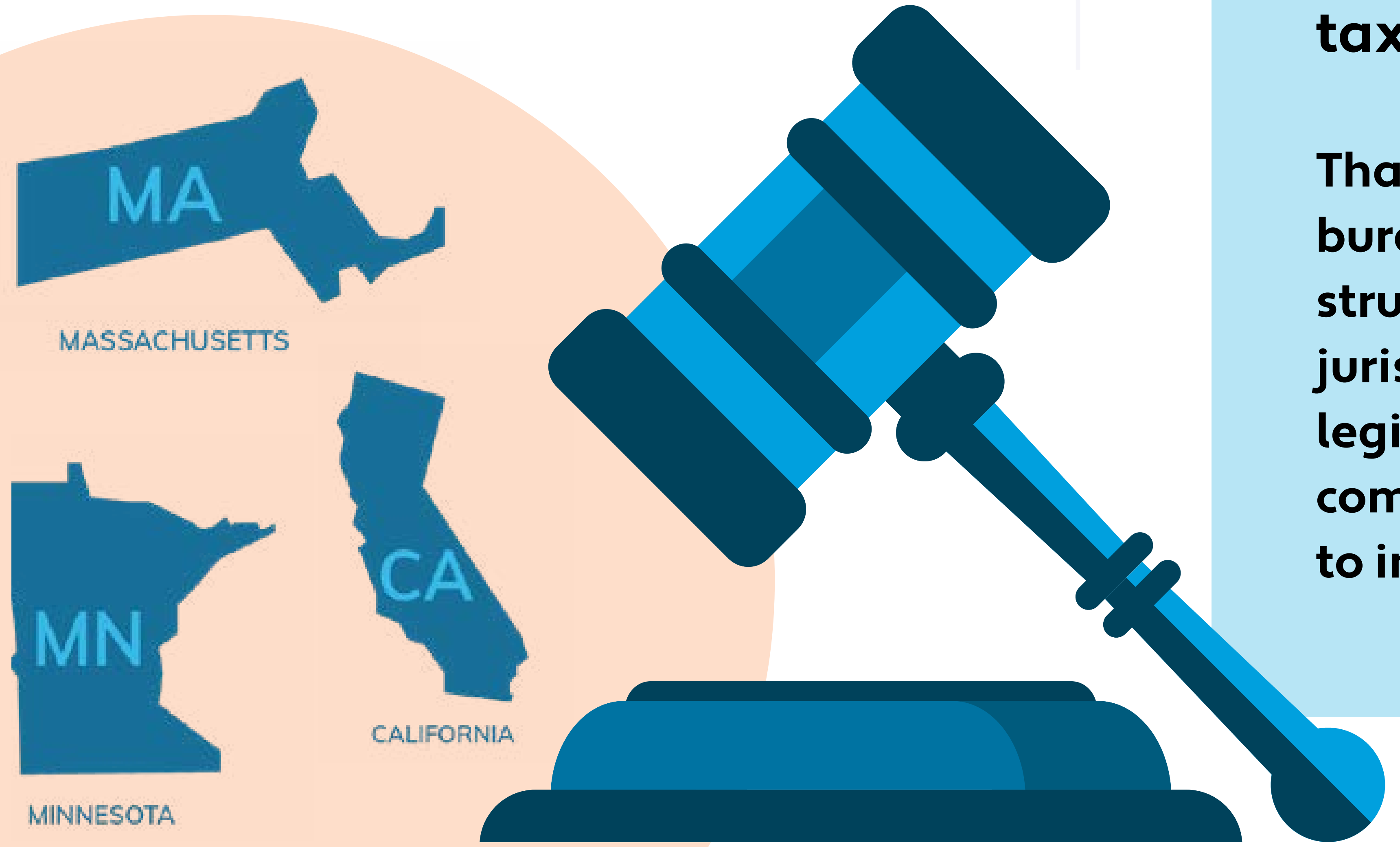
Accommodations intermediaries in Alabama must now collect and remit state and local transient occupancy taxes

Rhode Island requires STR marketplaces to ensure all properties on STR platforms are registered with the state

Compounding the challenge is a growing wave of state and federal legislation aimed at consumer protection through pricing transparency and elimination of "junk fees" across the hospitality sector.

New and proposed laws are now requiring all lodging to display mandatory fees upfront, from resort charges to cleaning fees, adding yet another intricate layer of complexity to tax reporting.

Specific laws have been enacted in California, Minnesota and Massachusetts, with several other states pending stricter legislation in 2026.



Bruce Todd, Senior Principal of Indirect Tax Technology with KPMG LLP, noted:

"This push in legislation is adding yet another layer to an already incredibly complex tax environment.

