

# Short-Term Rental Units & The Local Occupancy Tax

Best Practice Guide  
for Local Governments

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## Purpose

This guide provides local governments in Tennessee with practical approaches for managing short-term rental units (“STRUs”). It draws on local government experiences and state law. The goal is to strengthen tax fairness and reduce administrative burden while ensuring STRUs are treated equitably alongside other lodging businesses.

## What are STRUs and How Do They Impact Local Governments?

STRUs refer to homeowners and businesses renting, in full or in part, residential dwellings such as homes, condominiums, and cabins to transients for less than 30 continuous days to generate income. STRUs exclude hotels and bed and breakfast establishments.<sup>1</sup>

STRUs are a fast-growing and still-evolving part of the lodging market that directly affect local government responsibilities. With over 40,000 active STRU listings in Tennessee as of August 2025, STRUs represent a substantial portion of the state’s tourism and housing landscape<sup>2</sup>, and STRU listings are not limited to major cities. Nearly 30% of active listings are located outside of Davidson, Hamilton, Knox, Sevier and Shelby Counties. On average, there are over 140 STRU listings per county<sup>3</sup>. For local governments, the question is no longer whether STRUs exist, but how to ensure they are integrated sustainably into local economies and communities.

STRUs impact several local revenue streams, such as business licenses, sales taxes, occupancy taxes, and property taxes, yet many existing processes make it difficult to determine if the rentals are operating with proper documentation and consistent tax remittance.

## How Are STRUs Booked?

Perhaps the biggest challenge in administering STRUs is understanding how they are marketed, booked, and paid for. Transients can book and rent STRUs using a variety of methods.

Consider the example of Jane Smith, who owns a STRU property in Grundy County. Jane has several different ways to advertise and manage her rental:

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<sup>1</sup> Tenn. Code Ann. § 67-4-1501

<sup>2</sup> AirDNA

<sup>3</sup> AirDNA

- She might manually post on one or more STRU marketplaces such as VRBO.com or Airbnb.com.
- She could use a channel management tool—like Guesty.com or Hostaway.com—to automatically list her property across multiple booking platforms at once.
- She could use a website like Booking.com to market the product but complete the payment processing and transaction through another tool.
- She might create her own website and accept online or phone bookings directly.
- She could post her property on Facebook Marketplace or community groups, taking payments through cash, check, PayPal, Venmo, or similar peer-to-peer services.
- She might hire a property management company to oversee listings, bookings, guest communications, and maintenance.
- She could rely on repeat guests, coordinating future stays and payments informally through text or cash.

Each of these booking methods carries different tax implications. How a STRU is booked—and which parties are involved in the transaction—determines who is responsible for remitting the local occupancy tax. Staying with Jane's example:

- **Direct listing platforms:** Online platforms used to list a STRU booking, may be considered a short-term rental unit marketplace. Short-term rental unit marketplaces are required to collect and remit the local occupancy tax to the Department of Revenue on Jane's behalf. Jane can confirm whether the platform is responsible for remitting the tax by reviewing the platform agreement. More information on short-term rental unit marketplaces can be found below.
- **Channel management tools:** These tools syndicate, or publish, Jane's listing across multiple booking platforms at once. Whether the local occupancy tax is remitted to the Department depends on *which platform* ultimately facilitates the transaction. If the final booking or payment is completed on a non-short-term rental unit marketplace platform or directly through the channel manager, Jane is likely responsible for remitting taxes directly to the local governments.
- **Marketing-only platforms:** Some platforms advertise a STRU but do not facilitate the occupancy transaction itself; payment is completed through a separate tool or directly with Jane. In that case, the platform may not be considered a short-term rental marketplace, and the local occupancy tax may fall to Jane. This is a fact-specific analysis, and Jane should review her agreement with the platform carefully to understand who bears remittance responsibility.

- **Jane's own website / direct bookings:** Jane is fully responsible for collecting and remitting local occupancy tax to local governments. The Department of Revenue is not involved.
- **Social media, peer-to-peer payment apps, cash, and other informal channels:** Jane is fully responsible for collecting and remitting local occupancy taxes. These are among the hardest transactions for local governments to identify and audit.
- **Property management company:** Property management companies meet the statutory definition of a "vacation lodging service," which is excluded from the STRUM definition. This means the property manager is responsible for remitting the local occupancy taxes directly to the local government. The property manager should be registered and remitting on Jane's behalf.
- **Repeat guests via text or informal arrangements:** Same as direct bookings. Jane (or her manager) bears full remittance responsibility. This is also a significant compliance gap and audit risk for local governments.

