

Tourist Tax as a Source of Income

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Abstract

Taxes are the main source of revenue in the state and municipal budgets. They are a factor with direct and indirect effect on economic growth. The aim of the study is to examine the importance of tourism as a source of income for the country and different regions. The values and the revenues from tourist tax are considered here. The results of the survey show the financial contribution of the sector at local level and determine the guidelines of the key role for the development of the regions in Bulgaria.

Keywords: tourist tax, tourism destination, destination management, public policy

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Introduction

One has no doubts about the economic potential of tourism in the regions considered as tourist destinations. The significance of the sector for the economic growth and for improving the economic development is reported regularly by the World tourist organization and the World travel and tourism council. The contribution of tourism for people's welfare urges many countries to encourage the increase of the tourist flow by way of allocating public resources with the goal to improve their competitive position (Webster & Ivanov, 2014). In searching for tourism competitiveness it is the state, its public administration in particular, that plays a key role. Therefore, public administration is obliged to provide specific public funds and services which results into particular expenses made in public budgets.

Tourism is an activity taxed since its very beginning in order to increase revenues, compensate the costs as a result of providing goods and services of public character, correct market failures or negative external factors caused by the tourist activity (Gooroochurn & Sinclair, 2003). It is not easy to point out a tax of fee which is not significant and does not affect taxing activities and/or individuals associated with tourism, either as service providers, involved in labor relationships or users. This is evident in respect to the corporate tax for companies working in the sector, the income tax for individuals involved in the same sphere, the VAT on tourist services and excise. Besides those, correlated to taxation are also: the tax on real-estate, the tax on acquired property through sale or swapping, the tourist tax and the tax on transporting passengers by taxi. Each of these taxes by way of changing the tax base and rate can be used for carrying out state and local fiscal policy in the sphere of tourism; this policy, besides, can have restrictive or expansive character.

The duration of the measures for social distancing and the increase of the negative economic effects provoke governments to broaden the scope of the measures for stimulating the companies in the tourist sector. The taxes affecting tourism have always been a very relevant and sensitive topic. In this case, the subject of the study is the tourist tax as a tool for territorial development of the sector. The goal of the paper is to summarize the experience abroad in collecting the tourist tax and review publications and regulative documents in this respect. There has been analyzed the dynamics of the revenues as a result of the tourist fee in the country, tendencies and guidelines for municipalities have been set up as well.

1. Interpretation of the Tourist Tax

The system of tourism is a conceptual construction defining tourism as a unity of mutually connected elements – stakeholders which include the tourists, the tourist industry, the host

community, the public institutions, the non-governmental tourist organizations which interact in the field of the tourist destination in conditions of the particular external environment (Marinov, 2015). The functioning of the tourist system is the ground for many interactions in a particular geographic space and causes a number of economic, social, ecological (McIntosh & Goeldner, 1990) and personal impacts which include both physical and psychological factors (Besculides, et al., 2002). The tourist activity is used for reaching objectives like creating jobs, encouraging economic development, preserving the environment, social integration and others (OECD, 2014). Therefore and on the ground of all mentioned above, taxing tourism acts as a corrective mechanism and substitute for the expenses made on public welfare and services consumed by tourists, with the goal to reach (and increase) economic efficiency (Clarke & Ng, 1993).

Taxation of tourism turns into a tool through which costs in respect to the tourist activity are distributed. Imposing specific taxes meant directly for the activity has an extra-fiscal goal and it is to improve the product on offer (Cetin et al., 2017) and thus the tourist experience as well. In this sense OECD (2014:76) defines taxation of tourism as “the indirect and direct taxes which affect mainly the activities associated with tourism” and is considered one of the basic elements through which it is possible “to contribute for receiving tax incomes, to finance the preservation of nature, together with making public investment and development of infrastructures for improving the management of the tourist impact on sensitive areas”. In this way tourist taxation plays a double role: it influences the competitiveness of the destination and finances the expenses made as a result of the tourist activity.

In the last couple of years one observes the decreasing impact of the state as the main driving force of the economic policy. Governments strive to use other indirect tools as a means of achieving their political aspirations (Moscardo & Benckendorff, 2015). For ex., legislative and regulatory tools for attaining the results of the governmental policy are substituted by financial stimuli and measures (tax reliefs, programmes for co-financing and others), market tools (eco-designation and schemes for accreditation), voluntary guidelines and educational programmes which rely on support of the private sector and often on capital investment as well. Adopting such measures depends on the capacity of the industry itself, the support and good will which very often vary depending on the economic conditions of time.

Repeatedly, the **tourist tax** has been defined as a tool for handling the issues resulting from the development of tourism (Gooroochurn & Sinclair, 2003). It is considered a specific tax meant directly for the activity and, therefore, for improving the tourist experience (Cetin et al., 2017). A great number of governments speak in favour of applying these taxes because the sums of money for public resources are huge. From a political point of view, setting a tax in respect to the tourist industry presupposes a smaller risk for the governments since the obligation for applying the tax concerns the international tourists (Jensen & Wanhill, 2002) who have no right to vote in the country they visit. Because of the specifics of the tourist industry economists think that taxing tourist activities will have only a small impact on the behavior of tax payers if most of the taxes are paid by international tourists (Gooroochurn & Sinclair, 2003). Thus governments support the imposition of more taxes and tributes on activities that concern mainly international tourists (Sheldon & Var, 1985) since the local tax weight can cause public unrest and has a negative impact on the political environment (Anderson, 2009).

The argument about setting tourist fees, however, is not new. From a theoretical point of view, to set such type of tax incurs losing competitiveness of the destination on the international tourist markets (Myers, et al., 1997) as a result of increased prices and thus a declining number of visitors. There are various surveys in this respect (Jensen & Wanhill, 2002) which focus on the direct connection between increased taxes and weaker tourism.

Other authors (Scotchmer, 1989) think that tourist taxes are contradictory. As a whole, they are too low in order to hinder visitors, yet, they allow local authorities to collect money for financing the management of tourism, repair harms on adjacent spaces and pay for coping with

malfunctions. It is not unwise for the accommodated tourists and day visitors to contribute for maintaining local resources which they themselves visit and use.

At the start of 2020 there occurred radical changes and from prevalent studies on the impacts of super-tourism we moved to studying the impacts of the shortage of tourism or, point blank, lack of tourism. According to data of Eurostat¹ in 2020 on the territory of EU one observes a 49.1-% fall of tourist numbers as compared to the preceding 2019. Contrary to it, the share of local tourists increases to 73.0%, whereas the number of international tourists decreases to 27.0% At the end of the same year Group NAO and Global Destination Sustainability Movement comply a White Paper² in which they come up with models of the seven roles (7R) that tourist taxes could play in developing the economy on local, regional and national level.

Table 1. Seven Roles Tourism Taxes Can Play

Objective of the tourist tax	Role of the tax
To generate income	Incomes from tourist taxes go into the general state budget.
To regulate the flows of visitors and their consumer behaviour	Encouraging particular types of behaviour like for ex. differentiated rates according to seasonality, urban zones, types of outlets and so on.
For relief in times of crisis	Many countries get rid of or decrease taxes in times of the Covid-19 crisis in order to support key regions.
To recharge	Usually, in many destinations revenues from the tourist tax are used for making the destination popular, also for marketing and branding.
To reconsider	Some destinations distribute revenues from tourist taxes for tourist innovations and researches.
To regenerate	European destinations like Barcelona and the Balearic islands use income to regenerate natural and cultural resources of the destination.
Taxation aimed at sustainability	It's a theoretical objective, yet, it has a great potential. Taxes as a tool for coping with a future serious crisis through accumulating means for insurance and guarantees when cancelling events.

Source: Tourism taxes by design, White paper by Group NAO, Copenhagen, November 2020

2. Features of the tourist tax

Tourism has various positive economic impacts like support for small and medium enterprises, creating jobs, tax revenues and others. However, its development does not happen for free, as Mak points out (2006:251) and adds that the production of tourist goods and services requires resources and this could result into the need for diverting resources from other economic sectors.

The net benefit from developing tourism depends greatly on how a particular destination plans its public finance. Introducing tourist taxes, fees and such on municipal level is included in

¹ Key Figures on Europe / 2021 Edition

² November 10, 2020: Group NAO and Global Destination Sustainability Movement release a joint White Paper on the roles and impact of tourism taxation across Europe's tourist destinations. The study is launched in partnership with the European Tourism Association (ETOA) and with support from nine urban tourism destinations. The GDS-Movement's mission is to enable destination management professionals to catalyse and co-create sustainable and circular strategies, that will enable destinations of the future to thrive, and society and nature to regenerate. <https://www.gds.earth/>

the tax system of many countries.

