TOURISM TAXES BY DESIGN

White Paper: Destination funding and the impact of tourism taxes on European cities and urban communities

GLOBAL DESTINATION SUSTAINABILITY MOVEMENT

GROUP NAO

November 2020

OVERVIEW

EXECUTIVE SUMMARY

In the days of overtourism, quite a few destinations introduced new or increased tourism taxes with the intention of capping growing visitor pressure or ensuring revenue flows to support and sustain a more balanced destination development. Now, as a result of the global pandemic, we are in a completely different world where undertourism is cause for grave concern and tourism taxes have instead become a means to help the industry recover. The impacts of the COVID-19 pandemic adds a new layer to the debate on tourism taxes and raises new, key questions about whether they are effective tools for regulation of visitor flows and behaviour, what role they can play in building recovery and resilience and what their potential is for regenerating the natural, cultural, social and economic resources of the destination.

The world in which this White Paper was first initiated no longer exists and we are left wondering when, or if, it will ever return. However this does not make our research any less relevant, rather it provides a different context and frame of reference for the overall conclusions and recommendations moving forward.

The aim of this research project is not to say whether governments should introduce a tourism tax or not. Instead it offers a synopsis of the current landscape of tourism taxation and insight into the regulatory and regenerative motivations behind the design and governance of taxes. The paper also elaborates what role taxes might play in shaping a future of more sustainable tourism and more resilient destinations able to withstand future shocks.

Industry observers proclaimed 2019 the "Year of Tourism Taxes" as more and more destinations around the world were seen to introduce or increase tourism taxes; many of them motivated by calls for general mitigation of the negative effects of mass tourism. This was the case in Venice with the recent call for a tax to pay for extra waste management and other city services.

With all that has happened in 2020, it is now the year of "No Tourism Taxes" as the global pandemic has brought much of the ecosystem of travel and tourism to a near complete standstill resulting in severe undertourism and massive job losses within the industry. In several countries and destinations, tourism taxes have been reduced or suspended to help the industry recover, and in many instances replaced with industry support and stimulus programmes.

Similarly, many of the official tourism organisations (Destination Marketing and Management Organisations/DMOs) have shifted from having to manage exponential visitor growth to offering compelling reasons for visitors to come back. At the same time, many DMOs are also facing serious financial difficulties because part of their budgets feed on tourism taxes (occupancy/accommodation taxes), while their commercial income is being hit hard by the massive drop in visitor numbers.

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KEY FINDINGS

TOURISM TAXES ARE DISPUTED AS TOOLS FOR REGULATION, REGENERATION AND RESILIENCE

The main conclusions of this White Paper are:

- **Tourism Taxes have been on the rise for more than a decade,** gaining prevalence and attention as a dynamic area of regulation, according to OECD, with both 2019 and early 2020 labelled as the "Year of Tourism Taxes" noting new legislation and practices in several countries and cities.[3,4] The vast majority of EU member states and countries have some sort of tourism related tax, levy, departure or arrival fee in place. Twenty one out of the 30 European nations covered in our research have implemented taxes on visitors while only nine have not – mainly in the Nordics and in the Baltics. Many member states have implemented their taxes since the year 2000 and the majority are taxing according to the number of overnight stays per person at the city level.

- **Even the most common tourism taxes are not a "one size fits all" design** – member states have designed many different tax models and regimes. Tax rates vary greatly from 0,5-7% or fixed rates of €0,5 to €7,5 or more per person, per night. Also, rates are very often differentiated based on the type of accommodation and rebated - or entirely waived depending on the age and the locality of the establishment.

- **Most of the taxes have a basic element of "regulatory design"** – meaning they aim to regulate or differentiate tourism flows either by 1) type or rating of accommodation, 2) locality or district, 3) seasonality (often the summer season is more expensive), 4) length of stay or, 5) demographics (children stay for free). The regulatory design often reflects the political motivations for implementing the tax (such as dispersal across areas, seasons or visitor segments). Despite of all this, evaluations and data on the actual impact of taxes and tax designs are often surprisingly limited.

- **Regenerative taxes on the rise:** According to OECD, an increasing number of destinations have implemented taxes where revenues are spent on regenerative agendas such as restoration of cultural heritage, development of tourism infrastructure, nature preservation and even compensation for local citizens for noise pollution from air traffic. Up until the pandemic, air passenger duties (APDs) have been a hot topic in some European states with Sweden, Germany and Switzerland as the most recent countries to introduce taxes on air passengers to reduce carbon emissions.[56]

- **The negative impact on demand and competitiveness seem rather marginal:** Research suggests that taxes may have limited influence on the price-competitiveness of a destination even though it depends on the type and price sensitivity of the destination product. There is theoretical and sporadic evidence that some destinations can experience a negative impact on demand – especially if they offer a price sensitive product, which is hard to differentiate from the competitors (for instance "sun and beach"). In these specific cases both the tax rate itself and the impact on demand tend to be marginal: 1-2% compared to the price of accommodation.[1] Generally however, it has proved very difficult to isolate the impact of taxes from other factors and many destinations have seen visitor numbers rise regardless of tourism taxes *(see Barcelona case on page 33).*

- **Consumers and residents favour taxes with purpose:** We have found a few studies that report consumer opposition to tourism taxes, but also a little handful surveys and studies that report strong backing and a higher willingness to pay (WTP) if taxes have clear regenerative and/or an environmental purpose.[13,62,63] In cases where taxes are up for discussion in public debate, it is worth noting that local residents are often in favour of them being implemented.

KEY FINDINGS

EUROPE'S DMOS ARE IN A FUNDING CRISIS. MANY SEE TOURISM TAXATION AS (PART OF) THE SOLUTION...

- **Most European member states do not reinvest tax revenue transparently:** Whilst the majority of member states have some sort of tourism-related taxation in place, it is unclear exactly how many actually ring-fence the revenue and channel it back to the tourism eco-system or to purpose driven projects in the local community. From our research, we get the impression that more than half of the countries have some sort of revenue earmarking in place, but we also found countries where the law prohibits earmarking (i.e. the Netherlands).

- **Crisis support by VAT and tax rebates:** Tourism taxes are seldom designed in anticipation of a future crisis. Instead, they are often lowered or suspended to offer relief to the industry during crisis. In a recent paper on policy responses to COVID-19, OECD lists a range of responses across member countries from reduced VAT on accommodation, reduced APDs on domestic flights to suspended occupancy taxes in quite a few countries and destinations.[44]

As a general observation, many taxes seem to be aimed at regulating the demand side - visitor flows and behaviour - with differentiated rates on accommodation types and across urban zones etc. In addition, the introduction of taxes often seem motivated by protest voices against visitor pressure and calls for better dispersal of visitors.

Fundamentally, there is little attention to the hidden economic, environmental and social cost that (mass) tourism can impose on the destination. We have found numerous examples of how tax revenue streams are used to fund regenerative projects such as restoration of cultural heritage and protection of natural resources, but also an apparent lack of systematic management approaches, tools and methodologies for assessment of "hidden costs" and investment impact.[21] The case of Barcelona is a rather exceptional case as the city has found that the revenue from tourism taxes covers between 13% and 29% of the budgetary burdens of tourism – see more on page 33.

As part of the White Paper, a survey of 67 DMOs was conducted during the summer of 2020, focusing on the financial situation and outlook and the role of tourism taxes. The results are grim as DMOs have been hit hard financially due to the economic effects of the COVID-19 crisis (See PART 3).

- **Only a quarter of DMOs are untouched:** Almost one in three of the surveyed DMOs report plummeting income of 50% or more followed by an additional 17% of the DMOs reporting budget reductions of between 30-49%.

- **Multi-dimensional crisis:** The survey indicates that the crisis is multi-dimensional for the DMOs as many of their common sources of income are expected to decrease in the year to come.

- **DMOs downsizing:** Many of the DMOs are down-sizing with temporary wage cuts or furloughing staff whilst some have lost their jobs entirely. In total, the DMOs in the survey employ about 3.054 people. In the survey, they report that they are about to make permanent staff reductions of 295 people – almost 10% of their combined staff.

- **Hopes for recovery – and tax breaks:** Many DMOs hope to receive their fair share of crisis recovery funds to cover their losses. In the long term, DMOs seem to agree that tourism taxes are imperative for both the general destination development and for their own survival.

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THE R7

SEVEN ROLES TOURISM TAXES CAN PLAY

To sum up the findings and conclusions in this study, we have constructed a model with seven fundamental roles tourism taxes can play in the development of the visitor economy at local, regional and national level. The seven roles are observed during the extensive research for this White Paper and builds on the many case studies and examples presented throughout the report. Some of the "Rs" below are more common than others, and one is mostly theoretical. Thus, we have found that tourism taxes can be designed with the following purposes in mind:

- **Revenue:** Many European states and destinations have implemented taxes as a general source of tax revenue.
- **Regulate** flows and behaviour with basic design parameters such as differentiated rates according to seasonality, city zones, type of establishment etc.
- **Relief** in times of crisis: Many states have suspended taxes or lowered VAT during the COVID-19 crisis.
- **Reload** – it is common for many destinations to allocate tourism tax revenues to promote the destination, marketing and branding.
- **Rethink**: Some destinations allocate tourism tax revenue to tourism innovation and research.
- **Regeneration**: Advanced European destinations such as Barcelona and the Balearic Islands use revenues to regenerate the destination's resources – e.g. protect nature, restore cultural heritage or community projects.
- **Taxing for Resilience** is mostly a theoretical objective, but it has high potential as a means of facing the next big crisis with build up of funds for insurance purposes and cancellation guarantees for event owners and conference planners etc.

THE R7

WHAT ROLES CAN TAXES PLAY...?

REVENUE
FOR PUBLIC GOOD

RESILIENCE
INSURANCE & POOLING

REGENERATE
CULTURE + NATURE
CLIMATE + COMMUNITY

RETHINK
TOURISM INNOVATION

RE-LOAD
DESTINATION MARKETING

RELIEF
SUSPEND & COMPENSATE

REGULATE
FLOWS & BEHAVIOR

POLICY RECOMMENDATIONS

SEVEN THINGS TO REMEMBER

This White Paper did not set out to recommend nor advise for or against tourism taxation. Our aim is to evaluate how tourism taxes can be designed in pursuit of a balanced and responsible visitor economy that gives back to the urban ecosystem of which it is an integral part. While in the current climate of a pandemic crisis, the introduction of new tourism taxes seems unlikely, the White Paper also explores how tourism tax revenue might in the future be spent to build resilience and boost recovery.

As such, in summary the key policy recommendations are :

1. **Earmark and ring-fence:** The first and most important recommendation is that destinations reinvest tax revenues either for general tourism promotion or for regenerative purposes beyond tourism as described in this report. We find a general consensus among leading associations, intergovernmental organisations and amongst local stakeholders that tourism tax is a specialised tax and its revenues should be allocated and invested as such.

2. **Local governance adds collaborative capability:** Our research show that local governance and representation is often key to balance stakeholder interests and to earn political support for the tax regime and support of the local DMO. Local and democratic governance and distribution of funds adds to the legitimacy of the tax and collaborative capability of the destination.

3. **High visibility and transparency works with consumers:** Destinations and accommodation providers must be open and upfront about the tax and ideally what it will be used for. Case studies prove that tourism taxes are often well received with consumers if communicated as a modest contribution to be used for purposeful, regenerative projects and activities. It is also good practice to ensure full transparency on online booking platforms (OTAs).

POLICY RECOMMENDATIONS

4. **Public engagement and consultation is key:** Governments or destinations looking to introduce or change tourism taxation policies need to engage in open and public conversation. Public debate and engagement are crucial to gain both legitimacy and destination collaboration. Public consultation increases the buy-in from the industry sector and helps to ensure the tax eventually introduced is fit-for-purpose.[1]

5. **Help establishments comply:** In their comprehensive 2017 study, Price-waterhouseCoopers (PwC) highlights the importance of ensuring compliance with the tax regime. This can be done by offering advice and extensive instructions to less resourceful SMEs and by committing industry associations and platforms. In some member states, tax authorities have committed the large shared platform providers (such as Airbnb and HomeAway) to facilitate the automated collection of occupancy taxes.

6. **Monitor and evaluate impact:** There is generally a lack of good data as well as monitoring, evaluation and analysis of the impact of tourism-related taxes and incentives to ensure they are meeting their stated objectives without adversely affecting tourism competitiveness. We find that destinations could and should monitor and evaluate more effectively in order to achieve and communicate their taxation purpose and impact.

7. **Both benefits and burdens:** For many good reasons, much literature, research and political advocacy have long focused on the economic and social benefits of tourism in a global world. But tourism is arguably also a burden on people, places and the planet. Destination managers need a better understanding and valuation of this side of the equation. Our research and case studies have shown that well-designed tourism taxes can be both practical and meaningful tools in the sustainable management of the destination's resources.

DEFINITIONS

TO GUIDE YOUR READING

TOURISM TAXES: Taxes that are special for the visitor economy – we mainly focus on occupancy taxes / accommodation taxes. See definitions in section 1.

DMOs: Destination Management or Marketing Organisations – commonly referred to as local tourism authorities.

REGULATORY DESIGN: How and why taxes are differentiated by seasonality, urban zones, visitor segments etc.

RESILIENT / RESILIENCE: Taxes aiming to make the destination more economically, socially & environmentally resilient in times of crises.

REGENERATIVE / REGENERATION DESIGN: Taxes with a regenerative purpose aims to restore and regenerate the destinations' natural or cultural resources and social fabric.

ABOUT

THIS INITIATIVE

This White Paper is the result of an initiative taken in January / February 2020 by Group NAO and Global Destination Sustainability Movement (GDSM) with the support of 9 European city destinations.

The project has been implemented in parallel with a similar project in the US / Americas by Miles Partnership, Civitas and Tourism Economics and we have continuously shared methodologies, results and reflections.

In addition, European Cities Marketing (ECM) decided to carry out a 2020-member survey on the DMO financial situation in collaboration with Group NAO – the results of which will also feed into this study. Finally, European Tourism Association (ETOA) has generously shared their valuable insights and research materials as part of our data sources and peer review process.

ETOA

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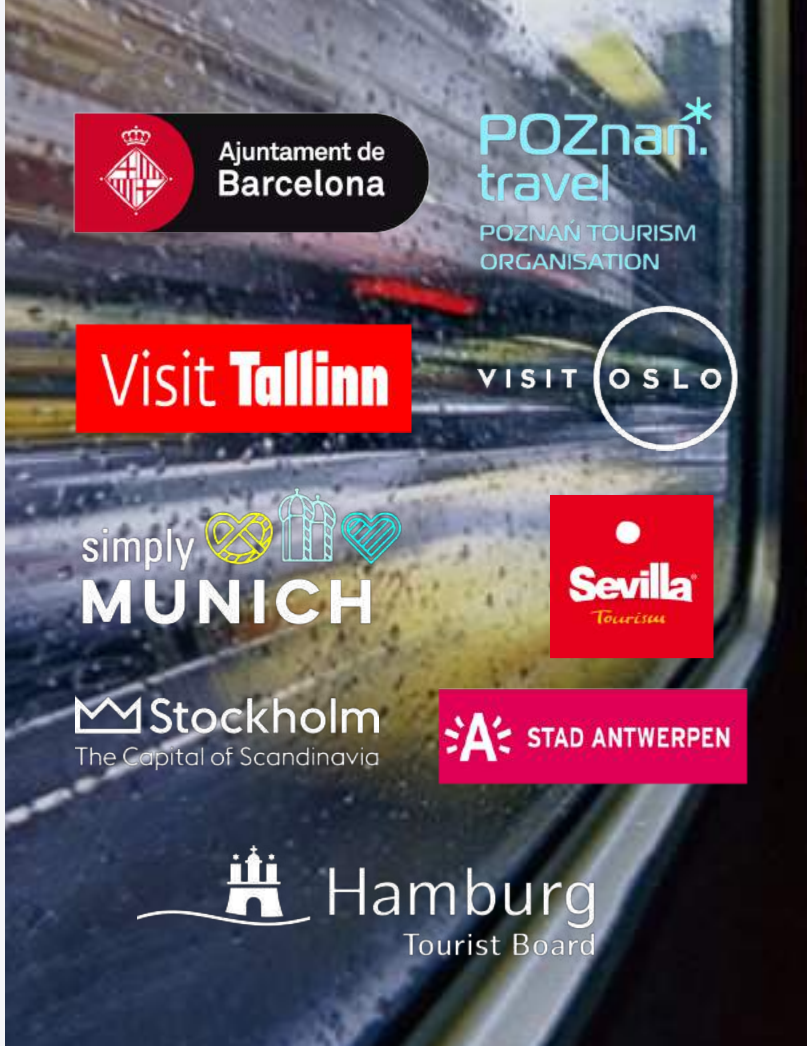
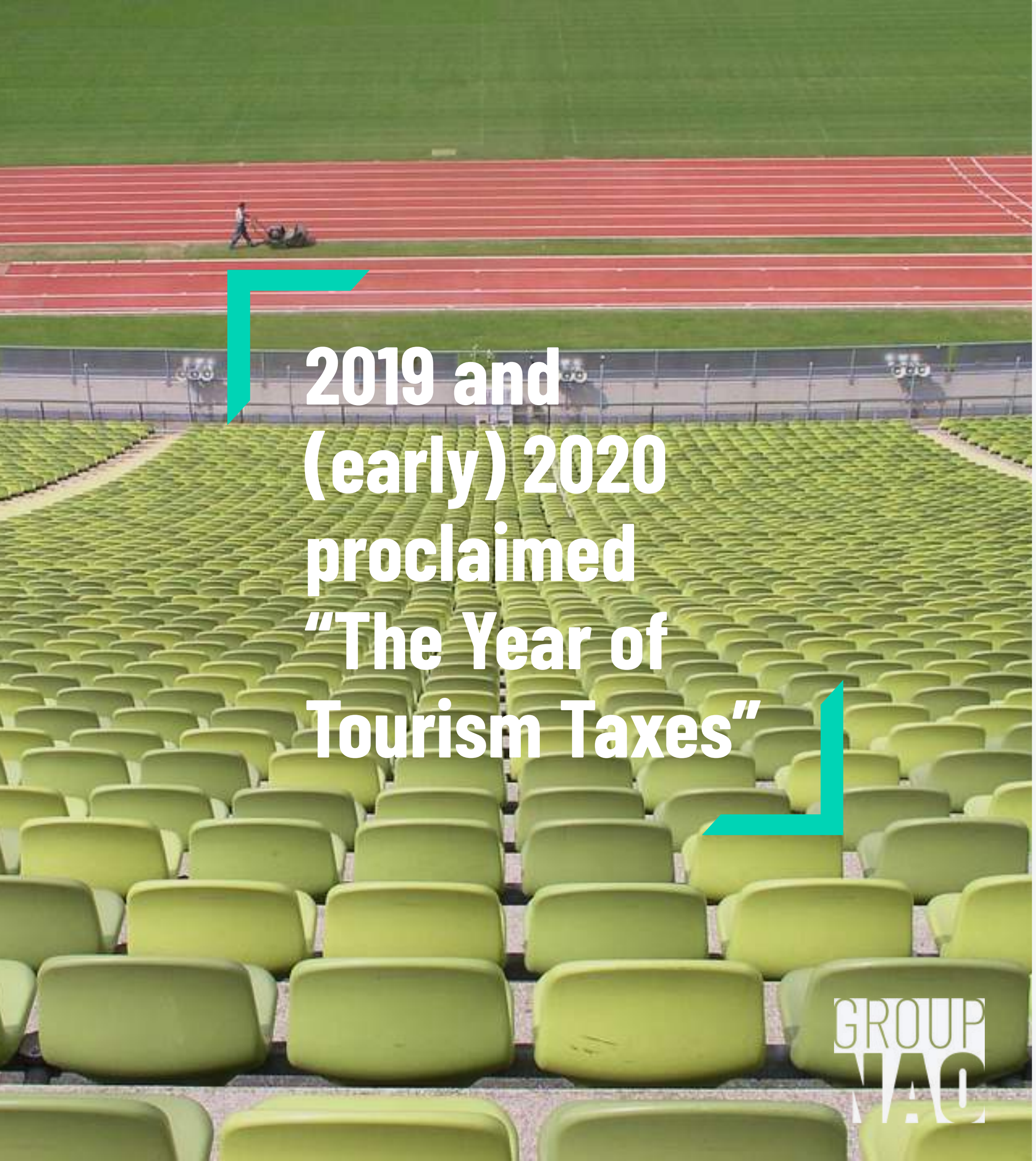


PART 1

WHAT TAXES?

Approaching a disputed topic with a strong focus on purpose and knowledge sharing



TARGETING OVERTOURISM

In recent years, the political discussions about tourism taxes have often been feeding on a public call to mitigate the growing challenges of overtourism.

In 2019, quite a few destinations introduced new taxation or altered existing taxation to target seasonality, locality or even visitor demographics. Most of them were introduced after a process of debate with city authorities, industry representatives, local communities and residents – each with different perspectives on what taxes should achieve.

With this White Paper, the original idea was to dive deeper into the design and governance of new taxation models and schemes. Often, the mere mention of tourism taxation has caused a heated debate with little room for curiosity as to how various tax designs might work for the benefit of both the industry and the destination.

Our aim was to explore these models and hopefully inspire more regenerative tax designs moving forward.

But then a pandemic arrived, and tourism stopped overnight…

This has radically shifted the conversation from the impacts of overtourism to the impacts of undertourism or no tourists at all. How are destinations to secure revenue for their bleeding tourism, travel and hospitality sectors?

Consequently, tourism taxes have been suspended in several member states and destinations, including places like Pisa and nations like Iceland, Croatia and Turkey while others have introduced differentiated tax relief by lowering VAT (Value Added Tax) to spur demand and speed up recovery.

In destinations that were still considering the introduction of tourism taxes, the topic has now been deferred (e.g. Scotland) and economic support and stimulus programmes are now the key topics in discussions among decision makers.

