



**Universitat de les  
Illes Balears**  
Facultat de Turisme

**Memòria del Treball de Fi de Grau**

# Tourist Taxes: Review and Enforcement

Wibo Sefeld

**Grau de Turisme**

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DNI de l'alumne: X1177322K

Treball tutelat per Jaume Rosselló  
Departament d'Economia Aplicada

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## Abstract

Since the birth of tourism, tax burden has been inherently associated with tourism related activities. The exponential growth of this industry has been accompanied by a large number of different tourist taxes. Many tourism activities which involve accommodation, transport or complementary services are riddled with regional- and state-wide burdens. This paper tries to give an overview of indirect taxes as well as the most common direct tourism taxes, the objectives of this type of taxation, which in many cases is merely another source of funding, and finally the economic and social consequences of introducing tourism taxes. Through the two-way process of tourism performance in the economy, the paper searches to demonstrate the importance of tourism taxes and the role it plays on the tourist industry. A particular emphasis has been placed on the case of the Balearic Islands where tourist taxes are to be introduced for the second time. In light of the above, earmarking specific tourist tax as well as the proper use of communication channels will play an increasingly important role in the future.

*Keywords: tourism taxation, footprints, earmarked taxes*

## 1. Introduction

Without doubt, tourist tax is one of the most uncomfortable issues of an industry that brings both satisfaction and prosperity to the parties involved. Since we are giving value to the meaning of the word leisure, people are devoting part of their free time and revenues doing tourism in order to satisfy their needs. Travel and tourism related industries benefit from this mutual interaction which is being translated in the unstoppable growth of the tourism industry. Simultaneously, the governments saw an appetizing opportunity to raise revenues through this exchange. However, with the arrival of mass tourism, people became aware of the fact that tourism is using free resources and sustainability costs money (Gurel Cetin, 2014). As a result, many types of tourist levies have been formulated.

General indirect tax charges on tourists seem to be the most common but also the most concealed way to obtain revenues from tourism activities. However, this formula cannot always be described strictly as a tourism tax since nearly all

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goods and services are used either by tourists as by non-tourists (A. Gago et al. 2006) like for example a general taxation such as value added tax (VAT) (Thomas C. Jensen, 2002). The problems are starting to arise when it comes to taxing tourists specifically, which seems somewhat contradictory, especially when this takes place in wealthy destinations. What is levied is the underlying economic capacity of the purchase of tourist services which in a varying formula guarantees the principle of horizontal equity (Gago & Labandeira, 1999). In this way, the perspective is transferred from the activity itself towards the taxpayer who required the services, focussing the tributary attention to the personal spending capacity by the differentiation of taxable events. The opposition towards specific indirect taxing is fierce in many places both from tourism operators and from hoteliers who consider that it weakens the competitiveness of the destination. On the other hand, ecologists and environmental associations are trying to make aware the respective governments that the ecological footprint of tourism can be seen as a market failure and defend the need of specific indirect taxing in order to counterbalance negative externalities.

Although the benefits of tourism are undeniable, many elements, especially the footprints of certain kinds of tourism, have come under scrutiny in the past decades. Mainly in tourist destinations with a high seasonal component, the environmental burdens are considerable. However, this research is not intended to adopt any particular political position; rather, it conveys a view of the different tourist taxes coexisting so far and its applications. In addition, future tourist taxes that are going to be introduced will be highlighted. The use of the available bibliographical sources on the subject has been essential in order to be able to make an objective analysis on the issue. So far, the investigations on tourist taxes have been focussed on a specific area or analysing the cause and effect relationship of lodging taxation. This research is a combination of both and tries to demonstrate the evolution of different taxes as well as the changes in perception of tourists towards taxing in a world where economic, social and environmental forces claim its prevalence one above another.

A specific review is given of the case of the Balearic Islands. In this archipelago, the regional government has decided recently to reintroduce a tax, earmarked for environment, which is disguised to be enforced as a specific tax on tourism activities by 2016. In this context, the similarities and differences as well as the approach will be analysed of both measures as well as the possible effects of this new Balearic tax. The objective of this research is not to try to establish a possible correlation between tourist tax and the number of tourist arrivals. Since the technical complexity as well as the price elasticity regarding the movements in the demand of tourist products depends on too many external factors, its interpretation may result neither comprehensive nor conclusive. Therefore, it will be more useful to highlight other findings in order to strengthen previous outcomes and make comparisons with existing data. Moreover, taxation

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decisions are heavily geared towards the respective policy cycle which can obscure any investigation which outcomes might need a long term scope in order to be relevant. In addition, this document pretends to be a theoretical analysis which thread enables the reader to find resources and connections which could shed light and clarify the complex framework in which tourist taxes are involved.

## **2. Theoretical and Conceptual framework**

### **2.1 *Redeeming the footprints of tourists arrivals***

Before analysing the economical and the political justification of the imposition of a tourism tax, I would first like to take into consideration the ecological aspects due to the enormous expansion of the tourism sector since this has been the main argument used frequently by policymakers and destination managers when tourist taxes have been introduced. So much so that, tourism has been a dominant industry for many countries over the years becoming the biggest growing industry with an unprecedented high level of growth. In the beginning, it was just a matter of enhancing the standard of millions of people and a perfect opportunity to boost the economy for those countries with a small industrial sector without considering the negative environmental impacts. In fact, the developing countries are achieving sustainable growth thanks to tourism while a large part of their GDP is created by tourism activities. Travel and Tourism has always been seen as a friendly industry which “generated US\$ 7,6 trillion (10% of the global GDP) and 277 million jobs (1 in 11 jobs) to the global economy in 2014. It’s grow of 3,6% was faster than the wider economy and out-performed growth in the majority of leading sectors in 2014”<sup>1</sup>.

Nevertheless, tourism should not necessarily be considered as a “green” industry<sup>2</sup>. There are many examples of the negative impact on environment as well as disruptions in the society. In many cases, it’s effects are as, and even more damaging than the emissions of harmful substances. Although the purpose of this research is not to present an environmental report, I should like to highlight the most notorious cases caused by tourism activities which mainly affect coastal areas. It has been shown that most damage is caused by tourist infrastructures, unconcerned operators and tourists as well as careless resorts which are being translated in the form of waste, pollution and water shortage. One of the clearest examples of overdevelopment is observed in the fragile marine ecosystems like the Great Barrier Reef in Australia where 85% of the 1.8 million visitors are concentrated in the small areas of Cairns and Whitsunday Island with a local population of only 130.000 people (Frost, W. & Lawrence, M, 2006).

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According to Aguiló, Riera and Rosselló (2003), the regional government of the Balearic Islands showed that the level of underground water fell by 90m between 1975 and 1999. The production of Balearic waste doubled that of the national average and electricity consumption increased by 37% between 1993 and 1998. Cruise ships are also a growing problem and form a major source of marine pollution through the dumping of waste and sewage. The sector's overall carbon footprint is 5 percent of total global emissions. Nevertheless, it is much smaller than its overall socioeconomic contribution and it is also far smaller than that of many other sectors<sup>3</sup>. However, ignoring these impacts of tourism on the environment is just as bad as disregarding the carbon emissions in industrial countries.