Taxes on tourism increase worldwide which has an effect on the competitiveness of destinations as a place to visit and a place to do business as well. Even the smallest tax rise affects consumer behaviour because when online demand is on the rise, consumers have the opportunity to look up and make a comparison. Most sensitive are the consumers in respect to increased or new taxes for accommodation, daily fees; taxes for access to a city/town and others. And tax rise occurs because revenues are needed. In critical conditions municipalities' debts and liabilities reach skyrocketing values all over the world.

There are several taxes directed only or mainly to the tourist sector ((PwC), 2017). The **tourist tax** or taxes on accommodation are such an example and they are imposed on a short-term stay at a place of accommodation against payment. Usually these taxes are calculated per person, per night or sometimes as a percentage of the room rate. In many cases accommodation taxes are paid personally and are not included in the prepaid accommodation cost. This makes the taxes relatively hard for people to notice in the published accommodation cost, yet, particularly visible for the end consumer – this fact can have an impact on the tourist activity.

In some EU member countries (France, Austria, the Netherlands) tax authorities have an agreement with large platforms for shared accommodation (like Airbnb and HomeAway), in order to make easier the automated collection of taxes for accommodation. The agreements plan for the intermediary to collect the respective taxes from the visitors by use of the platform at the moment of making the payment and after that to make the refund to the tax authority. The actual collection of the tax is done without the direct participation of the accommodation provider. Airbnb, for ex., collect accommodation taxes on behalf of four EU member countries (France, Italy, the Netherlands and Portugal).

Besides Malta, all 18 EU member countries applying the tax impose it on a local-management level (i.e. town, municipality or province). Usually the price varies depending on the standard of accommodation, i.e. the category of the hotel or resort, the location and the local authorities; sometimes it can vary according to the season. Often children pay lower tax rates or are fully exempt of tax payment. Tax on accommodation cost for adults varies from 0.10 € minimum (the lowest tax rate in Bulgaria) to 7.50 € (the highest one in Belgium) per person for every overnight stay. The average range is between 0.40 and 2.50 €. Relatively low tax rates are charged in the EU member countries in Eastern Europe, and much higher ones – in the countries in West and South-Eastern Europe.

Table 2. Tourist tax in EU

Country	Location	Tourist tax per person per day	Exempt of tax
Austria	Vienna/Salzburg	3,2% on accommodation cost	Under 15 years old
Belgium	Antwerp	€2.97	Under 18 years old
Bulgaria	Sofia	€0.2- €0.6	-
Croatia	-	€1	Under 12 years old
Germany	Berlin	5% on accommodation cost	-
Greece	Athens	€0.5- €4	-
Spain	Balearic Islands	€4	-
Italy	Rome	€4-€7	-
The Netherlands	Amsterdam	€3 + 7% on accommodation cost	-
Portugal	Lisbon/Porto	€2	Under 13 years old
Romania	-	1% on accommodation cost	-
Slovenia	Ljubljana	€3,13	-
Hungaria	Budapest	4% on accommodation cost	-

Source: Done by the author

Paying the local tax on accommodation in some resort towns in Germany gives access to certain facilities which otherwise are closed for the public. This can include spa facilities, use of public transport and admission to local places of interest. Iceland, Finland and Denmark do not impose this type of tax at all. One can sum up the present situation with the tourist tax in the following way:

- The margin of the tourist tax is very low in respect to the accommodation cost: usually in Europe a room rate starts from €100-150 per night. The accommodation tax is usually estimated at €2-5 per person per night, i.e. as a proportion of the paid price it is negligible. Sometimes, however, there is a cumulative effect for a person touring several destinations and having a longer stay. By large, tax rates are on the rise when comparing studies in 2017 with data in 2020. Besides, the tourist tax is often added by a differential tax rate of VAT in most EU member countries.

- To a considerable degree tax decisions are made on national level. Irrespective of a requirement for tax or not, the rate on local level varies in the cities in the different countries. This makes the value of the tourist tax a question of competition and positioning not only between member countries, but on national level as well.

- Tourist taxes in the EU member countries are differentiated according to common parameters like hotel classification (stars), seasonality or urban zoning. Apart from it, they vary according to duration of stay (a discount for a longer stay) and young and adult tourists are often exempt of payment. A thorough study shows that most member countries wish to regulate the visitor flow and they reach the wanted effect by way of tax schemes.

A local tax is reasonable if it is meant for some destinations in order to cover the management costs for them, peak demand and large-scale events so that innovations of the smart city can be supported financially, for optimizing the capacity and supporting the regulation of the visitor flow. The correct functioning of cities is a basic necessity for our ever-urbanized society and the resources the cities have differ considerably. If destinations impose a tax on their visitors instead of encouraging volunteer spending on their behalf, cities have to provide a consecutive public benefit for the resident and the visitor. The risk in collecting tourist taxes is that in time of limited public finances the tax could turn into a means of raising revenues for the local authorities. If there doesn't follow intelligent investment and improved services, visitors can decide to invest their money elsewhere. Local control is very important and it is the responsibility of all stakeholders.

