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**TO:** Detroit City Council

**FROM:** David Whitaker, Director   
Legislative Policy Division

**DATE:** June 24, 2025

**RE:** Study On Feasibility of Implementing Tax on Short Term Rentals

The Legislative Policy Division (LPD) has been requested to provide a study regarding the feasibility of implementing a tax on short-term rentals in the city of Detroit. LPD notes that our resources and staff are not equipped to provide the in-depth analysis requested. However, LPD has attempted to provide the information we can obtain in response to the request.

The matter of authorizing, regulating and codifying short term rentals has been the subject of consideration for both the City of Detroit and State of Michigan Legislature over the past few years. LPD notes the City of Detroit's (City) Zoning Code prohibits the use of residential units as a business enterprise except as regulated as a rental unit subject to the City Codes Rental Property ordinance. Pursuant to Chapter 50, Article VII, *Use Regulations: Division 5, Accessory Uses and Structures*; Subdivision B, Home Occupations; Section 50-12-482, *Allowed uses*, provides:

The regulations of this subdivision establish performance standards rather than detailed lists of allowed home occupations. Uses that comply with all of the standards of this

subdivision will be allowed as home occupations unless they are specifically prohibited by Section 50-12-492 of this Code.

As indicated under Section 50-12-482 home occupations are allowed unless specifically prohibited under 50-12-492 which provides in pertinent part under subsection (d):

Use of a dwelling to accommodate paid overnight guests is prohibited as a home occupation; notwithstanding this regulation, public accommodations, including bed and breakfast inns outside the R1 and R2 Districts, are permitted as provided for in Section 50-12-65 of this Code.

The use of a residential dwelling as a home occupation to accommodate paid overnight guests is prohibited. Short-term rentals are generally for paid overnight guests as a home occupation. While this provision of the Code is expected to be amended to allow such home occupations, currently short-term rentals in the City are prohibited.

If the City were to allow for short-term rentals to operate as a home occupation, the property would be subject to the taxation required by law regarding property taxes and income taxes derived from the home occupation. Pursuant to the General Property Tax Act, MCL 217.1 *Property subject to taxation* provides:

That all property, real and personal, within the jurisdiction of this state, not expressly exempted, shall be subject to taxation.

The owner of the short-term rental property is subject to property taxes under the General Property Tax Act and is also subject to income taxes levied upon the income generated from the short-term rental home occupation. The Income Tax Act of 1967 provides under MCL 206.110(4)

Rents and royalties from real or tangible personal property, capital gains, interest, dividends, or patent or copyright royalties, to the extent that they constitute a nonbusiness income, shall be allocated as provided in sections 111 to 114.

The non-business income under MCL 206.111 that is subject to taxation is “Net rents and royalties from real property located in this state are allocable to this state”. As such the net income from short-term rentals would be subject to State tax as well as the city of Detroit income taxes.

With regard to levying a specific tax on short-term rentals similar to the State of California enacting under its Revenue and Taxation Code, Part 1.7 Additional Local Taxes, Section 7280, which provides in pertinent part:

- (a) The legislative body of any city, county, or city and county may levy a tax on the privilege of occupying a room or rooms, or other living space, in a hotel, inn, tourist home or house, motel, or other lodging unless the occupancy is for a period of more than 30 days. The tax, when levied by the legislative body of a county, applies only to the unincorporated areas of the county.

LPD notes that the “Transient Occupancy Tax” (TOT) as referred to in California applies not only to short-term rentals but any residential accommodations that are rented out for 30 days or less which includes hotels, motels, inns etc. Additionally, the State of California does not impose a TOT but allows local units of government to levy the tax.

The State of Michigan has an accommodations tax outlined under the Public Act 94 of 1937, Use Tax, MCL 205.93(a)(1)(b) which provides:

Rooms or lodging furnished by hotelkeepers, motel operators, and other persons furnishing accommodations that are available to the public on the basis of a commercial and business enterprise, irrespective of whether or not membership is required for use of the accommodations, except rooms and lodging rented for a continuous period of more than 1 month. As used in this act, "hotel" or "motel" means a building or group of buildings in which the public may obtain accommodations for a consideration, including, without limitation, such establishments as inns, motels, tourist homes, tourist houses or courts, lodging houses, rooming houses, nudist camps, apartment hotels, resort lodges and cabins, camps operated by other than nonprofit organizations but not including those licensed under 1973 PA 116, MCL 722.111 to 722.128, and any other building or group of buildings in which accommodations are available to the public, except accommodations rented for a continuous period of more than 1 month and accommodations furnished by hospitals or nursing homes.