Hotels and short-term rental operators now need to ensure that every price and line item presented to a traveler accurately reflects all applicable taxes and fees in real time.

That's a significant operational burden when rates, rules and fee structures vary so widely across jurisdictions, and with additional legislation on the horizon, that complexity will only continue to increase."

As a result, a significant amount of time and resources is being consumed every year to try and meet growing tax obligations, often with varying degrees of success.

In the STR sector specifically, respondents to Avalara's survey said:

42% spend **51-100 hours** annually on lodging tax compliance

23% spend **101-200 hours** each year

This represents weeks of lost staff capacity to paperwork instead of growth-driving initiatives that can positively impact the bottom line.

Respondents from the hotel industry reported a similar burden:

40% were spending **51-100 hours** trying to achieve and maintain compliance

11% were spending **101-200 hours** on it annually

With so many hours being lost to tax compliance every year, Avalara's research also delved into the key pain points being experienced by those trying to achieve it.

Across both sectors, the most time consuming and challenging aspects of compliance were very similar:

Causes of major problems

37% understanding local tax codes

37% filing monthly/ quarterly returns

35% managing different rates across locations

35% registering properties across jurisdictions

All of this adds up to a feeling of significant uncertainty amongst those questioned as to whether they have even managed to achieve ongoing compliance.

Despite all the time and effort devoted to it, almost half (44%) of respondents across both sectors are only 'somewhat confident' that their business is fully compliant with all applicable lodging tax regulations,

while a worrying 3%[1] confessed they are 'not very confident' that compliance has even been achieved.

44%

somewhat confident that their business is fully compliant

3%

not very confident that compliance has even been achieved

Going forward it's a similar story:

45%

only feel somewhat prepared to adapt to new or updated lodging tax requirements

which paints a concerning picture about providers' ability to cope with whatever the future may hold.

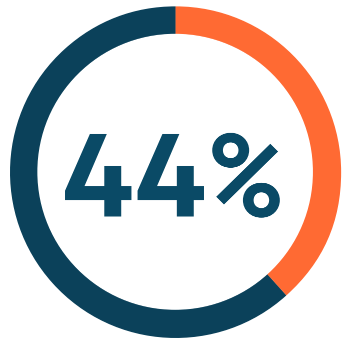
1. Combining answers "Not very confident", "Not at all confident" and "I don't know"

Technology and the Trust Gap

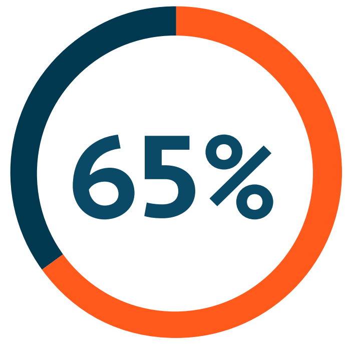
Amidst this uncertainty, one of the most effective ways providers can increase their tax compliance capabilities is through the integration of new tools and technology that have been specifically designed for this purpose.

To date, it is the **hotel sector that has more readily embraced technology** for tax compliance processes, specifically through the use of automation to help cut down on time-consuming manual tasks. However, **nearly half (44%) of respondents from the hotel sector said their approach to tax compliance still involves manual or semi-manual processes**, highlighting room for further digital transformation.

By contrast, **a majority of respondents from the STR sector (65%)** said they **currently rely on partially automated systems** with some manual processes involved or are **fully manual**, suggesting that STRs still have further to go on their automation journey.



hotel sector approach **still involves manual or semi-manual processes**



STR sector currently rely on **partially automated** systems with some manual processes or are **fully manual**

More recently, the emergence of exciting innovations such as artificial intelligence (AI) and machine learning has given rise to a new generation of powerful tax compliance solutions that promise to significantly reduce the tax burden on organizations of every size.

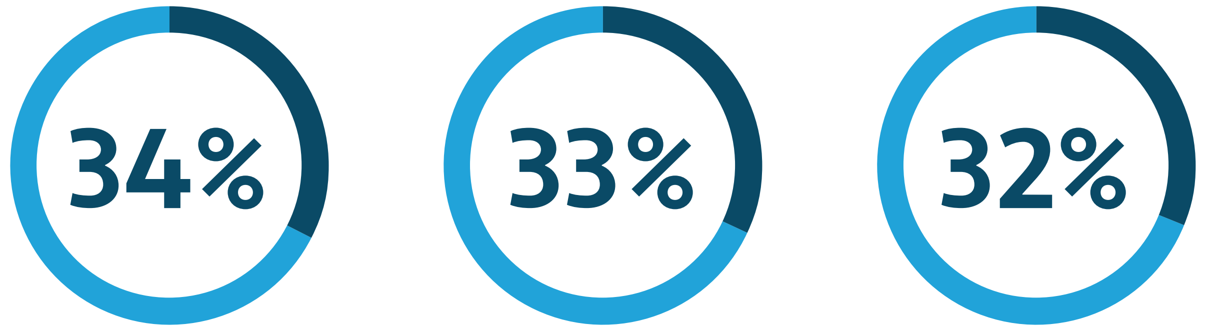
However, a key pre-requisite to embracing such solutions is having core operational systems in place that are capable of accommodating them.