Studies show that local authorities and representation are of key importance for balancing the stakeholders' interests in managing a tourist destination. There are a number of examples (Iceland, Barcelona and the Balearic islands) for the manner how revenues from the tourist tax are managed in a democratic and administered way by inter-sector councils or foundations, with representatives of the local hotel industry, town authorities, public groups, non-governmental organizations and scientists. Local government and distribution of finance contribute for the legitimacy of the tourist tax and for an opportunity for cooperation on destination level. A joint research in Istanbul and USA claims that a target purpose-based tourist tax through a local committee or foundation gives an opportunity for investment. They provide also a bigger long-term return for the industry and the local authorities, based on a more democratic decision making.

3. Tourist Tax in Bulgaria

In Bulgaria local taxes and fees are collected for services and actions provided by municipalities to individuals and legal entities. Usually the central state authorities set minimum and maximum limits of some of them and give the right to municipalities to determine the particular values of taxes and fees. Traditional for tourism are local taxes on: the right to exploit specialized tourist vehicles, flying and floating vessels – yachts, boats for coast trips, paragliders, deltagliders and others; use of markets, marketplaces and utilities; receiving licenses for construction of tourist sites and others. Part of this group is also airport and port fees; fees for advertising, notices and

others. Of special importance for the volume of revenues in the budget of local public authorities are tourist/resort fees set by each municipality according to its own need for finance (Neshkov & Kazandzhieva, 2015).

Collecting tourist taxes is not a difficult process and one should have in mind that they can also be corrected easily for the various types of passengers and the benefits they bring, or for the type of season in respect to peak or non-peak capacity. Thus it is clear why some local authorities benefit from these taxes as part of solving the super-tourism issue. Usually such taxes are imposed indirectly, by way of providers at the place for accommodation or vacation companies and most often are directed to visitors who stay the night. Because of the serious pandemic situation in the last couple of years, one observes a considerable decline of foreign tourists. **Fig. 1** traces the significance of the sector for 2019 and 2020 in the country as a percentage of Bulgarian GDP, jobs it provides and consumption of tourist services. The decrease for all indicators is evident.



Figure 1. Bulgaria Key Data
 Source: WTTC, Economic Impact 2021, Bulgaria

The ministry of tourism took a number of measures for supporting the tourist business at the time of the Covid-19 pandemic, such as extending the deadline for paying tax on behalf of the tourist business, giving guidelines and recommendations for tourist packages, a campaign for encouraging domestic tourism, measures for retaining employment, for supporting business regeneration and others. The tourist business benefited from the general fiscal policy. The new regulations are the result of pressure from the tourist and restaurant businesses – the most affected ones by the world pandemic crisis. In August 2020 in Bulgaria there came into force the officially lower rate also for tour operators, beer, wine and fitness centers. According to the changes, the 9% VAT rate started being applied for tourist agencies, service provision for using sport facilities, accidental transport, beer and wine in dine-out restaurants since the moment of proclaiming the changes – 11 August 2020.

Part of the local taxes and specific for the sector is the tourist tax. It has been actively applied in the Republic of Bulgaria since 01.01.2011 and taxes on over-night stays in places of accommodation. Individuals there pay the tax as stipulated by the Law for tourism.

The tax is paid together with paying for the service. The municipal councils, by use of a regulatory document, set the tax itself between 0.20 and 3 BGN for each night in compliance with the towns and villages on the municipal territory and the category or registration of the places of

accommodation as stated in the Law for tourism. The revenues from the tourist tax are spent according to the Municipal program for developing tourism including events and activities for³:

- building and maintaining the infrastructure for tourism on the municipal territory, incl. local roads to the tourist sites;
- construction and functioning of municipal tourist information centers and organization of information services for tourists;
- building and maintaining tourist sites which are municipal property or for which the right to use and manage has been given to the municipality;
- organizing events and activities with local and national importance which contribute for developing tourism, advertising the municipal tourist product incl. participation in tourist travel markets and fairs;
- carrying out surveys, analyses and prognoses for the development of tourism on the municipal territory;
- improving the service quality provided in the municipal tourist sites and renovating, building and maintaining infrastructure.