## When the Department of Revenue Collects the Local Occupancy Tax

Historically, local occupancy taxes, also known as hotel/motel taxes or lodging taxes, have been administered and collected solely by local governments. Beginning January 1, 2021, however, Public Chapter 787 (2020) required short-term rental unit marketplaces ("STRUMs") to collect and remit the local occupancy tax to the Department of Revenue (the "Department"). STRUMs are defined as a person or entity, excluding a vacation lodging service, that provides a platform for compensation, through which a third party offers to rent a short-term rental unit to an occupant. The Department is only involved in local occupancy taxes when transactions occur on STRUMs. For occupancy transactions by a hotel, motel, bed and breakfast, vacation lodging service, or a short-term rental unit property owner, the tax must be remitted directly to the local government.

The Department maintains a record of all applicable city, county and special tax jurisdiction occupancy rates on [tn.gov](https://www.tn.gov). If a local government enacts a new local occupancy tax or changes a local occupancy rate, the local government is required to notify the Department of this change pursuant to Tenn. Code Annotated § 67-4-1509. Local governments are also required to annually certify their local occupancy rate to the Department, which can be completed on the Revenue External Portal ("REP").

## When Local Governments Collect the Local Occupancy Tax

The Department is only involved in the local occupancy tax when the tax is collected and remitted by a STRUM. For all local occupancy transactions that fall outside of a STRUM remitting the tax to the Department, it remains the local government's responsibility to administer, collect, and enforce the local occupancy tax. This includes the following scenarios:

- A short-term rental unit property owner rents their unit directly—through their own website, social media, or repeat guest networks.
- A hotel, motel, campsite, or bed and breakfast rents occupancy space to transients.
- A property management company or a vacation lodging service rents occupancy space to transients.
  - A vacation lodging service is defined as a person or entity that is engaged in the business of providing the services of management, marketing, booking, and rental of short-term rental units. For the purpose of the local occupancy tax, property management companies meet the definition of a vacation lodging service.

Local jurisdictions are responsible for identifying STRU operations and maintaining direct reporting and remittance relationships with operators. More information about identifying operators is available [further down in this document](#).

## Resources to Understanding State Tax Administration and Local Roles

The Department provides detailed guidance on how taxes apply to STRUs in its [Short-Term Rental Units Tax Manual \(June 2025\)](#). This document outlines how state and local sales, use, and occupancy taxes apply to STRUs, and how these obligations differ depending on how bookings are made and who facilitates them. The manual is primarily written for STRU owners, operators, property management companies, and STRUMs. The manual can also be helpful for local governments seeking to understand their obligations.

Local governments can share the manual with STRU operators in their jurisdictions to ensure everyone understands the relevant tax obligations and reporting processes.

## Why This Matters

Local governments should understand STRUs can be booked in variety of manners, and the Department only collects the local occupancy tax from STRUMs. Transactions that do not occur on STRUMs fall under the responsibility of the local government.

It is also important to understand that an online platform does not always equate to a STRUM. Some online platforms only provide advertising services and do not facilitate the occupancy of the STRU. If the online platform does not facilitate the occupancy sale, the STRU owner is responsible for remitting the occupancy tax directly to the local government. Because this analysis is fact-specific, it is essential to educate STRU owners and remind them to carefully review any agreements they may enter into with an online platform. Often these agreements specify who is responsible for collecting and remitting the local occupancy tax. If an agreement is unclear or silent on which party is responsible for collecting the tax, the STRU owner should contact the online platform.

Understanding these distinctions is critical for local governments seeking to oversee STRU ecosystems. In short:

- Know when the Department collects the local occupancy tax on your behalf.
- Identify which local STRUs and scenarios local governments are responsible for.
- Establish local processes to oversee tax compliance in those cases.

By recognizing these boundaries, local governments can improve compliance, safeguard local revenue streams, and ensure all STRU operators are treated equitably—whether they book through a STRUM or by phone.

# What Should Local Governments Do About STRUs?

## Establish Clear Local Authority

### Occupancy Tax Ordinances

Municipalities in Tennessee without an occupancy tax may adopt an occupancy tax up to 4%, with a city and county combined maximum rate of 8% under T.C.A. § 67-4-1401 *et seq.*

Private acts and ordinances adopted under T.C.A. § 67-4-1401 *et seq.* include audit provisions and outline ramifications for failure to report local occupancy taxes and contain definitions pertinent to the jurisdiction.