OBJECTIVES

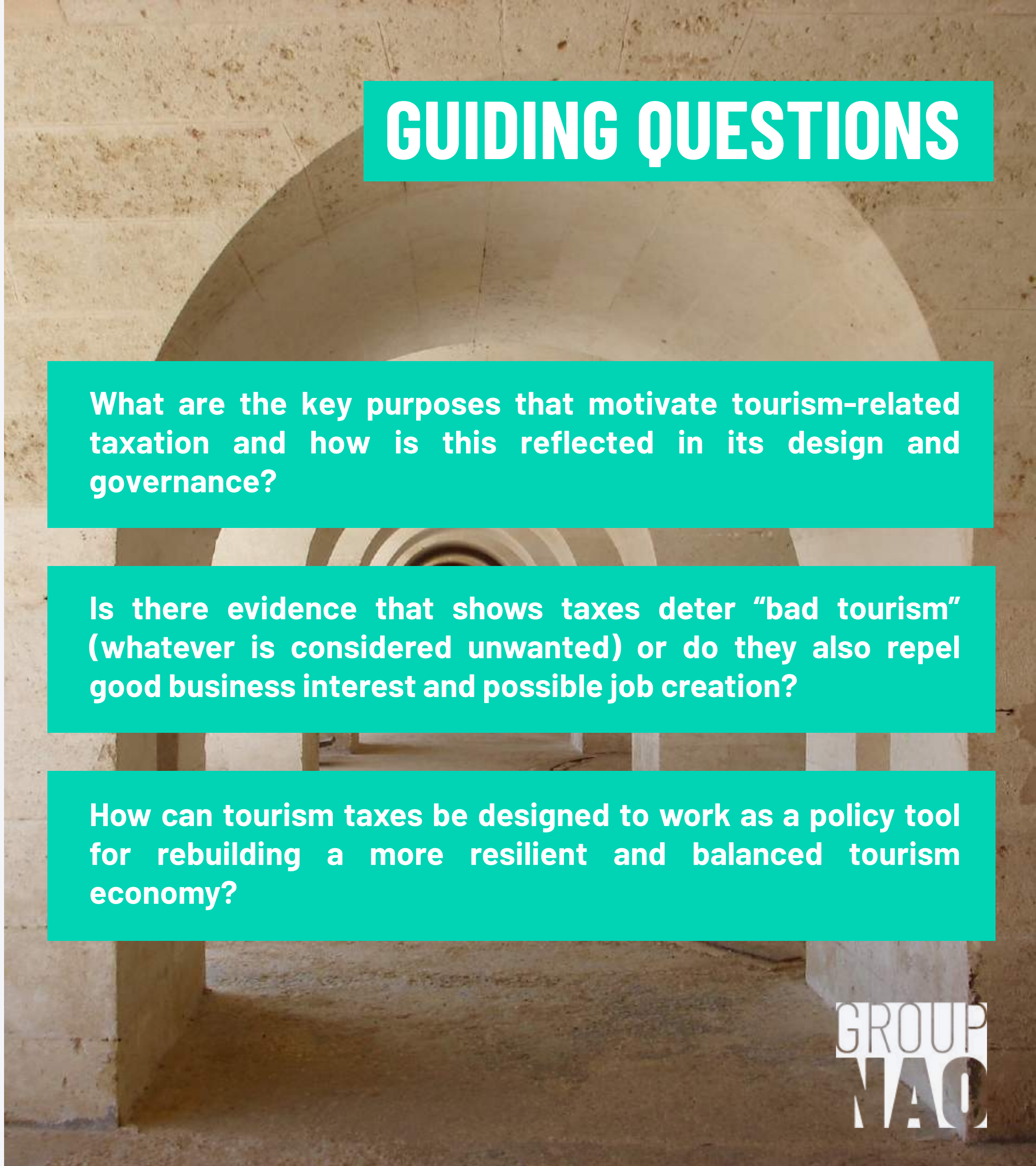
As we look ahead and plan for recovery and long-term resilience, the importance and objective of this White Paper is to refocus on purpose and impact and how tourism taxes can be designed for a balanced visitor economy.

Whilst the discussion on taxes has shifted for now, the need to look beyond the crisis for new funding models and how to rebuild and "build back better" in a more balanced and sustainable manner will be at the heart of many discussions to come. We hope this White Paper will feed into those discussions as well.

The paper will address the following elements relating to the current practices and future potential of tourism taxation in Europe:

- **Mapping the current status of tourism taxation** across European member states to understand the extent and prevalence of tourism-related taxation. This will include a brief analysis of VAT as a tool for crisis relief and recovery.
- **Exploring the different designs and intentions of tourism taxation** from 1) Overall regulation, 2) Diverse regeneration to 3) Resilience and Recovery. European and global examples will be referenced throughout.
- **Analysing the current financial situation for European DMOs** with a specific focus on how destinations' financial resilience is linked (for better or worse) to taxation measures.
- **Outlining key policy recommendations** and exploring future funding scenarios for the tourism sector in a post-COVID world.

The questions guiding this research have been developed in close dialogue and ideation with some of Europe's leading urban destinations and cities; The Global Destination Sustainability Movement, ETOA, ECM, EplerWood International and Miles Partnership, Civitas and Tourism Economics.



GUIDING QUESTIONS

What are the key purposes that motivate tourism-related taxation and how is this reflected in its design and governance?

Is there evidence that shows taxes deter "bad tourism" (whatever is considered unwanted) or do they also repel good business interest and possible job creation?

How can tourism taxes be designed to work as a policy tool for rebuilding a more resilient and balanced tourism economy?

HOW THE REVENUE FLOWS

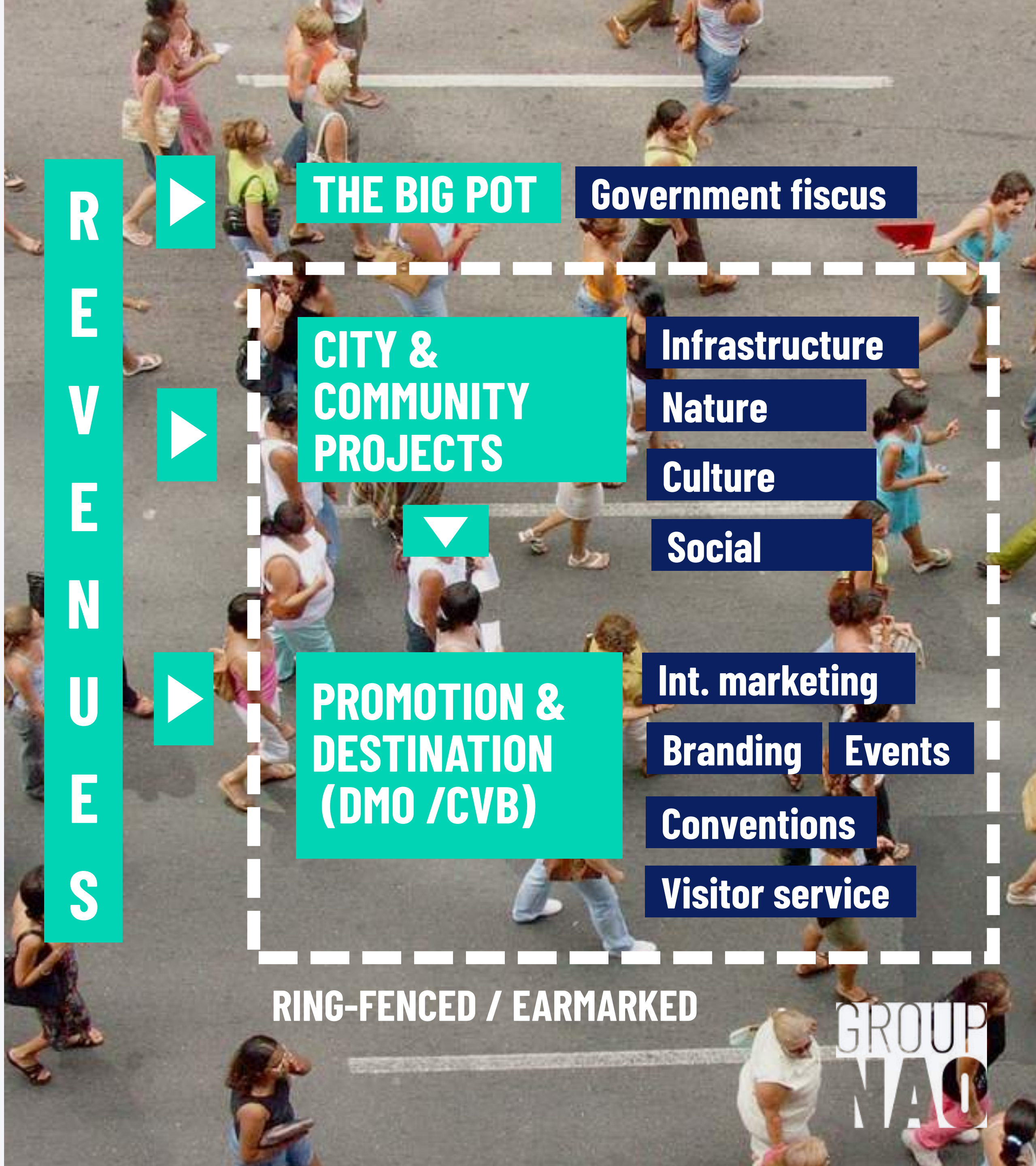
The illustration shows how the revenue usually flows after collection at the source.

In the case of accommodation taxes, they are usually collected by government agencies simultaneously with VAT-payments, and then remitted to city authorities.

The city can choose to allocate the revenues to "the big pot", meaning the general city budget, or earmark the revenue – or parts of it – for tourism related purposes.

Often, the city distribute the funds to its purpose within the city departments or to external projects. Many cities also channel funds to the local Destination Marketing/Management Organisation for tourism promotion or acquisition of events to the city.

As we shall see later in the report, cities sometimes also set up advisory bords or a tourism commission to help advise or guide the spend of tourism funds.



SCOPE AND DEFINITIONS

Tourism taxes or tourism-related taxation as an object of research and discussion is more complex and dynamic than it sounds. Many different types of taxes and levies can be applied to the broad range of economic activities covered or impacted by the tourism sector.

Tax forms such as real estate taxes, corporate and personal income taxes, value added taxes (VAT), occupancy taxes (sometimes called accommodation taxes or overnight taxes), air and cruise passenger taxes/duties, visa fees or access duties – are all imposed on tourism as an economic activity – either as a general tax or directly targeted at tourism activity.

The definition suggested by OECD (2014) considers tourism taxation as those indirect taxes, fees and charges affecting primarily tourism-related activities. Indirect tax receipts generated by tourism expenditure are either derived from general taxes, including import duties, sales taxes, or value added tax (VAT); or specific taxes on what are considered to be primarily tourism-related activities, such as hotel and restaurant taxes, airport taxes, visa fees, and arrival and departure taxes.[2]

In this White Paper, for simplicity, we will focus more narrowly on the specific taxes levied on the sector itself. We will briefly touch on differentiated VAT as a form of tax compensation to the tourism industry but focus more on taxes that are directly imposed on tourist visits (and especially occupancy taxes, which have historically been the most prevalent form of tourism-related taxation) along with specialised duties and levies collected in 1) specific locations, 2) under special circumstances and 3) with specific purpose - as opposed to using revenues for general public purpose.[2]

METHODOLOGY

Throughout this White Paper, we have approached the research and guiding research questions with different sources of data and research approaches.

- **Mapping current status and designs of tourism taxes** has been produced by extensive desk research, supplemented with explorative interviews with industry experts and researchers. In our desk research, we drew especially from the extensive studies by PwC for the EU-Commission, by European Tourism Association (ETOA) and by OECD. The research – and the current pandemic crisis - also demonstrates that tourism taxes are very dynamic and often changed depending on the country and sometimes above inflation. A complete list of sources can be found in the appendix.

- **Examples and cases referenced throughout the white paper** have been compiled through desk research and discussions with industry experts on best or innovative practice. Along the way, we have highlighted case examples for their inspirational value – specifically in terms of diversifying regulation and designing for regeneration.

- **The survey on DMOs financial situation** was carried out by Group NAO in collaboration with European Cities Marketing (ECM) from July – Aug 2020. It was a partial repeat of a 2017-funding study by ECM and sent via by email, addressed to CEOs in 120 European city DMOs. The survey asked 33 questions with pre-defined or standardised answers and included options for open comments. The final sample is 67 urban DMOs, which equals a response rate of 56%. In ECM's previous funding survey (2017), 53 cities replied.

- **Peer review and expert feedback**. The study is carried out by Group NAO in association with the Global Destination Sustainability Movement that has provided input, feedback and suggestions throughout. European Tourism Association (ETOA) has also been providing expert advice based on their own extensive research. Furthermore, the study has been carried out in strong synergy and in parallel to a similar study in the Americas: *"Funding Futures: The Impact and Future of Tourism & DMO Funding in Response & Recovery from COVID-19"* by Miles Partnership, Civitas, Destination Analysts and Tourism Economics. In addition, Group NAO has also sought the future-thinking perspectives of EplerWood International and how to fund the sustainable recovery of tourism. A big thank you to you all.

- **Dialogue with partner cities:** In the process of producing the white paper, Group NAO has valued the open dialogue with partner cities who have supported this study and taken active part in the discussions of the first draft and preliminary findings. These open discussions have made the final report better. We would like to thank all the cities for their support, professional engagement and trust.

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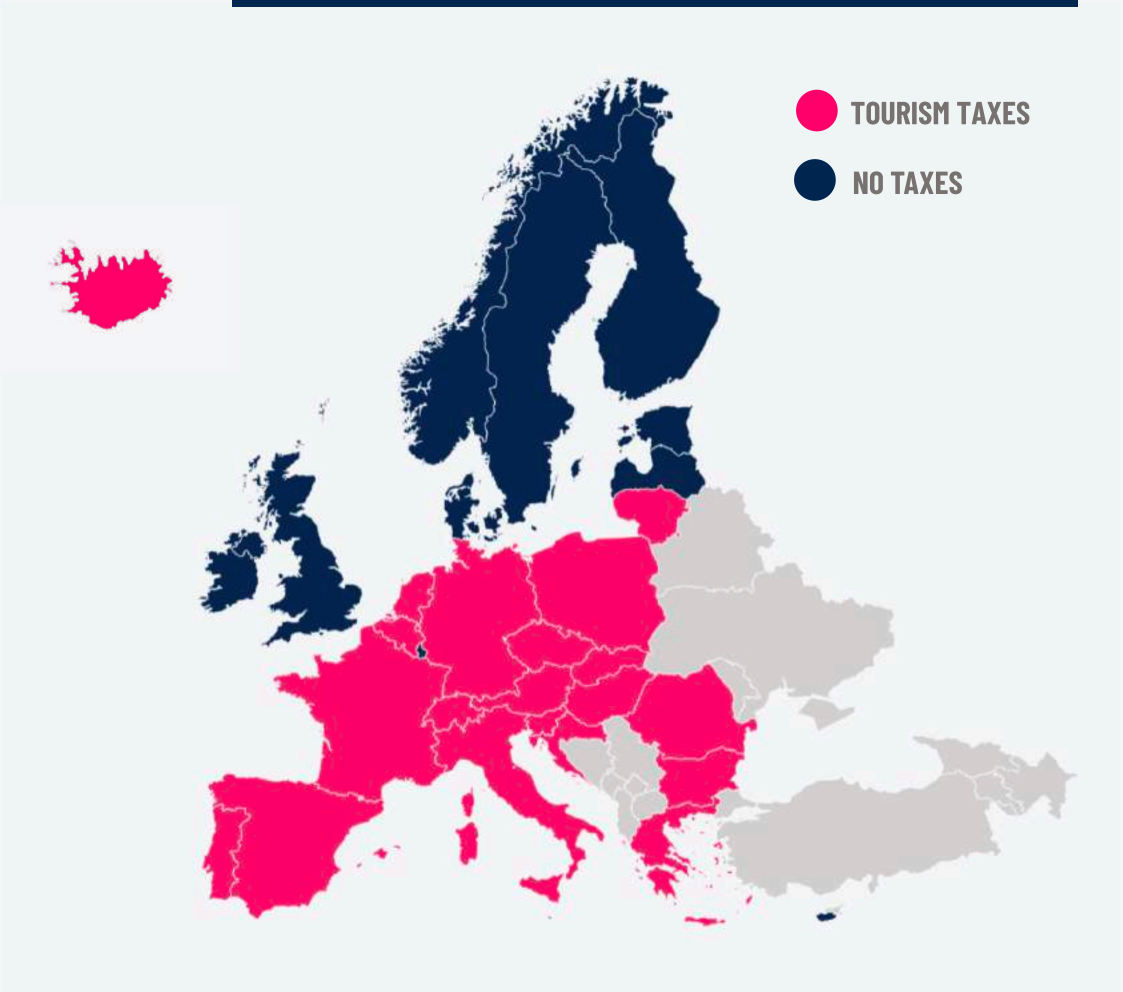
PART 2

MAPPING TAXES

A snapshot overview of tourism taxation in Europe and an exploration of regenerative tax models

GROUP NAO

OVERVIEW: 21 out of 30 European countries have occupancy taxes



MAPPING THE TAXSCAPE

Tourism-related taxation is widespread across Europe. In the latest snapshot from 2020, 21 out of 30 European countries covered in our research have occupancy taxes (bed taxes), while only nine do not. The countries that do not tax are mainly found in the Nordics and Baltics.

The mapping shows that the tourism taxes of many EU member states have been designed with regulatory intentions to either regulate or differentiate tourism flows by...

1. *Type or rating of accommodation*
2. *Locality or district*
3. *Seasonality*
4. *Length of stay or*
5. *Demographics*

It is far from all countries where the revenue from tourism taxes and levies are fenced-in and earmarked for tourism development and promotion. However, according to OECD, there has been significant increase in the number of taxes with an environmental focus and purpose, designed to encourage environmentally positive behaviour change from operators and tourists, or to provide funding for tourism management and destination infrastructure.

THE LANDSCAPE

Europe's landscape of tourism taxes is both complex and dynamic. The taxes can take on many forms. They are legislated at national level in most countries but come in many shapes and sizes in terms of local discretion and adoption. This literally results in hundreds of local tax practices across Europe.

Taxes also change from year to year. The following mapping is therefore a 2020 pre-crisis snapshot only, based on recently updated data from ETOA.

Among the 30 European states in the table, 21 have implemented occupancy taxes, while nine have not.

Countries with no occupancy tax are almost exclusively found in northern Europe. They include Denmark, Sweden, Norway, Finland, Ireland, Luxembourg, Latvia and Estonia. In the south of Europe, only Cyprus has no occupancy tax.

For most of the 21 countries with occupancy taxes, it is based on a "per person per night" rate, although the tax varies a great deal as either a fixed rate, a percentage of the room charge or a combo of both.

COUNTRY	TAX BASE	SELECT LOCAL TAX RATES	NOTES
Austria	Per person, per night	€0.50 - €3.80	*Vienna has a 3,2% room rate.*
Belgium	Often per person, per night	€1.25 - €4	
Bulgaria	Per person, per night	€0.21 - €0,77	
Croatia	Per person, per night	€0.94 - €2.68	*The high rate is Dubrovnik (from 2021). Local government decide whether to tax cruise passengers.*
Cyprus	No occupancy tax	-	
Czech Republic	Per person, per night	€0.59 - €0.83	
Denmark	No occupancy tax	-	
Estonia	No occupancy tax	-	
Finland	No occupancy tax	-	
France	Per person, per night	€0.20 - €4.10	*"Palace status" hotels in Paris have 5€ rate*
Germany	Per person, per night, or based on cost of room	€1 - €3.80 or 5-7,5% on the room rate	*Hamburg charges progressively depending on room price. Some destination include VAT in tax. No levies in Munich.*
Greece	Per room, per night	€0.50 - €4	
Hungary	Per person, per night, or based on cost of room	4% of room rate or up to €1.60 per person/night	
Ireland	No occupancy tax		
Italy	Per person, per night and tax on island day trippers	€0.28 - €7 pr. night	*National legislation limits max rate to €5 except in some destinations such as Florence, Rome and Venice where it is €10*
Latvia	No occupancy tax	-	
Lithuania	Per person, per night	€0.60 - €1	
Luxembourg	No occupancy tax	-	
Malta	Per person, per night	€ 0.50	
Netherlands	Per person, per night, fixed rate percentage, or combo of both	€2.75-€5.73 or 6-6.5% of room rate or 7%+€3	*Amsterdam also charges cruise passenger and have implemented entertainment tax*
Norway	No occupancy tax	-	
Poland	Per person per night	€0.38 - €0.55	*Levied as climate fee which comprises a local fee or spa fee.*
Portugal	Per person per night	€1 - €2	
Romania	Room rate	€0.18 or up to 3%	
Slovakia	Per person, per night	€1.50 - €1.70	
Slovenia	Per person, per night, extra promotion fee tax	€1.60 - €3.13	*Occupancy tax capped at €2,50, but a 25% promotion fee is added on top*
Spain	Per person per night	€0.45 - €4	*Only tourism taxes in Catalonia + Balearic Islands*
Sweden	No occupancy tax	-	
Switzerland	Per person, per night	€2.05-4.00	*Varies with seasonality and visitors age.*
UK	No occupancy tax	-	*Legislation in Scotland to tax is postponed due to COVID*

Source: European Tourism Association (ETOA) 2020. Local tax span based on sampling of multiple destinations in each country.

SUMMARY

OCCUPANCY TAXES ARE WIDESPREAD

The current European landscape of occupancy taxes can be summarised as follows:

- **Occupancy rates are usually marginal:** As the cost of a hotel room in Europe usually starts at €100-150 per night, the occupancy tax typically works out between €2-5 per person per night. The tax as proportion of price paid can therefore seem relatively marginal. However, there is sometimes a cumulative effect for multi-destination tours, and it is also clear that tax rates have generally been on the rise when we compare research from 2017 with 2020-data. In addition, occupancy taxes are often supplemented with differentiated rates of VAT in most member states.[1,45]

- **Taxes are largely enabled nationally,** but whether there is a requirement or just permission to collect locally varies between countries. Consequently, taxes also vary between cities. This makes occupancy taxes a matter of competition and positioning not only between member states, but also between domestic destinations. It also makes tourism tax a dynamic element in urban planning and politics.

- **Designed with purpose:** The tourism taxes across EU member states are almost all differentiated on generic parameters like hotel classification (stars), seasonality or urban zoning. In addition, the taxes are differentiated by length of stay (with longer stays discounted) and the young and aged often exempt from taxes. Regardless of differentiation parameters, the mapping shows that across most member states there is an intention to regulate visitor flows and demand in the design of the tax schemes.

In the following sections, we will examine the multiple models that can be used to design a tourism tax with a key focus on three different categories of purpose: Regulation (of behaviour), Regeneration and Resilience of the destination. In terms of Resilience, we will also explore tourism taxation in the context of recovery post the COVID19 pandemic.

We will also highlight a few additional taxes that are typically not categorised as tourism taxes, rather they are considered as tourism-related levies or fees that have an impact on the appeal of a destination.

These include:

- VAT and VAT discounts for tourism
- Airport Departure Duties (APDs)
- Tariffs or taxes on cruise passengers
- Taxes on short-term rentals.

