

PENNSYLVANIA SENATE
COMMITTEE ON COMMUNITY, ECONOMIC AND RECREATIONAL DEVELOPMENT
SENATE BILL 721: STATEMENT OF SUPPORT

January 30, 2018

Marriott International, Inc. is a global lodging leader headquartered in Bethesda, Maryland. Since its founding in the 1920s as a small restaurant chain in Washington, DC, the company has grown to comprise more than 6500 lodging properties in 127 countries and territories. This includes 172 hotels in the Commonwealth of Pennsylvania, which employ nearly 6000 people across the state.

Marriott strongly supports passage of SB 721. This bill would clarify Pennsylvania's lodging tax code to provide parity between hotels and online travel companies (OTCs, e.g. Expedia or Priceline) that act as intermediaries in the room reservation process. Passage of the bill would ensure the state's brick-and-mortar hotels can compete for booking traffic on a level playing field, while also shoring up critical state resources that support tourism promotion and other important services.

Approximately 20% of hotel reservations nationwide are made through OTCs, which contract with hotels to gain access to unsold room inventory. Contrary to popular belief, these websites do not negotiate or compete with hotels to pass lower room rates onto consumers; they are merely booking intermediaries selling hotel inventory. For the same room type, on the same night, at the same hotel, OTCs generally offer consumers the same room rate as the hotel itself. What is less obvious to consumers is that OTCs retain a portion (generally 15-25%) of the published retail room rate as compensation, and then pay hotels what is akin to a "wholesale" rate for the room.

Pennsylvania hotels collect the state's 6% hotel tax from guests using the nightly rate paid for a room as the taxable price, and remit that revenue to tax authorities. In contrast, despite collecting the same total dollar amount from guests, OTCs remit hotel tax based on just the portion of their charges they turn over to hotels – the wholesale rate – and *not* the final nightly retail rates they charge. This means that a hotel ends up remitting more in hotel tax than an online travel company when selling the same room to a guest on the same night at the exact same price.

OTCs pocket the difference, with no benefit or discount passed on to consumers, and without making tangible investments in Pennsylvania's communities and local employees like Marriott or other hoteliers. By not remitting hotel tax based on the final retail rate guests end up paying on their sites, OTCs gain an unfair competitive advantage over hoteliers – padding their hefty marketing budgets – while shortchanging state coffers. Passage of SB 721 would ensure that every entity involved in the business of booking hotel rooms is remitting its fair share of tax.

Pennsylvania is not alone in grappling with this issue. Across the country, the online travel companies are fighting to preserve their tax windfall – a product of tax codes written before their business model and the internet itself were even contemplated. Notably, the statewide taxes on hotel rooms have been updated in two states neighboring Pennsylvania – New York and Maryland – closing this loophole while shoring up funding streams for tourism promotion. At least eight other states (NC, SC, GA, WY, MN, OR, RI, MT) and the District of Columbia also account for the OTCs' role as intermediaries and ensure the taxable price

for a hotel reservation, however booked, is the total rate paid by guests. These updates and the provisions in SB 721 are consistent with recommendations adopted by the National Conference of State Legislatures and model code from the Multistate Tax Commission.

Finally, since online travel companies are already collecting the money at issue here, passage of SB 721 will have no effect on prices being paid by consumers or, in turn, travel volumes. This is not a “new” tax on travel; SB 721 definitively closes a loophole being exploited by online travel companies to avoid an existing tax the brick-and-mortar hotel industry must pay on every reservation.

For these reasons, we request a favorable report on Senate Bill 721.