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Testimony of Jeff Sonenstein,
President, Globe Travel Service
before the
(CT) Joint Committee on Finance, Revenue and Bonding
Monday, March 12, 2012

Good morning. Senator Daily, Representative Widlitz and distinguished members of the committee, thank you for the opportunity to testify in opposition to HB 5420. My name is Jeff Sonenstein, and I am the President of Globe Travel Service in Bristol CT, where I employ 18 people. I am also here representing the American Society of Travel Agents (ASTA), which represents the interests of its member agents as well as the over 1,000 people working in the travel agency industry in the State of Connecticut.

I'm here to strongly urge your opposition to HB 5420, a measure which would impose a new tax on travel services by subjecting service fees charged by travel agents and other intermediaries for facilitating hotel bookings to the state sales tax. By imposing this new tax on travel agent service fees, I believe this dangerous legislation will further burden my small business.

Contrary to what some people believe, it is not easy to be a travel agent. Making a good living in this industry has always required determination, creativity, and persistence. Now more than ever, it is important that agents be nimble and ready to embrace new technologies and new ways of doing business.

You might be surprised to see a traditional travel agent testifying against a bill appears aimed at Expedia and other online travel companies (OTCs). During my career, I have seen dramatic changes in the commission structures that travel agents have historically relied on. First, airline commissions declined, then vanished – and now, many cruise companies are trying to reduce their costs by reducing commissions to a minimum.

Many of my fellow agents now seek to emphasize the value they have always provided and are embracing their role as a travel counselor who can provide expert advice to travelers navigating a marketplace that offers an overwhelming number of options and choices. The so-called “consulting fee model” of operating a travel agency is an increasingly popular – and lucrative – way of doing business. In fact, according to ASTA, in 2010 consulting and service fees made up a full 61 percent of corporate-focused travel agency revenue and 62 percent of leisure-focused agency revenue. All of this revenue, at least as it relates to hotel bookings, would be subject to sales tax under HB 5420.

When I meet with my fellow travel agents from across the country, I routinely hear about proposals in other states and cities to tax these and other service fees. These taxes often start out targeting OTCs like Orbitz,

Expedia, and Travelocity – but they are always written in a way that would subject agency owners like myself to the same tax on our service fees.

As a small business owner, I already have to pay federal and state taxes on the income from any service fees I collect. If I had to pay an additional sales tax on these fees, I can tell you with certainty that this double tax would either force me to change the way I run my business or get out of the business of facilitating hotel stays entirely.

Selling travel is a low-margin business as it is. Paying an additional tax of 6.35 percent on top of the taxes I already pay would be nothing short of devastating.

Additionally, I believe taxing service fees collected by travel companies creates a disincentive for those companies to spend their valuable resources to bring travelers to Connecticut. Travel agents and intermediaries promote travel to Connecticut through marketing partnerships, online advertising, and other channels, so establishing a new tax on such travel facilitation, means fewer filled hotel rooms, and consequently lower tax revenue. This would run counter to the state's existing efforts to stimulate Connecticut tourism, exemplified by recently-launched \$2.6 million "Quick Start" campaign. Any additional marginal revenue increase would be more than offset by a sudden, sharp decline in Connecticut tourism from within and outside the state, at a time when we can least afford it.

While I am under no illusions about the scope of the budgetary challenges this committee deals with on a daily basis, I would humbly suggest that the legislature should be encouraging Connecticut businesses to focus on job creation and growing the state's economy, without having to worry about being blindsided by new taxes.

I respectfully ask that you not follow the lead of other states that have imposed new taxes on services, and respectfully urge you to oppose HB 5420.

Thank you for your time. I would be happy to answer any questions you might have.

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