In **Table 3** there has been compared the income from the tourist tax in some of the largest Bulgarian municipalities. Due to the complicated public-health situation one observes about 50-% failure to meet the planned annual tax values for 2020. As a whole, the revenues from the tourist tax for the monitored Bulgarian municipalities account for a very small part of the total tax revenues from taxed property and others. This group includes also taxes on property, heritage and vehicles. However, viewed as an absolute sum of money, it could be considered possible to use for improving the tourist product on a local level.

Table 3. Income from Tourist Tax in the main municipalities in Bulgaria (BGN)

Municipality	Income from tourist tax		Difference throughout years 2020 – 2019	Percentage of taxes on property 2020	Property and other taxes total 2020
	2019	2020			
Sofia	2 212 552	963 961	-1 248 591	0.34%	366 807 341
Plovdiv	380 000	440 000	-60 000	0.59 %	74 240 000
Varna	675 492	339 141	-336 351	0.69 %	48 973 266
Bourgas	299 566	189 320	-110 246	0.47 %	40 532 213
Veliko Tarnovo	219 496	135 626	-114 374	1.01 %	13 337 518
Dobrich	45 000	25 020	-19 980	0.31 %	8 073 615

Source: Done by the author

We find out *lack of data* due to monitoring, assessment and analysis of the impact of taxes in respect to tourism by regions and a lack of comparability for executing the set goals. A common recommendation for the Bulgarian tourist destinations is to observe and assess themselves in much more detail and more regularly in order for the reached effects to stand out appropriately. It is interesting to consider the impact of tourist taxes on the destination not only as a form of income, but also in respect to the social, cultural and ecological regeneration and the impact on the quality of life. The ways of observation and assessment of the impact should be set and planned as regular activities.

On the ground of the examples and documents elaborated above, *three basic principles* can be pointed out clearly. Through those the destinations and their stakeholders could be guided to

³ Acc. to article 11, item 2 from the Law for tourism

more efficient and meaningful management of the revenues and incomes from the tourist tax as follows:

1. Incomes from the tourism tax need to be *separated from the general income flows* and used for making popular or regenerating destinations. The use of incomes for regeneration on local level, where tourism can be viewed as invasive, is a meaningful approach because it creates sustainability and balance. Tourism as an economic activity needs to be maintained with long-term public legitimacy and support. Reinvesting the incomes from tourism tax goes hand in hand with local management and the stakeholders' commitment which underpins good destination management

2. Sensible and *effective investing* is able to ensure long-term growth of incomes. Costs for projects can, directly or indirectly, serve for improving the tourist product (for ex, infrastructure, tourist experience, local tourist events) and will affect positively demand, which, in turn, will increase even more tax revenues.

3. High visibility and transparency work in respect to consumers. Destinations and accommodation providers have to declare openly the tax they need to pay and where funds go. It is good to present the tax as a contribution which consumers will take pride in making when they are aware that is meant for a meaningful cause.

Conclusion

Tourism taxation is a dubious topic and quite often the tourism industry opposes it; the main argument being that taxes in tourism have a negative effect on growth and job creation, and that they harm or violate competitiveness. It is hard to isolate the tax impact from the other factors influencing the tourist sector. This means that it is not easy to assess the effect on visitors' attitude in respect to tourist taxes. After the research done one can say that, on the level of the tourist destination, tourist taxes are viewed as a tool for regulating, financing and managing tourism. A considerable part of local organizations view tourist taxes as a legitimate way to regulate the negative impact of tourism. Usually governments and lobbyists are inclined to emphasize the potential and economic benefits from tourism (jobs and incomes), at the same time barely focusing on the ecological and social impact tourism has. It is often that their position is supported by researches mainly on the negative impacts of taxation. Therefore, taxes of all types are viewed as a threat to economy. On the other hand, local stakeholders, community groups and some scientists view taxes as a potential instrument for balancing the impact of tourism and compensating the destination for the invisible burden of tourism. In this sense, there is a general shortage of researches and assessment to document to what degree tourism taxes have a positive significance as a source of finance for local activities.

The crisis in 2020 added more complications to understanding tourism taxes at a time of no tourism at all. It is necessary to deepen researches on the administration that goes with tourism taxation in order to assess the effectiveness of managing local taxes and fees, generated by hotel enterprises, implemented projects and partner programs. Ideally, these revenues can be used also for accumulating financial reserves to mitigate unforeseen circumstances. They could also provide the maintenance of operations on the level of managing the tourist destination or to be directed to regeneration and provision of stimuli for the tourist sector.

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