Oregon Destination Marketing Organizations

March 6, 2013

TO: HOUSE COMMITTEE ON FINANCE

FROM: OREGON DESTINATION MARKETING ORGANIZATIONS

RE: STATEMENT IN SUPPORT OF HB 2656

The Oregon Destination Marketing Organization (ODMO) urges your **support** of **HB 2656** which will level the playing field on local transient lodging taxes paid by Online Travel Companies (OTCs), such as Expedia and Orbitz, and local hoteliers. ODMO is a non-profit organization representing destination marketing organizations, convention and visitors bureaus and chambers of commerce responsible for marketing specific geographic areas as visitor destinations.

During the recent economic downturn, transient lodging tax dollars expended on tourism promotion and activities in our local communities have decreased which negatively impacts jobs and revenues for the state. One reason for that decrease is that out-of-state companies don't pay the same amount of transient lodging taxes as local businesses.

Currently, some rooms booked online through OTCs do not generate the same amount of taxes as those booked directly through the hotel. In some cases, a hotel enters a contract with an OTC to provide rooms at a discounted rate, i.e. the "wholesale cost." The OTC then posts the rooms for sale at a higher rate to consumers. This is referred to as the "wholesale booking model."

OTCs typically choose to calculate state and local hotel occupancy taxes based on the wholesale cost they pay to a hotel for a room, rather than the retail price they receive from the customer. This practice results in lower taxes collected by state and local jurisdictions for rooms booked through an OTC, rather than directly with a hotel.

If a guest books a room directly through a hotel, the tax reflects the jurisdiction's rate where the hotel is located. For example, assume Q. Public books a room in Anytown, USA, through a hotel's own website. The room rate is $100 and Anytown levies a 10% occupancy tax on rooms, so the amount charged Mr. Public is $110. The hotel then remits the $10 occupancy tax to the city.

In contrast, if a guest books the same room through an OTC, Q Public will still be charged $110, but the amount covers the room charge plus the OTC's "taxes and fees." The OTC calculates the occupancy tax based on what it owes the hotel, rather than the advertised cost to the consumer. Thus, in this example, the OTC would remit $88 to the hotel -- $80 for the contracted cost of the room and $8 for the occupancy taxes -- and the OTC retains the remaining $22 from the transaction.

Many jurisdictions have become aware of this strategy and have filed lawsuits against some of the OTCs for these unpaid tax revenues. In response, these companies are seeking legislation that would protect this practice by making it a legitimate tax exemption through a federal preemption of state and local authority.

We have worked with local governments, tourism promotion groups and industry members to develop a statewide standard and make sure state and local tourism dollars are uniformly collected.

House Bill 2656 will establish a statewide standard for the rate for taxes on rooms in Oregon stating, "All rooms in Oregon will be taxed at the room rate paid by the consumer." This proposal will only apply to future sales of rooms occupied after the time of enacted date.

Please **support** HB 2656 to ensure out-of-state companies pay the same amount of taxes as local businesses and to maximize the resources our communities have for tourism promotion.

Prepared by Bill Cross and Niki Terzieff, ODMO Government Affairs *March 6, 2013*