VALUE ADDED TAX/VAT

COMPETITIVE DIFFERENTIATION

Almost all EU member states apply a lower VAT on tourism-related activities than on other economic transactions. Across the EU, a small group of member states stands out with few or no VAT discounts on touristic goods and services, including Denmark, Hungary, Greece, Croatia, Slovakia and the Baltics, who - across most categories - apply the general VAT rate on tourism goods and services.[1,45]

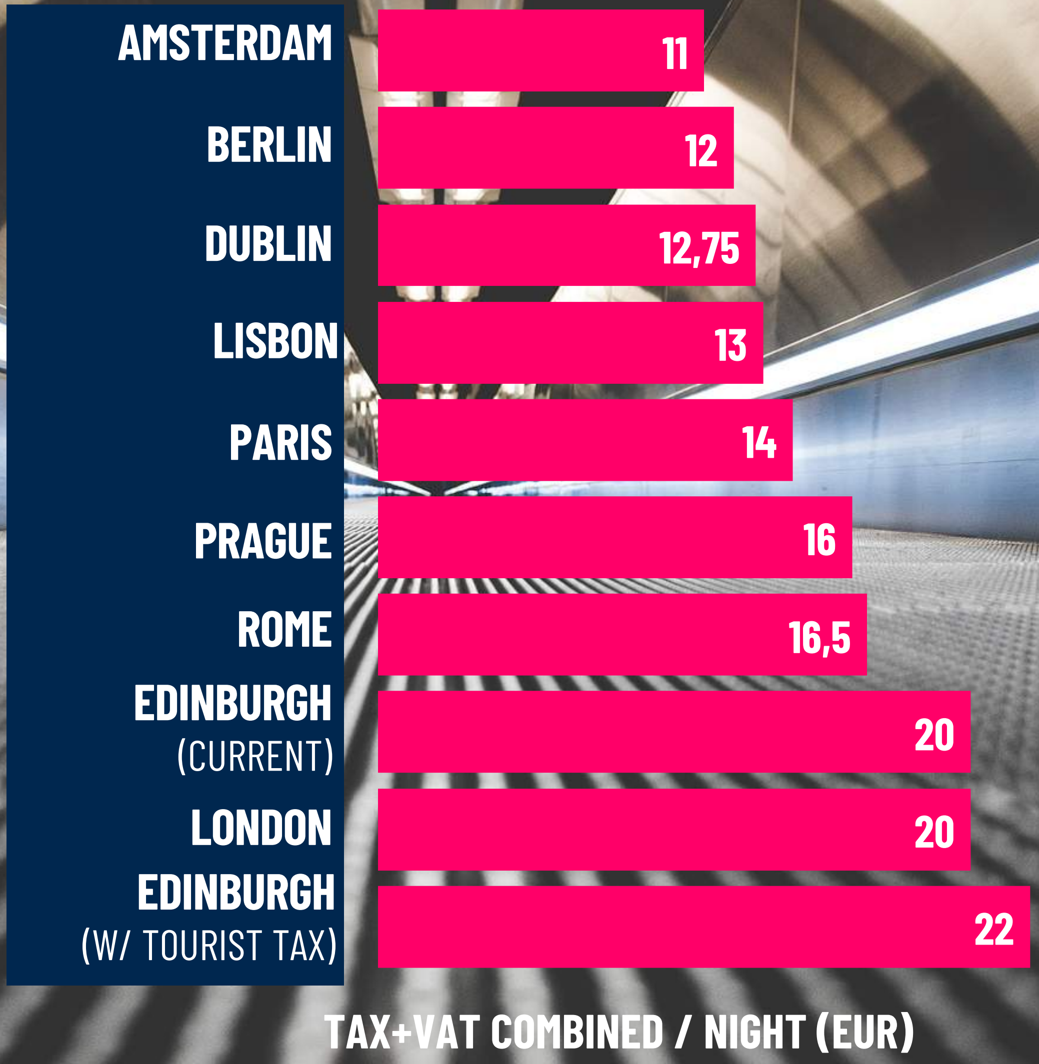
The minimum standard rate in EU is 15% for non-exempt goods and services (with no maximum) and the upper range is as much as 25 – 27% in some countries. The rate imposed on tourism goods and services is often exempt or lower than the general rate in each country. The traditional argument for diversified VAT on tourism is typically referred to as 'international competition' to attract visitors and events.[57]

Often, reduced VAT rates apply to hotel bills and admissions to cultural attractions:

- **Low VAT on accommodation:** Hotel stays are the most discounted tourism activity across the EU with an average rate of 11%. Only three European countries apply full VAT for hotels, namely Slovakia, United Kingdom and Denmark.[1]
- **VAT refunds for events and conferences**: In some cases, VAT refunds are used as incentive. In Dubai, for instance, it was recently decided to refund 5% VAT for institutions working in the exhibitions and conferences sector. The refund is intended to support the country's status as a hub for the meetings, incentives, conferences and exhibitions (MICE) industry.[35]
- **EU member states only apply VAT to domestic passenger transport:** With only a few exceptions (France and UK[1]), all member states apply VAT to domestic passenger transport – about half of them with reduced rate. Most countries do not apply VAT to international passenger transport by sea and air.[1]

IT'S ALL ABOUT THE TOTAL TAX BURDEN

VAT + tourist taxes per night (EUR) in key European Cities



Source: Tourist Tax – a report by the All-Party Parliamentary Group for Hospitality, UK, 29th May 2019

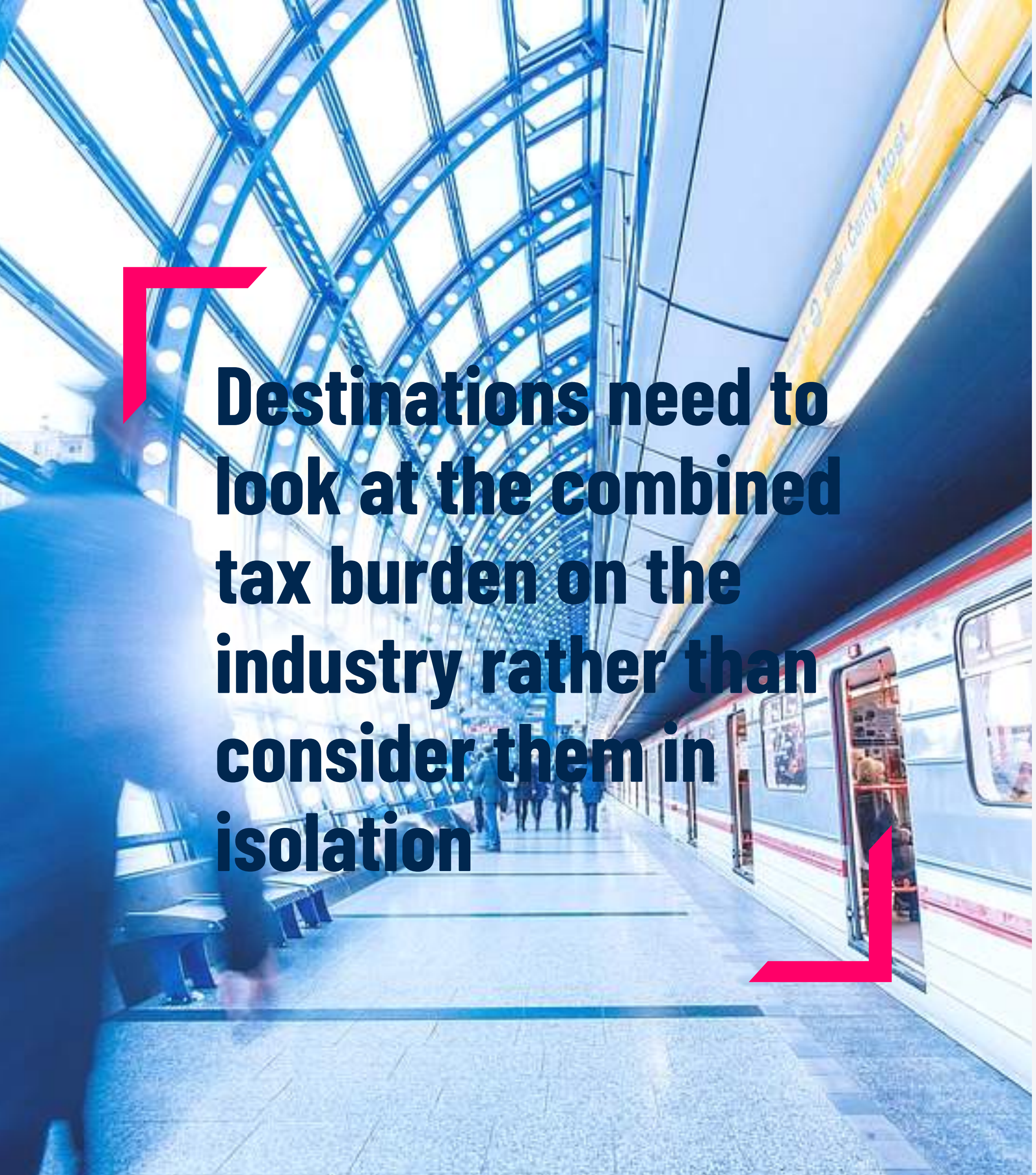
COMPETITIVE DIFFERENTIATION

VALUE ADDED TAX/VAT

- **VAT for Culture and amusement:** VAT across cultural attractions and amusement parks varies a great deal. About 20 member states have differentiated VAT for cultural attractions, often with more than one rate applying in specific areas or segments. Admission to amusement parks and sport events are the least discounted categories with an average VAT of 17% for amusement parks (2017) and reduced rates in eleven countries. Only about a third of EU member states have reduced VAT on amusement park visits.[1]

In this brief overview of the highly complex VAT models, it is important to note that VAT taxation and occupancy taxes often end up working together. See the chart to the left.

Destinations concerned with price-competitiveness need to look at the combined tax burden on the industry rather than considering them in isolation. This also implies that policy makers considering a tourism tax have the option of lowering VAT rates to soften industry opposition. This was the case in the recent debate in the UK, where industry organisations proposed a model of reduced VAT on accommodation to balance the introduction of a new tourism tax on accommodation.[46]



Destinations need to look at the combined tax burden on the industry rather than consider them in isolation

VAT REDUCTIONS FOR RELIEF

During the COVID-19 crisis it has become apparent that many countries have resorted to targeted VAT reductions to give the hospitality industry some immediate relief. These initiatives vary a great deal from lowering interest rates on VAT debt and postponing reporting and payments to either general reductions or direct reductions in the VAT rates that apply to business in the hospitality sector.

It is clear that VAT reductions and suspensions are both global and very dynamic phenomena during the crisis. The overview below shows just a small selection of the most recent initiatives targeted at the hospitality sector.

Country	Date	Action
Ireland	13.10.20	Irish VAT rate cut to hospitality until Dec 2021
Albania	01.10.20	Small businesses (14m. leks turnover) exempted from VAT
UK	24.12.20	Extends 5% reduced hospitality VAT till 31.03.2021
Montenegro	10.08.20	Cuts hotel and catering to 7% VAT till Aug 2021
Bulgaria	31.07.20	Cut VAT rate on catering and restaurants to 9% in 2020
UK	08.07.20	Hospitality VAT rate cut from 20% to 5%
Germany	-	Transition rules for the temporary VAT cut
Czech Republic	22.07.20	Accommodations & events VAT cut to 10%
Belgium	17.06.20	Catering services VAT cut from 12% to 6%
Austria	12.06.20	Restaurant VAT rate cut and more.
Norway	13.05.20	Reduced VAT rate on accommodation and culture cut further
Ukraine	30.04.20	VAT rate cuts on cultural events and more.
Moldova	01.04.20	VAT rate cut on hospitality services from 20% to 15%

Source: For a complete surveillance see: www.avalara.com/vatlive [58]

AIR PASSENGER TAXES

DEPARTURE DUTIES ASCENDING

Taxes on air travel are a complex and much-debated area of regulation. Overall, there are five types of taxes on aviation:

1. Ticket taxes.
2. Value added tax.
3. Taxation on aircraft fuel.
4. Environmental taxes.
5. Taxes for air cargo.

When evaluating the design and impact of tax models, it is of course important to look at the total tax burden and interplay between them. Still, much of the public interest and debate about the ticket taxes are often focused on Airport Passenger Duties (APDs). In Europe, Austria, France, Germany, Italy, Norway, Sweden, the UK, Turkey and Switzerland have departure taxes as of June 2020. Furthermore, airport departure taxes are also implemented in some of the world's biggest travel economies, including USA, China, Thailand and Australia.[43]

In most cases, APDs are lower on short-haul flights and several times higher on long-haul flights. The intention is often presented as a wish to reduce CO2 emissions, i.e. long-haul flights = higher emissions = higher APDs.

This was also the case in the Swedish debate in 2018, where the new APD introduced equaled SEK 61,00 on domestic flights and SEK 408,00 on long-haul flights. Also, in the UK, APDs vary based on the length of the flight. For Europe and north Africa, there is a standard rate of GBP 26,00, while all other (long-haul) destinations add a standard rate of GBP 156,00.[40]

AIRPORT DEPARTURE DUTIES

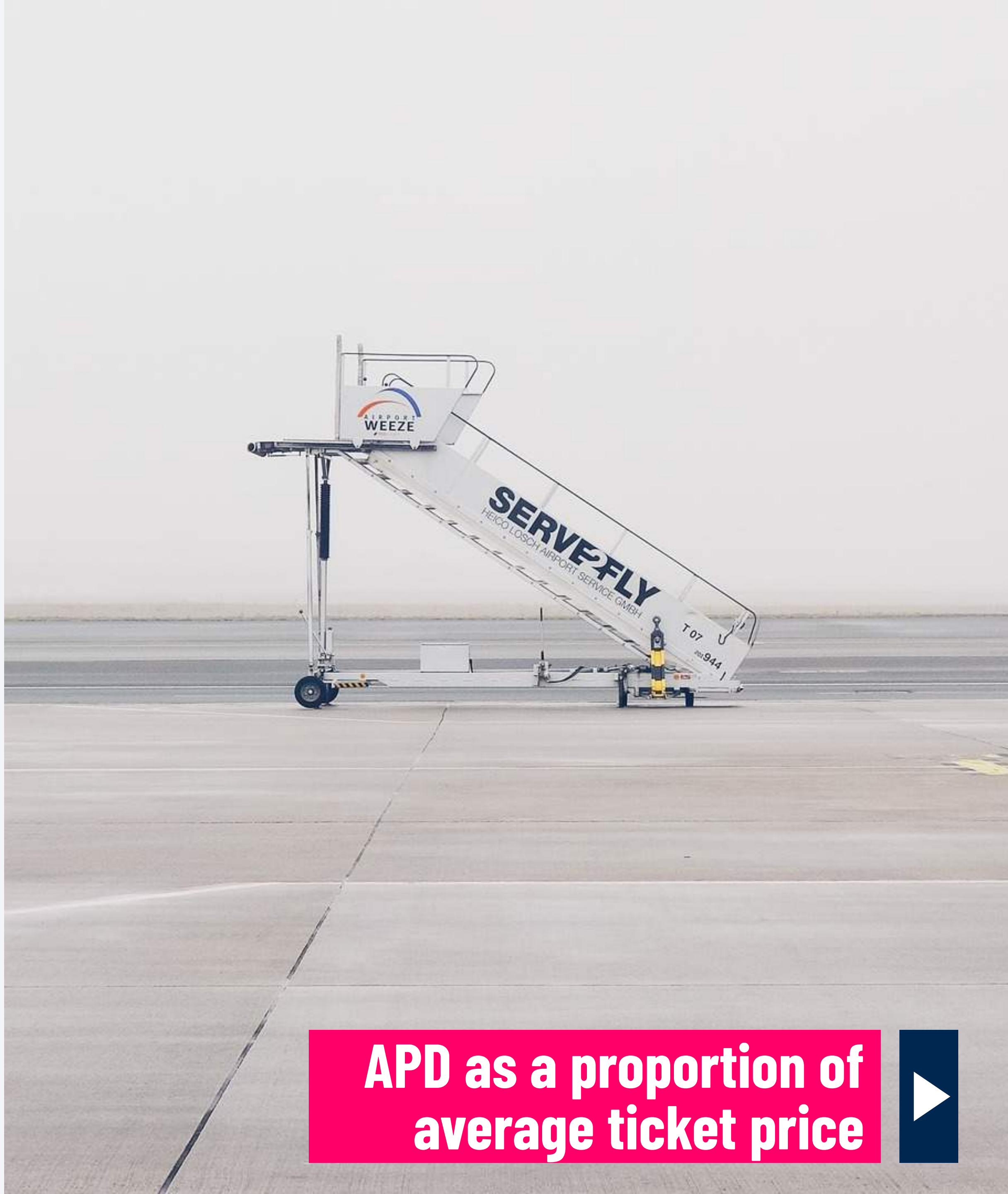
It could also be argued that APDs should be designed with the reverse incentive: Low duties on long haul flights and heavy duties on shorter/domestic flights where consumers actually have an alternative choice of taking a train.

APDs are not always meant to make people fly less, but also to finance green initiatives elsewhere in the economy. As this report was being finalised, a commission under the Danish government recommended implementing APDs in order to reduce carbon emissions by 70% by 2030; a promise made by the new Danish government in the recent election. The Danish government commission suggested that the revenue from APDs should be used to incentivise Danish car buyers to buy subsidised electric vehicles instead of cars with combustion engines.

Generally however, it is worth noting that APDs are fundamentally different from accommodation or occupancy taxes in two ways:

1. With few exceptions, airport taxes are not reinvested in the local tourism economy. Revenues are mostly channeled to the national government fiscus or to finance environmental policies.

2. Where hotel occupancy taxes are often marginal compared to its total price, airport taxes can be quite substantial. As pointed out by Airports UK and Frontier Economics, APDs in the UK on average represent around 16% of ticket prices short-haul flights and 18% for long-haul. During off-peak season, this increases to around 27% and 26% – see table.[40]



APD as a proportion of average ticket price

APD as a proportion of average ticket price (short-haul)

	Avg. ticket price in £ (annual)	... of which APD	Avg. ticket price in £ (off-peak)	... of which APD
SPAIN	91	14%	46	28%
UK	61	21%	50	26%
ITALY	86	15%	45	29%
GERMANY	69	19%	49	27%
FRANCE	72	18%	49	27%
IRELAND	47	28%	30	43%
POLAND	60	22%	26	50%
NETHERLANDS	69	19%	60	22%
PORTUGAL	94	14%	46	28%
SWITZERLAND	87	15%	70	19%
AVERAGE	79	16%	47	27%

Source: Frontier analysis based on OAG data

GROUP NAO

AIR PASSENGER DUTIES

CAN INFLUENCE TRAVEL DEMAND AND BUDGET

There is evidence to suggest that APDs can have rather significant impact on consumer behaviour and demand. At the micro level, an academic study found UK APDs affected the travel budget priorities of outbound travellers, shifting at-the-destination-spending on food and accommodation to spending on air transport. This, in turn, keeps a bigger part of the travellers' budget in home country.[39]

At the macro level, one of the most comprehensive studies on airline taxation concluded that new or increased aviation taxes would generally have a negative impact on the aviation industry (lower direct employment and direct value added) but its impact on the overall employment within a member state, on fiscal revenue and GDP would be close to zero due to alternative economic dynamics. At the same time, new or increased taxes would reduce the number of passengers and flights as well as the environmental impacts.[43]

Conversely, the same study models what will happen if all aviation taxes in Europe were to be abolished. Currently it indicates the weighted average aviation tax in the EU (across all member states and destinations) amounts to €11 per ticket. If abolished, the number of passengers would increase by 4%. This would result in an equivalent growth in the number of flights, connections, more jobs and higher activity in the aviation sector.

On the negative side, the CO2 emissions of aviation would increase by 4% and the number of people affected by airport noise by 2%. Still, because of either lower government expenditures or higher taxes on other activities, most of the increase in jobs would be compensated by a decrease in employment in other sectors. The overall impact on GDP would be 0.2%.[43]

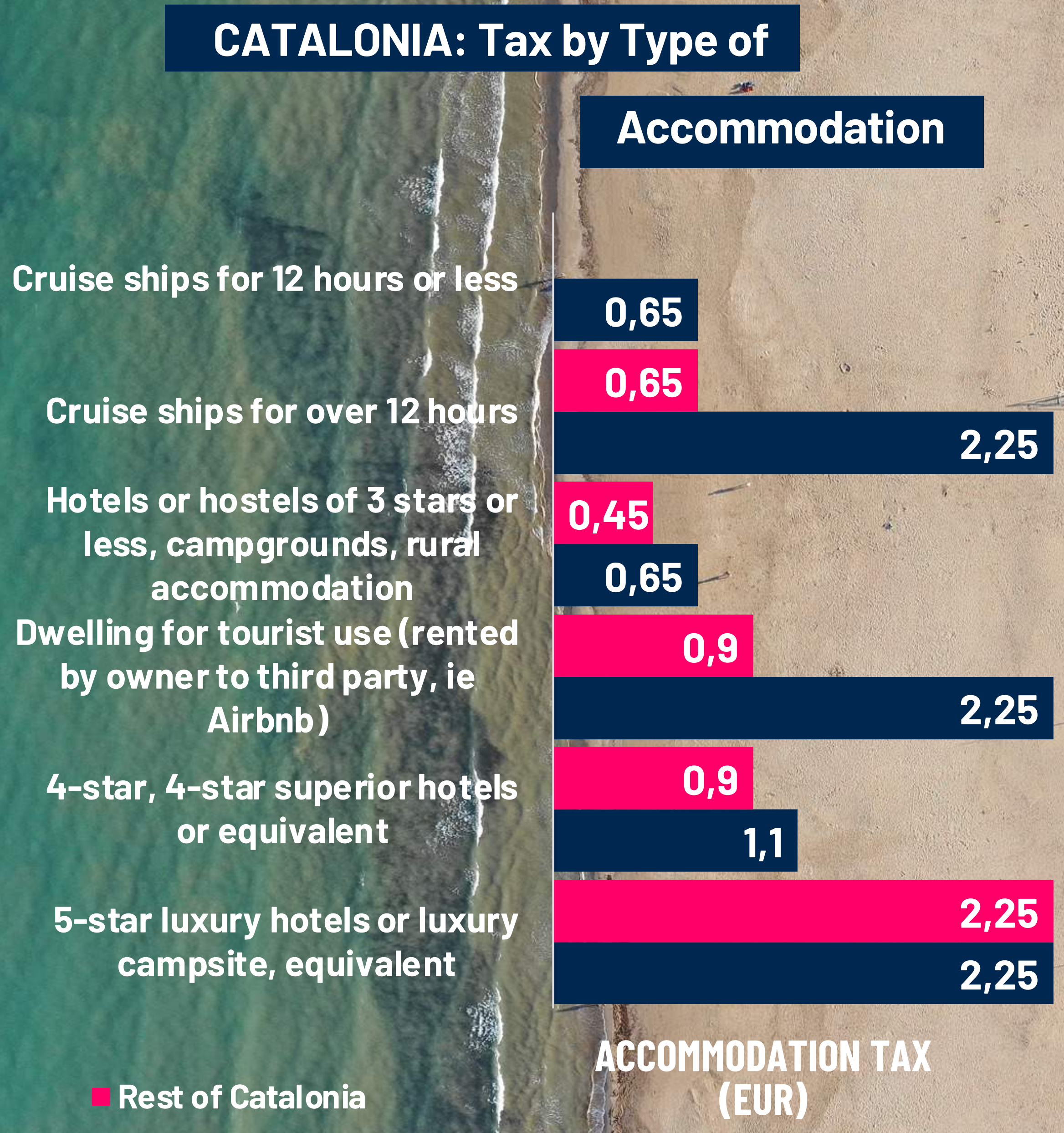
CRUISE PASSENGER TAX

Cruise passenger tax is not a new phenomenon. The most mature cruise destinations among the Caribbean nations implemented passenger taxes in the early ´90s to help finance port infrastructure. Almost 30 years later, the cruise segment is now also becoming a focus area for taxation in European destinations, and often it is with the declared intention to help finance port infrastructure or as a response to general visitor pressure.

In Catalonia, Spain, for example, cruise ships (staying for more than 12 hours) are charged the same rate as upper range hotels.[9,45] See chart.

In Venice, the tourism tax for day-trip visitors announced in 2019 is currently expected to be implemented on 1st of April 2021. It targets any tourist who arrives by coach, cruise ship, water taxi, plane or train. The cruise segment has been in the public eye as the symbol of the city's massive visitor pressure challenges.[42]

In 2019, the city of Amsterdam decided to implement a new tax on cruise passengers. The tax is a fee of €8 per passenger - per day for sea and river cruise ships making port calls and is also intended to offset the impact of tourism on city services. It does not apply to home-ported vessels sailing out of Amsterdam. Shortly after the decision, MSC Cruises and Cruise & Maritime Voyages (CMV) indicated that they would skip most Amsterdam port calls in response to the tax, and instead substitute Amsterdam with nearby Rotterdam and IJmuiden for future itineraries.[41] It has since been high-lighted that the tax might also have increased the number of tourist coaches as some cruise lines are now bussing the passengers by coach from Rotterdam to the experience scene in Amsterdam. Later reports has estimated that the decision to day tax has led to a 40% reduction in the total number of port calls to the city in 2019.



Source: Costabravatouristguide.com

GOVERNMENTS DEMAND COMPLIANCE FROM RENTAL PLATFORMS

SHORT TERM RENTALS

SINCE 2019, THE EUROPEAN COMMISSION REQUIRES AN ONLINE BOOKING PLATFORM TO ADVERTISE TOTAL PRICE OF BOOKING INCL. TAXES

In a handful of member states, Airbnb has made agreements with governments to collect and remit local occupancy taxes on behalf of hosts. Airbnb calculates these taxes and collects them from guests at the time of booking. Airbnb then channels the collected taxes to the applicable tax authority on the host's behalf. According to Airbnb, this is the case in France, Netherlands, Lithuania, Switzerland, Germany, Italy and Portugal.

According to industry observers, short term rental taxes in the United States are collected in all fifty states and often in a patchwork with individual counties or cities taking the lead. There are a small number of states (e.g.: Utah, Massachusetts, Tennessee) where tax is collected and remitted on a state-wide basis – but without transparency on the properties, visitor nights etc involved. Still, Airbnb offers their hosts administrative functions as an integral part of the platform.