Against this background, there are two possible ways to act: drawing up a system which imposes punitive taxes or penalties, or either doing research on changing the travel decision making process and how to give people incentives and strategies in order to cut down unnecessary travelling<sup>4</sup>. This research will be focused on taxing phenomena in tourism rather than on other studies, although not less important, which can contribute to reduce the adverse effects of tourism on the environment. Since the introduction of Pigouvian taxation, it is generally accepted that external costs are defrayed in accordance with the "polluter-pays" principle, in compliance with the acknowledgement of the communal ownership rights on assets and resources (López, S. and López, S.M., 2012).

Therefore, "indirect taxes can be used to improve the efficiency of market allocation in the presence of externalities" (Jensen & Wanhill, 2001). Although it's not always possible to identify the liability of neither the polluter nor the way of measuring the environmental damage, the companies are subject to pollution tax in the form of pollution quotes, administration penalties or ecotaxes. Nevertheless, while ecological reasons are beyond doubt when it comes to the introduction of a tourist tax, the policymakers of regional and local governments are facing a huge deficit and the financial support they receive is inadequate to address all the needs. As we can see in the following sections, it is mostly the executive institutions of the regional governments which enact laws to tax tourist lodging. Finally, I will dare to say that tax makers can run the risk of overlooking the fact that many products of the tourism and hospitality industry are very elastic and that levying the last link of the value chain may have significant consequences for the rest of the value chain of the sector. In this regard, Aguiló et al (2003) suggest not levying disproportional taxes on this sector while tourism represents a primary source of wealth and focus of new employment for different destinations.

### **2.2 Different scales, different taxation**

In the next sections, tourist taxes will be reviewed from a large to small administrative level which is important when we are talking about discriminatory

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taxes carried out by different jurisdictions of which the most common are departure taxes, ticket taxes and taxes on hotel occupancy (Cooper C., 2008). As stated before, indirect taxes like VAT on tourism services are not considered strictly as tourist tax while some of these services are also used by non-tourists. Nevertheless, the VAT policy among the EU members contains discriminatory elements according to inconsistencies in the application of tourism VAT rates.

### ***2.2.1 The international perspective of tourist tax***

In the beginning of the 1960s, international tourism was largely free of tax (Jensen & Wanhill, 2001). Since last century, many countries all over the world are getting a boost from growth in tourism and discover a source of revenue by levying tourist taxes. Today, through concessions of competences on taxation, national governments are allowing regional and local administrations to develop their own regulations. Nevertheless, the VAT rates policy is under control of the national governments and, consequently, the VAT rates for the hospitality and tourist sector. However, the countries of the European Union are to be complied with Directive 2006/112/EC on the common system of value-added tax. This common framework allows setting a standard VAT rate between 15% and 25%. Reduced VAT rates can be applied in a limited range of goods and services which are specified in the regulations and must be between 5% and 15%. Some tourism services like accommodation, museums and restaurant services are amongst those services that are allowed to be applied with a reduced rate. However, the existing rates on VAT among EU members are disparate. For example, the UK currently taxes tourism services at 20%, one of the highest rates among the EU member states after Denmark and Lithuania. During 2015, a campaign has been carried out in order to cut the VAT on tourism to 5% with a view to fostering employment. In Germany, the VAT was slashed already in 2010 from 19% to 7%.

The other side of the coin of the dynamic on taxing tourism services can be found in Greece: in July 2015 the Greek Government announced a VAT increase from 13% to 23% which applied on all food and beverage consumption. Suddenly, the hotel and catering sector and, thus, the tourism industry, suffered these consequences indirectly since many establishments were forced to raise prices. In the UE, Member States governments have sovereignty in policy-making with regard to legal issues. Actually, we can state that there exists primacy of the Community law over national legislation according to the declaration appended to the Treaty of Lisbon<sup>5</sup> and according to judicial decisions, although the treaties have not issued any position on this point. At global level, the World Tourism Organization (UNWTO) is “the United Nations Agency responsible for the promotion of responsible, sustainable and universally accessible tourism”. Besides, the Authority also “promotes competitive and sustainable tourism policies and instruments”; this means that it advocates policies in order to safeguard the competitiveness of the sector and noted that “Over recent years there has been growing concern from

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practitioners in the tourism industry worldwide that taxation in the sector has proliferated.

These concerns have developed as increases have been noted in both the number of taxes and the rate of those taxes. Industry observers note that the nature of the tourism industry makes it an ideal target for tourism taxation. Not only are tourists easy to collect taxes from (i.e. when they buy their airline ticket, depart or arrive at an airport or pay their hotel bill) but it is often the case that the tourist will not be a voter in the country or region where the tax is levied<sup>6</sup>. In this respect, the World Travel and Tourism Council (WTTC), the only forum which represents the private sector in the tourism industry worldwide, refers to a more local level and argues that discriminatory tourist tax payments should be made in accordance with equity, efficiency and simplicity (Cooper, C. 2008). Despite of the fact that VAT has become a price parameter for international tourism flows and unleashes a fierce competition on lowering VAT rates (Jensen & Wanhill, 2001), indirect taxes like VAT have the “advantage of minimizing administrative and compliance costs compared to the implementation of new specific tourist taxes” (Durberry & Sinclair, 2001).

### ***2.2.2 Categorization for specific tourist taxes***

In view of the fiscal decentralization in many countries and according to the inventory of OECD’s tourism trends and policies of 2014<sup>7</sup>, 6 categories of tourism related taxes are specified resulting from tourist-related activities. The first group accounts for the taxes and fees and all the charges which are related to bureaucratic burden of arrival and departure of travellers like visa and custom procedures. Entry taxes and terminal charges at airports are by far the most popular ones. Strongly associated with this category are the taxes levied for air travel, like airport charges or departure fees called in the same vein among the different European countries and represents a significant contribution to the national coffers. The third type of tax is related to those levies specific on hotels and other accommodation facilities which are normally administered on regional or municipal level. In the next section, these taxes will be explained more precisely since the examples of its application throughout the world are overwhelming due to the greater operational leeway for local governments. Fourthly, the inventory places the above mentioned value added taxes (VAT), mainly in Europe, as well as goods and services taxes (GST), more common in USA.

However, where tourism is concerned, these taxes can go beyond a mere consumption tax provided the existence of reduced rates for primarily tourism-related activities. The OECD’s inventory dedicates a specific section to environmental taxes also called green or eco-taxes which often are created to encourage green investments and to develop environmental friendly technologies. This means in short, that the tourism-related activities are levied with the aim of buffering the impacts of mass tourism as well as maintaining the

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existing infrastructures and develop new ones. There are clear models of environmental taxes in all continents where in one way or another, the main point is focussed on environment.

