

MINNESOTA • REVENUE

SALES AND USE TAX Online Travel Companies

April 19, 2010

Department of Revenue
Analysis of H.F. 3687 (Lesch)

	Yes	No
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>
			(000's)	
General Fund (6.5%)	\$0	\$3,400	\$3,700	\$3,800
Natural Resources and Arts Funds (0.375%)	<u>\$0</u>	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>
Total – All Funds	\$0	\$3,600	\$3,900	\$4,000

Effective for sales and purchases made after June 30, 2010.

EXPLANATION OF THE BILL

Lodging and related services are subject to the sales and use tax. The final price charged to the consumer of the room rental is generally considered the price subject to sales tax. For national online reservation services which are not located in Minnesota, the industry practice has been to pay sales tax to the hotel/motel companies on their purchase price and not based on the price they charge to the consumer. These businesses are also referred to as online travel companies (OTC's).

The bill provides definitions for “accommodations intermediary” and “accommodations provider” and specifies that the accommodations intermediary is required to collect and remit sales and use tax for services connected with lodging in Minnesota. The accommodations provider is deemed to be the agent of the accommodations intermediary for purposes of establishing the intermediary's obligation to collect.

REVENUE ANALYSIS DETAIL

- Sales and use tax return data from the 2008 Minnesota Sales Tax Statistics report that \$113.7 million in sales and use tax was remitted statewide from the accommodations sector. It is estimated that 83% of this total, or \$94.3 million, was attributable to room rentals.
- Global Insight, Inc., reports growth in recreation spending of -6.0% for 2009. Forecast growth rates for the subsequent years are 5.2%, 2.0%, 0.4%, and 0.7%.
- Information from Hospitality eBusiness Strategies (HeBS) reports that approximately 41% of all bookings in calendar year 2009 were generated from the Internet. This percentage is forecast to grow about two percentage points per year.

REVENUE ANALYSIS DETAIL (Cont.)

- Additionally, for calendar year 2009, HeBS reports that 63% of the online sales were attributable to hotel-branded websites and 37% accounted for the intermediary websites. The percentage attributable to the intermediary websites is forecast to decline about one percentage point per year.
- It is estimated that the portion of the room price that is being held by the intermediary as a reservation service is 25% of the final price to the consumer.
- It is assumed that travel agencies in Minnesota are correctly paying tax on room rental prices.
- It is assumed that the bill will not affect the taxes paid by in-state travel service companies.
- Calendar year data was converted to fiscal year data. Fiscal year 2011 was adjusted for eleven months of collections.
- There is a transition provision related to sales and purchases prior to July 1, 2010. The estimates do not include amounts for sales and purchases prior to July 1, 2010.
- The estimates reflect implementation and compliance with the provisions of the bill on the effective date. However, if the out-of state entities challenge the provisions with litigation, as has been the case in other jurisdictions, it is uncertain as to when and to what extent tax revenues would be realized.

Number of Taxpayers: Several national on-line travel companies located outside Minnesota.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy