



If it's Not Broken, Don't Fix it

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By Art Sackler

A recent article in the Miami Herald highlighted the steps that hoteliers take to fill the nearly 40 percent of rooms that, according to American Hotel and Lodging Association (AHLA) data, would otherwise go empty each night. Not surprisingly, the article pointed out that important distribution channels for moving those highly perishable rooms are none other than the nation's major Internet travel reservation services (and ITSA members) Orbitz, Expedia, Priceline and Travelocity.

Consumers flock by the tens of millions to the Web sites of ITSA's members, making them, as the Herald story pointed out, an ideal storefront from which hotels can book more of their rooms. Again, not surprising. According to PhoCusWright, online travel companies are viewed by consumers as having the most choice, the easiest navigation and, often, the best price. To build this loyal and growing customer base, the Internet travel services spend millions of dollars from their own pockets on IT, customer service and advertising – for their own sites and for destination cities and towns around the U.S. Internet travel sites have played a key role in the recent explosive growth in the travel industry – and in re-birth of U.S. travel after 9/11.

It is therefore surprising to find that some cities and states, such as Los Angeles and Florida, are considering steps or actively attempting to make it more expensive for consumers to book online hotel rooms in their jurisdictions.

These attempts to raise government revenues are misguided. One study has already shown that travelers with options will vote with their feet when presented with relatively small price increases. These developments have the attention of ITSA and its travel

company members. And they should have the attention of all the hotels and tourist-driven businesses that would also feel the effects of these actions, if they come to pass.

To support their initiatives, agencies have made several claims that are either incorrect on their face or misinformed. Let's take a closer look at the specific claims.

Claim #1 - Internet travel companies aren't remitting tax money owed to local tax authorities.

This is completely false. Hotels are obligated to pay local occupancy taxes based on the rent they receive for the room. In the process of facilitating bookings for hotels, online travel services submit to each hotel operator an amount that includes rent for the room plus an amount equal to the occupancy tax the hotel must pay to the taxing authorities. If the online travel companies were not submitting the correct amount to the hotels, then the hotels themselves would be the ones complaining, not local tax authorities. Yet no hotels have said anything, because they are receiving the correct amount owed to local authorities.

Claim #2 - The fact that Internet travel services bundle taxes and fees is proof that they're not remitting the correct tax money.

Everyone in the hotel industry knows full well that online travel companies bundle taxes and fees for competitive reasons, so third parties cannot reverse-engineer the negotiated or "net" rates they've privately contracted for with the hotels. In many cases, these privately negotiated rates are the reason travelers can find such bargains on the Web. For the hotels, keeping their negotiated rates private maintains the integrity of their other retail distribution channels. Un-bundling taxes and fees would benefit no one.

Claim #3 - Online travel services should pay taxes on the fees they collect for facilitating hotel sales.

This point of view is misguided and, frankly, dangerous in several respects. It flies in the face of Congressional efforts to protect Internet commerce from discriminatory taxation. The services provided by Internet travel sites are not subject to occupancy taxes. It fails to recognize the significant costs the travel services incur to advertise destinations, bring people to their services, build IT infrastructures to facilitate transactions for the hotels, and provide customer service.

Perhaps most important is the potential chilling effect any added taxes would have on tourism in a particular locale. Most companies, when faced with added costs of doing business, will pass some or all of the costs along to consumers. There is no reason to expect that online hotel bookers - whether it's an online travel site or a hotel's own booking site - will do any differently. A January 2004 study by the American Hotel and Lodging Association ("2003 Impact of Room Tax Increases on the Lodging Industry") found that "Econometric analysis reveals that on average a 2.0% increase on the combined tax on hotel and motel rooms will cause about a 2.4% reduction in room sales

and associated visitor spending per year." Why? Because travelers voted with their feet when confronted with the higher prices. They elected to stay in a neighboring town with lower taxes. They may have even chosen to vacation in a different state.

Business community groups have seen the numbers and they agree that destroying a successful business model through discriminatory taxation is in nobody's best interests. At a Los Angeles City Council Budget Committee hearing in February, the L.A. Chamber of Commerce, Central City Association, Los Angeles Business Council and the Valley Industry and Commerce Association all expressed support for Internet travel companies and the merchant business model, urging lawmakers in letters and testimony to recognize the significant role Internet travel companies play in marketing Los Angeles to the world, and in promoting tourism and international trade.

The bottom line is that new discriminatory taxation levied on online hotel room bookings isn't just an issue for ITSA and its online travel company members. It will eventually affect hotels looking to expand their revenue streams through their own online booking engines. It will affect tourism-dependent businesses who could see travelers defecting to more affordable locales, perhaps even a few miles away.

And it will affect municipalities and states who could see a net decrease in tourism-driven revenues.

The model isn't broken, so let's not fix it. ITSA stands ready to provide information and assist hotels that wish to become part of the initiative to protect our growing online hotel reservation industry.



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