



Testimony of Stephen Shur in Opposition to Proposed Expansion of the Sales/Use Tax to Travel Arrangement Services:

My name is Stephen Shur, and I am the President of the Travel Technology Association. My organization represents companies like Orbitz, Expedia, Priceline and many others.

Our industry is responsible for helping travelers book millions of room nights in Pennsylvania annually. We are in strong opposition to any proposal that would apply the state sales and use tax to entities that provide travel arrangement services.

Travel agents, both online and throughout Pennsylvania provide a valuable service to travelers. Online travel agents are true generators of travel and tourism for your state. In fact, 40% of all travelers who visit online travel sites do so without a destination in mind. What this means is that online travel companies have an incredible ability to steer travelers to states, regions or particular destinations based on sophisticated marketing tools, deals and packages. This also means that they can steer travelers to hotels in states where the sales tax does not apply to the service fees charged by online (and Pennsylvania) travel agents.

In order to understand how these taxes will negatively impact Pennsylvania's travel and tourism economy, it is important to understand how the industry works. Hotels choose to partner with online travel companies to reach broader audiences. This is particularly beneficial for independently-owned hotels that get to compete with the major hotel chains in an online travel search environment. Most importantly, online travel agents don't buy rooms in bulk at wholesale rates and resell them at retail rates. The hotels control the inventory and the online travel companies never take possession of the room. Online travel companies connect consumers with suppliers (hotels), while providing them an incredible ability to search, compare and book travel.

The hotel sets the room rate (the basis for the sales/use tax) and also dictates the price that the online travel agent can list the room for. When a traveler books a room via a travel agent, either online or in Pennsylvania, the total amount the traveler pays for the room includes:

1. the room rate set by the hotel,

2. all applicable taxes based on that room rate, and
3. a service fee charged by the travel agent (online or in the community)

The proposal to apply the state sales tax to the fees charged by travel agents will have the opposite of the intended effect of raising revenue. Travel agents are the engines that help steer travelers to Pennsylvania. Taxing online and community travel agents will serve as a disincentive for them to steer travelers to destinations in Pennsylvania.

Further, these taxes will ultimately be passed on to the consumer in the form of higher room rates. Leisure travelers are hyper sensitive to price and will drive to another state to save money on lodging. The data proves this. Priceline.com found that when the room rate is increased by 1%, there is a 2% reduction in bookings. Raising room rates in Pennsylvania through higher taxes will have a ripple effect through the state's economy as leisure travelers choose to stay in other states to save money. Small businesses that benefit from travel and tourism will be negatively impacted by these taxes as well.

Proponents of taxes on travel services suggest that online travel agents are collecting but not remitting the taxes on the hotel room. With regard to the question of whether the proper taxes are being levied, collected and remitted, there is no loophole. The tax is based on the rate that the hotel sets for the room. The hotel provides the good or service, in this case, the hotel room, to the traveler. Online travel agents do not operate hotels or have control of inventory nor do they set the price that the consumer pays for the room. Every single court that has reviewed this question has found that online travel companies do collect and remit the proper taxes.

As in the case of AAA discounts or AARP discounts, the tax calculated and paid by the consumer is based on the discounted room rate that is set and agreed to by the hotel.

Taxing travel arrangement services is a uniquely damaging proposal. Travel agents stimulate the Pennsylvania travel and tourism economy by serving as ambassadors for the Commonwealth. This cannot be said for other service providers. New taxes on travel arrangement services will not only impact online travel agents who will choose to steer travelers to states that don't impose such taxes, but also for Pennsylvania's brick and mortar travel agents, this tax is a small business killer. Most community travel agents are small businesses with fewer than five employees. Traditional travel agents no longer receive commissions from hotels for bookings and therefore have changed their business model and now charge their clients a small service fee for the services they provide. This new tax will drive Pennsylvania travel agents out of business.

Taxing travel arrangement services is bad for Pennsylvania citizens as well. Industry data shows that 20% of hotel rooms booked via online travel sites are booked by in-state residents at in-state hotels. Pennsylvanians will pay more for hotel bookings as a result of this tax. This is very much a new tax on Pennsylvanians who choose to visit Pennsylvania destinations.

Like any new tax, this tax would be passed on to the consumer in the form of higher hotel rates. It should be no surprise that Pennsylvania hotels will be at a distinct disadvantage to neighboring states.

It has been said that when you tax something, you get less of it. In this case, we are talking about hotel bookings in Pennsylvania.

The opportunity cost of this tax is high. It's not about raising revenue. It's not about closing a loophole that doesn't exist. It's not about leveling any playing field. It's simply a new sales tax on services and a disincentive for online travel agents and Pennsylvania travel agents to steer people to Pennsylvania hotels.

This new tax on services is a job killer, a small business killer and a burden on Pennsylvania's businesses and tourism economy. I urge you to reject this proposal.