Interestingly, while hotels lead in automation of tax compliance, in this instance the STR sector appears to have the upper hand. **81% have modernized their core operating systems within the past three years (and 35% within the past 12 months),** compared to just under half (49%) of hotels.

But despite the growing availability of the technology, **less than half** of respondents are using AI-powered software for tax compliance purposes **(44%)**.

The primary reason for this confidence gap appears to be a lack of trust in the technology, with 47% of those not currently using AI-powered compliance tools citing concerns about accuracy and/or reliability as the main reason for lack of adoption.

Trust isn't the sole reason though, with other top barriers including 'uncertainty about how the technology works' (34%), 'costs of software or implementation' (33%), and 'failure to find a suitable solution' (32%).



uncertainty about how the technology works

costs of software or implementation

failure to find a suitable solution

While lodging providers across the sector clearly recognize the huge potential that AI-powered tools have, many are taking a more cautious approach to its adoption at present – allowing the technology to evolve further and identifying the right solution for them before fully committing.

Respondents from both sectors also acknowledge the role that other technology innovations will play in helping them to save time and ensure compliance in the future.

Across both groups, the areas of greatest interest were 'access to up-to-date tax rates by location' **(46%)**, 'AI-powered alerts for tax changes' **(47%)**, and 'better integration between booking, property management and tax systems' **(50%)**.