When it comes to transparency, Airbnb and other similar accommodation providers have been criticised for not advertising these taxes as part of the rental price, making it an unexpected added cost for the visitor upon departure.

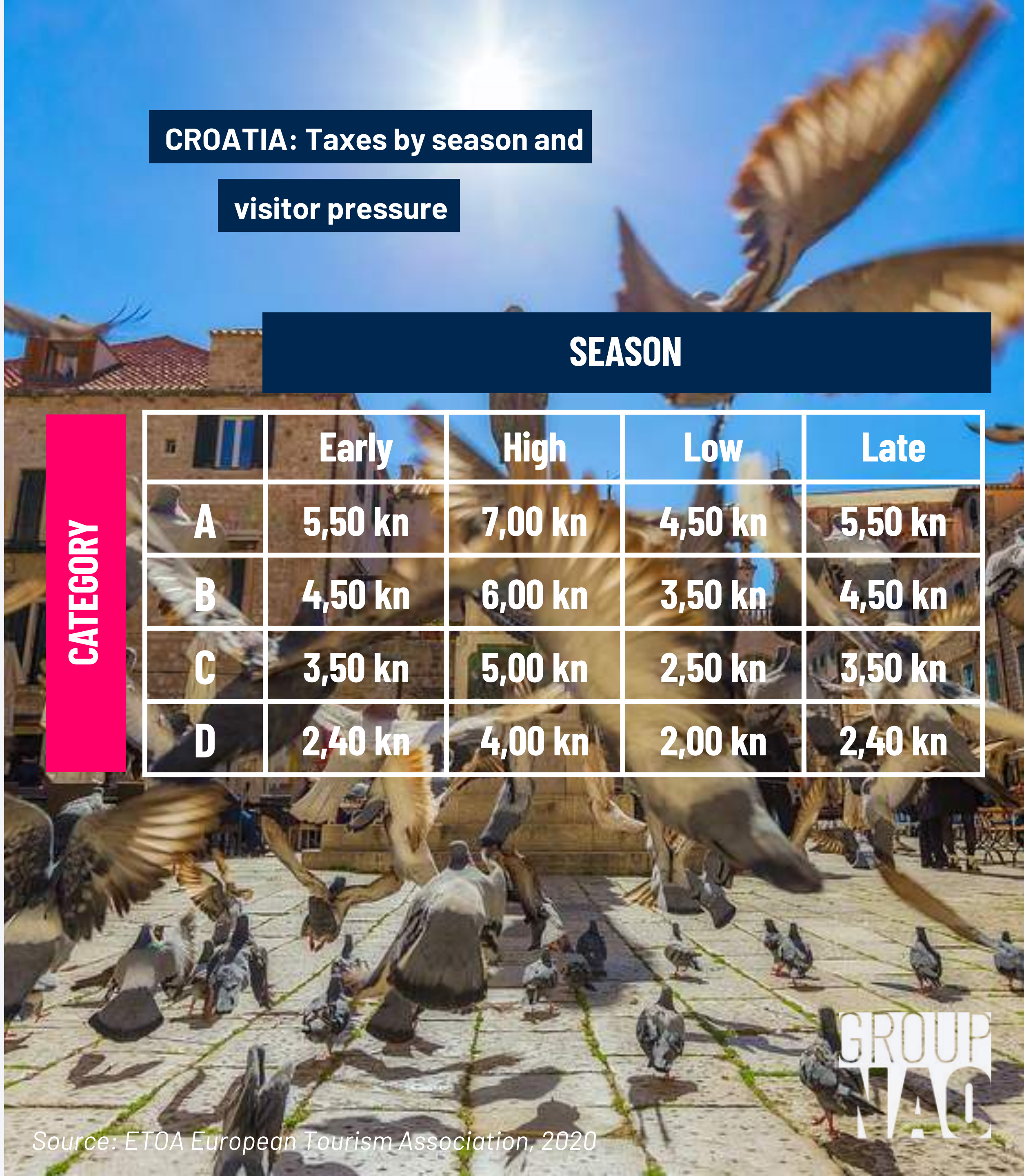
In 2019, the European Commission regulated that an online booking platform is required to advertise the total price of booking lodging throughout Europe, which means all mandatory fees must be included into the nightly rate.

TOURISM TAXES

REGULATING BEHAVIOUR AND FLOWS

Even though many tourism taxes might originally have been introduced with the intention of raising public revenue, the majority of European tourism taxes also appear to be designed with the intention to regulate visitor flow or impact, whether by seasonality, visitor segments, length of stay or other specific criteria.

- **Seasonality and geography:** The table to the right shows how Croatia originally designed their tourism taxes to incentivise travel during different seasons and to different areas of the country. The design has recently been simplified with fewer categories and rates have been increased as January 2019, but it is an illustrative example as the tax rates were both categorised in four seasons and destination categories according to visitor pressure with Dubrovnik, among the most popular destinations in Croatia, classified as a Category A Destination.[45]
- **Noise nuisance:** In France, a tax on aircraft noise was introduced in 2003, payable by public or private entities operating nine of the country's busiest airports, where the annual number of aircrafts exceeded twenty-thousand take-offs. The amount of tax due per departure depends on the tax rate applicable at the departure airport (reaching from € 0.50 to € 40.00), the aircraft's maximum take-off weight (MTOW), its certified noise performance (as specified in the aircraft's noise certificate) and time of departure.[59] Tax revenue is allocated to the affected residents near airports as well as to noise reduction measures.[2]



CROATIA: Taxes by season and visitor pressure

CATEGORY	SEASON: Early	High	Low	Late
A	5,50 kn	7,00 kn	4,50 kn	5,50 kn
B	4,50 kn	6,00 kn	3,50 kn	4,50 kn
C	3,50 kn	5,00 kn	2,50 kn	3,50 kn
D	2,40 kn	4,00 kn	2,00 kn	2,40 kn

Source: ETOA European Tourism Association, 2020

TOURISM TAXES

FOR PRESERVATION AND REGENERATION

Though not as prevalent there are quite a few examples of tourism tax models designed to fund destination development or for broader environmental and community purposes. We have labelled this taxation purpose 'regenerative', because it is a mechanism to ensure that destinations can generate shared value from tourism and give back to the local communities.[21]

According to OECD, there has been significant increase in the number of taxes with an environmental focus, designed to encourage environmentally positive behaviour change from operators and tourists, or to provide funding to better manage the environmental or otherwise negative impacts of tourism activities.[2]

In regenerative tax models, revenue can be used for infrastructure, community projects, restoration or investment in local culture, nature preservation, education or social projects. The following are examples of this kind of tourism tax design:

- **Tourism taxes for nature protection:** In Iceland, The Tourist Site Protection Fund was established in 2011 (Act No. 75/2011) to promote the development, maintenance and protection of nature-based tourist attractions under public ownership or supervision. The Tourist Site Protection Fund is financed by an Accommodation tax (Act No. 87/2011) and additional government funding. It is governed by a board of representatives appointed by the Minister of Industry, local industry and municipality associations. Capital from the Fund is used to ensure tourist safety, protect Icelandic nature, and is intended to diversify sites visited by tourists to reduce pressure on the most frequently visited destinations. In recent years, there has been political debate in Iceland over introduction of new taxes to curb the exponential growth in visitor numbers to the country.[60,61]

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FOR PRESERVATION AND REGENERATION

TOURISM TAXES

- **Tourism Taxes to ensure sustainable tourism growth:** From July 2019, New Zealand introduced an arrival tax of NZD 35 for most foreign visitors (with exceptions). The tourism tax is called the "International Visitor Conservation and Tourism Levy" and the tax revenue is to be invested in sustainable tourism and conservation projects. On the website, it is clearly stated that tourism tax serves the purpose of making "sure" that New Zealanders' lives are enriched by sustainable tourism growth. It will do this by investing in projects that will substantively change the tourism system, helping to create productive, sustainable and inclusive tourism growth that protects and supports our environment."[47] The funds are guided by an advisory group that meets three times a year with expertise and experience across the industry, in tourism investment, in conservation and in environmental matters etc.[47]

- **Tourism taxes to give back to culture:** In 2014 in Cologne, Germany, they introduced an occupancy tax described as a tax for promotion and advancement of culture. Business travellers are exempt from the tax. The tax is described as an important contribution to consolidating the role of Cologne as a city of culture. According to the City of Cologne, the expected income of the tax is EUR 7 million, which will be allocated annually to the areas of culture, education and tourism.[48]

- **Tourism taxes to give back to the music scene:** In 2019 in Austin, Texas, the City Council approved a "live music fund" from the city's hotel occupancy tax. Fifteen percent of the occupancy tax revenue will be directed to the local commercial music industry, while another 15% is to be directed to historic preservation. The remaining 70% is to be directed to the Austin Convention Center.[49,55]

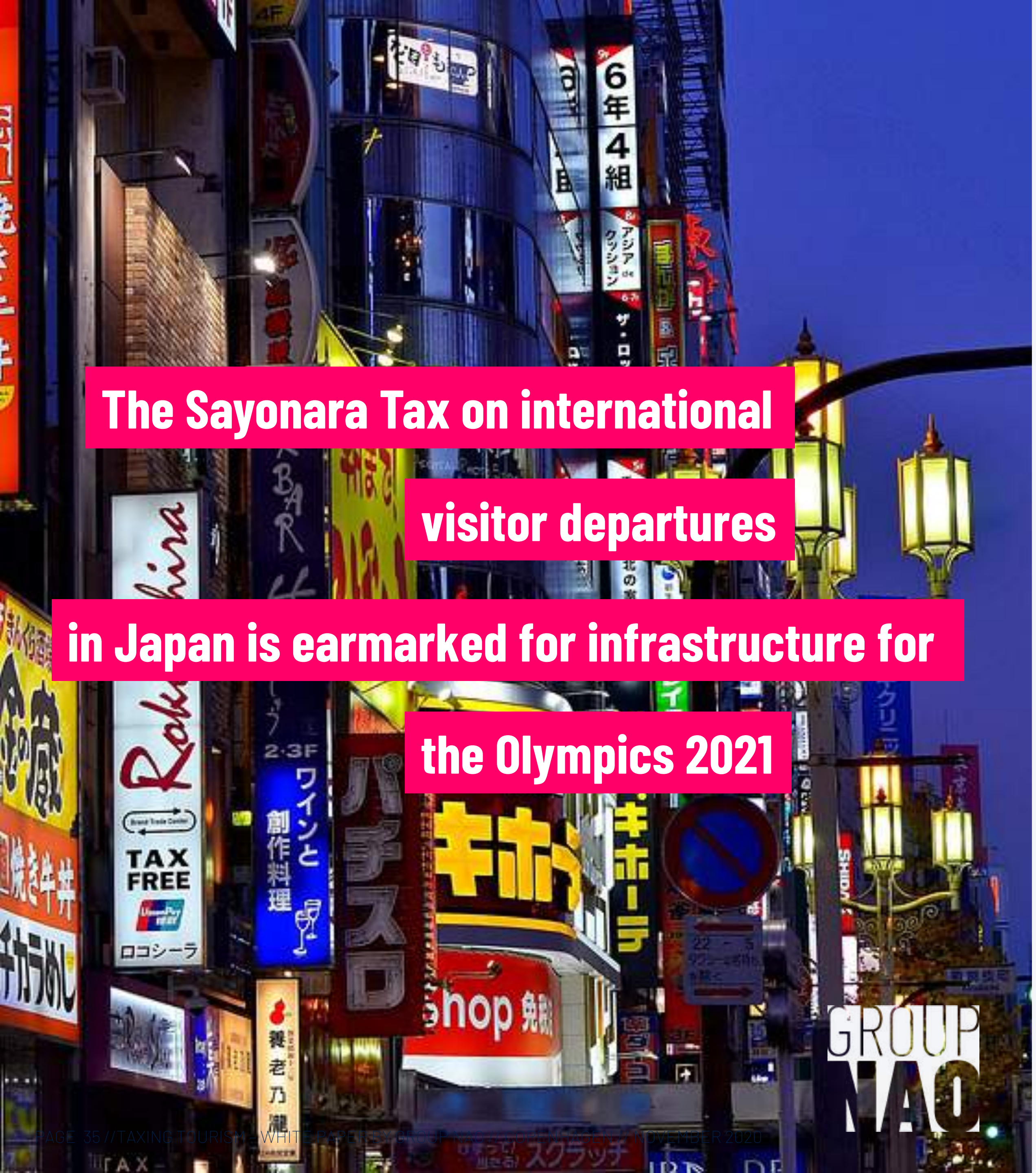
TOURISM TAXES

FOR PRESERVATION AND REGENERATION

- **A Sustainable Tourism Tax:** Since 2016, it has been applied to all stays in tourist accommodation in the Balearic Islands. The Sustainable Tourism Tax differentiates between seasons and type of tourist establishment, but what is most interesting is that the income is channelled to a Sustainable Tourism Fund, which subsidises projects with the objective of environmental development and protection, the promotion of sustainable tourism, the recovery of historical heritage, scientific research, promotion of training and employment, and the acquisition and rehabilitation of housing for low-cost rentals.

  Prior to the introduction of the Sustainable Tourism Tax, there was a high degree of stakeholder involvement. To ensure a fair and effective use of revenue, the funds from the tax are distributed by the Commission for the Promotion of Sustainable Tourism which represents a mix of stakeholders and experts including government officials, employers, union employees and other interested parties.

  Another important element is the high degree of transparency. The *Illes Sostenibles* website, which is available in English, Spanish, Catalan and German, provides an overview of all the projects funded through the tax. Details such as the project's location, purpose, course of action and cost are comprehensively accounted for. Additionally, the website provides more general information such as tax rates and exemptions, commission members and general rules for eligibility of projects.[50]



The Sayonara Tax on international visitor departures in Japan is earmarked for infrastructure for the Olympics 2021

TOURISM TAXES

In quite a few EU member states and in other destinations around the world, revenue from occupancy taxes or other tourism-related taxes are ring-fenced and returned – partially or fully – to further strengthen the tourism industry and destination. Typically they focus on activities related to destination promotion, to the funding of DMOs or CVBs, but also more generally for tourism infrastructure or similar.[9] In the DMO Funding Study 2020, carried out together with European Cities Marketing, 67 European city DMOs were sampled and of these, 26 (35%) were partially funded by occupancy taxes and a further four DMOs (5%) by voluntary contributions from the accommodation partners.

While resilience has become a central word in discussions around the current pandemic crisis and 'building back better and stronger', several destinations have already had tourism tax models in place designed to build resilience for local tourism industry and the destination.:

- **Tourism tax to prepare for mega-event:** Japan's "Sayonara" tax received a lot of international attention when it first went into effect in January 2019. The 1.000 Yen fee is paid by international visitors upon departure and is intended to be used to enhance Japanese tourism infrastructure in preparation for the Summer Olympics in Tokyo (planned for 2020, now postponed until 2021).[51]

- **Tourism Tax to attract major events:** Funding for a future mega-event was also a key argument in the recent debate in the UK on tourism taxes when the city of Birmingham explored the possibility of introducing a tourist tax to help fund public services during the 2022 Commonwealth Games.[52] The proposed rate was £1 a night and the tax would apply to all hotel guests regardless of whether they were local or overseas visitors. The tax was envisioned as a permanent tax that would also help fund other future events.[31]

- **Promoting and strengthening tourism:** A good example of a "tourism tax for tourism" is the *Taxe de séjour* in France. It is collected by hotels or owners and transferred to city authorities. The city can then fund, for example, production of promotional materials and activities, modernisation of touristic spaces (museums, castles, etc.). Revenues can also be used to cover costs associated with visitor pressure on local infrastructure, for beach maintenance, etc.[11]

Similarly, the *Taxe de séjour* or *Kurtaxe* in Switzerland is used to fund local infrastructure and facilities, events, local transport and other services that are in the interest of tourists. It is also a good example of a tax that gives the payer a benefit in kind that suits the way locals want their city to be visited e.g. with a local transport pass. Switzerland also has an accommodation tax (*Beherbergungsabgabe*), which is used for tourism promotion and maintaining or improving the region's infrastructure.[9,45]

In Slovenia, in January 2019, an additional "promotion tax" was added to the existing tourist tax. The amount of the promotion tax is 25% of the tourist tax and is intended for planning and implementation of marketing and promotion of Slovenia. The revenue of the tax goes to the Slovenian Tourist Board.[53]

Charging an access fee has massively increased visitor numbers to Civita di Bagnoregio: Growing by +2400% visitors over less than 10 years

- **Exclusive appeal:** *Civita di Bagnoregio* is one of Italy's most Instagrammable villages located north-west of Rome. It only has a dozen inhabitants. Interestingly, this small destination has successfully increased its appeal by imposing a tourism tax.

  In 2013, the destination tried to grow tourism with art events and cultural festivals to attract people from Rome to come for the weekend. In part as a marketing initiative, the destination introduced a more symbolic charge of €1.50 to access the village. This was widely reported in the media and had a massive impact on visitor numbers.

  Between 2009 – 10, there were a total of 40.000 visitors to all the six villages in the area. In 2018, one million visitors came to Civita alone. Since 2013, the entrance fee has increased to €5 (2018) and is used to maintain and develop local infrastructure as well as to secure tax reliefs for local residents. Unemployment has dropped from 10% a decade ago to under 1% today.[5]

TOURISM TAXES IN TIMES OF CRISIS

The pandemic crisis in 2020 adds further complexity to the discussion. Reliance on tourism taxes in a time of no tourism has of course proven impossibly difficult and many destinations are as vulnerable as the tourism industry itself.

In principle, the core purpose of tourism taxes should be to help build stronger destinations as they (ideally) fund tourism infrastructure, industry collaboration and long-term sustainability.[30] They are also some times designed with the intention to help regulate the long-term balance of a destination, protect vulnerable natural resources and cultural heritage. Again, Iceland's Tourist Site Protection Fund is a good example.[2]

Ideally, these revenues could also be used to build up financial reserves to mitigate against unforeseen circumstances. They can either ensure the continued operations of the DMO or CVB, or guide recovery and provide stimulus to the sector.

A few examples of tourism taxes in a time of crisis – both in recovery and in ensuring resilience:

- **Recovery:** In Toronto, Canada, the City Council has agreed to allocate the entire Municipal Accommodation Tax (MAT) revenue to Visit Toronto as the city's DMO to support the recovery of tourism.[33,54] However In other Canadian destinations, it seems there is industry disappointment that the MAT is already allocated and not available to directly support the industry.[18]
- **Event insurance and guarantees:** As the COVID-19 crisis has unfolded, it has exposed an urgent need for DMOs and the tourism industry to implement a wider range of insurance solutions to mitigate and manage risk (continued on next page...)

- **Event insurance and guarantees (continued):** As we once again start to plan and travel for events, insurance schemes may be essential to restarting some sectors of the tourism industry such as larger events or conferences - to cover financial losses if restrictions or closures are imposed by governments. Here, a public-private insurance funded by tourism tax revenue could be an option.

  In Florida (though according to our research not funded by tourism tax revenue), Visit Florida has developed "Cover Your Event Insurance" as an offer to event and meetings organisers in risk of having their event disrupted by natural disasters (specifically, hurricanes in the months from August-October). According to Visit Florida, the tool has been successful over the past several years and insures well over 100 meetings per year with an approximate economic impact of over USD 30 million per year.[29] It is fair to assume that tools like this will become more important as climate change accelerates and weather conditions worsen.

TOURISM TAXES IN TIMES OF CRISIS

A research insight is that tourism taxes are seldom designed in anticipation of a future crisis. Instead they are often lowered, or suspended, to offer relief to the industry in the time of crisis. Iceland, Croatia and Turkey have all suspended their tourism tax due to the impact of COVID-19 and quite a few member states have lowered the VAT rate on accommodation and restaurants temporarily, including Germany, Norway, United Kingdom, Belgium and the Czech Republic .[32]

In a recent paper on policy responses to COVID-19 by OECD, many such responses around the world are related to tax rebates or suspensions:

- **Reduced VAT**: As stated earlier in the paper, a lot of countries have reduced VAT during the crisis. Norway is an example where the VAT rate, which applies to passenger transport, accommodation and most cultural events and attractions, has been reduced from 12% to 8% until 31 October 2020. Similarly, in Latvia, the government introduced a reduced VAT of 5% on accommodation.
- **Reduced APDs**: In Australia, the government has suspended fees and taxes on domestic air travel.
- **Reduced occupancy taxes**: Croatia implemented a set of measures to support tourism businesses including postponing payment of fees and tourism taxes for those staying in private rented accommodation. Similarly in Iceland, payment and collection of accommodation tax has been suspended, from April until the end of 2020. This is also the case in Turkey, until November 2020.[44]

In many member states, governments have launched massive stimulus packages which in some cases are also meant to be operated by local and national DMOs. From the results from our 2020 DMO Funding Survey, we know that approximately half of the DMOs expect to receive recovery funding from either the city or the government.

GROUP NAO

THE BARCELONA CASE

Barcelona is a world leader in tourism policy design and regulation. Since 2012, the city has received €72.7M in tax revenues which have been used on destination management, promotion and development. In recent years, most of the revenues have been used for regenerative purposes and to counter “the cost of tourism” – e.g. policies to manage the impact of tourism, culture and economic development of the city.

Since the early 1990’s, Barcelona´s visitor economy has thrived in almost unbroken and often two-digit annual growth numbers. Even during and after the global economic crisis of 2009, the city visitor economy proved a strong and resilient source of income and job creation for the city. As of 2012, *La Generalitat de Catalunya* established an accommodation tax, since adopted by the city of Barcelona, applying to all kinds of commercial accommodation in the city. The Catalan case is significant in a number of ways:

- **The Catalan tax practice is ring-fencing and earmarking the revenues** for regenerative purposes and countering “the hidden burden of tourism” as it aims to promote, preserve, stimulate and develop tourism infrastructures and fund projects for sustainability in Catalonia.
- **Re-distribution of revenues:** The Government of Catalonia dedicates 50% of the revenues collected in the city to Barcelona City Council and the remaining 50% to other management policies in Catalonia. Barcelona’s share went up from 34% to the present 50% in 2017.
- **Differentiated regulatory design:** The Catalan practice has differentiated tax rates according to location intended to help disperse the concentration of visitors in the city centre and special exemptions intended to foresee social discrimination of certain visitor segments (e.g. children, health related travel).

THE BARCELONA CASE

CONTINUED

- **Re-generative purpose:** The city government seems conscious that tourism is not just a benefit, but also in some respects a burden for the destination. According to an upcoming study commissioned by the City Council evaluating the impact of tourism on the municipal budget, the very early estimate is that the income from the tourism taxes currently only covers between 13 and 29% of the tourism related expenditure. Still, the revenues from tourism taxes are intended to subsidise projects aimed at developing and protecting the environment, stimulating sustainable tourism, restoring and protecting historical heritage, financing scientific research and sustaining coexistence and development of neighbourhoods, cultural and creative activities and tourism innovation.

- **Governance**: Barcelona City Council decides how to allocate the tourism tax revenues received from the Government of Catalonia, and makes an annual contribution of 50% of this amount to the *Turisme de Barcelona Consortium*. Together, the City Council and the Consortium produce the work plan that determines the end distribution of funds for a more sustainable and responsible city tourism. In addition, the city established *The Tourism Council* (*Consell Turisme i Ciutat*) in 2016 as a representative body of institutions, community groups, industry representatives, academic experts and city council members. The involvement of the Tourism Council adds an element of democratic governance to the allocation of tax revenues.

- **No measurable impact on visitor numbers:** Since the creation of the tax, tourist activity in Barcelona has continued its steady growth curve from 7,1 million guests in the hotels in 2013 to 9,5 million in 2019 according to Statista.

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Case sources: Interview with the City of Barcelona and www.statista.com.


