

*Also published on website of business magazine Chicago Grid

13 suburbs sue travel websites over local hotel taxes

LEEANN SHELTON Staff Reporter July 8, 2013 10:28PM



Updated: July 9, 2013 9:54PM

Thirteen Chicago suburbs filed a class-action lawsuit Monday against online travel giants Expedia, Priceline.com, Orbitz and Travelocity, claiming the websites underpay local hotel taxes.

The suit centers on how the travel sites pay the local hotel taxes set by each municipality as a percentage of the cost to book a room — between 4 and 10.5 percent in the suburbs participating in the suit.

Under the “merchant model,” online travel companies buy room reservations at low, wholesale rates they negotiate with hotels, then resell the rooms at a retail markup to consumers — paying only local hotel taxes on the lower, wholesale price.

The suit, filed in Cook County Circuit Court, argues that companies should instead calculate taxes based on the higher retail rate charged to consumers.

Other municipalities have filed similar lawsuits in courts across the country, but most cases have found in favor of the online travel companies, according to the Travel Technology Association, a trade group that defends the merchant model.

The trade group claims all travel sites remit the full amount in taxes, and it says the industry’s current business model increases the volume of hotel bookings, ultimately boosting the local tourist industry.

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“It is a huge waste of taxpayer dollars to invest in this fruitless litigation, which even if successful, ends up hurting tourism and thereby revenue,” spokeswoman Robin Reck said.

Lawyers for the suburbs disagree, claiming in the suit that the difference represents a loss of more than \$100,000 in tax revenue to the municipalities.

Monday’s class-action suit is filed against travel giants Expedia, Priceline.com, Orbitz and Travelocity, as well as their subsidiaries, Hotels.com, Hotwire, CheapTickets.com, Lodging.com, Egencia and Travelweb.

Suburbs participating in the lawsuit include Bedford Park, Warrenville, Oakbrook Terrace, Oak Lawn, Willowbrook, Orland Hills, Arlington Heights, Burr Ridge, Des Plaines, Lombard, Tinley Park, Orland Park and Schaumburg, in addition to far northwest Rockford.

The suit claims unjust enrichment, conversion and civil conspiracy and asks for restitution and punitive damages.

None of the online travel companies named in the lawsuit responded to messages seeking comment.