

**Testimony before the Senate Committee on Community, Economic and Recreational
Development**

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Department of Revenue

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Chairman Scavello, Chairman Farnese and members of the committee, my name is Amy Gill, and I serve as the Deputy Secretary for Tax Policy for the Department of Revenue. We appreciate the opportunity to meet with you today to discuss Senate Bill 721.

The bill amends Title 12 (Commerce and Trade) of the Pennsylvania Consolidated Statutes by creating a funding mechanism for tourism promotion. The bill requires intermediaries to collect and remit the commonwealth's 6 percent Hotel Occupancy Tax when facilitating the booking of an occupancy. Monies collected from intermediaries will be deposited in the Tourism Promotion restricted account within the General Fund for grants to be distributed by the Pennsylvania Department of Community and Economic Development.

I would first like to briefly provide you with some important background information on the current law. The 6 percent Hotel Occupancy Tax is imposed at the same rate as the state Sales and Use Tax. It applies to room rentals of less than 30 days by the same person. The City of Philadelphia is authorized to impose an additional 1 percent tax on hotel rentals for local purposes on the state base; Allegheny County is authorized to impose an additional 1 percent on the state base.

The business model of online travel companies (OTCs) is to set a price that the hotel and OTCs agree on so that the OTCs have access to hotel rooms. OTCs then facilitate booking transactions between customers and hotels. OTCs typically charge a markup or service fee to the consumer for the room. Hotel Occupancy Tax is currently collected on the amount received by the hotel from the consumer — not the total amount the consumer may pay. Hotel Occupancy Tax is not currently collected on the portion of the markup or service fee kept by the OTCs. A simplistic example can be seen in the table below.

	Hotel	OTC
Room	\$100.00	\$80.00
Markup	\$0.00	\$20.00
Service Fee		\$1.20
Tax	\$6.00	\$4.80
Consumer pays:	\$106.00	\$106.00

The intent of Senate Bill 721 is to tax the portion of the service fee that is kept by the OTCs. That amount of revenue is then deposited to the Tourism Promotion Fund. The Department of Revenue estimates that taxing this service fee or markup would generate approximately \$20 million a year for the Tourism Promotion Fund.

SB 721 PN 1016 - HOTEL OCCUPANCY TAX ON INTERMEDIARY (ONLINE THIRD PARTY) BOOKINGS

Assumed effective date - 5/1/2018 (First collections June 2018)

Includes online short-term rental impacts

\$M

TOTAL REVENUE IMPACT - INTENT

	2017-18	2018-19	2019-20	2020-21	2021-22
TOURISM PROMOTION FUND	1.6	20.6	21.9	23.2	24.4
Gains from Third-Party Intermediaries	1.5	18.6	19.5	20.6	21.6
Gains from Short-Term Rental Entities	0.1	2.0	2.3	2.6	2.8

We also believe that the bill as drafted may have unintended consequences as to the amount of revenue sent to the Tourism Promotion Fund and the taxation of OTCs. Furthermore, as drafted the bill would create a revenue loss to the General Fund. The Department would appreciate the opportunity to work with the sponsor and his staff on this bill in order to make the administration of this tax as efficient as possible. We are certainly willing to work with you to ensure that the legislation will fulfill the intent of providing additional funding for Tourism Promotion in Pennsylvania.

Thank you for the opportunity for the Department of Revenue to provide comment on this proposed legislation.