The Michigan Use Tax is applicable to all that provide accommodation to the public on the basis of commercial and business enterprises. The Use Tax on accommodation is 6% and includes entities or people providing short-term rental accommodation that are rented for a period of less than 1 month. This tax is levied by the Michigan Treasury Department and the tax collected goes to the State.

In addition to the use tax levied by the State of Michigan, Public Act 263 of 1974, *Excise Tax on Business Providing Accommodations*, allow for certain local municipalities with populations between 600,000 and 775,000 to levy an excise tax on persons engaged in business of providing rooms for dwelling, lodging, or sleeping purposes to transient guests, which would include operators of short-term rentals. Effective as of April 2, 2024, Public Act 263 of 1974 provides under MCL 141.862(a)

- (1) Subject to subsection (4), the local governing body of a local unit of government that is located in a county with a population of more than 600,000 and less than 775,000 may enact an ordinance to levy, assess, and collect an excise tax from all persons engaged in the business of providing rooms for dwelling, lodging, or sleeping purposes, except in hospitals or nursing homes, to transient guests, whether or not membership is required for the use of the accommodations.
- (2) An ordinance described in subsection (1) may be amended or repealed in the same manner as it was adopted.
- (3) The excise tax imposed by a local unit of government must be at a rate of not more than 2% of the total charge for accommodations subject to this act.
- (4) The local governing body of a local unit of government shall not levy an excise tax unless a majority of the qualified electors of that local unit of government voting on the question approve the levy of the excise tax in compliance with section 31 of article IX of the state constitution of 1963.
- (5) If a local unit of government meets the requirements of subsection (1) on the date it enacts an ordinance, the local unit of government may continue to levy, assess, and collect the excise tax.

Pursuant to this provision, the City of Detroit has the authority to adopt an ordinance to levy a 2% excise tax on persons engaged in the business of providing rooms for dwelling, lodging, or sleeping purposes, except in hospitals or nursing homes, to transient guests. This 2% excise tax would include hotels, motels, inns as well as persons operating short-term rentals in the city of Detroit. The City would have to first obtain approval from the voters before exercising that authority. Also, in order for the City to tax short-term rentals operated by homeowners in Detroit, the City would need to remove the home occupation prohibition within the Zoning Code.

LPD notes that the adoption of an ordinance to tax accommodation for transient guests under the Act (*Excise Tax on Business Providing Accommodations*) requires that the revenues from the tax be deposited in a special fund that can only be used for one of the following purposes under Section 141.867:

- (a) The cost of administration and enforcement of the ordinance.
- (b) The financing of the acquisition, construction, improvement, enlargement, repair, or maintenance of convention and entertainment facilities, including, except as provided in subdivision (e), the payment of principal and interest, when due, on bonds or other evidence of indebtedness issued by the county or local unit of government for convention and entertainment facilities.
- (c) Except as provided in subdivision (e), current or future annual rental payable by the county or local unit of government to an authority organized pursuant to state law for the purpose of acquiring, constructing, improving, enlarging, repairing, or maintaining the convention and entertainment facilities and leasing them to the county or local unit of government.
- (d) The promotion and encouragement of tourist and convention business in the county or local unit of government.
- (e) The principal and interest, when due, on bonds or other evidence of indebtedness issued by or on behalf of the county for the purpose of financing the construction of a museum, or the current or future rental payable by the county to an authority organized pursuant to state law for the purpose of constructing a museum and leasing it to the county, only if the museum is located in a city with a population of 180,000 or more.