PART 3
FUNDING OF
DESTINATIONS
In the shadow of a global pandemic crisis...
...and a DMO perspective on taxes as a source of funding
GROUP NAO

DMOs HIT HARD BY CRISIS

The COVID-19 pandemic has had a hard impact on the tourism industry across Europe, but also on the Destination Marketing and Management Organisations (DMOs) in charge of tourism promotion and destination development. In the following we present the results of the DMO Funding study 2020 which has been produced in collaboration with European City Marketing, the association for more than 120 urban DMOs in Europe. The immediate observation is that few DMOs are left unaffected by the crisis – almost 75% of the 67 DMOs in the survey have had their 2020 budgets reduced and almost a third of these have seen severe reductions of more than 50%.

Looking closer, the DMOs funding crisis is clearly multi-dimensional. All sources; commercial income, tax revenue, membership contributions etc. have experienced plummeting income. Overall, many DMOs will have to rebuild their funding structure in the coming years. In the short term, they need to go for their fair share of recovery funding but, looking at the bigger picture, it is imperative to consider more resilient funding structures for both the DMO and the destination.

The DMO Funding Survey 2020 addresses a diverse community of 67 tourism bureaus, city marketing organisations, convention boards and tourism authorities. They are all referred to as DMOs, while keeping in mind that their legal status and operational scope varies a great deal.

NOTES ON THE SURVEY

The DMO Funding Survey 2020 focusses on the financial situation, outlook and structure of Europe's urban DMOs. It has been designed and executed by Group NAO in collaboration with European Cities Marketing (ECM) and is a partial repeat of a 2017 funding study, also conducted by ECM.

It was distributed by email, addressed to **CEOs in 120 European city DMOs**. The data collection stretched over five weeks from July to August 2020. The survey included 33 questions with pre-defined or standardised answers and a few options for open comments.

The final sample contains responses from **67 urban DMOs**, which equals a **response rate of 56%.** In the previous funding survey (2017), 53 cities replied.

In the process of designing the survey and analysing the results, Group NAO has compared notes with a similar study in the Americas: "***Funding Futures: The Impact and Future of Tourism & DMO Funding in Response & Recovery from COVID-19"*** by Miles Partnership, Civitas, Destination Analysts and Tourism Economics. In addition, Group NAO has also sought the future-thinking perspectives of EplerWood International in how to fund the sustainable recovery of tourism.

After the data collection and data processing closed, the results have been discussed in peer review with Group NAO's knowledge partners and presented for the survey respondents in open dialogue. This has been very valuable feedback, but we have not been able to cross-check all the responses submitted by the DMOs taking part in this survey.

DMOs COME IN MANY SHAPES

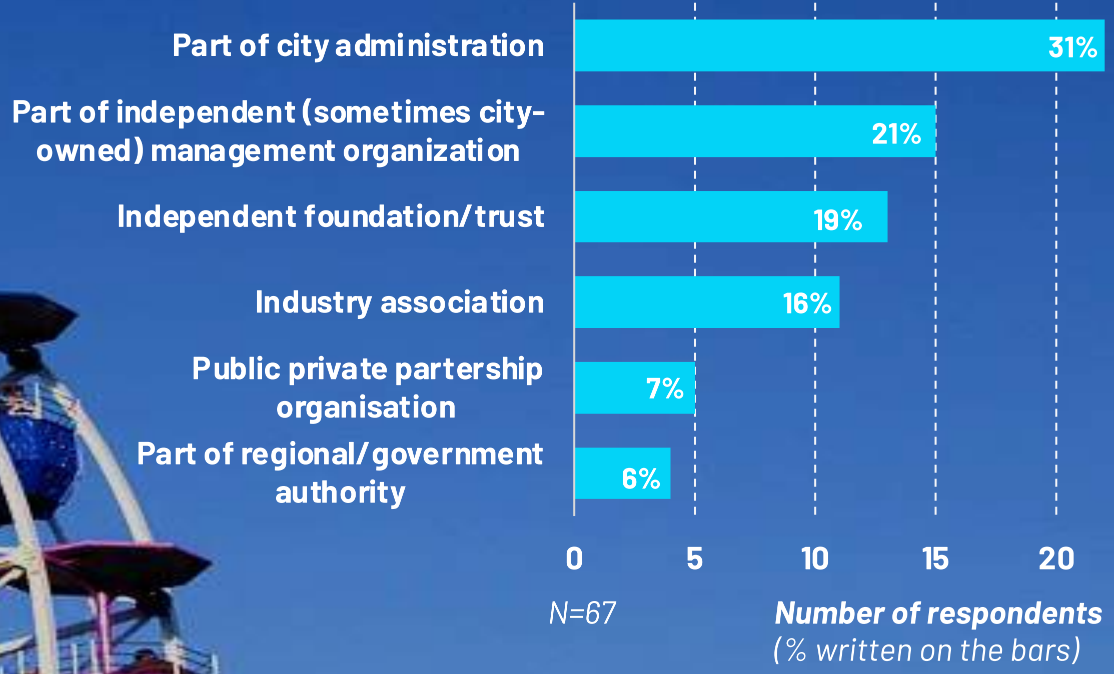
MOST ARE PART OF THE CITY ADMINISTRATION

Most DMOs in the sample are integrated parts of the city administration (31%) and typically function as city departments with direct relationships with a mayor or the city council. This is especially the case with the smaller DMOs.

A popular model is to organise DMOs as either part of an independent and sometimes city-owned and controlled management organisation (21%) or as an independent foundation (19%). These organisations are at arms length of the city administration, often with their own executive boards, working side by side with similar city agencies for investment promotion or economic development. Finally, 16% of the responding DMOs report as industry association and seven percent as a public-private partnership (ppp).

As we shall see, the legal status of the DMOs seem quite significant to the financial resilience of the DMOs during the COVID-19 crisis.

DMO legal status



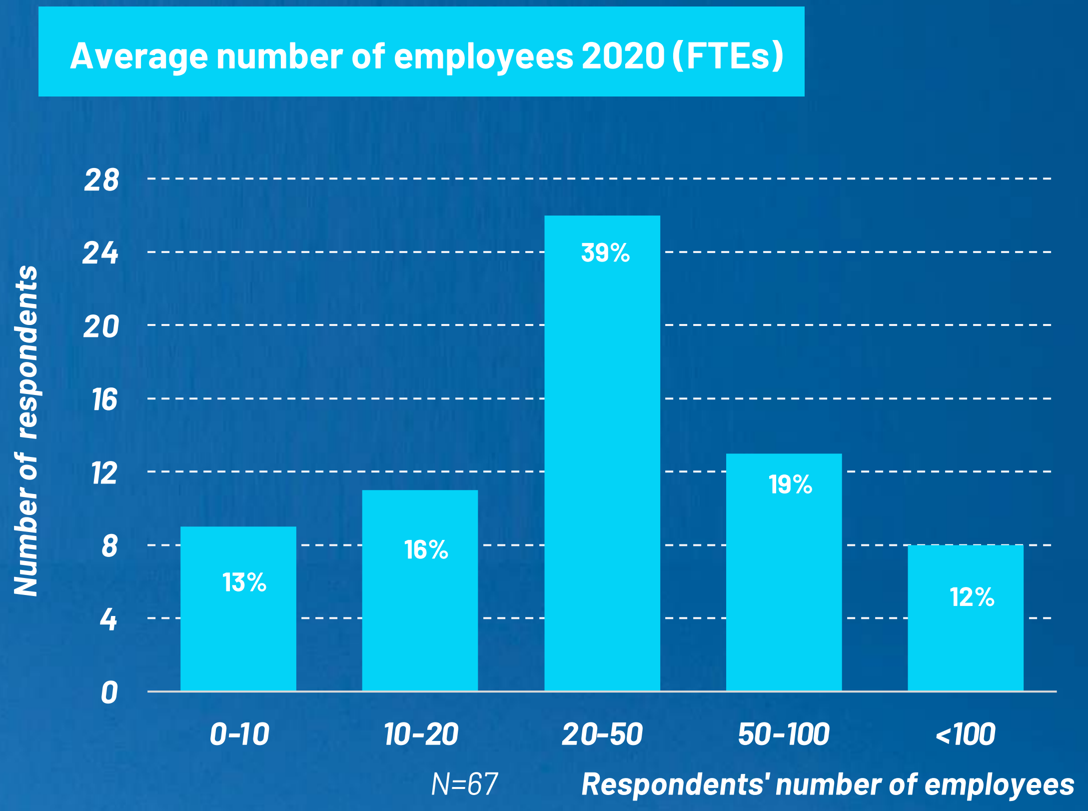
DMOs COME IN MANY SHAPES

...AND THEY SEEM TO BE UP-SIZING

Most DMOs in the sample are mid-sized with between 20-50 full time employees. Nineteen percent have 50-100 employees and 12% more than 100. At the other end of the scale we find a good quarter of the DMOs with less than 20 employees.

When comparing the results with the previous funding study by ECM (2017) it is important to note that the two studies do not sample the same cities, and neither can claim to be representative for all the DMOs in Europe.

Therefore, comparisons are only indicative of any changes and trends since 2017. Thus, properly cautioned, it seems that the DMOs have sized up a bit since 2017, when the average number of employees in the sample was 41 compared to 46 today (median 35). It is important to bear in mind that this indication might not be representative of the DMO community as a whole.



DMOs ARE MULTIFUNCTIONAL

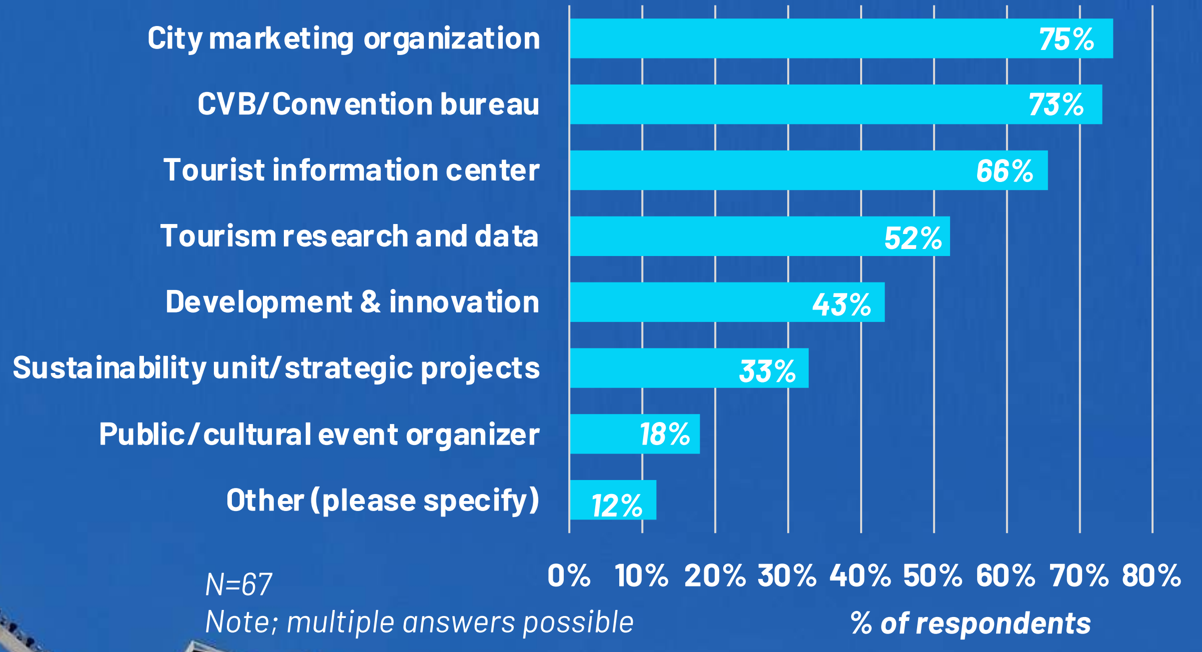
AND ON A MANIFOLD MISSION

DMOs are often multifunctional, and the number of strategic functions for the destination grows with the size of the organisation. Most DMOs in the survey tick their role as the city's marketing organisation (50%) and thereby underscores the classic, core function of the DMOs as destination marketer and promoter. Secondly, 49% checks the role as convention bureau (CVB) bidding for - and sometimes also organising - business conferences and events for the city. Thirdly, operating tourist information centres (TICs) comes in as the next most important component amongst the DMOs in the sample (44%).

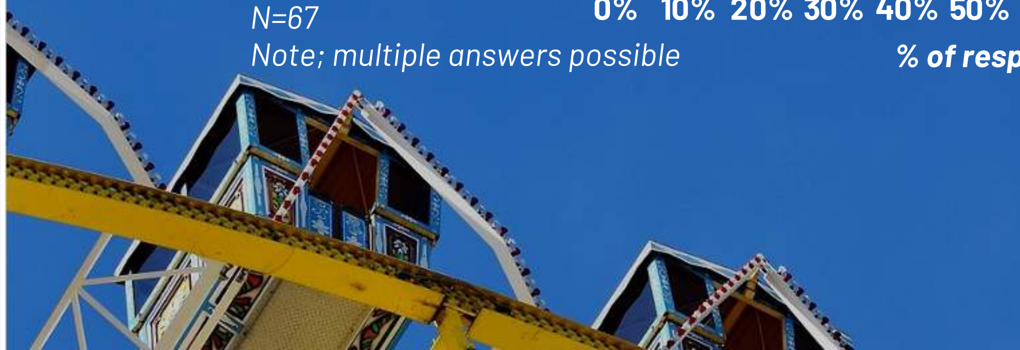
Fewer – and mostly the bigger DMOs - report themselves with knowledge-based services such as tourism research and data (35%) and development and innovation (29%). Twenty-two percent tick strategic projects and sustainability as vital focus areas.

These results are not directly comparable with previous surveys by ECM. However, there seems to be trend that DMOs in this 2020-survey report more strategic functions than in 2017. This indicates that the DMOs are becoming more diversified.

Strategic functions that characterise your organisation



N=67
Note; multiple answers possible



TYPICAL BUDGET 2020 IS 3 MIO EUR

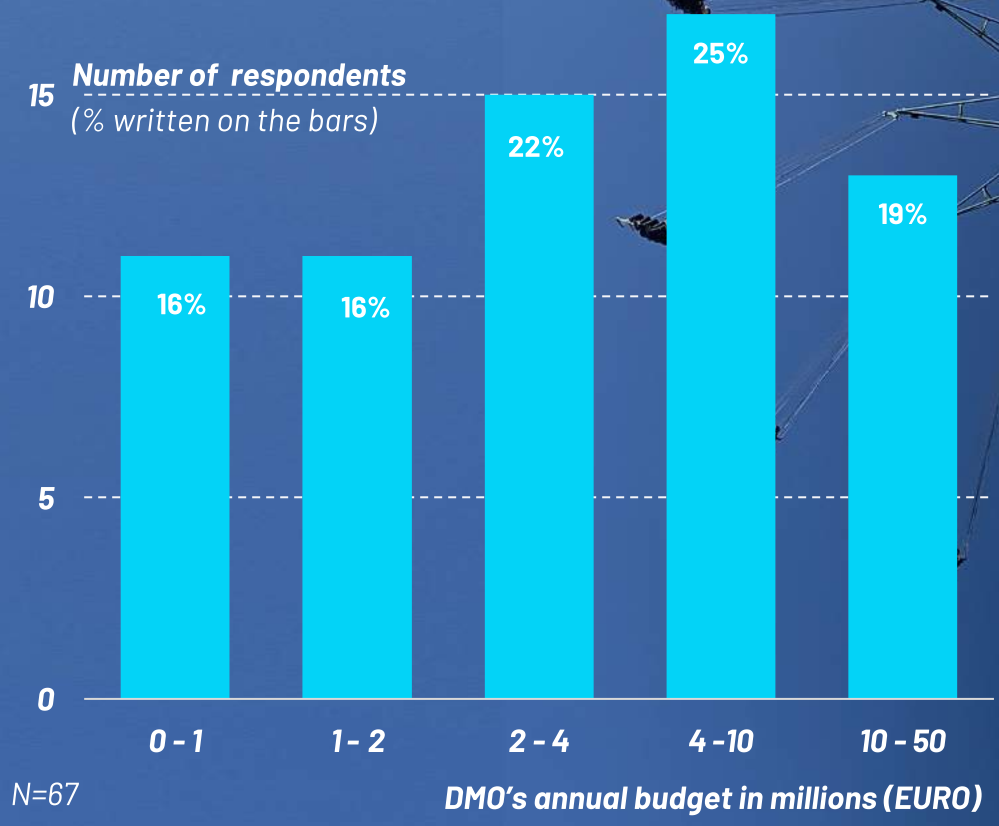
BUDGETS SEEM TO HAVE DECREASED SINCE 2016

As in earlier surveys done by ECM, this 2020 survey shows considerable diversity in terms of budget size. In our survey, we find 19% of the cities with sizable budgets of more than € 10M and 25% in the main band of DMOs with budgets between €4-10M. In the little league, we find about a third of the DMOs have budgets under €2M – they are typically tourist bureaus (TICs only).

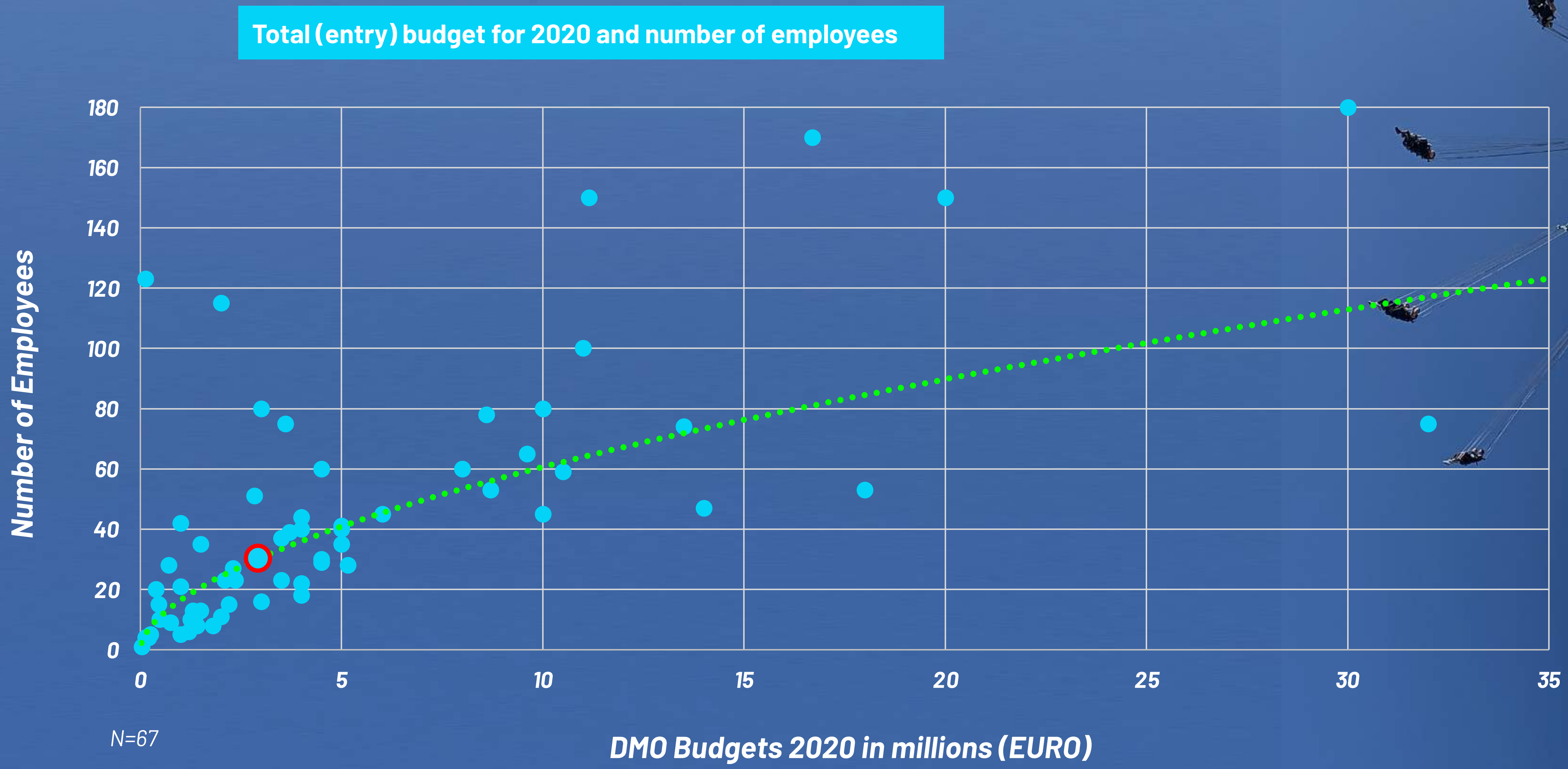
Comparing to ECM 2017, this sample seems to indicate significantly smaller budgets in 2020. In the 2016 budgets, the average was around € 8.3 M. In our 2020 survey, the average budget reported is € 5.9 M. However, the data validity on this figure might be weakened by language barriers and currency conversion, and it is important to bear in mind that we have two separate samples to compare. In any case, neither of the surveys are representative of the European DMO community.

In the chart on the next page, we cross reference the number of employees with budgets and find a rather widespread bunch of DMOs and a tendency line indicating roughly 31 employees to a "typical" DMO with a (mean) budget of € 3M.

Total annual budget in 2020 in EUR



PEOPLE AND BUDGET



FUNDING SOURCES

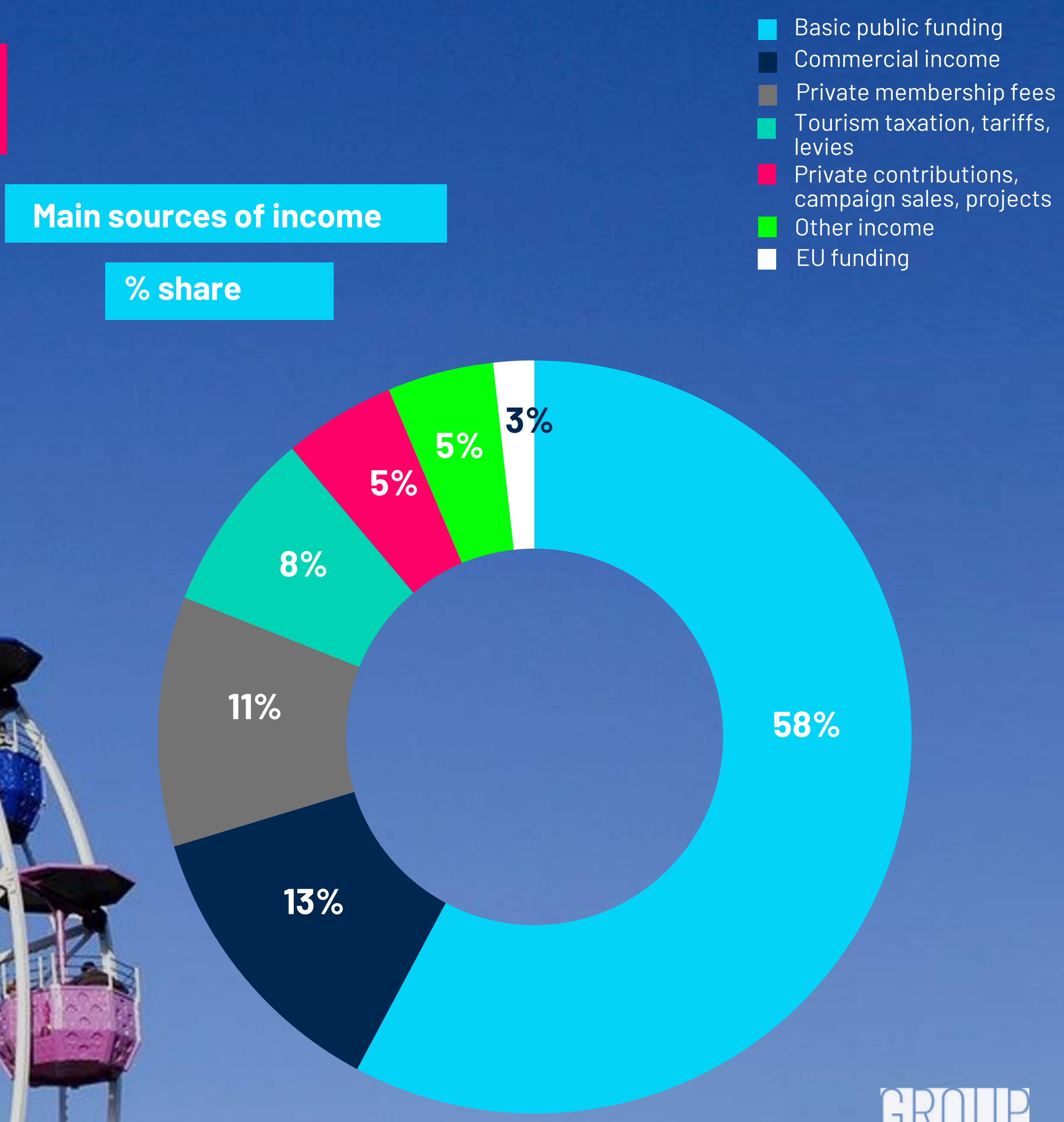
FINANCIAL PATCHWORK FOR MANY DMOs

The bigger the budgets the more patchworked are the funding structures of the DMOs. While most DMOs in the survey depend heavily on basic funding from the city (58% share in average) the vast majority of them also have multiple supplementing sources of funding. Commercial income adds up to an average share of 13% in the financial base of the surveyed DMOs. This figure represents a variety of sources such as advertising sales, city cards and commissions from ticket sales and guided tours.

