

TIM Congress
La Seu d'Urgell, Spain
June 6, 2005

LESSONS LEARNED ABOUT: TRAVEL TAXES AND INFORMATION NEEDS OF A TOURISM INDUSTRY

Dr. Donald F. Holecek, Professor
CARRS Tourism Resource Center
Michigan State University
East Lansing, Michigan, U.S.A.



Two overlapping themes

- Knowledge needed to effectively combat unfair travel taxes
- Knowledge needed to support tourism investment and management decisions

Theme 1. Travel taxes (I)

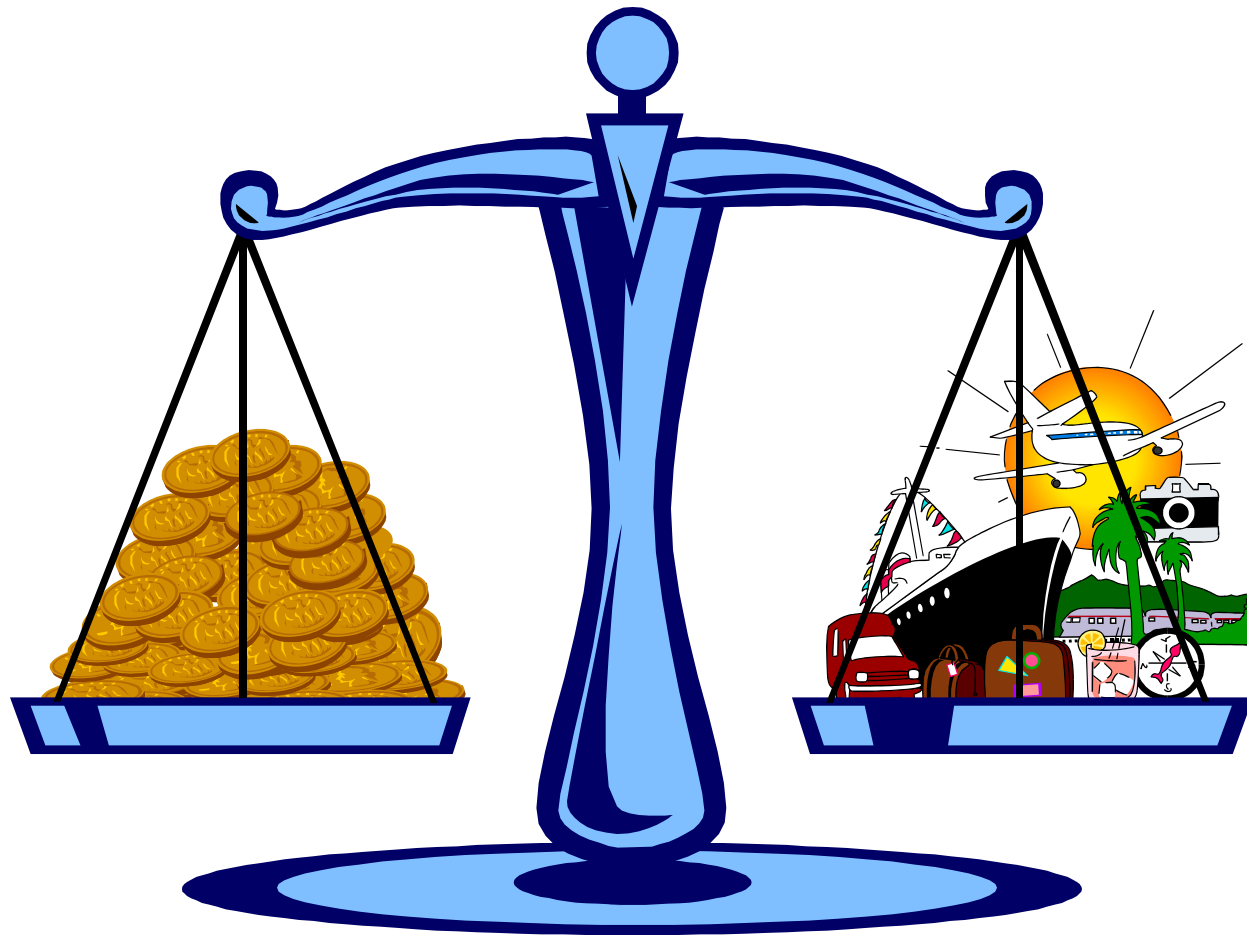
- “Safe” revenue generation – travelers don’t vote
- Travelers should pay for services received
- Taxes make travel more expensive
- Consumers buy less when taxes increase
- Increasing travel taxes may or may not yield more tax revenue
- The industry often advocates for tax levies that generate, for example, promotion money



Theme 1. Travel taxes (II)

- Travel taxes are not necessarily good or bad
- Evaluating the fairness of a travel tax involves addressing numerous issues
- Proposed unfair taxes can be stopped, if the industry identifies them early and is organized to combat them

