

The Columbus Dispatch

Full tax due from travel sites, hotel owners say

By [Steve Wartenberg](#)

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Every time somebody uses a third-party travel company such as Travelocity to book a \$100 hotel room in Franklin County, the county, city and state lose about \$3 in tax revenue, according to local hotel and tourism officials.

This adds up to an estimated \$7 million to \$10 million a year in Ohio.

A provision in the state's proposed two-year budget would close a loophole that currently lets such companies as Travelocity and Expedia pay taxes only on the discounted fees the hotels charge them and not on the higher amounts the companies charge their online customers.

Proponents say the proposal corrects a problem in the tax laws, which were written before the Internet came into being. Opponents call it an unfair new tax on a service fee. Changing these laws would level the playing field for hotels, which pay taxes on the full amount guests pay for rooms when these customers use the online sites, said Matthew MacLaren, executive director of the Ohio Hotel & Lodging Association. "We believe our lodging tax laws are antiquated," he said.

Brian Ross, CEO of Experience Columbus, the city's convention and visitors bureau, said the current law is "taking away substantial dollars that could go into funding social services, the arts and the city's convention and visitors bureau."

The Travel Technology Association opposes the proposed change.

"It would be a new tax," said Robin Reck, spokeswoman for the association, which represents the four largest online travel companies: Travelocity, Orbitz, Priceline and Expedia.

"The hotel sets the room rate, and the (online travel company) markets the room at (this) figure bundled with their service compensation and taxes," she said. "Service fees have traditionally not been taxed."

Hotels generally offer these third-party service providers a 20 to 25 percent discount on rooms, said Kathryn Burton, general manager of the NorthPointe Hotel in Lewis Center and board president of the Ohio Hotel & Lodging Association.

According to industry statistics, 42 percent of the rooms booked in the United States in 2012 were online, Reck said.

"By our estimates, that number will rise well over 50 percent in 2013," she said.

Here's how the tax laws for hotels currently work:

The Franklin County and Columbus bed tax is 10 percent, and other sales taxes bring the total to 16³/₄ percent.

So, when someone books a \$100 room on a hotel's website, the customer is taxed on \$100, and pays a total of \$116.75.

When a customer books a room through an online travel company, taxes are based on the \$80 rate the hotel charged the company. The remaining \$20 is considered a nontaxable service fee, and the customer pays a total of \$113.40.

A judge in Hawaii recently ruled that the four online travel agencies owed the state \$70 million in taxes over a 10-year period. A similar legal challenge in Ohio last year failed, as a panel of U.S. Court of Appeals judges ruled in favor of the online-travel companies, saying they did not violate current tax laws.

This ruling helped lead to the proposed change in the state's hotel tax law. It is titled "hotel intermediary sales and use tax" and was proposed by Rep. Cheryl Grossman, R-Grove City.

It was included in the version of the 2014-15 state budget recently passed by the House and is now being debated in the Senate.

"I don't see this as a new tax because these online companies should be required to remit taxes on the full charge," Grossman said. "I'm a logical, common-sense person, and I don't think this has been a fair and equal process in the past."

Reck and Bobbie Singh-Allen, executive director of the Independent Lodging Association, say the proposed change will hurt nonchain hotels, inns and bed-and-breakfasts.

"They rely on companies like Expedia to market them and don't have their own dot.com presence," Singh-Allen said. "We need these partnerships, and it can be the difference between profit and loss."

Burton and several other members of the Ohio Hotel & Lodging Association who run independent hotels disagree.

They have written a letter in support of the proposed change, saying it will require the online travel companies "to remit tax on the full amount for which they sell a lodging room, just like lodging properties in Ohio are required to do."

Burton said the proposed change will provide more money to Experience Columbus, which would be used to better market the area, bring in more visitors and revenue, and create jobs.

swartenberg@dispatch.com

[@stevewartenberg](#)