In this regard, and to highlight the most prominent examples, it is worth mentioning the Great Barrier Reef Marine Park Environmental Management Charge (EMC) in Australia which payments are applied directly to the sustainable management of the Marine Park. Another example is the accommodation tax of Iceland, which was introduced in 2011 and supports tourism development at local level via the Tourist Side Protection Fund. In some cases, like in Mexico, the levies are focussed on specific activities and the so-called entrance fees for water activities in natural protected areas were already introduced in 2000. Finally, the ecotax on the Balearic Islands was introduced in 2001 in order to internalize the environmental costs of tourism. This tax will be described in greater detail in a separate section.

The OECD concludes its inventory with the concept of tax incentives for investments in tourism-related activities which may also occur in the form of concessional tax treatments like fiscal incentives and location based incentives. An example is the Special Balearic Scheme (REB) earmarked in 2015 with new incentives for investments for the Balearic hotel companies in order to modernize tourist facilities and to regenerate mature destinations.

### ***2.2.3 Source of revenue for regional and local administrations***

The historical references of city taxes date back more than hundred years. Paris, perhaps one of the earliest examples, charged already in 1910 the so-called *taxe de séjours*, a charge on stays at hotel establishments, which was collected in order to cover the costs of tourist promotion and to upgrade the infrastructures, initially for thermal environments. The so-called *Ortstaxe* in Germany has its origins in the first thermal bath fees called *Kurtaxe*, first introduced in 1507 in the city of Baden-Baden. With the advent of tourism in the 2<sup>nd</sup> half of the 19<sup>th</sup> century, such lodging charges were common in many places and contributed significantly to the funding and prosperity of tourist destinations. The hotel occupancy tax, also referred to bed tax or resort tax, became extremely common after World War II and has been introduced in almost all the larger cities. Since the first example of the mentioned tourist tax in Paris, which was extended later throughout the French territory, the examples of these kinds of taxes over the past hundred years are legion. The system provides a ceiling rate set by the government which municipalities can develop in concrete terms. In Italy, the local authorities have imposed in hundreds of municipalities the so-called *tassa di soggiorno*, levied to people staying in tourist accommodations or resorts who are required to pay between 50 cents and 5 Euros and depend upon the type of accommodation category.

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Outside Europe, one of the places with a greater tax tradition is USA, where state and local governments are billing both room taxes and bed taxes in many states for years. The zeal of the US tax collectors often irritates tourists, obliged to deal with two different tax regimes: a five percent state tax and another 3 percent on top from the municipalities. Apart from that, from 8 September 2010, the US authorities disguised a tourist tax within their travel permission management (ESTA) system. The full tax burden of 14 US\$, which is paid by all the travelers who need a permission to visit USA, consists of two components: 4US\$ concerns administrative costs and the remaining 10US\$ are devoted to US tourism promotion. The tax is being in effect for 2 years and the fee is charged immediately when making the entry permission procedure on line.

Durbarry and Sinclair (2001) distinguish between ad valorem tax and an ad quantum amount. The difference between both is that the rate in the first one is fixed as a percentage of the price and ad quantum is established as a unit. An example of ad valorem tax is the Hotelsteuer, charged in the German cities of Berlin and Dortmund and which were introduced in 2014 and 2010 respectively. In both cases, it amounts to 5% of the accommodation fee and must be paid by the guest at the hotel. Amsterdam levies a tax of the same characteristics. The other characteristic is that the tax rates vary by type of establishment and sometimes by region and season. Likewise, in Croatia, the Sojourn Tax introduced in 2007, divides hotel categories as well as destinations into four blocs with their corresponding prices. Specific exemptions are likely to be considered in order to achieve the fairness principle. Thus it happens that, while adults usually pay the full rate, children and large families often pay a reduced fee or are even exempted. Unlike general sale taxes, local taxes are expected to be spend for the most part on local tourism related expenses (Litvin et al., 2006) (See Figure 1).

The enhanced ability of local administrations to manage and develop tax policies enables them at the same time to improve tourist infrastructures, promote the destination and to support sustainable development. If the taxes are collected and spent carefully, the right actions can fuel a cycle that can provide larger returns both for the tourist industry and for the local government.

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Figure 1: City tax cycle of development

Figure 1. City tax cycle of development



Source: Adopted from Litvin et al. (2006)

However, the enhanced ability of local administrations on tax levies constitutes a powerful temptation to use tourist tax as an instrument which fosters a raging fundraising. According to Seul Ki Lee (2014), it is a recent trend for localities and municipalities to review the feasibility of bed tax adoption to increase tax revenues. It is thought too often that tourist tax raising won't damage the municipalities politically while tourists are normally not in the position to vote for or against the politicians levying the tax (Hiemstra & Ismail, 1993). This poor approach should have no place in a responsible structural tax policy, especially in mature tourist destinations where authorities pretend to mitigate the negative impacts of mass tourism and taxes are introduced to promote environmental sustainability. Many stress the need to inform about the benefits of green taxes in order to win support between all the stakeholders. Although the political consequences might be insignificant for local administrations, providing poor information to "transitory" non-residents can harm the reputation of an area significantly.

## **2.2.4 Brief overview of Spanish tourist taxation**

The restoration of democracy in Spain in 1978 entailed the introduction of new legislation, granting more autonomy and decision making power to regional and

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local administrations. The Spanish government, through the newly-born Statutes of Autonomy, delegated specific responsibilities to Autonomous Communities and city councils. As a result, many competences in the field of tourism did no longer depend on the State and specific laws and regulations have been created in order to conduct their own tourism policy. In fact, that includes the development, management and planning of the tourism sector, internal and external promotion, regulation of specific rights and duties of users and providers of tourist services. Issues concerning tourist taxes are not considered on a priori basis and are usually the result of spatial characteristics and needs, political alternation and budgetary constraints.

Compared with other countries, the decisions and regulations concerning tourist taxation in Spain have been rather timid. The country is aware of the importance of the tourism sector to their national economy. Spain ranks third as global tourist destination thanks to the 64 million visitors in 2014, surpassed only by France and USA, being the first and second respectively. Both France and USA have got a large taxing tradition on tourist services in contrast of Spain where the implementation sows discord, even though the Autonomous Communities have got both freedom and discretion to develop the legislation. However, many fear the loss of competitiveness with respect to other regions and the existing inconsistencies regarding the political complexion between Regional Governments and the State are helping neither to find common guidelines. Nevertheless, the central government has a very significant role to play as a leading stakeholder in the development and the promotion of tourism and in fact they define and implement policies in this area.

