

D.C., Virginia to battle online travel sites for tax dollars

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District and Virginia officials are preparing to join a national fight to force Internet-based travel sites to pay more in local hotel taxes.

The D.C. Council is set to vote Tuesday on a measure that would require discount travel sites like Expedia and Travelocity to pay more in taxes to capture about \$10 million a year in additional revenue.

The Virginia General Assembly is expected to take up a similar measure when it convenes next month. Officials estimate that the state loses about \$30 million a year in hotel tax revenues because of the online sites.



"This is what I mean when I say we need to go after taxes that are owed to us before raising taxes on our own residents," said D.C. Councilman Kwame Brown.- Andrew Harnik/Examiner file

The travel sites get rooms at a discounted rate from hotels, then rent the rooms to customers at a higher rate. Lawmakers say the companies collect tax on the higher rate but only pay taxes on the discounted value, costing the revenue-starved localities and the state millions every year.

The Internet companies have argued successfully that they are collecting a service fee, not pocketing taxes.

Officials in 200 cities have tried to collect additional hotel-tax revenue from the Internet sites, but the companies have yet to lose a legal fight in any state's higher court and continue to pay the taxes at the discounted rate.

D.C. Council Chairman-elect Kwame Brown said the online travel companies have avoided paying \$150 million to the cash-strapped District over the last decade.

"This is what I mean when I say we need to go after taxes that are owed to us before raising taxes on our own residents," Brown said.

It's far from certain that the District or Virginia will prevail. The District's chief financial officer, Natwar Gandhi, isn't counting the additional hotel revenue as part of the city's tax haul, a spokesman said, citing the likelihood of a drawn-out legal fight.

Andrew Weinstein, spokesman for the Interactive Travel Services Association, said the D.C. Council bill could undercut tourism, hurt local businesses and threaten jobs. The association launched a print and radio ad campaign urging the Council to "vote no on the job-killing hotel tax."

"It strikes me as the worst possible idea for a city that wants to improve tourism revenue in a down economy," Weinstein said. "This is creating uncertainty. It's creating new red tape and bureaucracy for the companies that bring tourists to D.C."

State Sen. Mary Margaret Whipple, D-Arlington, is preparing a hotel-tax bill for the upcoming General Assembly session, though similar proposals were derailed previously in the Republican-controlled House of Delegates.

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