LPD notes that the Michigan Legislature has considered specific legislation concerning the regulation of short-term rental for the past few years that was not enacted, including but not limited to the following bills (in summary):

- |                          |  |
|--------------------------|--|
| Senate Bill 547 of 2021: | This bill would have regulated short-term rental and allowed permitting, licensing or registration by local government, as well as regulations to safeguard the public health and safety. The proposed bill prohibited local governments from enacting a prohibition of short-term rentals.  |
| House Bill 4722 of 2021: | <p>This bill would have amended the Zoning Enabling Act to allow short-term rental as a residential use not subject to a special use or conditional use permit or procedure.</p> <ul style="list-style-type: none"><li>- Would have allowed local government to inspect a residence used for short-term rental for compliance with the enforcement of a local ordinance.</li></ul> |

	<ul style="list-style-type: none"> <li>- Would have allowed local government to limit the number of units under common ownership that could be used for short-term rental.</li> </ul>
House Bill 4985 of 2021:	This bill would have amended the Zoning Enabling Act to allow short-term rental in residential districts subject to special use or conditional use permits or procedures.
House Bill 5173 of 2021:	This bill would have added short -term rental and short-term transit facility as a term in the Regional Tourism Marketing Act
House Bill 5465 of 2021:	This bill would have allowed for the registry, promotion, and regulation of certain short-term rentals and hosting platforms; to create certain databases; to provide for imposition and collection of a statewide excise tax of 5%. The distribution of taxes collected would have provided 50% to the local government in which the short-term rental was rented. The local government would have the authority to regulate short-term rental to provide for the public health and safety. House Bill 5466 was tie-barred to this bill. It would have included short-term rentals to the Zoning Enabling Act.
House Bill 5521 of 2021:	This bill would have created an excise tax on short-term rentals and the distribution of the tax proceeds. The bill would have allowed a qualified county to assess a 5% tax on short-term rentals. The county would have been required to use the proceeds as set forth in the bill.
House Bill 5605 of 2021:	<p>This bill would have provided for the promotion, regulation, registration or licensing of short-term rentals and hosting platforms and the imposition of statewide excise tax.</p> <ul style="list-style-type: none"> <li>- Would have provided for 80% of excise tax to be proportionately distributed to the local government in which the short-term rental tax was paid.</li> <li>- Would have allowed local government to regulate short-term rentals to safeguard the public health and safety.</li> </ul>
Seante Bill 880 of 2022:	This bill would have provided for the regulation of short-term rentals and hosting platforms as well as the authorization of local governments to regulate to safeguard the public health and safety. The bill would have also provided for the registration of short-term rentals and the assessment of fees for administration, registration and inspection expenses by the local government.
House Bill 5438 of 2024:	(Tie barred to passage of this bill was HB 5437, 5439 and 5440-5446) Together the bills would have allowed for the regulation and levying of excise taxes on short term-rentals. The bills would have allowed for a 6% excise tax on short-term rentals rented for more than 14 days in a calendar year, in addition to any other taxes or fees allowed by law. The Michigan Treasurer and the Licensing and Regulatory Affairs (LARA) division would receive 1% or up to \$1.0

million of the proceeds. The remaining proceeds would go to the local government where the short-term rental is located.

- The local government would be allowed to revoke a short-term rental permit for violation of a local ordinance or zoning ordinance but could not enforce a local ordinance that would effectively ban short-term rentals.

LPD notes that the City through actions by the Detroit City Council has considered regulating short-term rentals including the following as outlined by the City Planning Commission Staff:

## CHRONOLOGY

### SHORT TERM RENTAL ORDINANCE, CHAPTER 50, ZONING

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|----------|--|
| 2/6/2018 | Effective date of Ord. No. 37-17 (Fifth General Text Amendment, 209 pages), which included among many other items Sec. 50-12-492(d) related to “home occupations,” prohibiting “paid overnight guests as a home occupation.” Prohibition adopted per urging of the Boston Edison Association.  |
| 2019     | New Corporation Counsel, Lawrence Garcia, advises against implementation of “home occupation” prohibition on short-term rentals in favor of amendment focused solely on short-term rentals.  |
| 6/6/2019 | CPC public hearing to amend Chapter 50 by repealing “home occupations” provision related to “paid overnight guests” and to review proposed provisions of a property maintenance code amendment related to short-term rentals.  |
| 2019     | <p>Inter-departmental working group, per request of Council Member Ayers, developed a draft non-Zoning amendment (Chapter 9 of the 1984 Detroit City Code) to regulate home occupations as part of Property Maintenance Code, including eleven key provisions:</p> <ul style="list-style-type: none"><li>· Definitions of terms. Among them, “short term rental,” means “any rental of a dwelling unit, or rooming unit in exchange for compensation or other consideration, as residential accommodations for at least one night, but no more than 90 cumulative days of the year” (Sec. 9-1-100.2).</li><li>· Residency requirement. Any property used as a short-term rental must be the owner’s principal residence (Sec. 9-1-100.3).</li><li>· Registration required. Any short-term rental must be registered with the Buildings, Safety Engineering, and Environmental Department (BSEED) (Sec. 9-1-100.4).</li><li>· Spacing between short-term rentals. A short-term rental will not be registered if located within 1,000 feet (measured linearly) of another short-term rental; BSEED has limited discretion to relax the 1,000-foot spacing (Sec. 9-1-100.4(d)).</li><li>· Limitation on groups. A host may not rent to more than one group of guests under more than one reservation at any given time (Sec. 9-1-100.8(b)).</li></ul> |