According to Fayos-Solá (1996) the role of the government in the tourist sector has undergone three stages in the last part of the XX century: in the first place the aim was just to encourage mass tourism which was followed by the control of the social, economic and environmental impacts of this phenomenon. The third phase includes the awareness of government policies on tourism competitiveness in the context of market segmentation. Beyond the specific issue of this paper, I would dare to add a fourth phase in which the government should assume a monitoring role in the complex structure of proliferating online tourism offers, in order to safeguard the interests of the sector and the consumer. The current action plan of the government has two approaches in order to maintain and to sharpen Spain's competitive edge: the National Integral Tourism Development Plan (PNIT) and the Financial Fund for the Modernization of the State Tourist Infrastructures (FOMIT). Therefore, the Spanish government does not support unilateral decisions of regions who apply their own tourist tax enactments, undermining their efforts to improve competitiveness. Nevertheless, the budget items settled by the Spanish Ministry of Industry, Tourism and Trade regarding "Coordination and Promotion of Tourism" have been significantly reduced over the past few years, which made it necessary for many Autonomous Communities to consider fundraising in order to make up the shortfall (See Table 1).

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Table 1. Overview budget on coordination and promotion of tourism of the Spanish government

<b>COST ESTIMATE "COORDINATION AND PROMOTION OF TOURISM" MINISTRY OF INDUSTRY, ENERGY AND TOURISM (thousands of Euros)</b>					
	2013	2012	2011	2010	2009
Chapter I: Staff Costs	25.815,78	26.602,06	27.140,37	28.599,33	28.843,93
Chapter II: Current expenditure on goods and services	15.313,93	16.125,13	18.004,79	19.055,70	18.892,56
Chapter III: Finance charges	636,74	865,61	614,40	76,00	1.201,00
Chapter IV: Current Transfers	1.400,00	1.757,41	6.287,41	7.924,72	7.924,72
Chapter VI: Actual Expenditures	37.910,00	46.610,91	89.200,68	121.245,80	131.714,82
Chapter VII: Capital transfers	22.810,48	27.705,00	36.970,00	49.590,00	30.975,91
Chapter VIII: Financial Assets	226.731,61	318.531,31	445.036,96	550.042,00	550.042,00
<b>Total</b>	<b>330.618,54</b>	<b>438.197,43</b>	<b>623.254,61</b>	<b>776.533,55</b>	<b>769.594,94</b>

Source: Compilation based on information supplied by the Ministry of Finance and Public Administrations

So far, Catalonia and the Balearic Islands are the only regions which legislatively defined tourist taxes, continuing in force in the first case since November 2012, while in the Balearics the so-called “ecotax” was introduced in 2001 but repealed in 2003. In the next sections, both cases will be revised more thoroughly. Other regions welcome the idea of introducing a lodge tax but due to pressures from the tourism sector, proposals have been stagnating and desist from further consideration.

### 2.2.4.1 The Catalanian Tourist Tax

Through Act 5/2012 of 20<sup>th</sup> March, the Parliament of Catalonia approved its own regional tourist tax law enacting the legislation by Decree 129/2012 of 9<sup>th</sup> October, a bold initiative but not without controversy, since both the central government and the hospitality sector did not welcome the measure<sup>8</sup>. The tax, effective from 1 November 2012, levies stays in tourist establishments to everyone over age 16 and the revenues are used to nurture the Fund for Tourism Development, especially to foster tourism in Barcelona which generated 52% of the tax revenues in 2014 and competes directly with the large European capitals. The Government of Catalonia established a maximum of 7 overnight stays and the payment modalities per guest are as follows: 2,5 € per night in 5 star hotels and cruisers in all the Autonomous Community, 1,25€ per night in four star hotels in Barcelona and 1€ in the rest of the region. Finally,

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clients of other types of tourist establishments pay 0,75€ per night in Barcelona and 0,50€ in the rest of the Catalonian territory. The money raised is divided in 70% to the Autonomous Community and 30% to local authorities except the city of Barcelona which manages 48% of the tax collection<sup>9</sup>. According to the Government of Catalonia, the financial recourses of the Fund for Tourism Development are devoted to projects and actions based on the following objectives<sup>10</sup>:

1. Tourism Promotion of Catalonia
2. Promote the sustainable and responsible and qualitative development of tourism as well as the protection, conservation, restoration and improvement of tourism resources
3. The promotion, creation and improvement of tourist product
4. The development of tourist related infrastructures

Underpinning these specific objectives, the Catalonian Authorities specify their ulterior motive which is based on fostering an upgraded tourist offer, achieving territorial balance, increasing deseasonalisation and assuring an excellent tourism promotion. As said, the introduction of the tax was not easy; on the one hand, the Catalonian Government who advocated for the implementation of the tax and on the other, various groups and institutions who defended the interests of the hotel sector. The main objections were stated by hotel associations, for example, those Tour operators who sell all-inclusive packages had to bill the tax after the fact or even assume the tax themselves. Another problem was the pitfall of inequity of the measure while the law does not recognize differences between areas or high and low seasons. Furthermore, another consideration which was not taken into account is that the average price per stay in a hotel on the coast side is much higher than one on the camp side which could result in inconsistencies between different regions<sup>11</sup>. Nevertheless, the Catalonian Government welcomes the overall results and the revenues of the tax, which have been collected so far, are showing an upward trend<sup>12</sup>. The figures reveal the importance of hotels which accounted for 80.6% of total tax collection (See Table 2).

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Table 2. Collection of the Catalanian Tourist Tax, by regions

COLLECTION OF THE CATALONIAN TOURIST TAX, BY REGIONS				
PROVINCE	4T - 2012	2013	2014	Total
Barcelona	2.317.737,68	24.378.842,90	26.390.622,36	53.087.202,94
Tarragona	165.617,20	5.876.542,41	5.816.314,81	11.858.474,42
Lleida	103.031,24	902.684,79	916.273,17	1.921.989,20
Girona	264.264,16	7.242.123,65	7.374.119,99	14.880.507,80
Pending Allocation	8.274,38	49.884,66	476.853,61	535.012,65
<b>Total</b>	<b>2.858.924,66</b>	<b>38.450.078,41</b>	<b>40.974.183,93</b>	<b>82.283.187,00</b>