Issues in evaluation of the fairness of travel tax



Tourism is an export industry

- Money flows into Spain when it exports Spanish wine to the U.S.
- Money flows into Spain when an American tourist drinks Spanish wine in Barcelona
- Governments are reluctant to tax exports, but readily tax tourists
- Be sure that your tax authorities are amply aware that tourism is an export industry

Tourists vote with their feet

- Leisure travel demand is relatively elastic
- Business travel demand is less elastic, but technology is increasingly used as a travel substitute

Tax increases don't always yield revenue increases

- Tax revenue = tax rate x sales volume
- When demand is elastic, a tax rate increase will yield less tax revenue due to a diminished sales volume

Optimal economic development hinges on balanced tax treatment across industries

- In open and competitive markets, land, labor and capital flow to industries based upon their capacity to use these resources to produce what society values most
- Unequal tax treatment shifts the flow of resources from more efficient to less efficient industries

The unit of government that collects travel taxes may not be the unit that services travelers

- In Michigan, state government collects sales taxes from tourists, but local governments rely on property taxes for their revenue
- Fast tourism growth places an immediate heavy additional burden on local government, but its tourist tax revenues usually don't keep pace with costs

How governments use travel taxes is an important consideration

“Airlines reject development aid tax

20 May 2005

European airlines have reacted angrily to an 'agreement in principle' by EU finance ministers to levy a tax on tickets to fund aid for developing countries. (...)”



Small incremental tax increases add up

- A 2% tax increase may have a limited impact when the existing base rate is a low 3%, but that 2% tax increase when added to a base rate of 18% could tip sales volume dramatically
- New York City recently was forced to cut its lodging taxes when the rate increased to over 20% and tourists started to stay at hotels outside the city

Compare total cost (including taxes) to your competitors

- Las Vegas is a very popular convention destination in the U.S.
- New York City is losing convention business because the total cost of holding a conference there is far higher than in Las Vegas, even for nearby East Coast residents

To hide or reveal taxes is the question

- Not being open about taxes visitors must pay is a failed strategy because:
- The information is increasingly available on the Internet
- Travelers don't like surprises

What about reducing taxes on travelers?

- It boosts tax revenue when demand is elastic
- It may be good strategy even when demand is inelastic, if the unemployment rate is high

Why isn't the tourism industry more effective in combating unfair travel taxes?

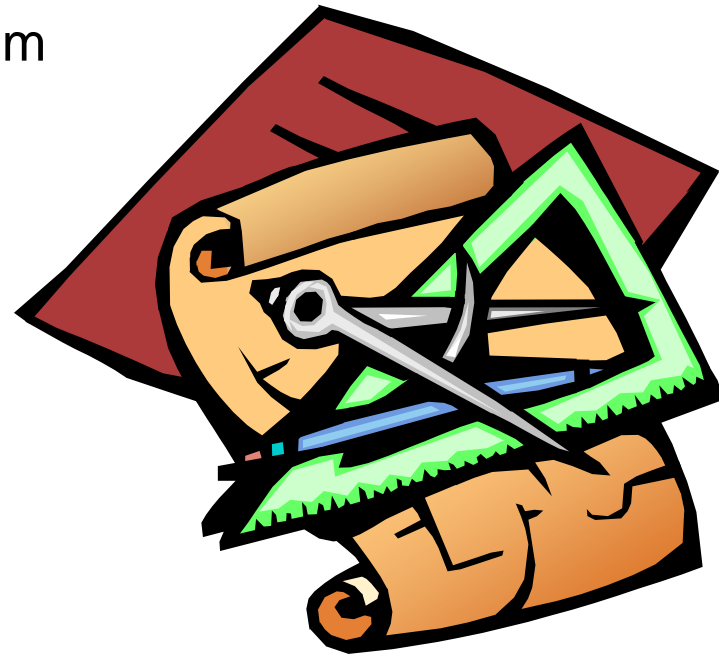
- It isn't organized – small businesses scattered over large area
- It isn't aware / educated
- It isn't prepared