Thank you.

THE TRUTH ABOUT TAXING TRAVEL ARRANGEMENT SERVICES

<p style="text-align: center;"><i>What the Proponents of the New Tax on Travel Services Say...</i></p>	<p style="text-align: center;">The Truth</p>
<p>This is not a new tax. This is simply closing a loophole.</p>	<p>The proposal would apply the state sales tax to the service fees of travel agents, online and in the community. Currently, Pennsylvania and online travel agents don't pay sales tax on the fees they charge their clients. Under this bill, they would. This is a new tax on services.</p> <p>There is no loophole. OTAs collect from the consumer the room rate, the taxes on that room rate and service fees and pass on the proper amount for the room and taxes to the hotels.</p> <p><u>Every court</u> that examined whether OTAs are collecting and remitting the proper taxes has found that they do. <u>100% of the court rulings.</u></p>
<p>Taxing travel arrangement services levels the playing field for the hotels.</p>	<p>The hotels are not at a disadvantage to the OTAs.</p> <p>They choose to partner with OTAs who help them market unsold inventory.</p> <p>Taxing travel agents does not level the playing field or benefit hotels in any way. It simply levies a new tax on Pennsylvania travel agents and on the service fees of OTAs.</p> <p>There is no direct or indirect correlation between taxing travel agents and benefits to the hotels.</p> <p>Hotels could simply choose to not partner with OTAs like Southwest Airlines does.</p> <p>The hotels' real motivation was revealed recently:</p> <p>"Marriott would prefer "this money not be kept by the [OTAs] to pad their profit margins to increase their marketing budgets and their ability to outcompete us in the booking space,"</p>

	<p>according to testimony from a Marriott rep during a March hearing. http://www.businesstravelnews.com/Business-Travel-Agencies/Maryland-Governor-Vetoes-Hotel-Tax-Bill</p>
<p>Pennsylvania Bricks & Mortar Travel Agents are Carved Out of the proposal.</p>	<p>Not true. As drafted, the taxable amount is the total amount paid by the consumer which includes the travel agent service fees for both Pennsylvania travel agents and OTAs.</p>
<p>The proposal will not make Pennsylvania hotels more expensive.</p>	<p>Like most tax increases, this one will be passed on to the consumer in the form of higher room rates, making Pennsylvania hotels more expensive and less competitive with neighboring states.</p> <p>The higher rates will be directly and indirectly charged to the consumer in a variety of ways including when booking packages, in the opaque (name your own price) model and certainly will be accounted for during future negotiations between hotels and OTAs.</p> <p>Travelers are price sensitive. Priceline found that a 1% increase in room rates results in a 2% reduction in bookings. Pennsylvania hotels will be at a distinct disadvantage as a result of this new tax.</p>
<p>Other states are doing this so why shouldn't Pennsylvania?</p>	<p>Dozens of other states across America have rejected similar proposals in recent years.</p> <p>The states that have passed this tax have not realized the promised revenue due to compliance/remittance complexities.</p> <p>In Minnesota, where the tax was passed in 2011, the proponents of the new tax projected that the tax would yield \$8.5 million per year. Since the law was enacted in 2011, the state has collected just over \$2 million (cumulatively, in total) from the new tax. And thus, the state saw no real revenue benefit while incentivizing travel agents to steer travelers elsewhere.</p>

	<p>Portland, OR, was recently named the most expensive city for travel taxes in the country, due in part to Oregon’s passage of similar travel services tax in 2012. Meeting and convention planners are paying attention.</p> <p>North Carolina passed a similar measure in 2012. They have not collected any tax revenue from this tax to date due to remittance and compliance implementation challenges, nearly four years after passage.</p>
<p>The tax proposal won’t impact Pennsylvania’s travel and tourism economy.</p>	<p>Industry data shows that a 1% increase in room rates results in a 2% reduction in bookings. Travelers will choose to stay in neighboring states to save money on hotels.</p> <p>It has been said that “if you tax something, you get less of it”. Why would Pennsylvania want to impose a new sales tax on services on an industry that markets Pennsylvania to the world?</p>
<p>The new tax on travel arrangement services places no hardship on Pennsylvania travel agents</p>	<p>This new tax on small business travel agents will also create a tremendous administrative burden for travel agencies and other small businesses in Pennsylvania. If enacted, travel agencies of all sizes will now be responsible for creating extensive record keeping and administrative functions for collecting and remitting this tax. Compliance will be especially difficult for small business travel agents.</p>
<p>Taxing travel arrangement services will raise much needed revenue for the state.</p>	<p>Any revenue raised by this new tax will pale in comparison to the economic impact lost as a result of a reduction in hotel bookings. Other states that have passed similar measures saw revenues that were significantly lower than the projections put forth by the proponents of the new tax.</p>