Surprisingly – and noticeably different from the US and Canada – the share of tourism taxes is only 8% in average across the sample. Still, when comparing to previous studies by ECM (2017), the portion of funding from tourism taxes was almost the same – 11%.

Private membership fees and private contributions for marketing campaigns and projects add up to a combined 19% of the income base. In comparison with earlier ECM membership surveys, this seem somewhat lower than in the previous surveys by ECM.

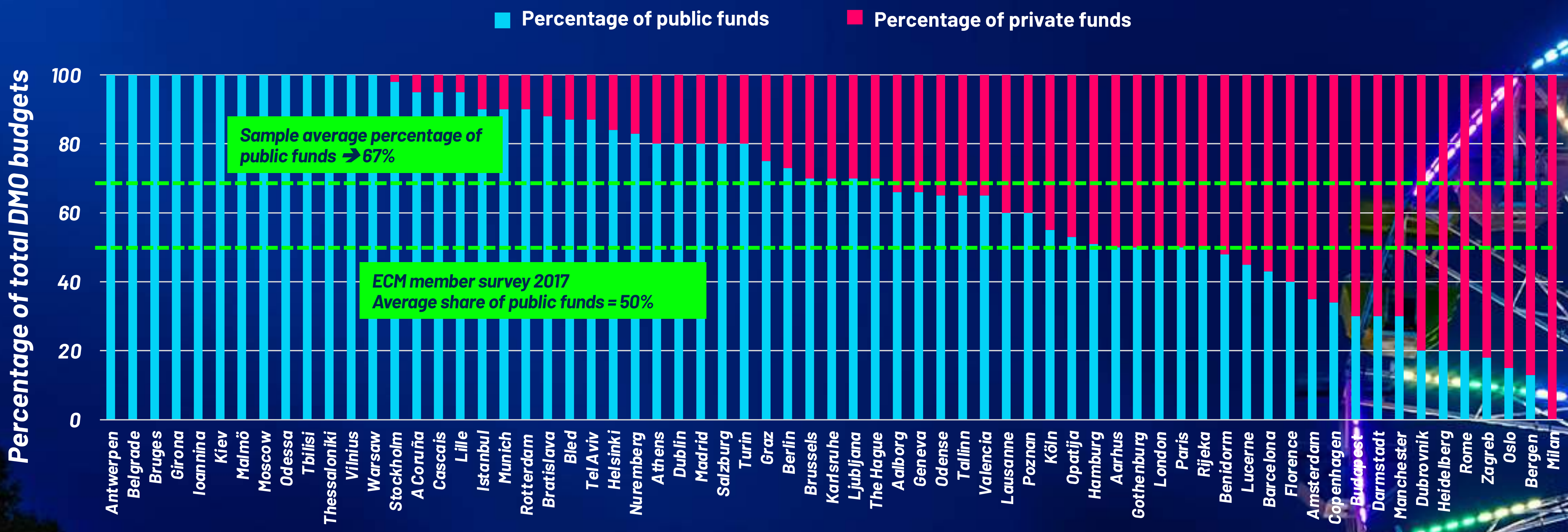
Across the sample, the overall ratio of public-private funding sources varies a great deal. Thirteen of the 67 cities are entirely funded by public funds. At the other end of the scale, we find cities with only 20% public funding in their budgets. The average share in the survey is 67% public funding, which in comparison seems significantly higher than in previous ECM member surveys. In 2017, the average share of public income was only 50% - see chart below.



N=67
Note; simple average.

PUBLIC vs. PRIVATE

Public grants versus private and commercial income



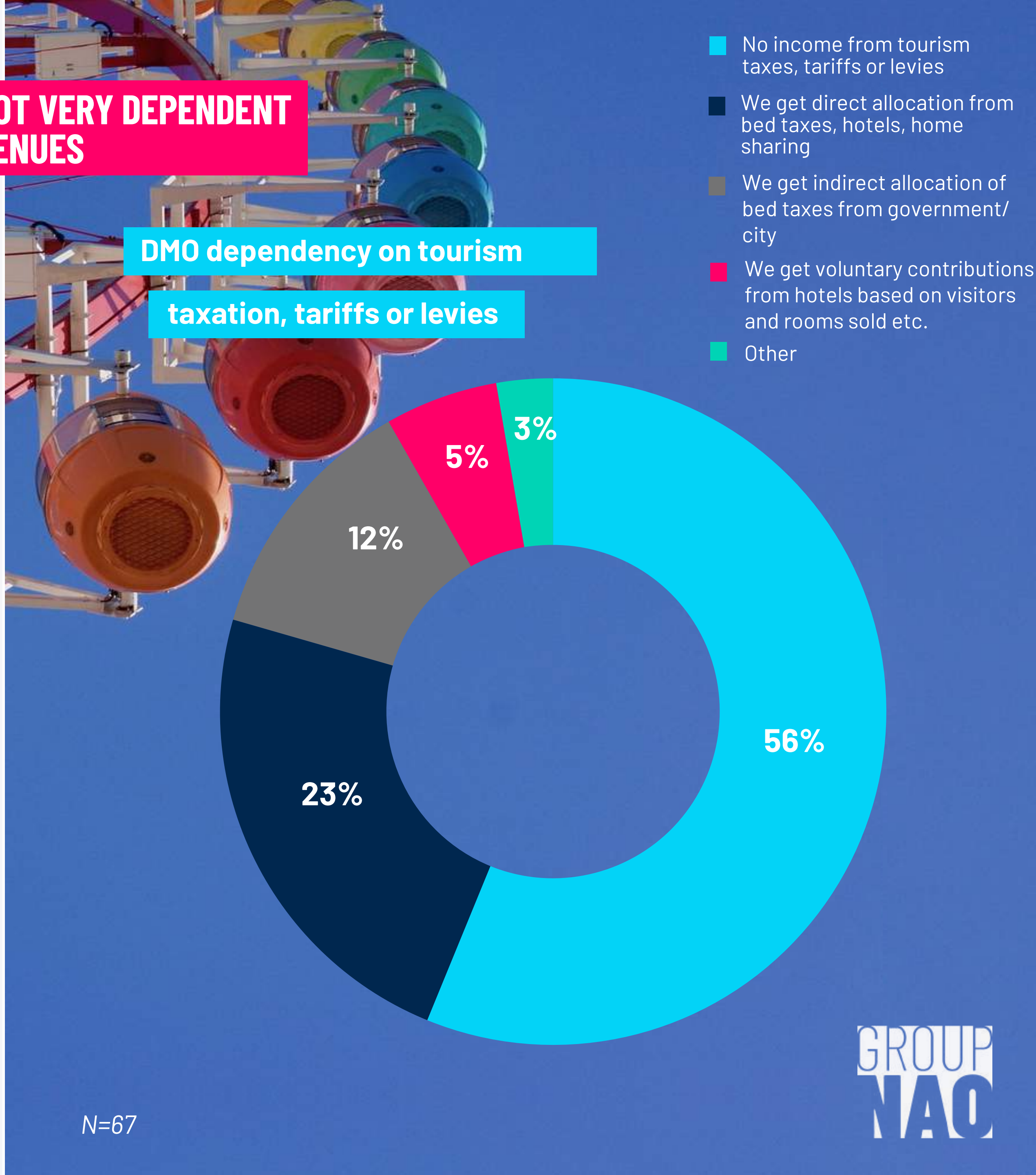
TAX FUNDING FOR DMOs

MOST ARE NOT VERY DEPENDENT ON TAX REVENUES

The majority of DMOs (56%) in the sample are not financed by tourism tax revenues either directly or indirectly. Close to a quarter (23%) receive direct revenue allocations from occupancy taxes on hotels and private accommodations. A further 12% get indirect allocations of tax revenues from the city authorities or the government.

In a few countries, the government has reached agreement with short term rental platforms to collect the taxes from the visitors on behalf of both the hosts and the city. Tax revenues are then reported and transferred to the relevant authorities by the booking platform.

Only five percent of the DMOs report voluntary income contributions based on the number of hotel rooms sold.



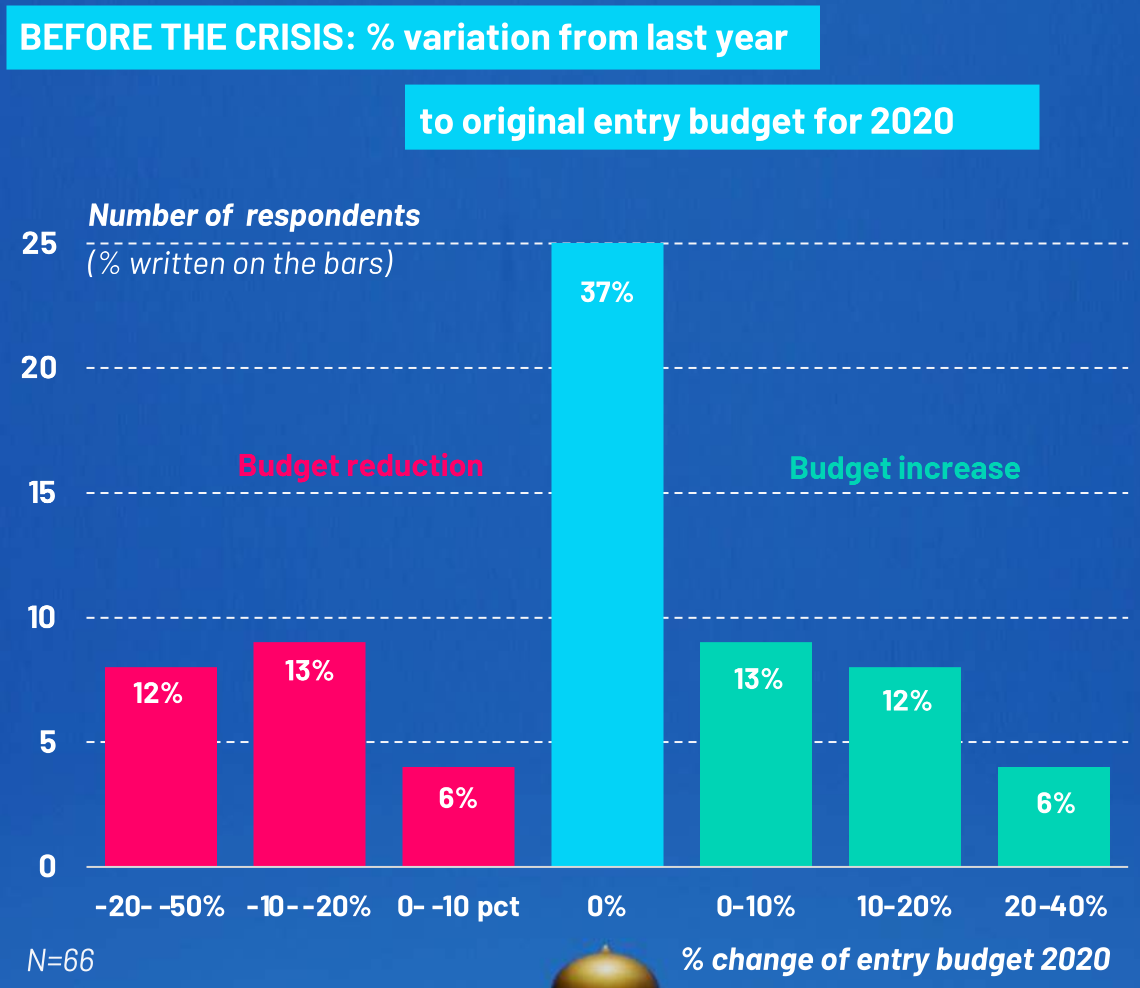
THE COVID-19 CRISIS

2020 WAS OFF TO A GOOD START – BUDGETS UP!

The COVID-19 crisis has had quick and severe impact on the DMOs. While most DMOs entered 2020 with unchanged or even increased budgets compared to 2019. By June 2020, most DMOs have had to revise their budgets dramatically.

At the beginning of 2020, 37% of the DMOs in the survey had unchanged budgets compared to 2019. Another 25% of the DMOs could look forward to moderate budget increases of 0-20%. At the other end of the scale, about 12% of the DMOs were challenged to budget cuts of more than 20%.

All in all, the figures indicate that at least two out of three DMOs were in good shape before the crisis closed most of Europe's travel and tourism In March 2020.



THE COVID-19 CRISIS

THE CRISIS CHANGED THE OUTLOOK FOR THE DMO's

The COVID-19 crisis has deeply affected almost one in three of the surveyed DMOs; income has plummeted by 50%, or more, followed by an additional 17% of the DMOs reporting budget reductions of between 30-49%.

A good quarter of the DMOs were moderately impacted at the time of survey with budget reductions up to 30% of the 2020 entry budget. Only one out of four DMOs are left unchallenged by the crisis with either unchanged budgets (12%), moderately improved budgets (6%) or substantial budget increases of 30% or more (8% of the DMOs).

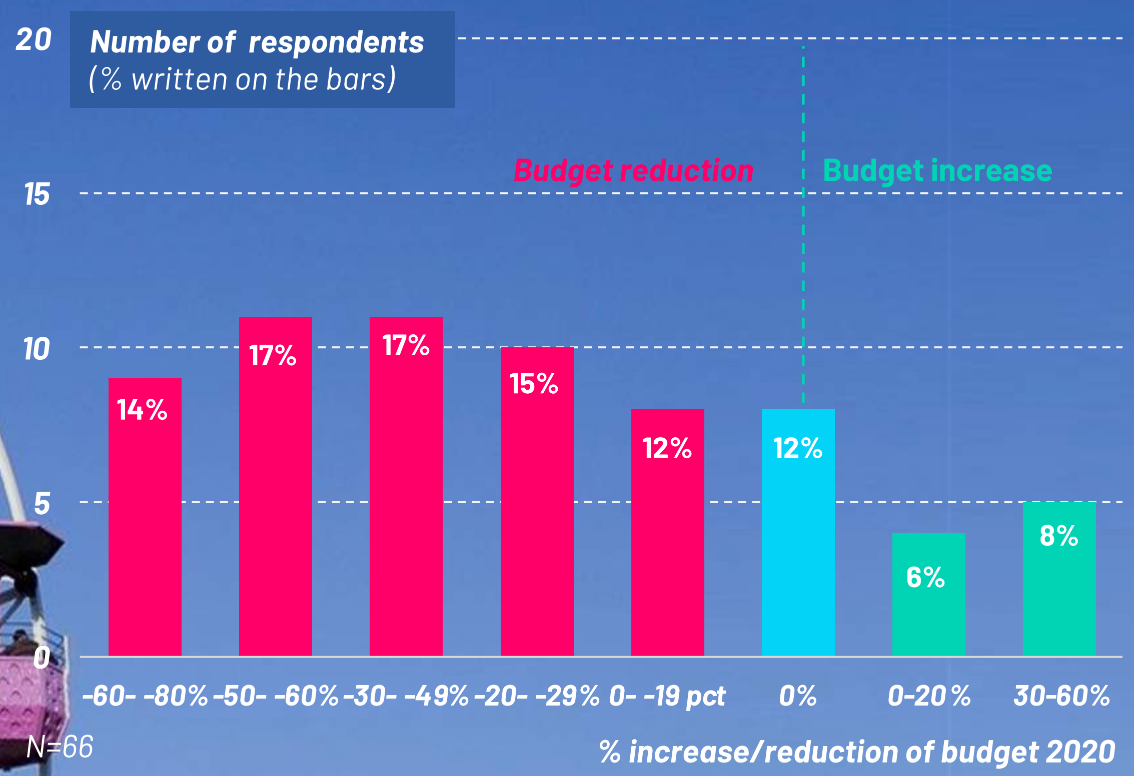
It is fair to assume that negative budget impacts like this, have not been seen before in the DMO community – not even during the global financial crisis of 2009-2011. However when comparing similar studies currently being undertaken in the US and Canada, it is all too clear that the crisis in the European DMO Community is not unique. The crisis is global.

In the US study, nearly 90% of U.S. DMOs and 85.7% of Canadian DMOs surveyed reported that their current annual budget has or will decrease. This reduction is estimated to 45.1% for U.S. DMOs and 59.4% (on average) for Canadian organisations.

About half of U.S. and Canadian DMOs expect their 2021 annual budget to decrease by an average of 35.7% and 41.4% respectively. Approximately one-third are unsure of the impact on their budget right now.[33]

Looking deeper in the data, the most financially resilient DMOs have been the organisations that are part of the city/municipality administration. Their budget decreases have been 12% on average compared to 26% in the total sample.

IMMEDIATE CRISIS IMPACT: % variation /impact on this year's budget (2020)



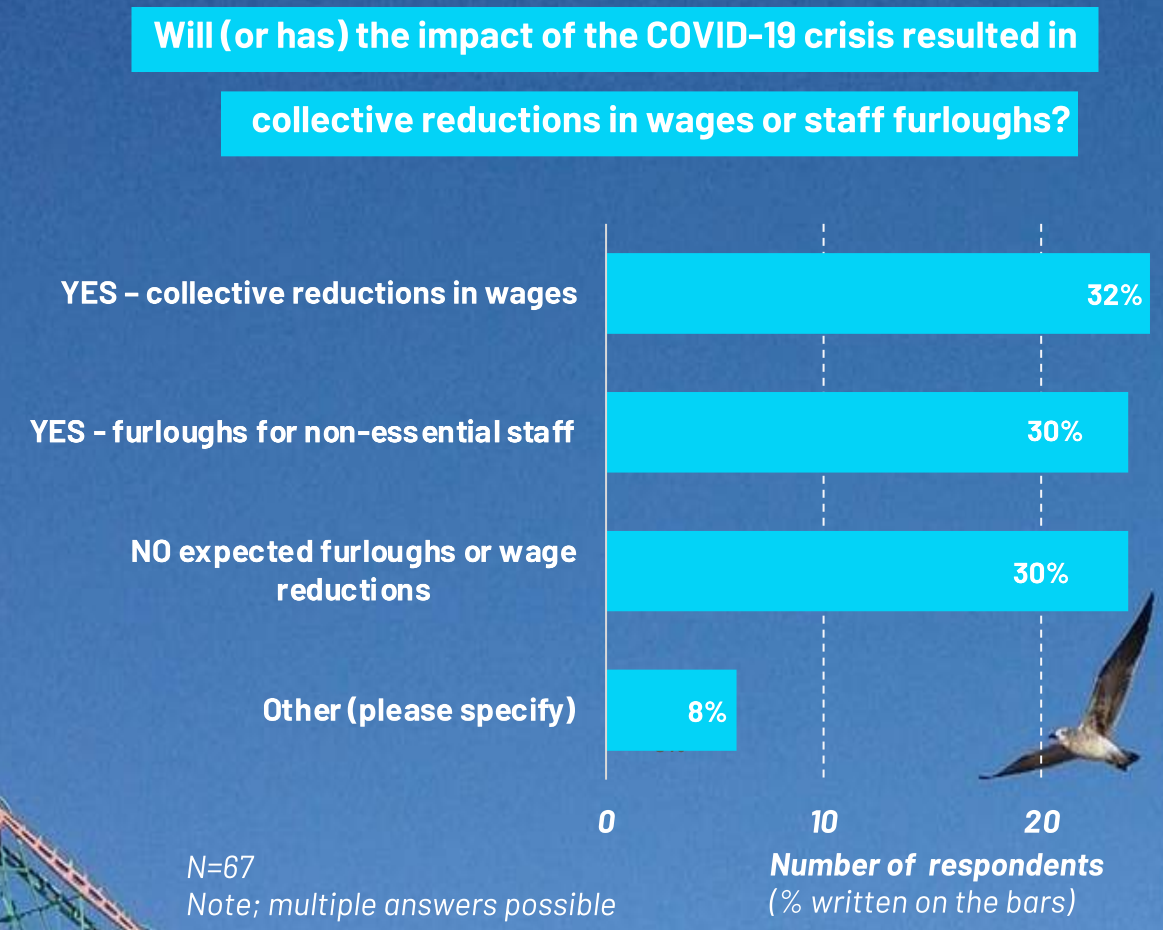
10% FEWER PEOPLE

THE DMO's ARE DOWN-SIZING DUE TO THE CRISIS

Budget cuts have consequences for the organisation – and not just for its activity budgets. About a third of the DMOs report that they have undertaken collective reductions in wages and almost as many say that they have sent staff home on furloughs. Only one third of the DMOs say they have done neither during the crisis. See chart.

The survey also asked the DMOs about permanent lay offs and staff reductions. Of the total sample of 67 cities, 29 said that they had already laid off colleagues or that they would have to do so.

In total, the DMOs in the sample employ 3054 people – 292 have been – or will be – laid off permanently (almost 10%).