Source: compilation based on information supplied by the Catalanian Government

### 2.2.4.2 The Balearic “Ecotax”: an important precedent at the national level

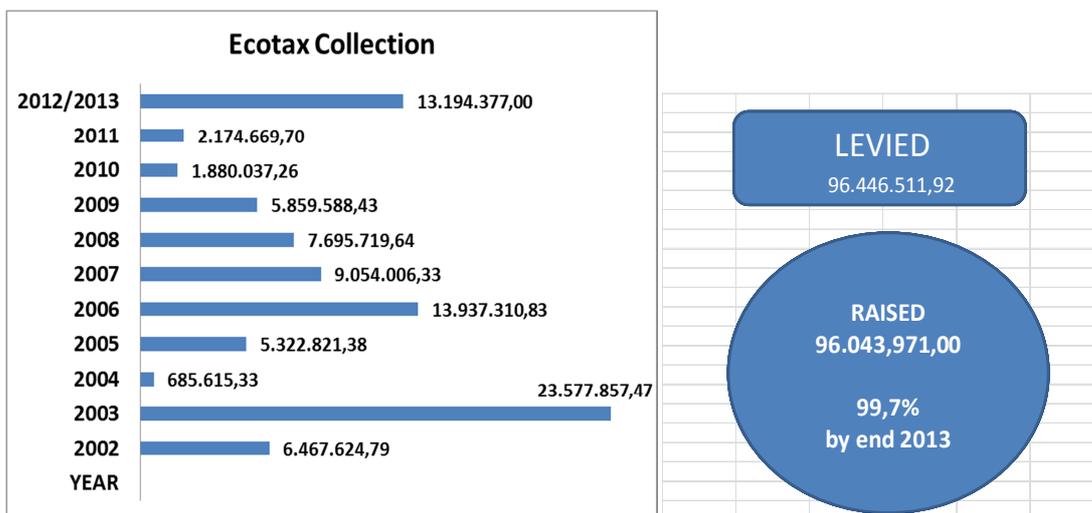
In 2001, the Autonomous Government of the Balearic Islands set a precedent at national level by introducing the “Ecotax” by Act 7/2001. It was conceived as a tax that levied stays in tourist accommodations with the aim to collect revenues for the “Fund for Restoration of Tourist Areas”, dedicated to the promotion of sustainable tourism, enhance competitiveness and nature conservation. The phase of tourism expansion in the late nineties and their consequences, as well as all the consequences of tourism development of the sixties, constituted powerful arguments to introduce the tax (Amer, 2003). However, the underlying reason was the insufficient funding of the Balearic Government through the State’s revenue distribution to cope with these consequences<sup>13</sup>.

The new left-wing coalition, which had put an end to a longstanding hegemony of stifling conservative government on the islands, put the pampered hotel sector on a war footing immediately after announcing the measure. Since the decision was seen by the new elected government as a panacea, they did not see the need to seek consensus among the agents involved, by which many of them were particularly perturbed. The hoteliers achieved the interference of the Spanish Government which filed an official complaint with the Constitutional Court which revoked the Act from September 2001 until it was resolved in favour of its implementation in January 2002. Finally, the measure was only operational from May 2002 since the succeeding Balearic government repealed the law, which entered into force in October 2003. The tax was conceived at the rate of 1€ per person per night in a tourist accommodation which in fact caused disappointment in the sector while it affected only regulated tourist accommodation, leaving out the residential housing, which is discriminatory. On the other hand, the hoteliers considered that the tax would increase the total holiday costs which could crowd out the demand towards other destinations. Finally, the hotel operators deployed the political argument that the Government did not establish the appropriate consultations (Amer, 2003). Like in Catalonia, it was a regional Pigouvian tax which didn’t include local expenses but provided for a widespread distribution of fundable projects of mostly a public nature with

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strong ecological characteristics. The regulation lays down the projects in this regards: the restructuring of tourist destinations; sustainable development policies on water, energy and consumption; conservation and improvement of resources and natural areas; activities related to cultural heritage and agricultural competitiveness. Nevertheless, the reasons for introducing the ecotax were not just ecological. According to Alomar (2015), the former Tourism Minister in charge during the introduction of the tax, the government also intended to deal with a scenario which in the long term could weaken Balearic's position as leading recipient. In fact, its large dependence on "sun and sand" tourism was an obstacle for more demanding tourism, compounded by the existing seasonality, the lack of identity and the strong reliance on the large tour operators. In this regard, it was intended to conduct a significant difference in the Balearic tourism product. When the tax was in place, different initiatives were carried out like demolitions of hotels and apartments, the acquisition of natural areas as well as private properties which became public exploitations.

Figure 2. Ecotax collection



Source: <http://ultimahora.es/noticias/local/2013/10/23/110936/hoteleros-aun-deben-400-000-euros-por-ecotasa-diez-anos-derogacion.html>

Today, it is difficult to say if Balearics would be doing better as tourist destination if the tax had been maintained in force. The question is whether a tourist tax should be established in times of economic boom or rather during a recession. However, it is more likely that tax collectors would rather seize the opportunity of "tourism bonanza" in order to increase government revenue and to take advantage of price inelasticity of the demand. This was also the case of Balearics "ecotax". Perhaps the measure would have been cemented but the tax faced two major stumbling blocks: in the first place, the powerful lobbies of the hotel industry which carried out a smear campaign against the tax at the national level and also internationally. Secondly, there was a problem during the enforcement since the regional government ordered to the hoteliers to act like a substitute for the tax payer. This resulted in operational and administrative problems which only served to increase the discontent in the sector. As a result,

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tourist obtained an extraordinary poor impression partly due to misinformation and inconvenience. By 2013, the regional administration raised from the hoteliers 99,7% of the total, which was 96.446.511, 92€ , levied between 2002 and 2003. The reasons for this significant delay were the appeals brought by the hoteliers which resulted in numerous court proceedings because they considered that double taxation occurred. Finally, the High Court of Justice of Balearic Islands ruled against them in 2006 and this facilitated the payment of the debt<sup>14</sup>. (See figure 2).

