



FEDERAL LEGISLATION TO BAN TAXATION OF ONLINE HOTEL RESERVATIONS COULD COST TEXAS \$65 MILLION A YEAR

Ongoing dispute

Online travel companies such as Expedia and Priceline are in an ongoing dispute with state and local governments over hotel taxes. The companies claim that hotel taxes should be charged only on the “wholesale” rate they pay to hotels, not on the higher “retail” rate they charge to the renter of the room. Cities and states say that hotel taxes have always applied to the full retail room rate when a traditional travel agent booked the room, and that the online firms owe back taxes on their “markups”—the difference between the wholesale and rental rates.

In January, the city of Houston lost a state court suit on this issue, but it may ask for a new trial or appeal. A jury has ruled in favor of more than 150 Texas towns that brought a federal class-action case in San Antonio against online companies, but the judge has several legal rulings to issue that could alter that case.

Proposed federal legislation

For the past two years, online booking companies have sought federal legislation to sharply restrict the authority of state and local governments to apply their general sales and hotel occupancy taxes to hotel rooms booked by these companies. They are now attempting to add this provision as an amendment to upcoming federal job-creation bills.

Potential effect on Texas state and local revenue

Such legislation could effectively prohibit taxation of the *entire* retail charge for hotel rooms that online companies book. This could permanently reduce Texas state and local revenue by some \$65 million per year, at a time when the national recession is forcing reductions in public services needed by families struggling to stay afloat. The proposed legislation would also harm local economic growth by putting our local hospitality industry at an unfair competitive disadvantage compared to online services from out of state.

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