Coping strategy to combat unfair taxes

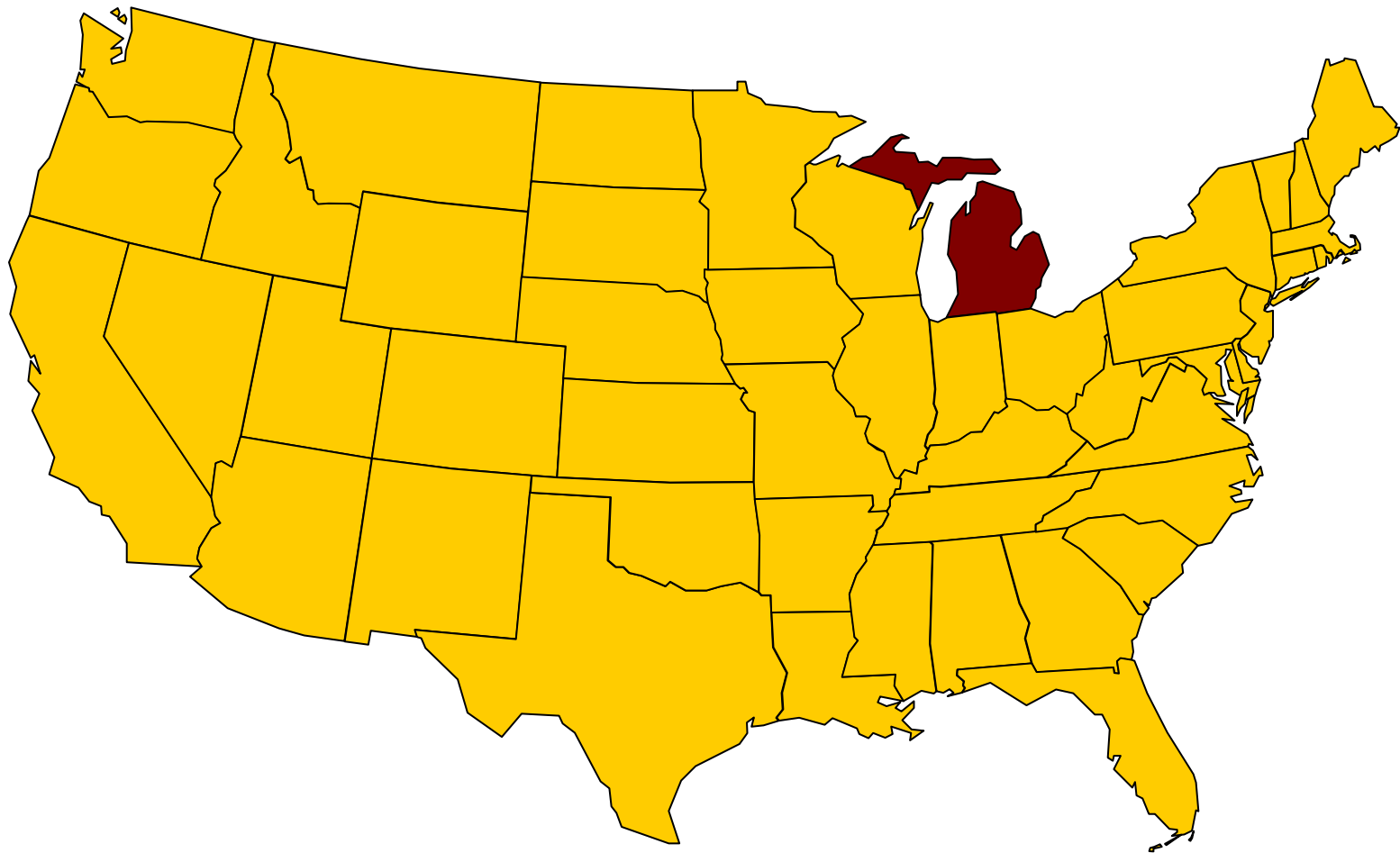
- Get organized before new taxes are proposed
- Create a broad tourism coalition
- Build financial “war chest”
- Become politically engaged
- Communicate
- Conduct research

Theme 2. Research the missing link

- Combating unfair taxes, developing cost-effective promotion strategies, and making sound investment decisions all require access to objective and timely information
- Advancing knowledge about tourism is more dependent on acquiring better basic data than developing more sophisticated research methods and models



Toward meeting research information needs – some Michigan examples



Developing a research infrastructure

- The center as an “information clearing house”
- The budget in 1985 was US \$200,000 (two-hundred thousand U.S. dollars)
- The university versus government

Longitudinal research is especially important

- Research funds are most accessible to study specific emerging issues
- Research funding is generally only available for short time periods
- Yet, many research questions, such as how is the market changing, require data collected over multiple years using comparable methods to answer them

Why a resource and not a research center?

- Researchers see their total mission as identifying a research problem, solving it, and finally, publishing a report / journal article
- At a land grant university, like Michigan State University, our mission doesn't end when our research is published – it extends to ensuring that the knowledge gained is put to use.

Programs that have worked for the center

- Travel activity monitoring and forecasting system
- Fact Book I and II
- Filling information voids with the regional Michigan Travel Market Survey
- *Michigan Tourism Business* – an electronic newsletter to disseminate timely information

Contact information

Dr. Donald Holecek, Professor

CARRS Tourism Resource Center

172 Natural Resources Bldg

Michigan State University

East Lansing, MI 48824-1222

Phone: 517-353-0793

Fax: 517-432-2296

E-mail: dholecek@msu.edu

Web: www.tourismcenter.msu.edu

Web: www.imakenews.com/tourism/

Web: www.tourism.msu.edu