### ***2.2.5. The role of tax burden in a two-way process of tourism performance in the economy***

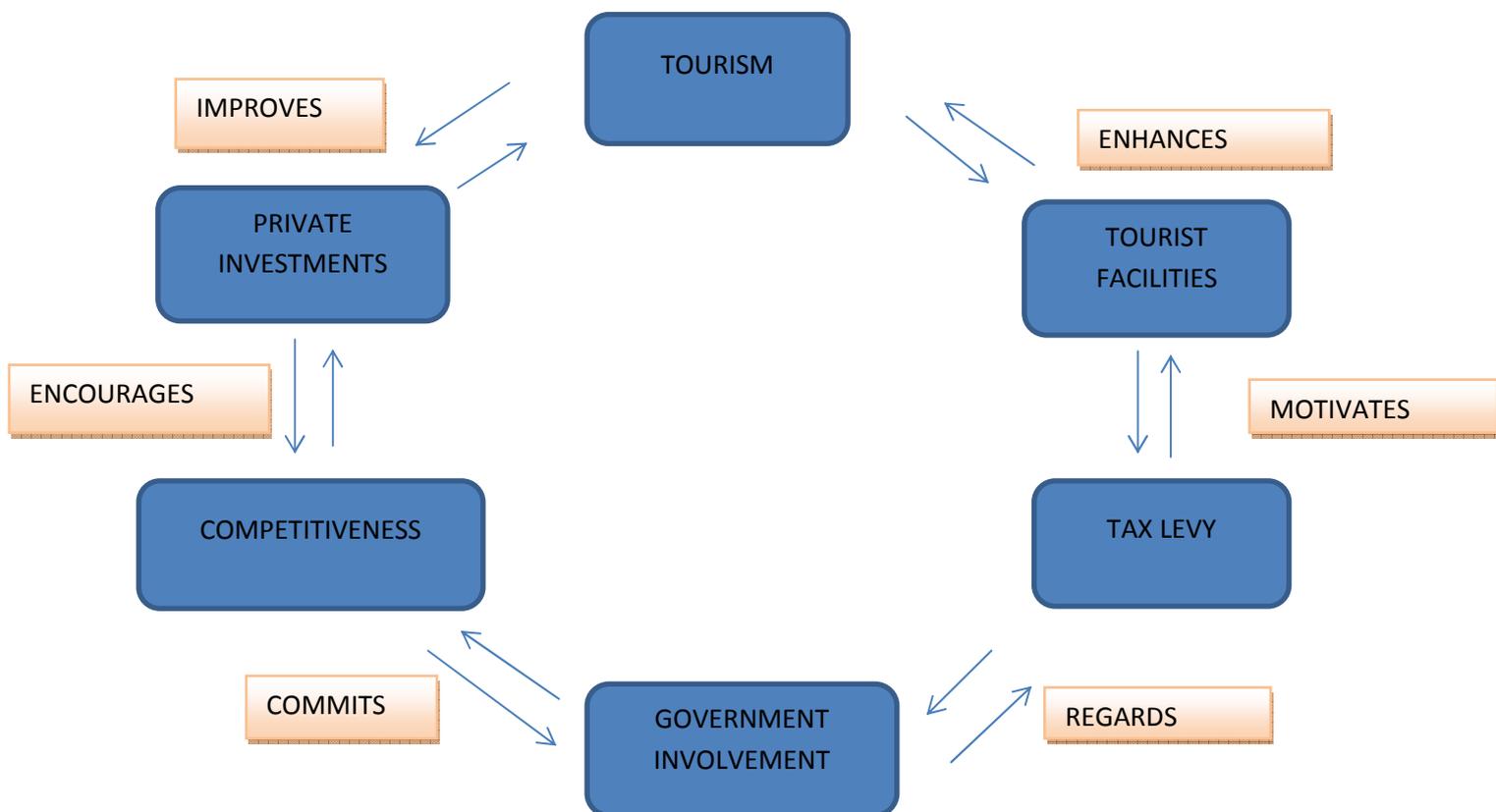
After reviewing the methods and elements which involve taxing on tourism activities, we are now able to create a framework where all the component elements interact in the already mainstreaming tourist sector. The fiscal presence in tourism activities is the most tangible proof that it is a lucrative industry and a significant source of income for governments. The sequence below represents a two-way process taking tourism as a starting point and which forms a primary source setting off economic events which affects both public and private sectors. The diagram demonstrates the importance of the tourist sector on national level and gives rise to a model which can also be extrapolated to a regional level. In the first place, following a clockwise rotation, it is observed that the arrival of tourists requires the enhancement of adequate tourist facilities like infrastructures and services. Since this involves an expense for the State (or regional government) this could justify and motivate the administration to carry out tourist tax collection. From there, the government regards and determines the degree of involvement its exercises over the sector. As we have seen, one of the key commitments of the governments is to ensure the competitiveness of the tourist sector. Moreover, if the country plays a major international role, the private sector will be more encouraged to make investments which will be translated in an improved tourist product which generates more arrivals.

Nevertheless, we can consider this same process backwards from another perspective. The tourism business generates high levels of profits and a large number of arrivals improve private investments which helps encourage major competitiveness. The government is committed to safeguarding this position and to devote money for development of the sector. In order to obtain the necessary resources, the authorities can consider levying tourists and even enact laws regarding the creation of specific tourism taxes. The proceeds from the tourism tax provide the finance for better services and motivate to reinvest in new tourist facilities which enhances the possibility of more tourist arrivals. Although the outlines are quite intuitive, the process reflects the almost unavoidable presence of tourist taxes which can be a result of one or more of the 6 categories of tourism related taxes summarized in section 2.2.2. According to Hughes (1981), any government is obliged to consider a tourism

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tax on that ground that it may be beneficial to the community as a whole. Nevertheless, the exponential increase of tax burden on tourism is more prompted by economic reasons rather than altruistic purposes. As we have seen in the cases of Catalonia and the Balearics and what also occurs in many local bed taxes, the trend of allocating earmarked funds provides legitimacy and credibility to the burden of tourism taxes. The process in Figure 3 is especially suitable for tourist areas where the tourist demand is relatively insensitive to the price or during periods of economic prosperity that generate price inelasticity of demand.

Figure 3. Two-Way Process of Tourism Performance in the economy



Source: Own Elaboration

### 3. The effects of introducing tourism tax

#### 3.1. *Economic and social consequences*

According to previous sections, there are two main reasons which can justify the charge of tourism taxes. In the first place, the costs differentials of the purchase of tourism related goods and services are attempted to be covered while general taxes do not provide sufficiently. Secondly, the evidence of

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market failure by the poor allocation of public resources, gives rise to both non-rival and non-excludable goods. For example, it's very complicated to exclude a tourist company from a general promotion campaign which benefits the whole tourism industry. Consequently, when it's used by one, it can't reduce the use of another. The other market failure is the negative externalities associated with tourism like environmental costs or congestion. These elements can be considered as the main causes of introducing tourism taxes. The existing literature devotes a great deal of attention to the effects of tourism tax burden. Several authors have made important contributions through articles and research which however have demonstrated conflicting results. This is due to the differences in case studies, geographical circumstances or studies targeted in small and developing tourists countries rather than broad-scoped objectives. The discussion whether the introduction or increase of tourism taxation should be addressed through specific or general indirect taxation was set against the backdrop of Spain by Gago, A., Labandeira, X., Picos, F. and Rodríguez, M. (2008) and they used a Computable General Equilibrium (CGE) model to assess the effects of these two hypothetical taxes affecting tourism. Their findings showed that a room tax equal of 10% of the room price and a moderate VAT rise (from 7% to 12%) would have similar aggregate effects in the economy, which means that there are no economic reasons that justify specific taxes on tourist activities. Although a moderate VAT change would be more inflationary because of the change in consumer prices for hotels and restaurants, the authors consider this option preferable rather than specific tax on tourists, which could affect the efficiency, neutrality and equity of the tax system. From a commercial point of view, Forsyth and Wyer (2002) particularly referred to the market power and the taxation of domestic and international tourism. They state that imposing taxes on tourism services and pass them on to foreign tourists constitutes a barrier to the trade in tourism services. Since the market power is unevenly distributed across countries, tourism taxes can lead to global inefficiency. Nevertheless, tourist taxes can also be a source of frictions and conflicts at social level. Weston (1983) stresses the opinions of the opponents to the impositions of room taxes who argue that visitors would respond to higher room prices resulting from the tax by restricting their spending on other items and that the resulting reduction in private sector income would act more as a tax on residents rather than on visitors. In this respect, the study of Pintassilgo and Silva (2007) showed that open market access, where a large number of firms are operating, leads to overexploitation in respect to economy and environment. Therefore, they consider that recommendable to limit the number of firms through many policy instruments such as the use of taxes.