- Limitation on number. Not more than ten people may be accommodated at one time (Sec. 9-1-100.8(d)).
- Limitation on rentals per year. A short-term rental unit may not be rented more than 90 days per calendar year (Sec. 9-1-100.8(e)).
- Certificate. The short-term rental must post its certificate of registration in a conspicuous place on the property and provide it in electronic format to all guests (Sec. 9-1-100.8(f)).
- Notification of neighbors. Within 30 days of registration, a short-term rental host must notify neighboring dwelling units within 300 feet of the property’s approval for short term rentals and provide the phone number of the rental’s local contact person (Sec. 9-1-100.8(g)(1)).
- Violations and enforcement. BSEED is responsible for enforcement of the ordinance; violations are subject to issuance of blight violations; violators may be removed from the rental registry (Sec. 9-1-100.13).
- Denials and appeals. Where an applicant is denied registration or where BSEED determines a registration should be removed, the applicant is entitled to a hearing (Sec. 9-1-100.14).

6/25/2019	City Council receives CPC report and recommendation to amend Chapter 50 to repeal prohibition against “paid overnight guests” as a “home occupation.”
Oct 2019	Council votes to extend 120-day review period of Chapter 50 amendment until 2/20/2020.
Feb 2020	Council votes to further extend 120-day review period of Chapter 50 amendment until 6/19/2020.
June 2020	Council votes third extension of 120-day review period of Chapter 50 amendment until 10/17/2020 pending Administration and CC Member Ayers consideration of proposed amendment to Property Maintenance Code.
Sept 2020	Council votes fourth extension of 120-day review period of Chapter 50 amendment until 2/14/2021 pending further considerations of proposed Chapter 8 of the 2019 Detroit City Code amendment to Property Maintenance Code for short-term rentals.
2021	End of elected term of Council Member Ayers.
12/15/2021	CPC staff and Law Department prepare revised draft amendment to Chapter 50, Zoning, related to short-term rentals by defining “short-term rentals” (less than 28 consecutive days) and prohibiting same in single-family, two-family, and multiple-family dwellings.
8/31/2023	Council Member Angela Whitfield Calloway’s request conveyed by Council President Sheffield to LPD to allow short-term rentals in Chapter 50, Zoning, and to provide various licensing classifications.
1/3/2024	LPD submits draft short term rental ordinance to City Council amending Chapter 8, Building Construction and Property Maintenance, Article XV, Property Maintenance

Code, Division 3, Requirements for Rental Property, Subdivision C, Short Term Rentals (18 pages).

- Oct 2024      CPC votes to recommend approval of the proposed Sixth General Text Amendment to City Council but to not repeal the Sec. 50-12-492(d) prohibition of “paid overnight guests” as a “home occupation” until an ordinance related to short-term rentals is ready for Council consideration.
- July 2025      Proposed Sixth General Text Amendment is expected to be approved by the Corporation Counsel for introduction by City Council.

As indicated, LPD does not have the resources or expertise to provide the comprehensive feasibility study requested. LPD notes that this matter was also referred to the Office of the Chief Financial Officer (OCFO) for response to the feasibility study through the Budget and Finance Standing Committee. The OCFO may be able to contribute additional information or resources to complete the feasibility study requested.

Please call upon us if we can be of further assistance.