

NACo Opposes Preferential Tax Treatment for Online Travel Companies

Issue: Legislative initiatives would preempt state and local taxing authority over Online Travel Companies (OTCs).

NACo policy: NACo opposes legislative initiatives that would preempt state and local taxing authority over OTCs.

Background: Hotel taxes are a vital revenue source for counties across the nation. Some jurisdictions funnel these revenues into the general fund and are used for a myriad of public purposes, including fire and police services. Some communities use these funds to promote local tourism, which creates jobs and pumps badly needed funds into local economies. And some localities use these funds to pay bond obligations used to finance the construction of convention centers, sports facilities, and other public buildings.

However, this revenue source is being threatened by efforts of the OTCs to obtain preferential tax treatment at the expense of local government budgets. The OTCs, such as Expedia, Travelocity, and Orbitz pay hotels a discounted, wholesale rate for the rooms they book. These rooms are then sold to customers at a higher, retail rate. While customers are charged the applicable hotel tax on the retail rate, the OTCs remit taxes based on the wholesale rate, short-changing local governments while pocketing the difference. This practice is currently the subject of numerous lawsuits across the country. In response, the OTCs are actively lobbying Congress to preempt the authority of state and local governments to impose and collect hotel taxes from the OTCs.

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