The most updated list of Tennessee occupancy taxes at the SITUS level is available at <https://www.tn.gov/revenue/taxes/local-occupancy-tax/due-date-and-tax-rate/local-occupancy-tax-rates.html>. Local governments are responsible for annually verifying their local occupancy tax rate to the Department. Please ensure the listed rate is correct as STRUMs verify rates using the Department's records. Discrepancies or inaccuracies should be raised to the Revenue Financial Control team.

### Consider Property Tax Implications

Local governments should read [Tennessee Comptroller Bulletin 2021-01](#) and T.C.A § 67-5-801(b) to understand scenarios where certain STRUs may qualify as commercial rather than residential property for assessment purposes.

## Identify and Track STRUs

### Use Third-Party Vendors

Several Tennessee counties contract with third-party vendors to identify properties operating as STRUs. These tools are helpful because of the sheer volume of STRUs operating in any given county. These vendors match online listings with public parcel data and property tax records, often uncovering substantial numbers of units previously unknown to the local occupancy tax collection departments. Many also provide tools such as automated notification letters, digital dashboards, online collections, and occupancy tax tracking systems.

### Promote Local Data-Sharing

Effective STRU management requires coordination across offices. Assessors, trustees, clerks, recorders, and codes officials should regularly share relevant STRU information to ensure fair taxation and compliance. There may also be opportunities for cities and counties to work together on data sharing. In many situations, a STRU operating in a city will also be subject to

county occupancy taxes. However, officials must maintain confidentiality under T.C.A. § 67-1-1702, which prohibits the disclosure of specific taxpayer information.

#### Leverage STRUM Data

Certain authorized users within local governments can review monthly local occupancy taxes remitted by STRUMs at the SITUS level through the [Department's REP](#). This data helps jurisdictions monitor STRUM local occupancy tax remittance and the corresponding local occupancy tax allocation. All REP data is considered confidential tax information and must be protected accordingly under T.C.A. § 67-1-1702.

## STRU Registration

#### Update Local Forms

Many jurisdictions still rely on hotel-focused occupancy tax forms that do not reflect the complexity of STRU operations. Local governments should supplement these with STRU-specific occupancy tax reporting forms that ask operators to distinguish STRUM bookings and bookings where the owner/operator is responsible for remitting the local occupancy tax (e.g., property website, Facebook, repeat guests, vacation lodging service, etc.). This distinction helps verify which transactions fall under the Department's collections versus those subject to local remittance.

#### Local Permitting Programs

Some Tennessee jurisdictions already require STRU permits under [T.C.A § 13-7-601 et. seq.](#) A local permit or registration system ensures that properties are properly identified, taxes are being remitted, and essential safety standards are met. Local permitting also provides a direct communication channel between operators and officials which is useful for emergency contacts, compliance reminders, and data collection.

The University of Tennessee County Technical Assistance Service (CTAS) provides information about the [Tennessee Short-Term Rental Unit Act of 2018](#), including a [sample resolution](#) and [sample permit application](#). Communities may use these as resources when designing their own registration systems.

It is important to note grandfathering provisions may impact properties operating prior to the implementation of a permit or registration process. Such stipulations are outlined in [T.C.A § 13-7-601 et. seq.](#) If a grandfathering provision applies, a provider may continue to operate under the regulations the municipality had in place at the time the property began as a STRU, provided they meet the statutory requirements of [T.C.A § 13-7-601 et. seq.](#)

## Non-Permitting Outreach

Even communities without permitting/codes registration processes should undertake outreach efforts to ensure each STRU is associated with a business license and is reporting local occupancy taxes.

## Improve Tax Collection Processes

### Modernize Occupancy Tax Collection

Paper-based remittance systems increase administrative burden and reduce compliance.

Consider this scenario based on a real-world situation: A STRU operator owns properties in Beersheba Springs, Altamont, and Tracy City. Every month, this operator must do the following for any taxes not remitted by a STRUM:

- Submit sales taxes to the Department of Revenue (online capability exists)
- Write paper checks for local occupancy taxes to each of the following jurisdictions:
  - o Grundy County – 5% rate applies to all properties within the county
  - o Altamont – 4% rate for properties in the city
  - o Beersheba Springs – 4% rate for properties in the city
  - o Tracy City – 5% rate for properties in the city

The level of manual reporting required in the above process creates a substantial opportunity for under-reporting or failure to report.