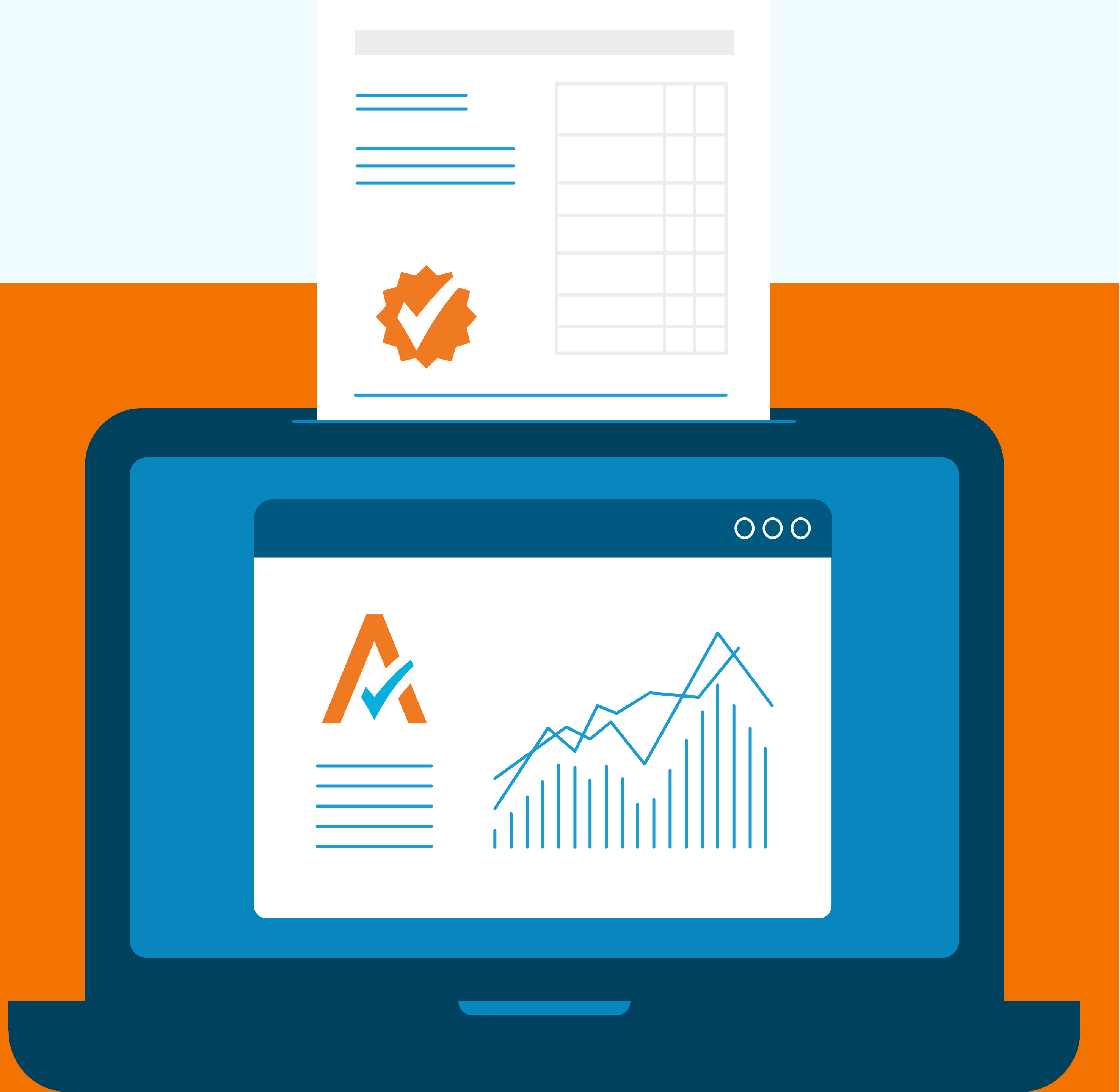
Areas of greatest interest

46% access to up-to-date tax rates by location

47% AI-powered alerts for tax changes

50% better integration between booking, property management and tax systems

This shows there is both scope and appetite for numerous technology-based efficiency improvements going forward.



Top reasons for confidence gap in technology/AI adoption

34%
uncertainty about how the technology works

33%
costs of software or implementation

32%
failure to find a suitable solution

Enforcement and the Road Ahead

For those unable to effectively meet their tax compliance obligations, the threat of enforcement remains very real.

In recent years, the global STR sector has benefitted from significantly less tax scrutiny than the hotel sector and this is evident in the survey data, with just a third (34%) of STR sector respondents having received an audit notice in the last five years compared to nearly two thirds (60%) of those from the hotel sector.

Furthermore, while **64% of hotel respondents** reported receiving a penalty notice or fine for non-compliance over the same period, just **19% of STR respondents** have suffered the same fate. These figures likely explain why hotel lodging providers have moved towards automated tax compliance systems much faster than STR providers in recent years, as they attempt to prevent falling foul of tax compliance laws and avoid the costly fines that come with it.

However, the landscape is changing. From the largest cities to small towns and rural areas, state and local governments have started to realize that STRs are not only a fantastic source of untapped tax revenue, but that they have the potential to cause community controversy. In response, a growing number are putting strict STR regulations in place for the first time. For example, communities that have passed measures to regulate STRs in the last two years include Bozeman, Montana; Indianapolis, Indiana; Jackson, Wyoming; Lexington, Kentucky; St. Louis, Missouri; and many more.

Furthermore, in areas where STR laws already exist, local governments have realized that **STR ordinances must have enforcement teeth in order to be effective**, resulting in a significant tightening of regulations. In Newark, New Jersey, the city has started using a software platform to help identify operating STRs and increase compliance – an increasingly common tactic for local governments.

The city can impose fines of up to $2,000 per violation for those who don't follow the law.

Elsewhere in Portland, Oregon, officials launched a new STR permit application site in an effort to cut down a large backlog of applications hindering the city's enforcement efforts.

Simply put, the days of STRs flying under the radar are well and truly over, which is helping to once again create a more level playing field with hotel providers; however, now is a critical time for STR operators to ensure their tech stack is ready to tackle these increasing standards.