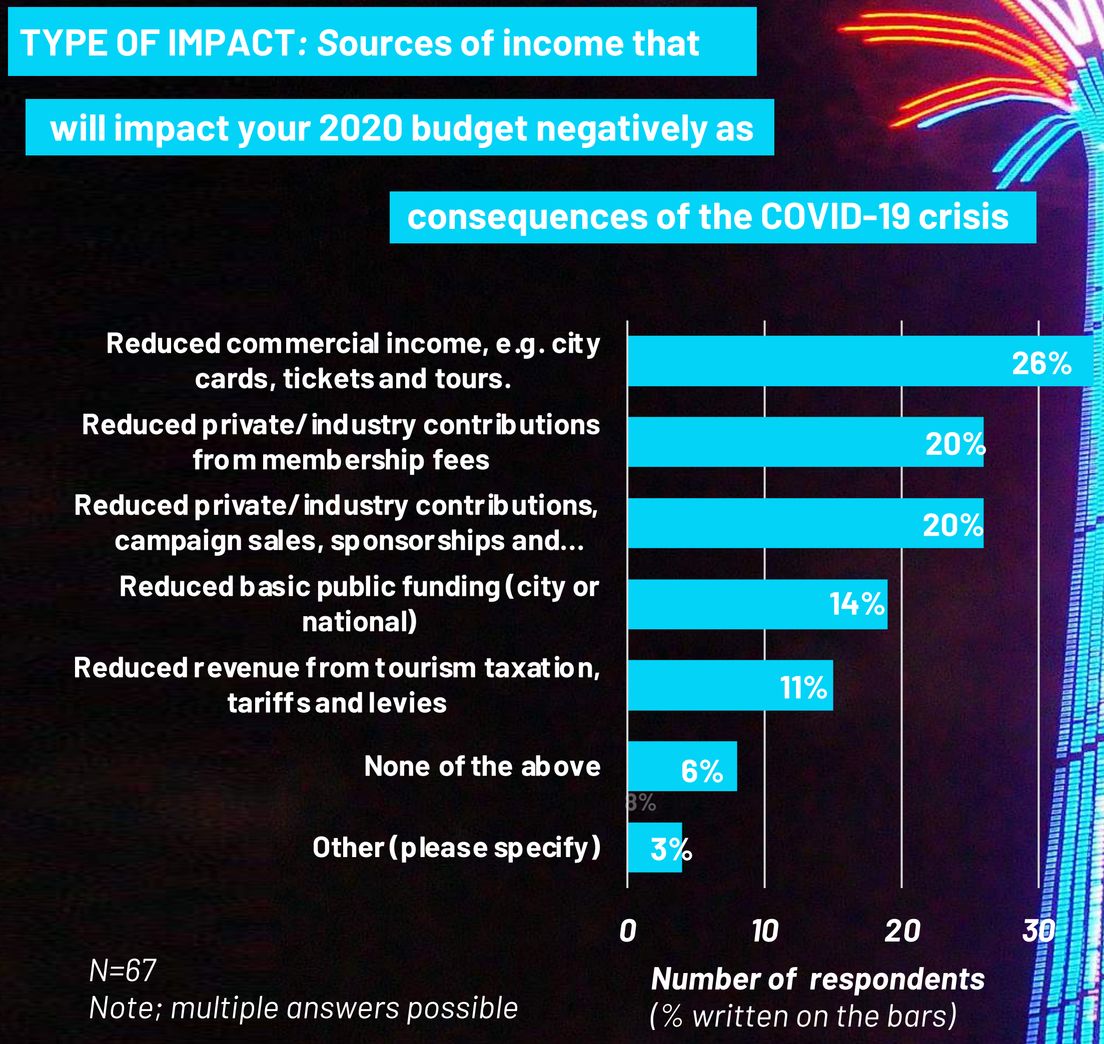
ALL DOWN

MULTI DIMENTIONAL IMAPCT OF THE CRISIS

When looking for explanations why some DMOs are probably more vulnerable than others, the first observation is that the crisis is multi-dimensional. Normally one might expect that DMOs with a simple funding structure would be more vulnerable in time of crisis than the ones with many different sources of income. However, the chart to the right clearly portrays a multi-dimensional crisis with all the most common sources of income in reverse.

A quarter of the DMOs are seeing reduced commercial incomes, and a fifth (not surprisingly) show plummeting income from private/industry membership and campaign contributions (14%). That the later figure is not even higher might be explained by the fact that quite a few of the DMOs in the survey are not very oriented towards private campaign funds to begin with. About 20% have no private income at all, and a further 20% have less than 20% private financing in their base funding models.

About 14% of the DMOs have (or expect) less public funding. This can be coincidental or explained by the fact that a group of cities were already looking at budget cuts before the crisis.



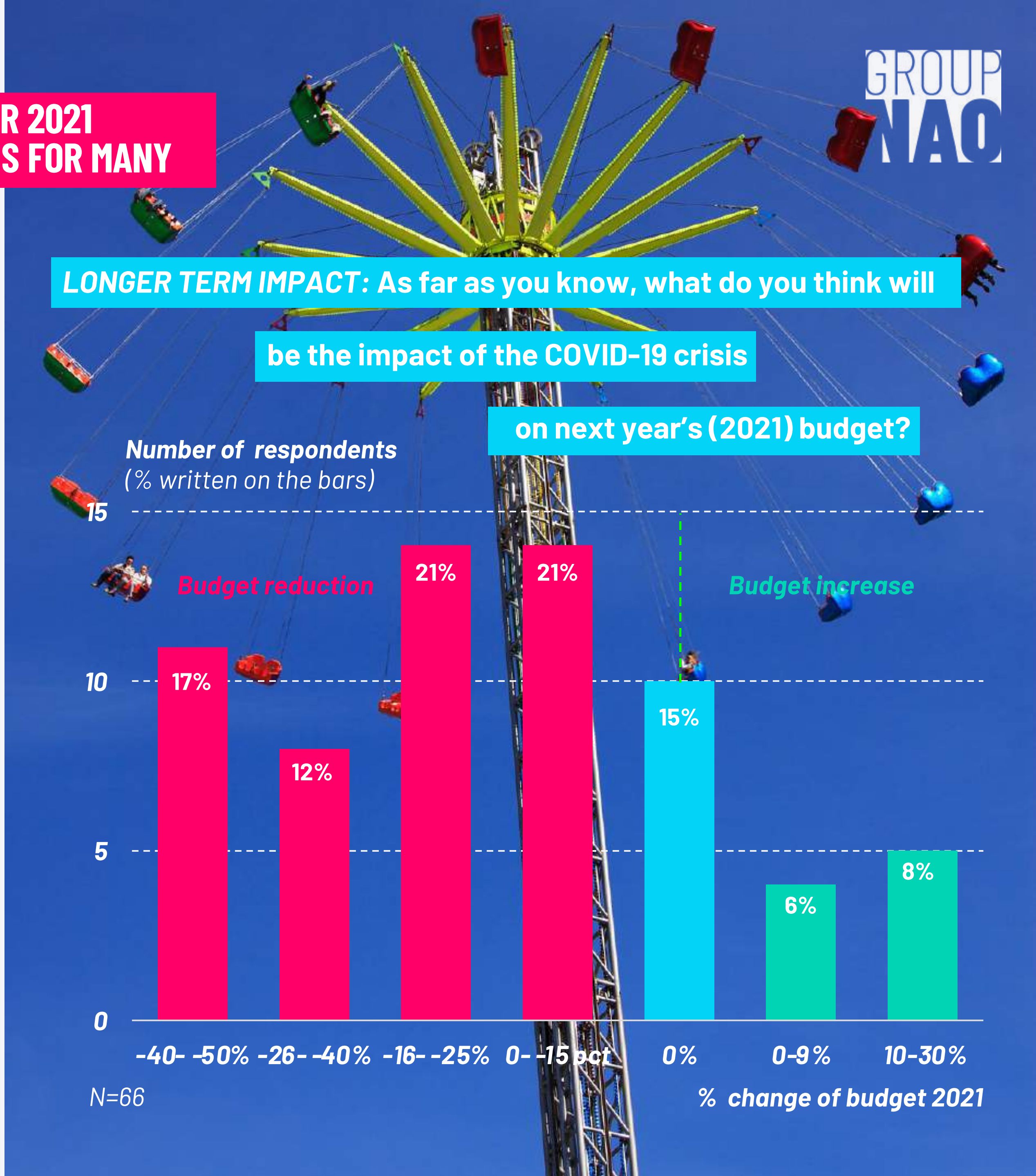
THE LONGER TERM

A GRIM OUTLOOK FOR 2021 BUDGET REDUCTIONS FOR MANY

When asked about the long-term budget implications of the crisis, the DMOs do not seem optimistic about what lies ahead in 2021.

Only 14 % of DMOs expect their budgets to increase and of these, only five DMOs expect budget increases of between 10-30%.

At the negative side, 17% of the DMOs expect their 2021 budgets to be reduced by 40% or more. In total, 71% of the DMOs in our sample expect to have a reduced budget in 2021, regardless of the recovery funds that might come.



HOPES FOR RECOVERY

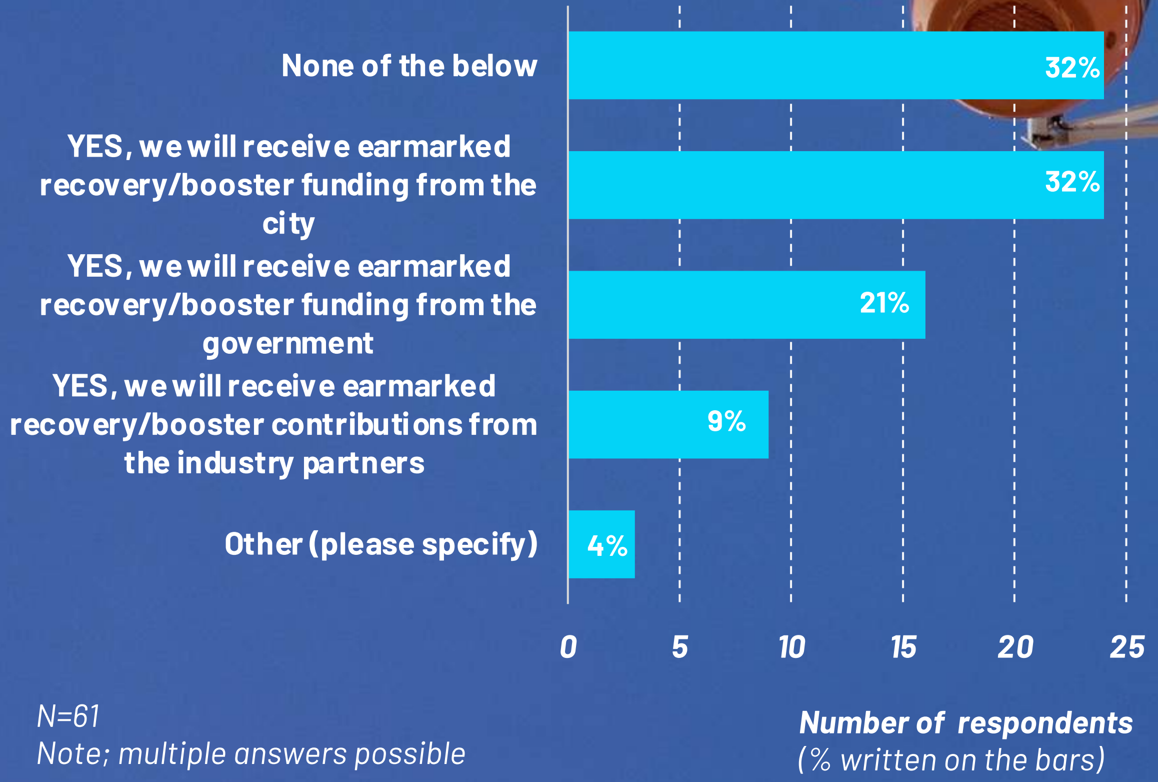
DMO's ARE HOPING FOR A FAIR SHARE OF RECOVERY FOUNDING

Even though quite a few DMOs have been severely impacted by the crisis it is encouraging to see that quite a few also have hopes to get their fair share of recovery funding. About a third of the DMOs expects to get part of recovery funding from their city, and an additional 16 DMOs (21%) expect to get recovery/booster funds from the member state government or grants from other sources such as lottery funds or contributions from industry partners (4%).

In conclusion, there is hope that many of the DMOs will be able to ride of the crisis with additional recovery funds over the next year or so. At the moment, rebuilding tourism seems a high political priority in many member states and the DMOs are indeed very relevant entities to coordinate and operate the recovery efforts. On the other hand, recovery funds only work in the short term, and the longer the crisis lasts, the more structural it gets.

The COVID-19 crisis can potentially evolve into a deep and prolonged economical and social crisis, where public stimulus funding will have to serve other industries and agendas too.

RECOVERY FUNDING: Do you expect your DMO to receive and operate allocations for boosting tourism/recovery funding?



N=61
Note; multiple answers possible

WHAT'S NEXT?

WHERE MIGHT THE CRISIS LEAD FOR EUROPE'S DMO's?

Two of the big questions that arise now are whether the world of travel and tourism will return to normal and offer the classic growth model with DMOs in the familiar role as destination marketers, or will there be a "new normal" with more diverse priorities and a new purpose?

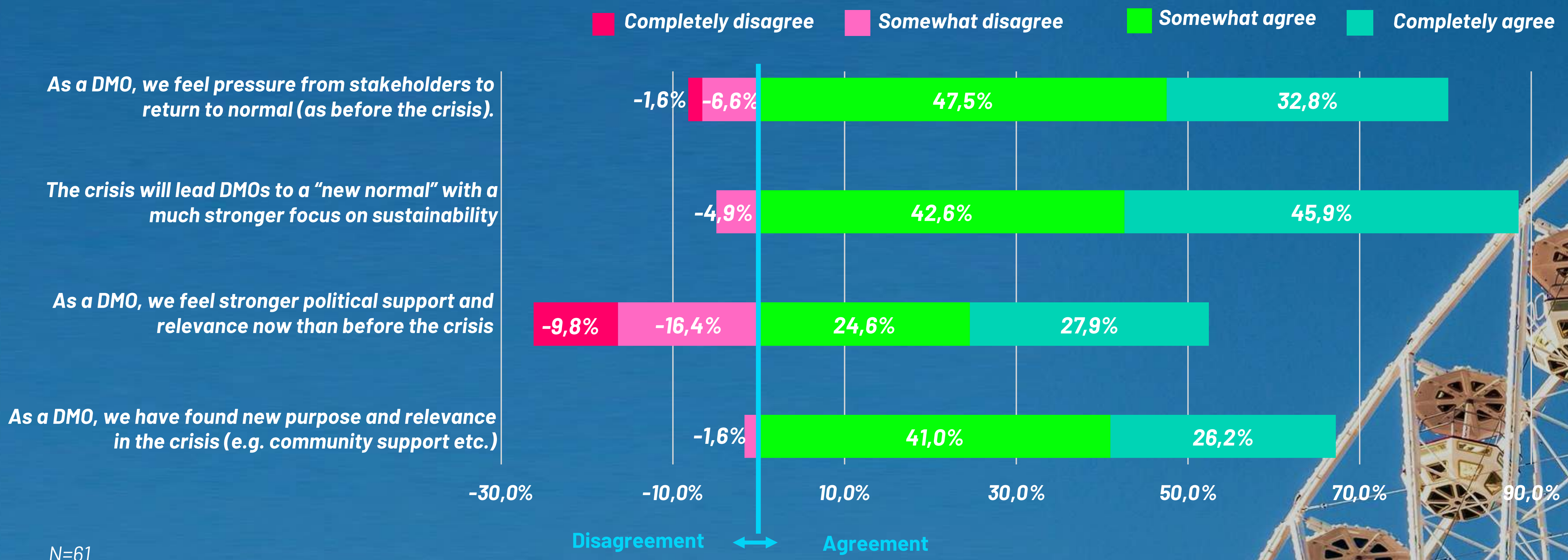
Almost eight out of ten DMOs feel pressure from their stakeholders to "return to normal". Only 8% of the DMOs in the survey do not feel this pressure. However, at the same time 89% of the DMOs agree (partly or completely) that the crisis will lead travel and tourism toward a more sustainable future. See chart on the next page.

What looks like a misalignment between "the pre-COVID normal" on one side and a "new normal with a strong focus on sustainability" on the other, might be a portend of a new era where DMOs take a clearer stand on balanced and holistic tourism development in the cities. This speculation is supported by the result that two thirds of the DMOs believe that the crisis has made them find new purpose and relevance within their community

Lastly, most of the DMOs feel that the crisis has strengthened their political capital. More than half feel that they have stronger support and recognition now than before the crisis. (20% disagree) – see chart on next page.

TIME TO RE-PURPOSE?

Do you agree or disagree with the following statements about the future focus and role of DMOs post COVID-19?



N=61
Note: Does not add to 100% as neutral answers are excluded

60%:

"Taxes should be levied from the most non-sustainable tourism activities"

ARE TOURISM TAXES THE ANSWER?

It is fair to say that DMOs generally favour tourism taxes as a paramount tool to regulate, finance and manage tourism. They also see them as a (potentially) important source of finance for their own organisations. Three out of four DMOs in the survey agree that revenues from tourism taxes are important to secure funding for marketing and destination development. More than 70% see tourism taxes as a legitimate way to regulate the negative impact of tourism.

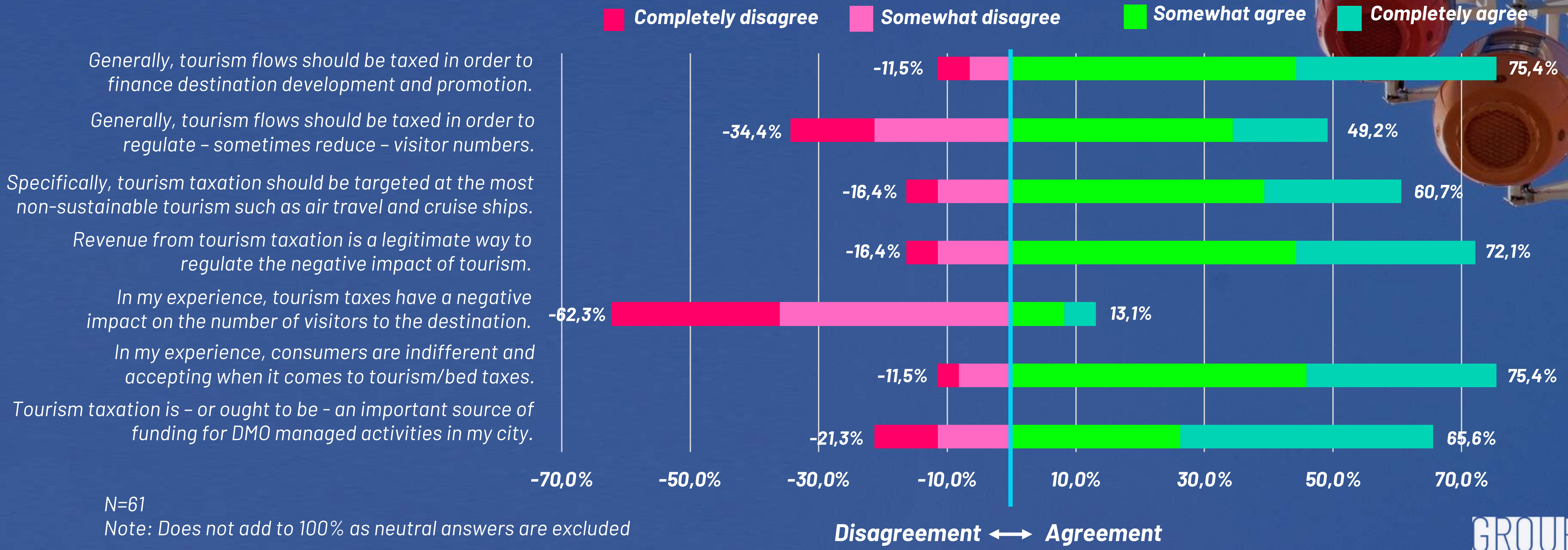
The latter is a paradox, since the DMOs also differ somewhat in their opinions about whether tourism taxes are effective tools to regulate visitor flows - or even to deter visitors altogether. On one side, 63 % disagree that tourism taxes have a negative impact on visitor numbers and 75% report consumers tend not to care much about the taxes. On the other hand 50% of DMOs also agree that tourism taxes can (and sometimes should) be used to reduce visitor numbers to the destination.

The central argument, that tourism taxes caps demand and hurts the competitive position of the destination, is one DMOs generally disagree upon. Two thirds do not believe that tourism taxes (under normal circumstances) have a negative impact on the number of visitors to the destination. Fifty four percent believe that tourism taxes generally do not hurt the competitiveness of the destination, and roughly a third believe that they can.

Looking forward, there is wide-spread agreement among the DMOs that tourism tax, tariffs and levies are a pivotal way to regulate and finance the transition to carbon-neutral and sustainable tourism. As such, they must be targeted at the most non-sustainable tourism such as air travel and cruise ships (60%).

HOPING FOR A TAX BREAK

Do you agree or disagree with the following statements about the future funding/taxation mechanisms?



N=61
Note: Does not add to 100% as neutral answers are excluded

DIFFFERENCE OF OPINION

OPPOSITE OPINIONS: Please read the opposite opinions below and indicate which position best fit your opinion (tick only one circle)

ARGUMENTS AGAINST TAX			Neutral/split opinion			ARGUMENTS FOR TAXES
"Tourism is an important economic activity for the destination and should not be subject to taxation"	7%	33%	13%	36%	11%	"Tourism carries an "invisible burden" of costs for the destination and should therefore be subject to taxation to regenerate"
"Tourism tax, tariffs and levies do not really affect tourism flows, behaviour and numbers."	5%	31%	10%	39%	15%	"Tourism tax, tariffs and levies are effective tools to regulate tourism flows, behavior and numbers."
"Tourism tax, tariffs and levies will hurt the competitiveness of the destination if other competing destinations are tax free."	11%	25%	10%	42%	12%	"Tourism tax, tariffs and levies do not really hurt the competitiveness of a destination if implemented moderately."
"Tourism tax, tariffs and levies are not well-suited policy measures to charge the transition to carbon-neutral and sustainable tourism"	10%	20%	13%	39%	18%	"Tourism tax, tariffs and levies are a pivotal way to regulate and finance the transition to carbon-neutral and sustainable tourism"

% respondents

GROUP NAO

PART 4

FOR GOOD OR FOR BAD

WHAT IS THE IMPACT?

GROUP NAO

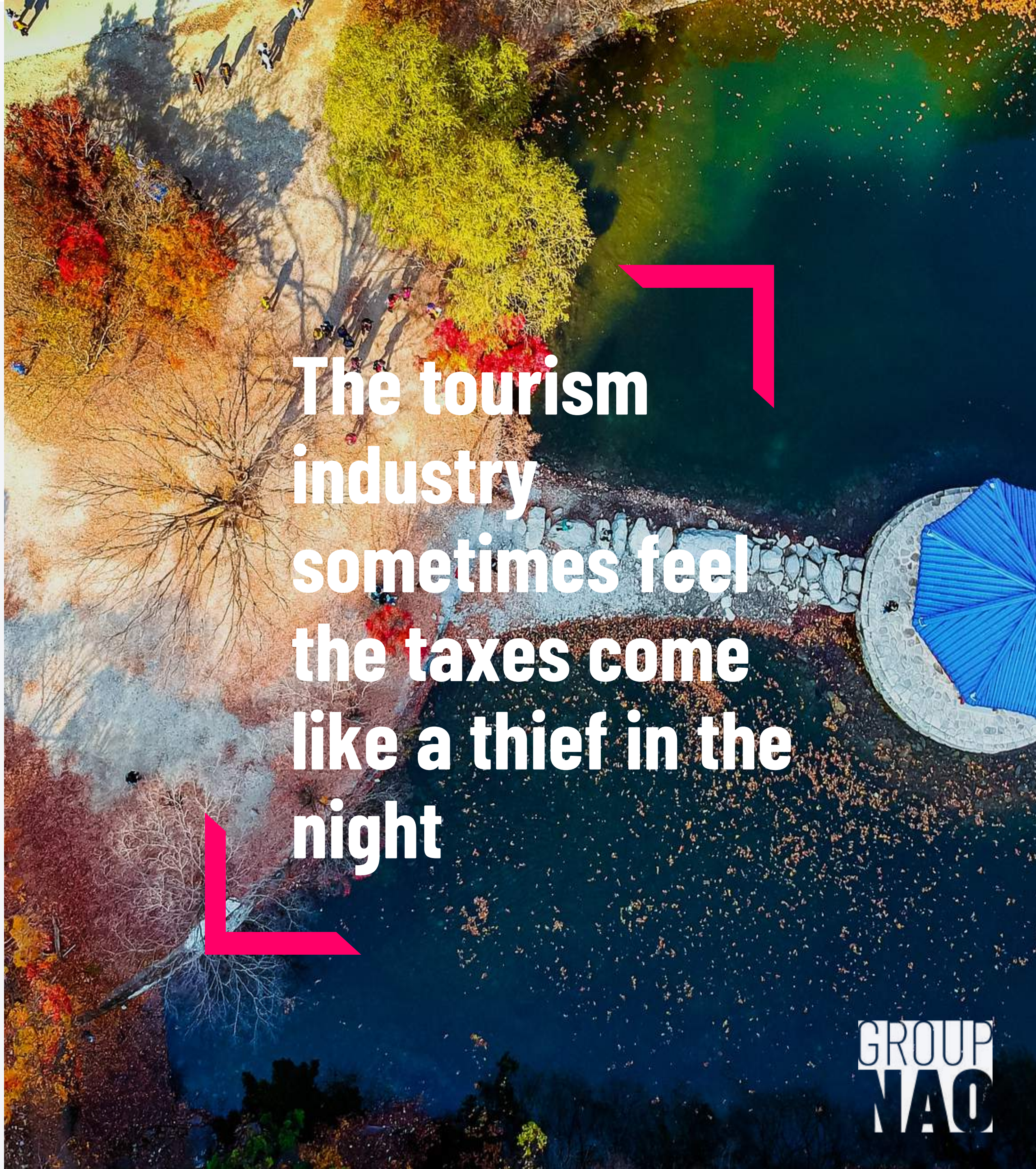
THE IMPACT OF TOURISM TAXES

Tourism taxes are a disputed topic, often strongly opposed by the industry. First, the tourism industry sometimes feel that the taxes come like a thief in the night. The most acute complaints from industry arise when a tax is introduced too late to be priced in - and thus becomes a tax on margin.

