



Senate Bill 190

Sales and Use Tax – Taxable Price – Accommodations

MACo Position: **SUPPORT**
WITH AMENDMENTS

To: Ways and Means Committee

Date: April 1, 2015

From: Andrea Mansfield

The Maryland Association of Counties (MACo) **SUPPORTS SB 190 WITH AMENDMENTS**. This bill would impose the State Sales and Use Tax on the full price paid to an online travel website for the cost of a hotel room, not the wholesale rate the travel website pays to a hotel. As amended by the Senate to clarify the application of the Sales and Use Tax, this bill has no effect on local governments. However, MACo would support amendments to extend the same principle to any local hotel tax.

Hotel taxes are a vital revenue source for counties. While some counties may use this source as a General Fund revenue, most use these funds to promote tourism to improve the local economy. A few counties may use these revenues to pay debt service for convention centers or sports facilities.

However, these revenues are being threatened by online travel companies that are remitting hotel taxes based on a wholesale price, not the retail price of the room paid by the customer. To further explain the circumstances, online travel companies make private arrangements with hotels to pay them a discounted, wholesale rate for the rooms they book, but these rooms are then sold to customers at a higher retail rate. While customers are charged the applicable hotel rate, the online travel companies frequently remitted hotel taxes only on the hidden wholesale rate, which results in a revenue loss for counties. This scenario has the same effect on the State's sales and use tax revenue.

The tax treatment of online travel companies has been a county concern as this represents a growing share of short term bookings. In Maryland and elsewhere, many counties have pursued litigation to reach fixed-term settlements with online travel companies to repay unpaid hotel taxes. This is not an efficient way to manage government revenues, nor does it leave a "level playing field" across comparable providers. SB 190, if amended to include local hotel taxes, would establish fair and equitable tax treatment of hotel rooms for both state and local taxation purposes.

For this reason, MACo would urge the Committee to give SB 190 a **FAVORABLE WITH AMENDMENTS** report, and to broaden it to affect local hotel taxes as well.