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To: Honorable Representative Pat Widlitz
Honorable Senator Eileen Daily
Finance Committee

From: Chuck Moran, Legislative Chair for the Connecticut Lodging Association

Date: March 28, 2011

Subject: Raised HB Bill No. 6626 - AN ACT CONCERNING THE IMPOSITION OF THE SALES TAX ON ROOM REMARKETERS

Good afternoon Senator Daily, Representative Widlitz and members of the Finance Committee. My name is Chuck Moran, I am Past President of the Connecticut Lodging Association and General Manager of the Courtyard by Marriott, Cromwell. The Connecticut Lodging Association is here to express our support of House Bill No. 6626 - An Act Concerning the Imposition of the Sales Tax on Room Remarketers.

This afternoon I would like to provide information to the Finance Committee regarding the Connecticut Lodging Association and the American Hotel & Lodging Association on the fairness of sales tax on room remarketers. Below is a portion of letter sent to all members of the House of Representatives in Washington DC outlining the issue as it affects the lodging industry.

“We are writing to express our strong opposition to draft legislation (sometimes referred to as the “Internet Travel Tax Fairness Act”) that would prevent state and local governments from collecting room taxes from third party intermediaries (TPIs) (e.g., Orbitz, Expedia, hotels.com, etc.) when hotel rooms are booked through such TPIs. If enacted, such legislation would place hotel companies at a competitive disadvantage with respect to marketing their own rooms and potentially subject hotel companies to massive tax increases as state and local government seek to replace the revenue lost as a result of the TPIs’ tax exemption preference that would be codified by the legislation, further harming an already struggling hospitality industry.

By way of background, many cities, counties and states throughout the country believe that TPIs are not remitting the full amount of taxes due on rooms booked

through them because TPIs calculate and remit taxes based on the wholesale rate they pay the hotel for the room, not on the same booking price the customer pays. While the amount charged online through both a hotel's website and a TPI is often the same and the TPI collect enough "taxes and fees" to remit taxes on the full booking price, they instead retain the incremental revenue from taxes they are not remitting as a "service fee." Consequently, state and local governments have sued TPIs to recover those taxes.

Courts have found that TPI's owe the cities of San Antonio, Texas and Columbus, Georgia additional taxes. Many other tax jurisdictions, including the State of Florida, have filed similar lawsuits. There are also many private class-action lawsuits which allege that TPIs misrepresented the taxes and fees they charged for rooms.

Now, evidently, the TPIs are turning to Congress to exempt them from having to pay any room taxes whatsoever. And if the TPIs are exempted from paying any taxes on rooms secured through them, tax jurisdictions will in all likelihood mandate that hotels make up the difference in the lost revenue and pay taxes on revenue they never received. Although hotels pay all the taxes they owe and have not had their actions questioned, they will be the ultimate victim of this legislation. As a result, many will go out of business and lay off thousands of employees throughout the country.

Moreover, the draft legislation would put hotel companies at an even further competitive disadvantage in marketing their own rooms over the Internet because, while the draft legislation exempts online TPIs from any room taxes, it specifically notes that hotel online booking engines are excluded from that tax-free exemption. The TPIs should not be allowed to manipulate the tax law to provide themselves a competitive advantage.

The current economic downturn has impacted the U.S. hospitality industry particularly hard. As an industry which employs tens of thousands of Americans, we strongly oppose the "Internet Travel Tax Fairness Act" which would specifically target the lodging industry to place it at a competitive disadvantage and which potentially would subject lodging properties throughout the United States to massive tax increases."

As the above letter indicates there are lost local tax revenues to states and municipalities. If those revenues were to be recaptured we would ask the Finance Committee to reduce the proposed 2% increase to the hotel occupancy tax currently under consideration. The Connecticut Lodging Association is eager to participate in discussions that would provide solutions to the challenges that face the lodging and hospitality industry.

Thank you for the opportunity to testify before the Finance Committee.