### ***3.1.1. Effects on tourist demand and forecasts on tourist arrivals***

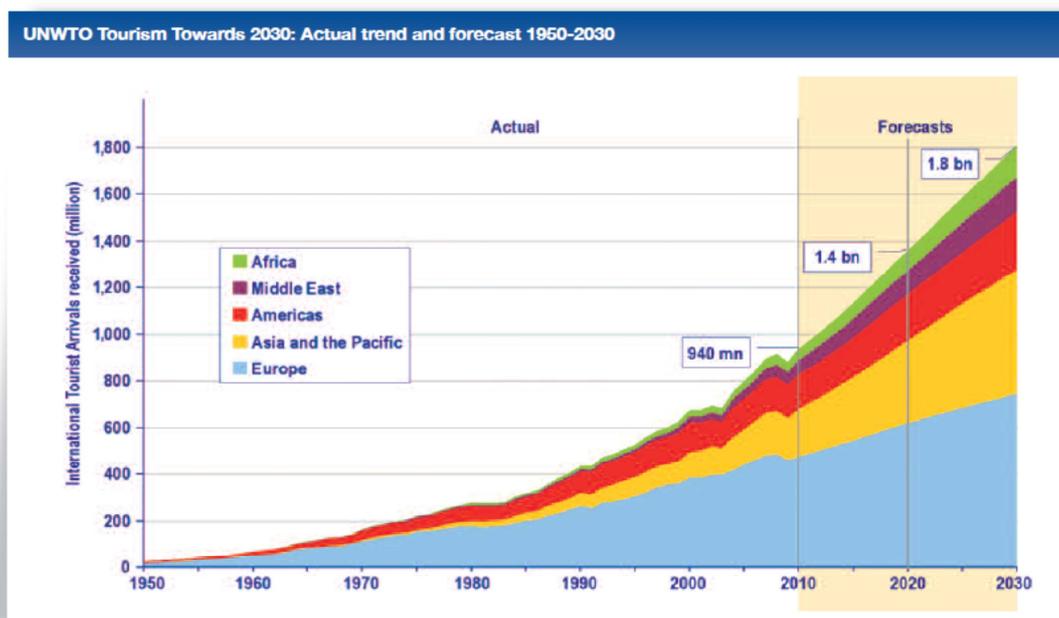
According to the findings of Hiemstra & Ismail (1992), for every 1% increase in hotel tax charged, room sale decline by 0.44%. In a South Carolina study carried out on behalf of Litvin et al. (2006), increases in taxation have been directly correlated to a weakening of demand from tourists. Other studies focus their attention on the environmental quality of the destination. For example, Fick and Ritchie (1991) show that the success of a tourism destination depends critically on the quality of the services they guarantee. Subsequently, González

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and León (2001) analysed the hotel industry in Canary Islands and found out that this sector has strategic opportunities to improve their net profits through an effective environmental management. They state that in this respect, public policies can contribute incentivizing environmental measures. In line with the next section, the study of Oom do Valle, Pintassilgo, Matias and André (2012) is particularly interesting since they analysed through a survey in the Algarve, Portugal, the tourist attitudes towards an accommodation tax earmarked for environmental protection.

According to their findings, they were able to measure the receptivity of the measure by the tourist segments carried out by a so-called Chi-squared Automatic Interaction Detecting Algorithm (CHAID), which revealed that the typical “sun and beach” tourists show a low willingness to pay the earmarked accommodation tax. However, other segments which they call “environmental steward tourists”, “nature oriented tourists” and “frugal tourists” show an increased receptivity. Without doubt, the price plays an important role in tourism and the increasing online marketing of flights and accommodation has opened a wide range of options in a more and more challenging market environment. However, we have entered in a new era in which previous findings on tourist demand and taxation might not serve a useful purpose anymore. On the one hand, bed taxes have become generally accepted, good evidence of this can be found in the growing number of new arrivals in metropolitan areas. On the other hand, the tourist industry pursues to provide the ultimate quality experience to the traveller and sustainable tourism is becoming a global phenomenon. According to the forecast below, it is unlikely that tourist taxes could have a negative impact on the tendency towards spectacular growth of international tourist arrivals forecasted until 2030 (Figure 4).

Figure 4. Tourism trends and forecasts 1950 - 2030



Source: UNWTO - <http://www.e-unwto.org/doi/pdf/10.18111/9789284416226>

Nevertheless, areas which are highly dependent on tourism should evaluate carefully all relevant factors on economic, social and environmental level before starting to charge a tourist tax. In the case of the Balearic Islands, the perhaps unpopular forecasted sustainable tourism tax will entail consequences which will be hard to predict and will be discussed in the following section.

### **3.2 The potential impact of the new Sustainable Tourism Tax on the Balearic Islands**

From the withdrawal of the “ecotax” in 2003 until the formation of a new progressive government after 2015 regional elections, no other tourist tax proposal has been brought up for application, except the tax on vehicle hire, created by the Balearic Government in 2006 (Palmer et al., 2007). Twelve years later, the government has decided to use the precedent of the “ecotax” and to give a second opportunity executing a similar tax satisfactorily. The new tax, renamed as “Sustainable Tourism Tax”, was announced officially in a draft legislative proposal in October 2015 and which was approved on 8<sup>th</sup> January 2016. The tax collection is budgeted at 50 million Euros in 2016. According to statements of the Balearic government, the tax is expected to be operational in July 2016. The taxable events are the overnight stays in tourist establishments and residences which are regulated as such. In order to be less discriminatory, the passengers of cruise ships will also be taxed, which didn’t happen in 2002. The government has developed a grid where the different types of tourist establishments are specified and corresponding charges (See table 3). As is to be expected, the hotel sector strongly opposes the measure since many of the contracts for 2016 have been signed already with the tour operators. However, on this occasion, the critical positions have been whittled down and both proponents and opponents are trying to find common points in contrast to the climate of hostility and confrontation during the first “ecotax”. Perhaps the results of the Catalan tax levy reassured the hoteliers since the overnight stays in hotel establishments in that region grown by 1.5% in 2014 with regards to 2013.

Despite the good intentions, the general request is that the authorities should learn from the mistakes of the past and even the current Balearic Tourism Minister has declared that some investments of the first attempted “ecotax” had been questioned and that the new procedures will need refinement<sup>15</sup>. However, the enforceability of the tax will be transferred once again to the owners of the tourist establishments since the idea of charging tourists at ports and airports involves legal and logistic problems. Regarding the communication of the measure to the public, the regional government has now a good opportunity to leverage the diffusing capacity of the internet and the social media which can help to portray a positive image to regular and potential visitors of the Balearics. It is unclear what will be the consequences of this new tax but on the short term there might be a kind of incomprehension by many tourists. The government is failing in providing a time margin which is much too short in order to launch an information campaign effectively. A lack of detail and precision is noted in the

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development of the measure which may harm the image of the destination. Nevertheless, a fair wind is blowing the way of tourist arrival forecasts for Balearics and 2016 is about to be better than the previous year.