Local governments should consider:

- Adopting online filing portals or e-payment capabilities that allow STRU operators to report and pay taxes electronically.
- Implementing a STRU-specific occupancy tax remittance form. Such a form should explicitly separate the portion of gross sales for which the operator is responsible for tax remittance from those handled by STRUMs.

### Enhance Audit Capacity

Although STRU operators are subject to annual audits under Tennessee law, auditing dozens or hundreds of small-scale hosts presents administrative challenges. Using updated forms, data-matching tools, or vendor support can help identify discrepancies and prioritize audits where compliance risk is highest.

### Understand and Mitigate Gaps in Marketplace Collections

Online platforms differ in how they handle Tennessee taxes. Not all online platforms are STRUMs, and STRUMs are the only taxpayers required to remit the local occupancy tax to the

Department. Officials should monitor which STRUMs are remitting local occupancy tax in their area on the REP.

## Understand the Occupancy Tax Applicability

Department of Revenue Guidance – Definition of Consideration

The January 2026 [LOT 12 – Definition of Consideration publication](#) from the Department of Revenue clarifies the occupancy tax rate applies to the ‘consideration’ provided to occupy the accommodation. ‘Consideration’ means ‘the consideration charged, whether or not received, for the occupancy in a hotel valued in money, whether to be received in money, goods, labor or otherwise, including all receipts, cash, credits, property and services of any kind or nature without any deduction therefrom whatsoever.’ This includes all additional fees that a consumer must pay to occupy the accommodation, such as non-refundable pet deposits, required cleaning fees, guest booking fees, and property damage protection fees.

## Support Operators Through Education

Provide Clear Guidance

Distribute the Department’s [Short-Term Rental Units Tax Manual \(June 2025\)](#) to all known STRU operators. The manual provides guidance to STRU operators on when local occupancy taxes and other taxes are due to the Department.

Communities can offer the Department’s tax manual and community-specific guidance to help STRU operators understand their tax obligations. The guidance should include differentiating between direct and STRUM bookings and understanding when an online platform is not remitting the local occupancy tax to the Department. It is recommended STRU operators review all agreements entered with online platforms, so the operator is aware which party is responsible for collecting and remitting taxes.

Part of the benefit of identifying operators in the community is to ensure that pertinent information—such as the Short-Term Rental Units Tax Manual—is delivered proactively to those operators. STRU guidance can include a range of topics, such as registering for business or minimal activity licenses or how to treat cleaning or service fees in reporting. A small investment in education can prevent larger compliance problems down the line.

Simplify Reporting

Develop and post local fact sheets or “how-to” guides summarizing reporting requirements,

deadlines, and key contacts. Rural hosts and casual operators often lack familiarity with business or occupancy tax processes, so step-by-step instructions can improve compliance rates.

- Ex: Rutherford County: <https://rutherfordcountyttn.gov/rental-tax>
- Ex: Columbia: <https://www.columbiatn.gov/205/Hotel-and-Motel-Permit-Tax>

## Build Intergovernmental Coordination

Enhance Interdepartmental Collaboration

To the extent allowable by law, ensure that local clerks, trustees, assessors, recorders, building codes officials, and tourism staff share information about active STRU properties. This helps identify unregistered units and improves cross-departmental alignment.

- Clerks, trustees, assessors, and recorders all may have certain tax collection responsibilities pertinent to STRUs.
- Codes officials may have certain permitting requirements.
- Tourism staff may have opportunities to engage with and promote STRUs as viable overnight visitor accommodations, increasing bookings for the operator and visitor impact for the community.

## Evaluate Return on Investment

Document Outcomes and Case Studies

Several Tennessee jurisdictions have demonstrated tangible financial gains from STRU oversight:

- A larger tourism county generated millions in additional annual property taxes through improved identification systems
- Another county with approximately 50 STRUs recovered more than \$43,000 in new property tax revenue after reclassifying STRU parcels as commercial properties.
- One of the smallest population counties identified 120+ STRU listings and are now collecting directly from operators \$50,000 each year above what is received from STRUMs; accounting for 44% of the FY25 county hotel/motel tax collections.

These examples illustrate how local governments are identifying opportunities to improve oversight, compliance, and revenue collection related to STRUs.

Track Common Success Metrics

Local governments looking to monitor performance across fiscal, compliance, and community indicators could consider success metrics such as:

- New business licenses issued
- Recovery of previously uncollected occupancy taxes
- New property tax revenue
- Property classification adjustments
- Higher occupancy tax compliance rate
- Increased percentage of STRUs with verified emergency contact information
- Growth in overnight stays