Conclusion

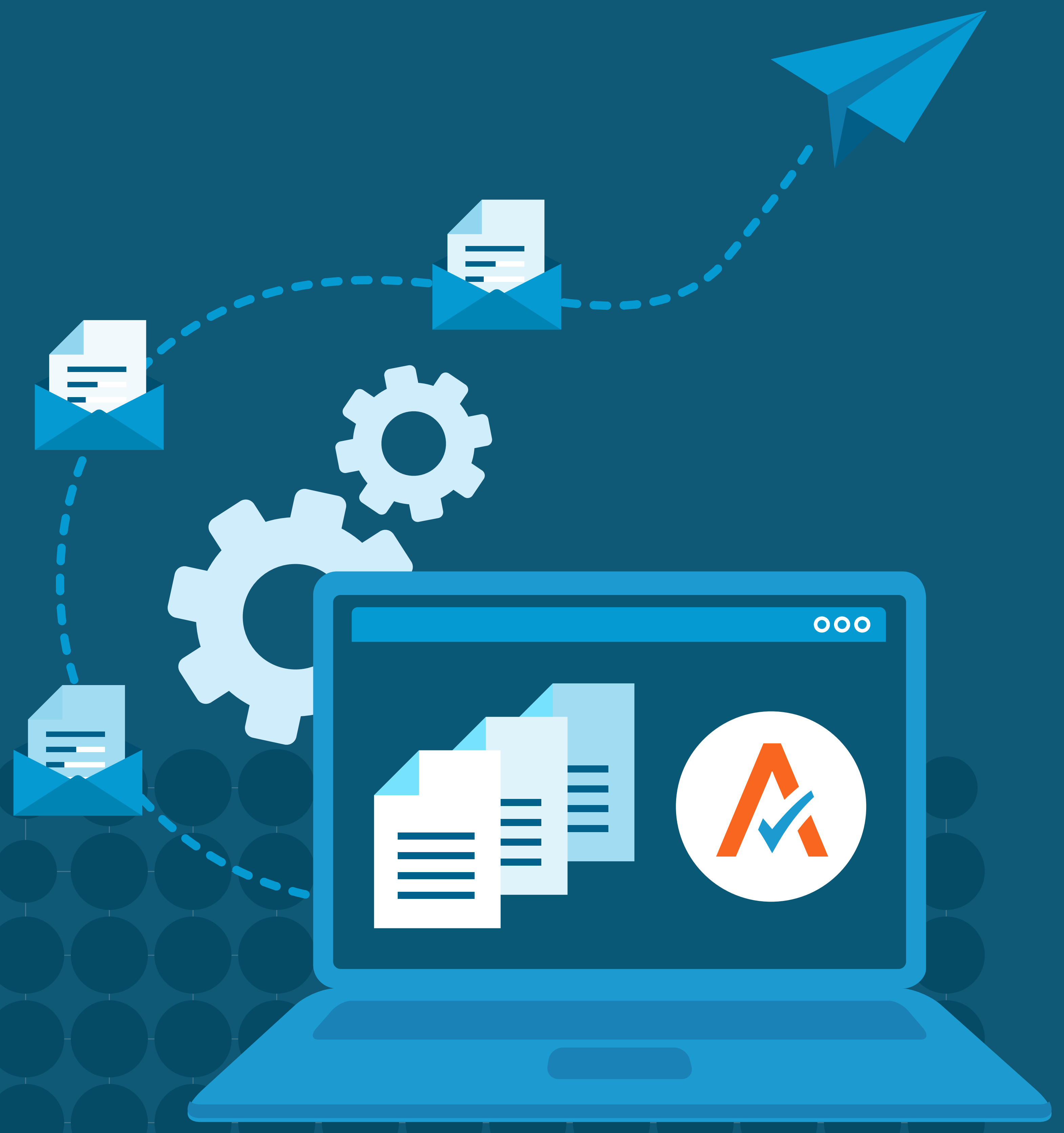
Avalara's research paints an intriguing picture of tax compliance across the U.S. lodging industry. On one hand, hotel and STR providers understand the vital importance of maintaining tax compliance, but on the other, the sheer complexity of the task today is making it harder than ever for them to achieve it.

Against this backdrop, many have rightly turned to technology to help them meet their tax compliance obligations. Automation tools are already playing a major role, while the recent emergence of AI-powered tax compliance solutions offers a glimpse into what the future will look like.

However, trust and cost issues, as well as a lack of understanding about the technology are all currently hindering adoption rates, as providers opt to take a 'wait-and-see' approach to its implementation. While the STR sector has enjoyed exponential growth and a relative lack of scrutiny over the past few years, this is sharply coming to an end. Across the U.S., governments are recognizing the importance of levelling the playing field, not only from a tax revenue perspective, but from a competition standpoint as well.

As new tax legislation brings STR providers firmly in line with their hotel counterparts, the role of technology across both sectors will only grow in importance when it comes to ensuring compliance in an ever-changing landscape.

In short, the lodging industry is checked in but taxed out. Only by closing the technology confidence gap, accelerating modernization, and building trust in next-generation tools will providers be able to build the levels of resilience they need to grow and to thrive in the months and years to come.



Methodology
The research was conducted by Censuswide, among a sample of 500 (aged 18+) senior-level hotel executives or hotel management leaders; and short-term rental hosts who handle their own financial operations and tax strategy.
The data was collected between 01.09.2025 - 08.09.2025. Censuswide abides by and employs members of the Market Research Society and follows the MRS code of conduct and ESOMAR principles. Censuswide is also a member of the British Polling Council.