

Myth v. Reality

Myth: Requiring online travel companies (OTCs) to remit sales and occupancy taxes based on the retail rate they collect from consumers constitutes a “new tax.”

Reality:

- This is an issue of accurately calculating an existing tax, not a proposal to create a new tax. Nobody disputes that sales and occupancy taxes apply to hotel rooms sold by online travel companies.
- Hotels incur costs from the same marketing and room booking services performed by online travel companies, but hotels are not allowed to deduct their service costs from the amount taxed.
- Not taxing the online travel companies’ retail markup in effect produces a windfall for the online travel companies, subsidized by taxpayers.

Myth: Requiring online travel companies to remit taxes on the retail rate is a “service tax.”

Reality:

- When a retail store sells televisions or clothing or other products, sales tax is calculated based on the price paid by the consumer at the time of the sale, not on the wholesale rate paid by the store to the manufacturer or wholesaler. Hotel rooms should be no different, and the amount of tax revenue collected by state and local governments from consumers should not depend on business-to-business arrangements in the supply chain.
- Although online travel companies call their markup many things (facilitation fee, service fee, etc.), it is nothing more than a retail markup of a wholesale price they negotiate with hotels.
- Occupancy taxes have long been assessed on the full amount consumers pay to rent hotel rooms, whether booked through hotels directly, by travel agents or other “service providers” – there is no reason that online travel companies should be treated differently.

Myth: Requiring online travel companies to remit taxes on the retail rate will lead to higher costs for travelers.

Reality:

- Online travel companies are unlikely to charge consumers more as a result of closing this loophole. Their prices are already marked up enough to cover the full amount of the tax and raising their prices higher would make their pricing uncompetitive in the marketplace.

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- The consumer is already paying the money; it is a matter of who gets to keep it, the online travel companies or the taxpayers.