The fundamental argument by the industry is that tourism taxes have a negative impact on growth and job creation, and that they hurt or distort competitiveness. There is sporadic and contextual evidence that occupancy taxes can have a negative impact on the price competitiveness of a destination and might (under some circumstances) cap demand. However, the evidence found for this policy paper is mostly theoretical, and it is difficult to isolate the tax impact from other factors influencing the tourism economy.

This also means that it is hard to assess the intended behavioural effects of differentiated tourism taxes, including to what extent a high tax in city centre might help disperse visitors more evenly throughout the city districts – or a lower tax rate in the winter actually make a city stay more appealing. It is also open for discussion to what degree APDs encourage consumers to make the sustainable choice of taking a train instead of flying. This is a key observation that we will bring up in the policy recommendations later in this paper.

First, we take a closer look at the impact and popular perceptions of tourism taxes.



THE DEMAND FACTOR?

MARGINAL IMPACT ON DEMAND

The impact of tourism taxes on demand and behaviour is a hot debate topic. Commonly, governments and lobbies of industry tend to emphasise the potential economic benefits of tourism – jobs and income - while putting less emphasis on the environmental and social impact of tourism. Their position is often backed with commissioned research focusing on the negative impacts of taxation. Consequently, taxes of any kind are seen as a threat to the economy.

On the other hand, local stakeholders, community groups and some academics see taxes as a potential tool to balance tourism impacts and compensate the destination habitat for *the invisible burden of tourism*. On the advocating side, there seems to be a general scarcity of studies and assessments to document the extent to which tourism taxes actually make a positive difference as a funding source for destination activities.

Still, here are the best examples we have found:

- **Destinations with high price elasticity are most sensitive:** The comprehensive study on tourism taxes by PwC (2017) found that some destinations are more sensitive than others. The findings illustrate that the impact on total tourism spending from an increase in tax can be positive or negative, depending on the relative shares of different segments of tourists (i.e. business or leisure). In countries with a large share of coastal tourism, for example Cyprus, Greece and Spain, an increase in occupancy taxes is likely to decrease tourism spending. This is because the increase in price is offset by a decrease in demand due to the high price elasticity for coastal tourism. On the other hand, countries which are frequently visited by business travellers are likely to be less affected by changes in taxes. In all the models presented by PwC, the negative impact of tourism taxes on both demand and job creation was marginal (-1-2%).[1]

- **Hard to isolate effect on growth curve from other factors:** OECD points out that it is very difficult to isolate the effect of taxes on the general growth curves with a case from Catalonia, where tourism taxes were introduced in 2012, and the destination nevertheless saw tourist numbers surge by 23% in the following years. According to OECD, the same effect was observed on the Balearic Islands. A committee of experts formed to review the financing model of 2017 states that this kind of taxation has a rather limited negative impact on the entry of tourists.

- **1:1 impact on demand:** In Scotland, the Scottish Tourism Alliance has made the case against tourism taxes citing research that suggested that for each 1% increase in cost relative to other destinations would reduce tourism to Scotland by 1%. Furthermore, earlier research by TTRI, (Study of Tourism Demand in UK (2007)) suggested that a 1% increase in UK prices or relative exchange rates would lead to a 0.61% fall in tourism expenditure.[19]

- **In Istanbul, people would pay for better experience:** In Istanbul, an academic study looked at consumer's willingness to pay (WTP) tourism tax. After literature reviews and in-depth interviews with 22 tourists, the researchers found that tourists are more likely to pay a certain tax when this is earmarked for improvements in their experiences, but they are more reluctant when it goes to destination sustainability. An interesting highlight of this paper is that the majority of surveyed respondents reported that their travel decisions would not be negatively affected even if the total cost of their vacation increased by one third.[12]

POSITIVE SENTIMENT

- **In Italy and Denmark, vistors want to pay for better environment:** In another consumer study from Italy (2017), researchers found that the Willingness To Pay (WTP) for the tourism tax depends not only on the vacation and the tourist type, but also on how the fiscal revenues are used. Based on the results from 302 face-to-face interviews, the study demonstrated that if no mention is made about the use of tax revenues, the WTP can be as low as €0.85 per person per night, which is much lower than the tax actually levied. Instead, if tax revenues are used to improve and protect the environment, the WTP can be as high as €3.96.[13] Similar results were surveyed by Wonderful Copenhagen in 2018, when approximately two thirds of both previous visitors and potential visitors said they would be "happy" to pay a €2 overnight fee if the money is spent on improving the environment of the country they are visiting.[62]

- **Air passenger taxes affects travel budgets:** A 2018 academic study investigated the effects of air passenger duties (APDs) on the composition of outbound UK tourists' budgets during a trip. The results demonstrate that the APD modifies the budget allocations by increasing the relative share of transportation expenditure, while correspondingly decreasing the at-destination expenditures on items such as accommodation and food.[16]

- **VAT reduction spurred growth in Ireland:** In Ireland, the Government lowered the VAT (from 13.5% to 9%) for tourism related goods and services in 2011 to boost tourism and stimulate employment in the sector. Two years later, an analysis concluded that the lowered prices actually did pass through to consumers across nearly every category. In conclusion, the study assessed that the VAT reduction created nearly 10.000 jobs across the sector and boosted growth in overseas tourism numbers and earnings. According to Fáilte Ireland, it also boosted value perception of the visitors.[2]

COMMUNITY

TAXES ARE POPULAR WITH RESIDENTS

While the research does not show much negative impact on consumers, tourism taxes are often popular with the local residents:

- **Residents helped set the tax rate:** In the 2019 debate on tourism taxes, The City of Edinburgh and Marketing Edinburgh presented poll data showing that the plans for a £2 per night tourist tax in Edinburgh had won overwhelming backing in a public consultation. The figures showed that 85% backed the levy, including 51% of accommodation providers. The poll received more than 2,500 responses into the proposed Transient Visitor Levy (TVL) of either 2% or £2 per room per night. The majority of respondents (72%) agree that the tax should be set at a rate of around £2 a night or 2% of the cost of accommodation, while 19% felt this was too low.

  A total of 81% of respondents wanted to see at least a seven-day cap on charges to help protect Edinburgh Festival performers and other non-leisure visitors. Finally, the respondents agreed with council objectives of supporting sustainable investment in tourism and managing the impact of tourism on the city and its residents.

- **We pay when we travel – so should our visitors:** Similarly, in the UK, almost half of holiday makers think the government should introduce a tourism tax on overseas visitors, according to a survey at the World Travel Market 2018. A poll of more than 1,000 UK holidaymakers to mark the start of trade show World Travel Market in London found that 45% believe the UK should implement its own tax. Conversely, British consumers were opposed to tourism taxes when they themselves are the subject of taxation imposed by foreign governments.

  In the survey, 57% said that general taxation would mean that they were either significantly or slightly less likely to go on a holiday overseas.

COMMUNITY

TAXES ARE POPULAR WITH RESIDENTS

- **For stressed Norwegians, taxes are the answer**: The national tourism authority of Norway, Innovation Norway, recently did a survey with residents in eight tourism hotspots of the country including Bergen, Stavanger and Lofoten. All destinations have seen massive growth in visitor numbers over the last decade, and this left the local residents very critical of the influx: Sixty-nine percent of the respondents in the survey said tourism brings problems with littering and filth, 62% said tourism wears on nature and 65% wanted to see a tourism tax implemented. See also [63].

In conclusion, we find that the impact of tourism taxes, for good and for bad, is a topic that needs more research and transparency for both policy makers and tourism professionals, and for the visitors themselves. As we shall recommend in the following, we need to develop new KPIs that allow for a broader understanding of the impact of tourism taxes on the destination, not just in terms of growth and revenue, but also with regards to social, cultural and environmental regeneration and the destinations' quality of life in general.

PART 5

POLICY RECOMMENDATIONS

THE 3X3 MODEL

7 THINGS TO REMEMBER

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POLICY RECOMMENDATIONS

THE 3x3 MODEL – AND 7 THINGS TO REMEMBER

As stated at the beginning, the aim of this research project has never been to applaud or promote tourism taxes in Europe. This is not a Yes-or-No-paper, but a White Paper on the current landscape of tourism taxation, the regulatory motivations behind the design and governance. It is meant as an elaboration of how taxation design can play a role in shaping the future of a more sustainable and regenerative tourism sector.

In the following wrap-up, we will propose a 3x3 model that might help policy makes structure their approach to the design process and we will outline seven important things to remember when implementing tourism taxes – all based on the research and case studies covered in the report.

First, the 3x3 design model has three dimensions; the demand side, the supply side and "the habitat" – referring to the natural, social and cultural living place of the residents. Policy makers must consider all three dimensions in their design. It is in the three dimensions policy makers finds motivations and legitimacy for taxing.

Secondly, the model has three policy goals going from centre to periphery in the illustration on the next page. In the centre, we find the conventional goal of ***growing tourism*** for jobs, economic growth and ultimately the general welfare. Here, a taxation model needs to be careful not to cap demand, and the revenues is typically spent on destination marketing and promotion. The tourism promotion tax in Slovenia is a good example.

In the middle circle, the objective is to ***balance tourism***. As an example, we can high-light Amsterdam's recent implementation of the day visitor tax which aimed to limit the number of day visitors – especially cruise passengers – in the city centre. Here, the revenues can be spent on infrastructure development or public transport passes for tourists etc.

Finally, in the outer circle, the goal is to ***regenerate the destination's natural, cultural and social resources***. The revenues can be spent on nature preservation, restoration of cultural heritage or various community projects. The revenues can also be spent in the industry dimension for capability and competence building, inclusion projects etc.

As we saw in the cases of the Balearic Island and Barcelona, the distribution of funds and support for projects can be organised with stakeholder involvement and democratic representation.

The 3x3 model is depicted below.

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3x3 TAXATION DESIGN

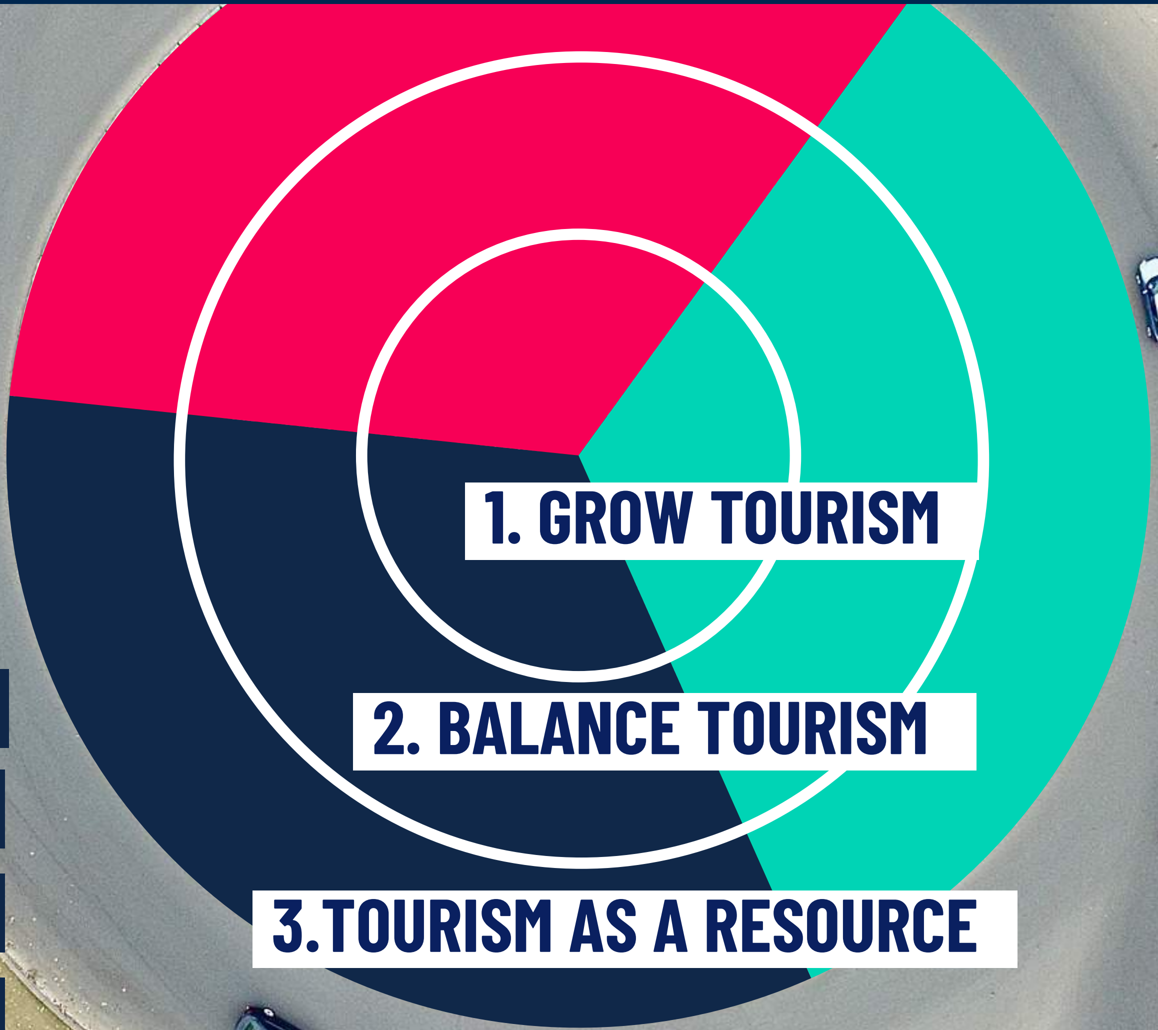
HABITAT

1. Destination Promotion
2. Infrastructure
3. Regenerative projects

INDUSTRY

1. Suspend & compensate
2. Insurance & pooling
3. Tourism innovation

+ Upskilling



DEMAND

1. Stimulate growth
2. Flows & behavior
3. Engage & connect

POLICY RECOMMENDATIONS

7 THINGS TO REMEMBER

Based on our research, we find seven fundamental principles by which destinations and their stakeholders can be guided to more effective and meaningful taxation design and governance:

1. **Earmark and ring-fence it:** Tourism tax revenues must be separated from the general revenue flows and used to promote the destination or for broader regenerative purposes as described in this report. We find a general consensus among the tourism sectors' leading associations, inter-governmental organisations as well as between local stakeholders, that tourism tax is a specialised tax where the revenues should be allocated and invested as such. Using revenues to "build back better" in the very communities where tourism might be seen as invasive, is not only meaningful because it builds resilience and balance, but also commercially clever if tourism is to be sustained with public legitimacy and support in long run. Reinvesting the revenues goes hand in hand with the local governance and stakeholder engagement which we find is at the core of destination management.

2. **Local governance = happier stakeholders:** Our research shows that local governance and representation is often key to balance stakeholder interests and to earn political support for the tax regime and support of the local DMO.

   We have found a number of examples (i.e. Iceland, Barcelona and Balearic Islands) of how tourism tax revenues are democratically governed and administered by cross sector councils or foundations with representatives from the local hospitality industry, city authorities, community groups, NGOs and academics. The local governance and distribution of funds adds to the legitimacy of the tax and collaborative capability of the destination.

   Research from Istanbul and the US argues that earmarking of the tourist tax through a local committee or foundation enables investments that yield larger returns for the hospitality industry and local government in the long run - based on more democratic decision-making.

   Therefore, taxes collected from tourism-related activity at a destination should be spent carefully through local governance structures, in a just and effective manner, in order to ensure long-term growth in revenues. The underlying logic behind the cycle is that spending on projects that directly or indirectly can serve to improve the tourism product (e.g., infrastructure, preservation, promotion, tourist experience, local tourism events) will have a positive effect on demand, which will increase tax revenues even further, creating a self-reinforcing cycle.

3. **High visibility and transparency works with consumers:** A general recommendation is that destinations and accommodation providers are very open and up front about the tax to be paid and where the funds go. Ideally it should not be an unexpected add on when checking out, but rather a contribution which consumers are proud to make because they know that it is channelled to something meaningful. Several studies show that the willingness to pay (WTP) is higher when consumers know that the revenue is for a local and regenerative purpose. As in the case of the Balearic Islands, sustainable tourism projects funded by the tax can be trumpeted on websites and in the destination marketing.

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POLICY RECOMMENDATIONS

7 THINGS TO REMEMBER

4. **Public consultation is important:** Governments or destinations looking to introduce an occupancy tax must consider running a strong public consultation process well in advance of its introduction. Public debate and engagement are crucial to gain both legitimacy and destination collaboration. In destinations such as Edinburgh and the Balearic Islands, public consultation and surveys helped policy makers in the design and introduction of the tax. Public consultation increases the buy-in from the industry sector and helps to ensure the tax that is eventually introduced is fit-for-purpose.[1]

5. **Help establishments comply:** In their extensive 2017 study, PricewaterhouseCoopers (PwC) highlighted the importance of ensuring compliance with the tax regime. This can be done by offering advice and extensive instructions to less resourceful SMEs and by committing industry associations and platforms. In some member states, tax authorities have committed the large shared platform providers (such as Airbnb and HomeAway) to facilitate the automated collection of occupancy taxes. This involves the platform provider collecting the appropriate taxes from the visitors at the time of payment and then remitting them back to the tax authority, without any direct involvement from the accommodation provider themselves. Airbnb, for example, now collects occupancy taxes on behalf of four EU member states (France, Italy, the Netherlands and Portugal).[1]

6. **Monitor and evaluate impact:** OECD finds a general lack of good data as well as monitoring, evaluation and analysis of the impacts of tourism-related taxes and incentives to ensure they are meeting their stated objectives without adversely affecting tourism competitiveness.[2] This finding comes with a general recommendation that destinations monitor and evaluate much closer in order to achieve their taxation purpose. On the same note, we find a general need to develop new KPIs that allows for a broader understanding of the impact of tourism taxes on the destination, not just in terms of growth and revenue, but also with regards to social, cultural and environmental regeneration and the destinations' quality of life in general.

4. **Both benefits and burdens:** Finally, in the big picture, we need a better understanding of the "invisible burdens" of the visitor economy to the destination. For many good reasons, the vast majority of literature, research and political advocacy has long focused on the economic and social benefits of tourism in a global world, where human progress and wealth creation are driven by economic, scientific and cultural exchange. Still, as a sector economic activity tourism is arguably also a burden to people, places and the planet. The invisible burden comes in many forms – CO2 emissions from air travel, air pollution from cruise ships, human trafficking, overcrowding, littering and noise, to mention a few – and as destination habitats, we need a better understanding and valuation of this side of the equation. Our research and cases have shown that well-designed tourism taxes can be both practical and meaningful tools in the sustainable management of the destination's resources.

" IN THIS WORLD

NOTHING IS CERTAIN

EXCEPT DEATH

AND TAXES "

Benjamin Franklin

... it is however our hope that this White Paper on taxes may rather contribute to better life in our cities

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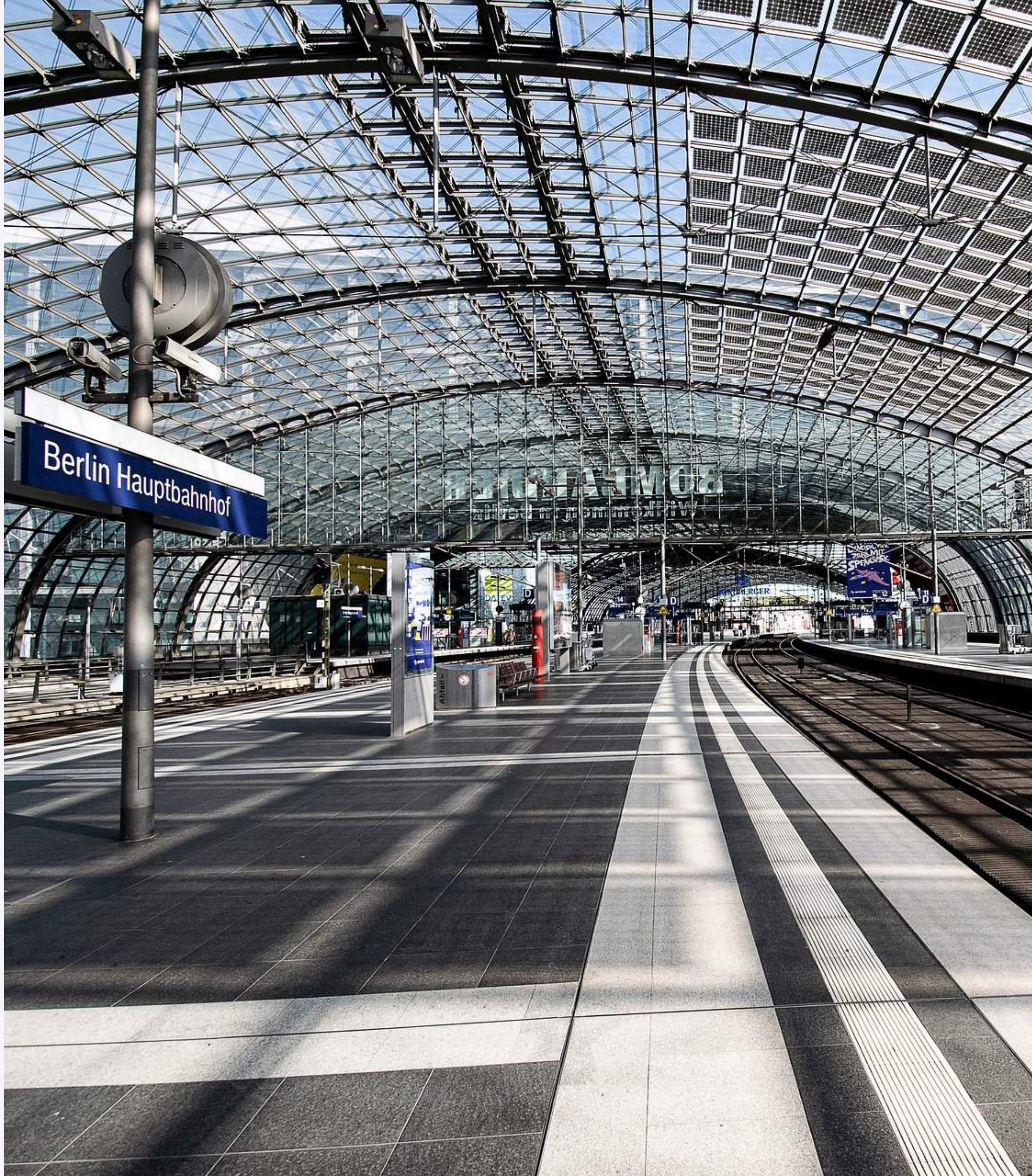

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