Testimony of Stephen Shur
President
Travel Tech: The Travel Technology Association
Pennsylvania House Committee on Tourism and Recreational Development
Public Hearing on Online Travel Services
October 29, 2013

Mr. Chairman, distinguished Members of the Committee, thank you for the opportunity to speak to you today. I would also like to specifically thank Representative Day for bringing attention to this important issue and for affording me the opportunity to be here. My name is Steve Shur, and I am the President of the Travel Technology Association. On a personal note, I grew up just five miles from here in Haddon Township, NJ and still consider Philadelphia to be my home city. So it is both a pleasure and an honor for me to be with you here at the Constitution Center.

Travel Tech, as we are known, is the trade association for online travel companies and global distribution systems. Our members include well-known companies such as Expedia, Orbitz, Priceline and Travelocity. On behalf of these companies, I very much appreciate the opportunity to clarify how our industry works, our business model and to address the proposals that would apply state and local taxes to travel services in the Commonwealth of Pennsylvania.

On the surface, such proposals would only impact online travel companies like those that are members of my association. However, if enacted, they would impact hundreds of Pennsylvania businesses such as travel agents, wedding planners, tour operators, and educational travel companies in Pennsylvania. These businesses would face new tax obligations, with all of the recordkeeping burdens and audit and compliance risks that come with them.

But I am here today representing Travel Tech and would like to spend my time clarifying what online travel companies do and how these proposals will impact Pennsylvania specifically. I would like to address some myths that may exist about our industry.

The first myth has to do with our business model. Online travel companies **do not** "buy up blocks of rooms at a wholesale rate, mark them up, and turn around and resell them at a retail rate." In fact, online travel companies don't buy hotel rooms at all. Terms like "retail" and "wholesale" are meaningless here. Online travel companies also don't operate hotels, exercise any control over hotel rooms, or bear any inventory risk in the event that hotel rooms go unsold. We operate web sites. These web sites help hotels market their inventory to customers they might not otherwise be able to reach. In doing so, we market Pennsylvania across the globe. Our hotel partners value this service—especially independent hotels, which might not have the marketing budgets that would give them the kind of exposure we can give them in dozens of countries, languages and currencies.

A recent study by Chris Anderson, Ph.D. at Cornell University, found that a hotel's listing on Expedia increased total reservation volume by 7.5 to 26 percent depending on the hotel. This number excluded reservations processed through the OTA itself. This larger and more exhaustive study analyzes the billboard effect based on booking behavior related to 1,720 reservations for InterContinental Hotel brands for the months of June, July, and August of three years (2008, 2009, and 2010). The analysis determined that for each reservation an IHG hotel receives at Expedia, the individual brand website receives between three and nine additional reservations. Although these reservations are made through "Brand.com" (the individual brand's site), they are directly created or influenced by the listing at the online travel agent.

This is testament to the marketing service that our members provide hotels.

In addition to this marketing service, we also provide a service to consumers. This takes the form of performing research for them, saving them time, and otherwise acting as their travel agent and advisor.

A good analogy of this model is in the airline industry. When a traveler books a flight via a travel agent or an online travel company, the reservation is being made with United, or Delta or US Airways, not with the service provider or intermediary.

Under this model, instead of being paid by the hotel in the form of a commission check, we charge our travelers a service fee, which we pay taxes on at the federal level and as business income in the states of incorporation.

That leads me to **a second myth, which is that taxes are somehow going "unpaid" under this fee-for-service model.** Not so. When the hotel sends our members an invoice after a customer has completed their stay, we pass on to the hotel the negotiated room rate we've collected from the customer up front, plus any taxes due on that hotel stay so that the hotel can then remit it to state and/or county authorities as required by law. As for any claim that online travel companies are collecting tax money from consumers and preventing it from being remitted, all I can say is that it is that this is simply untrue and that every single court that has ever considered this question has found it to be untrue.

The final myth I'll address today is the notion that advances in online technology have rendered the tax system out-of-date. Again, this claim is based on a flawed understanding of the travel industry and its history. The fee-for-service business model has been around for decades—well before the Internet was created. That's one reason brick-and-mortar travel agents, who invented this model and still use it today, join us in opposing this tax, which would equally apply to them.

It's instructive to look at what other states have done when invited to change their tax laws in this way. In the past year, every state that considered a similar proposal rejected it— Texas, Virginia, New Mexico, and Connecticut, to name but a few. And, the one state that did pass similar legislation, is now in litigation.

Speaking more broadly, I would suggest to you that the way to grow the tourism economy in Pennsylvania is not to add new layers of costs and complexity to the tourism promotion business. As noted in the Cornell study, online travel companies increase direct hotel bookings for Pennsylvania hotels.

Instead, a better approach is to help ensure that Pennsylvania is able to compete in a highly competitive and price-sensitive domestic tourism market in which 46 out of the 50 states in this country do not apply lodging taxes to travel services.

In closing: when travel agencies—online and in your communities—compete against each other for the chance to help hotels fill inventory and bring people to Pennsylvania to spend money here, the tax base grows and the Pennsylvania tourism industry is best able to grow and thrive. I respectfully urge you not to go down the uncertain path of passing a new tax on services in Pennsylvania.

Thank you for your time.