Table 3. Tax liability

<b>Tax liability</b>		
<b>Types of establishments, residence or boat</b>	<b>Euro / daily stay or fraction</b>	
	<b>High season (1/4 until 31/10)</b>	<b>Low season (1/11 until 31/3)</b>
Hotels, City hotels, 5 * Aparthotels, 5* gran luxe and 4* superior	2	1
Hotels, City hotels, 4 * Aparthotels and 3* superior	1,5	0,75
Hotels, City hotels, 1, 2 and 3* Aparthotels	1	0,5
Tourist Apartments of 4 keys	2	1
Tourist Apartments of 3 keys superior	1,5	0,75
Tourist Apartments of 1,2,3 keys	1	0,5
Non residential accommodation facilities of tourism-residential companies	2	1
Holiday tourist accommodation, accommodation subject to commercialization of tourist stays and accommodation subject to tourism marketing	1,5	0,75
Rural houses, agrotourism,shelters and accommodation houses for rural tourism	1	0,5
Hostels, Residential hostels, guesthouses, inns and lodgings, camp sites or campings	0,5	0,25
huts and refuges	0,5	0,25
Tourist Cruise ships	2	1

Source: Government of the Balearic Islands Autonomous Community

<http://t.co/fynsjqGb9l>

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In the grid below (Table 4), a SWOT analysis structure has been applied in order to see in a glance the current reality on the Balearics with regard to the introduction of the new tourism tax. Policymakers have to tackle internal factors and to face weaknesses as well as external factors taking into account threats, both of them crucial for the implementation and consolidation of the measure. It is quite surprising that most of the weaknesses and threads remain the same as in the previous “ecotax”. Nevertheless, new strengths and opportunities have appeared and the existing ones have gained more leverage which justifies the reintroduction of the tax. Therefore, it can be stated that the consequences of introducing the tax on the long term might be acceptable for all stakeholders involved, to such an extent that even a hypothetical future conservative government would not break down the tax at the first opportunity. However, the success of the tax burden depends heavily on the local governments handling and policy making where transparency forms an important element. Moreover, it is recommended that Balearic policymakers keep listening to the arguments of all the stakeholders involved in order to achieve the maximum consensus possible.

Table 4. Feasibility of tourist tax burden on the Balearic Islands earmarked for safeguarding sustainability

FEASIBILITY OF TOURISTS TAX BURDEN ON THE BALEARIC ISLANDS EARMARKED FOR SAVEGUARDING SUSTAINABILITY	
INTERNAL FACTORS	EXTERNAL FACTORS
WEAKNESSES	THREATS
INSULARITY / DEPENDENCE ON FLIGHTS	LOSS OF COMPETITIVENESS
HOSTILE POSITION OF THE LOCAL TOURIST INDUSTRY TOWARD TAX	ABSENCE OF TOURIST TAX IN COMPETING AREAS
INABILITY TO CHARGE THE TAX AT AIRPORTS	GENERAL PERCEPTION OF MISUSE OF RAISED FUNDS
NON-FORMAL ACCOMODATIONS CAN ESCAPE REGULATION	GREATER PRICE ELASTICITY IN TOURISM PRODUCTS IN WINTER
BAD PRECEDENCE OF THE PREVIOUS ECOTAX	FOREIGN CONSERVATIVE MEDIA CAN LOBBY AGAINST THE TAX
POOR CONFIDENCE IN POLITICIANS	INTERN. DISAGREEMENTS WITH INCONSISTENCY OF TOURIST TAX IN SPAIN
TAX HAS TO BE PAID ALSO BY RESIDENTS	DISLOCATION OF THE DEMAND ENCOURAGED BY TTOO
POSSIBLE BLOCKING OF THE MEASURE BY COURT OF JUSTICE	CHARGE IN ACCOMMODATION CREATES NEGATIVE IMPRESSION
STRENGTHS	OPPORTUNITIES
RENOVATION OF ACCOMMODATION THROUGHOUT THE ISLAND	FAVOURABLE ECONOMIC CLIMATE
A PROGRESSIVE LOCAL GOVERNMENT	GOOD OVERALL ACCEPTANCE OF CATALONIAN TOURIST TAX
INCREASED ECOLOGICAL AWARENESS	UNIQUE NATURAL AND ECOLOGICAL FEATURES OF THE BALEARICS
INCLUSION OF SERRA DE TRAMUNTANA ON WORLD HERITAGE LIST	INCREASINGLY QUALITY-CONSCIOUS TOURISTS
MORE EXTENSIVE AND DIFFERENTIATED MARKET SEGMENTATION	NEW TECNOLOGIES CAN PLAY IMPORTANT ROLE IN AWARENESS CAMPAIGN
MANY REPEAT CUSTOMERS	PROLIFERATION OF BALEARICS AS A SUSTAINABLE TOURIST DESTINATION
EXPONENTIALLY GROWING EXPLOITATION OF NATURAL RECOURCES	

Source: Prepared by the author

### 4. Conclusions

In this paper we have seen many tourism taxes, many reasons to charge such fees with many consequences. There are also many arguments disposing both favourable and unfavourable positions concerning its implementation.

Unfortunately, there is little consensus about the issue which results in inconsistencies in tax policies which mainly affect to those we wish to serve: the tourists. In fact, there are a lot of interests at stake, with many interested parties involved. We have seen that on the one hand, the governments see the opportunity to obtain additional financial means through tourism taxes with the premise to fulfil their economic, social and environmental commitments. In this regards, regional and local governments also have these obligations to fulfil but lack the financial means to do so. This has resulted in the proliferation of a wide range of tourism taxes with a wide scale of price differences which has become a real challenge for world's tourism. As the UNWTO warns, there is a growing trend towards specific tourism taxes, demonstrating that tourism represents an increasing financial stream for administrations at all levels.

The tourism companies, fearing that they might face the risk of their profit margins being drained, tend to oppose radically these tax burdens. However, over-exploitation by tourism is subject to social and economic pressures and sustainable tourism is an issue that is gaining increasing relevance. Tax burden has been demonstrated to play a key role in the two-way process of tourism performance in the economy and debunks the belief of a permanent danger signal capable of destroying the entire sector. In the case of the Balearic Islands, we have seen that there have emerged reinforced and new internal strengths as well as new external opportunities capable of justifying the new tourism tax policy envisaged. However, it is also true that coastal regions like Balearics, which are highly dependent on tourism with insularity as additional factor, assumes a certain risk by taxing tourists. In addition, there are many perverse elements which have been responsible for giving tourism taxes such a bad name. The cases of corruption undermined the confidence in politicians as well as the misuse and inefficiency of tourist tax revenues has created a negative picture with regard to tax policies. In fact, most tourist are convinced that tourist taxes are nothing more than zeal for the administrations and in most cases they are not even informed about the destination of the revenues. This is particularly true in the case of bed taxes in the major capitals of the world. Therefore, it is necessary to achieve a change of tide in perceptions of the tourists which can only be carried out through well earmarked resource assignments as well as providing adequate information associated with the tax to be levied. It should be a basic right for tourists to be well informed about the ground of a tax levy as well as the allocation of funds. The governments have got the growing opportunity to reap the benefits of new technologies in order to reach a wider range of people in the right time and in the right place. This would not only benefit them in terms of transparency but can also contribute to a higher public acceptance and can soften the negative view of tourism taxes.

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