Tax and tourism: a destination management problem?

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Tax on tourism is increasing all over Europe, affecting its competitiveness as a place to visit and a place to do business. Even small increases affect consumer behaviour in a search-dominated online marketplace, and it is mainly local tax-raising that is driving this inflation: increased or new overnight taxes, day taxes, city access and parking charges.

Edinburgh council wants to introduce an overnight tax. Day taxes for cruise passengers have been introduced in Amsterdam and Barcelona; day taxes for all non-locals are expected in Venice this year. Why is this happening? Because it can. Visitors do not vote. It is also happening because revenue is needed. Local government debt is reaching alarming proportions in cities across Europe.

In highly centralised economies such as the UK, it is no surprise that local policy makers are exploring their options. For 20 years, Scotland has had devolved powers in relation to local taxation, but this is the first time a 'tourist tax' has been considered: it will shortly publish the result of its consultation on a 'transient visitor levy.' In Edinburgh, local opinion is divided. Some local businesses support an overnight tax; others oppose. Residents overwhelmingly support.[1] While tourism's benefit is spread throughout the local supply chain it may not be felt by individual residents, whereas direct experience of negative impact is more widespread: crowds in the summer, favourite bars and restaurants full, the festival's cheerful chaos and clear-up after the world has come to visit. The additional revenues in VAT and corporation tax are remitted centrally: there is no immediate benefit to local public finances from a busy festival season, there are large costs in relation to policing, temporary installations and crowd control.

Edinburgh's proposal of a flat-rate irrespective of accommodation cost risks a regressive outcome. While this approach was supported by a majority of respondents to local consultation, over three-quarters of them were residents who are unlikely to be paying. While tax exemptions available to small business affect overall fiscal load, an increase of £2 would have a much more significant effect on low-mid budget accommodation than the same sum for 4 and 5 star properties.

The cost to accommodation providers of getting to market often includes commissions. In some countries, they also charge sales tax (VAT) at the maximum rate. One of the strongest objections to introducing tourism taxes in the UK is that accommodation and hospitality services are already under an atypically high VAT load. Out of the EU-28, only Denmark charges more (25%), only Slovakia charges the same (20%); the rest charge less, some as low as 3%. Slovakia sought to increase tax exposure of online intermediaries, requiring OTAs to become legally establishment in Slovakia in order to sell its product. There is strong evidence

[1] See: http://www.edinburgh.gov.uk/news/article/2615/edinburgh_makes_the_case_for_uks_first_tourist_tax

that reduced VAT for the hospitality sector drives overall employment.[2] Ireland's recent decision to increase VAT on accommodation still leaves it at a discounted rate. Facing a post-Brexit environment where domestic tourism may be increasingly important and the sector's staff costs are likely to rise due to shortage of EU staff, the UK may wish to review its relatively high levels of indirect tax.

Local tax may make sense for some destinations to meet management costs associated with peak demand and large-scale events, to support smart city innovation to optimise capacity and encourage dispersal. But it will not be the right answer everywhere. Do you want to encourage people to stay in the city, or somewhere else? Should a day tax vary between high and low season, as is envisaged for Venice from 2020?

Tax requires good governance for its acceptance. Good process matters, as does principle and political consistency. Without it, investment confidence is affected. In comparison with some, the consultation processes in Scotland have been commendable. The earliest the tax will be introduced in 2020. While operators have already priced next year's product - a lead time of 18-24 months is ideal - this is manageable. In contrast, Italy enabled Venice to levy a day-visit tax through its national budget for 2019 agreed late 2018. The Minister for Tourism is reported to be against it, calling it 'useless and damaging'.[3] The Mayor is for it, and points to tourism and its impact as a cost. This is partial accounting. Being a victim of success is a problem a lot of destinations would like.

Venice's prospects have been transformed from a state of picturesque but ominous decay to a much regenerated and restored city almost entirely because of the visitor economy. High-profile investment, such as in M9, a new museum of international significance in Mestre, would not have been possible without the confidence that visitor revenues bring.[4] A strategic approach to destination management will help Venice look after its heritage, and remain an appealing and viable place to live and visit; demonising tourism will not.

The proper functioning of cities is a basic necessity for our increasingly urbanised population, and the resources they have at their disposal vary enormously. Paris has 16 metro lines and an extensive suburban rail network. Traffic-free days and more pedestrianised city are explicit policy objectives of the current administration. Rome has two metro lines, a public bus fleet that is still mainly composed of relatively high-emission Euro 3 and 4 vehicles, is still heavily dependent on private transport for commuting, yet it recently introduced a coach access plan intended to address air quality which will add to traffic congestion. Meanwhile, levels of public debt are alarming. Improved urban mobility requires investment, and the cost of upgrading infrastructure can be eye-watering. A 9.2km north-south metro in Amsterdam completed in 2018 took 15 years to build at a cost of €3.1billion; the original estimate was €681 million.

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[2] Hotrec - Hospitality Europe, 2017, https://datas.com/hotrec/benefits-of-low-vat/files/assets/basic-html/page-1.html#

[3] https://www.theguardian.com/world/2019/feb/05/italy-tourism-minister-attacks-plans-for-venice-daytrippers-charge
[4] https://www.m9digital.it/en/welcome-m9

Incremental change is possible: the revenue from Florence's coach access scheme, a variety of tourism tax, supports the city's transition to low-carbon public bus fleet.

If destinations are to tax their visitors, as opposed to encourage their voluntary spend, they must ensure consequent public benefit for resident and visitor. Otherwise, opposition is certain. ETOA successfully opposed the suggestion that the fee for ETIAS should be raised to generate EU funds for promotion because it was a tax on tourists.[5] Visa and border facilitation should properly be considered an investment which will be repaid. This position is gaining acceptance, and the ETIAS fee will be a modest €7. Its revenue will be hypothecated to funding the system to run it, and related border infrastructure. Its benefit will be improved border security and a renewed confidence in freedom of movement within Schengen, one of the EU's most civilising achievements.

ETOA opposes any increase to industry's cost base without reciprocal benefit: competitiveness demands it. The risk is that a tourism tax becomes a means of raising revenue at a time of tight public finances, particularly for local government. Unless intelligent investment follows and services improve, visitors may conclude that it is only their money that is welcome and go elsewhere. Local control is important, and it comes with responsibility to all stakeholders. Tourism is integral to destinations' success, and should be treated accordingly.

ETOA - European Tourism Association AISBL

Contact: policy@etoa.org

[5] ETIAS, the Schengen area's proposed pre-clearance scheme for citizens of visa waiver countries such as the USA and Japan, will be in operation from 2021.