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Tourism tariffs

Travel websites pressed by Charleston, Mount Pleasant over hotel fees

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Columbus, Ga., simply doesn't exist on some popular hotel booking websites.

That's because the city along the Chattahoochee River filed a lawsuit against those online services to collect additional taxes from them, won its case and was de-listed as a result.

When New York City challenged the same tax disparity, the online travel agencies -- which couldn't remove the Big Apple from their offerings -- filed a lawsuit against the city.

The dispute lies in how much money these Internet brokers should pay in taxes to the places where their customers stay. Municipalities collect a certain percentage of the gross proceeds from every hotel room night sold.



Photo by Robert Behre

The \$5 million renovation of the City Market in downtown Charleston was funded using bonds made possible by revenue from the accommodations tax. In the hope of collecting more taxes, the city of Charleston and the town of Mount Pleasant joined in a legal fight against hotel booking websites.

Online booking companies pay up based on the amount they agree to forward to the hotel, not the total amount they charge customers, which can include service fees and taxes.

Some cities and towns argue that's not right, including Charleston Mayor Joe Riley.

"If taxes are due and it's not being paid, somebody else is paying for it," Riley said.

In South Carolina, the tax money collected goes toward projects directly related to supporting the tourism industry. Accommodations tax revenue made possible the bonds that funded the recent \$5 million refurbishment of the City Market, for example.

Charleston and the town of Mount Pleasant joined the legal fray with cases of their own years ago and the complaints, which have since been consolidated, were headed to federal court next week. But North Myrtle Beach recently joined the lawsuit, pushing the hearings back to the fall.

Taxing issue

Charleston imposes a 2 percent hotel tax that it launched in 1996 to offset expenses incurred "as a direct result of the demands placed on the City by the tourism industry," its lawsuit says. It goes on to allege that the online booking companies -- including hotels.com, Hotwire and Expedia -- failed to pay that tax.

The lawsuit says the companies charged marked-up room rates but only paid taxes on the lower rates they negotiated with hotels, which then pay the city.

Mount Pleasant's lawsuit, with a 1 percent tax rate at stake, makes the same argument.

In each case, the local ordinances specifically say taxes apply to the gross rate paid for the rooms.

Mount Pleasant Town Administrator Mac Burdette said the companies offered the town a \$16,000 settlement, which the town declined. He estimated the impact at five times that amount, adding that the issue deals with more than the amount of money the town hopes to recover.

"There's a central question that has implications probably beyond the tourism industry about what tax should be paid," Burdette said. "The impact of the tourists staying in Mount Pleasant is the same, whether or not you've booked the hotel online, by phone or you walked up to the counter."

Ronnie Bonds, the attorney representing Charleston, Mount Pleasant and North Myrtle Beach, declined to give a value for tax money the municipalities allegedly have lost to transactions with the companies named in the lawsuit.

"You're not in a situation where somebody goes online and punches in L.L. Bean and orders a pair of moccasins, and L.L. Bean sends them by common carrier to South Carolina," Bonds said. "What you have here is a group of businesses that actually come to South Carolina and contract with a business in the state for a group of rooms, which they turn around and sell. If you want to extend your stay or cancel your reservation, you have to go online. I think all that makes it all different from the moccasin thing."

Lawyers representing the online travel agencies named in the lawsuits declined to comment.

Fine line

Nearly 44 percent of Charleston visitors book their rooms online, a survey by the College of Charleston's Office of Tourism Analysis showed. The results didn't find what percentage of those people booked through online travel agencies, but assistant professor Bing Pan said a large number of those customers likely used the websites.

Dan Blumenstock, a local hotelier and past president of the Greater Charleston Hotel and Motel Association, said he thinks the websites owe municipalities money, but he added that Internet companies serve an important function in selling rooms.

"No one can discount the fact that -- and no pun intended on that -- that they book business in our hotels," Blumenstock said.

Room service

Some of the more recognizable online hotel booking firms named in lawsuits filed by the city of Charleston and the town of Mount Pleasant:

Expedia Inc. of Bellevue, Wash.

Hotels.com of Dallas

Hotwire Inc., an operating company of Expedia, of San Francisco

Orbitz LLC of Chicago

Priceline.com of Norwalk, Conn.

Travelocity.com of Southlake, Texas

While often used as deal finder, the booking websites appeal to high-dollar visitors as well. Frank Fredericks, managing director at Wild Dunes Resort on the Isle of Palms, said the companies live up to the "online travel agency" name, offering services beyond the room and drawing loyal followings.

For his high-end property, that means marketing opportunities that Wild Dunes uses to run specials during its slow season.

"These online travel agencies are a distribution channel," Fredericks said. "People will buy just through those channels, and we'd like access to them."

He, like Blumenstock, wants to see the tax revenue but also the tourists who use the websites.

"I value the tax and the relationship with those services," Fredericks said.

An administrative law court judge ruled more than a year ago that the popular travel website Expedia, a Bellevue, Wash.-based spinoff of Microsoft Corp., owed the S.C. Revenue Department more than \$4.7 million in taxes from room sales.

Between 2001 and 2006 the company had contracts with 364 in-state hotels to sell discounted rooms at a marked-up rate online. The Revenue Department contended that Expedia should have paid taxes on all money received from customers, instead of only on the considerably lower rates it paid for the blocks of rooms.

Expedia appealed that decision to the state Supreme Court. The decision there, expected within several months, could foreshadow the outcome of the cases Charleston, Mount Pleasant and North Myrtle Beach plan to take to the federal courthouse this fall.

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