A good investment climate for tourism, underpinned by a sound tax regime, can play a central role in a government’s growth and development strategy. Yet in many countries, tax systems for the tourism sector are characterized by exemption schemes and instruments that generate little revenue and burden business. This note focuses on the three main issues facing policymakers dealing with tourism taxation in developing countries: fiscal incentives, sector-specific levies, and value-added tax (VAT). It discusses different policy options to encourage tourism investments while ensuring sustainable revenue collection.

Defining tourism for tax purposes

Tourism is a complex industry of numerous subsectors. It is challenging to define exactly what constitutes a tourism product and how to tax it; tourism is not a single commodity, but rather a collection of many different goods and services provided by a wide range of suppliers. The tourism value chain encompasses a variety of different actors, including hotels, air carriers and transport companies, tour operators, travel agents, rental agencies, and countless suppliers from other sectors.

The price components of a travel package help to illustrate the complexity of approaching this

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sector from a tax perspective: all the goods and services that constitute a tourist’s expenditures are affected by different kinds of levies (Figure 1).

Four key sector distinctions are important in the design of a tourism-specific tax regime:

- Tourism is a highly competitive market in which fixed products (destinations) are selected by mobile consumers with multiple destination choices, a dynamic that may increase the price elasticity of demand. Thus, the sector is particularly sensitive to issues related to fiscal incentives and tax competition.
- The outputs of the tourism industry are services, but many inputs are not. Tourism services meet both final demand (consumption by a tourist) and intermediate demand (purchase by a firm).
- Taxing tourism may seem appealing when the bulk of taxes can be placed on non-constituents, but taxing inbound travel is akin to taxing exports—it erodes competitiveness. The distinction can be blurred between taxes principally paid by tourists as end users and those that mostly affect tourism businesses, depending on the degree to which taxes are directly passed on to tourists.
- The tax regime should treat large firms differently than small ones. Most of the sector’s activity is generated by smaller hotels and tour operators who are particularly sensitive to compliance costs.

Because taxing tourism is not straightforward, governments have developed multiple approaches to collect revenues from the sector. Such policy differences are evident when comparing marginal effective tax rates (METRs) for tourism investments, which vary substantially, even among neighboring economies (Figure 2).

Revenue collection is often complex and costly to administer, creating inefficiencies and contributing to poor business environments for tourism. For example, in South Africa individuals and hotels are charged the same high customs duties on furniture, although it is a capital investment for hotel operators. As a result, the tax burden rests on inputs rather than outputs. In Madagascar, the impact of duties and taxes on vehicles reportedly increased the Free On Board price by up to 130 percent. In some countries—such as Mozambique and Hungary (in the mid 1990s)—governments have introduced multiple sector-specific levies including visa taxes, airport taxes, hotel and residency fees, and development levies.

**Using fiscal incentives as a quick fix**

As in other sectors, tourism businesses may be vulnerable to distortionary tax regimes, a result of generally thin profit margins and fierce competition.

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**Figure 1: Taxes and Fees Affect All Components of Total tourist expenditures**

![Diagram showing components of total tourist expenditures and associated taxes and fees.](image)

Source: Adapted from Mozambique Tourism Value Chain Analysis (FIAS 2007a).

Each component of a typical tourism package includes at least one tax or fee (shown in red bullets in the figure) to be paid by either the operator or the tourist, or both.
from domestic and foreign firms alike. Some countries address these issues and other investment climate constraints by introducing special fiscal incentives for tourism, such as tax holidays, exemptions of customs duties, initial capital allowances, and accelerated depreciation on buildings. Incentives are often administered on a discretionary basis—not through the tax law—and can introduce a range of well-known problems. These include a bias toward large foreign investors, administrative burdens for the tax administration, and corruption.

Whether destinations claim sandy beaches and year-long summer weather, game parks, or unique cultural heritage, tourism is usually based on highly valued natural resources that generate economic rents. It may seem counterintuitive for governments to subsidize the industry’s development. However, it is frequently argued that high price elasticity of demand, positive externalities from tourism development, and slow amortization of high initial investments may justify initial public support to jumpstart the sector. Mauritius, usually cited as an example in this context, successfully managed to attract tourism investment by offering incentives in the 1980s and abolished them once the sector had gained momentum. Today low tax rates are evenly applied across all sectors.

Tax incentives are typically added to the mix of investment promotion policies, sometimes detracting from the priority of improving sector competitiveness. Sector-specific constraints cannot be fixed with generous tax gifts. A case in point is restrictive airline transportation, as seen in Madagascar and Mozambique, which results in high air travel costs and reduces the competitiveness of both destinations, especially for leisure travel.11

When analyzing the value of incentives, it is important to distinguish between different forms of tourism. Providers of “enclave tourism” to oceanside resorts, for instance, usually face stiff competition from other beachfront destinations. When tourism can be based on unique attractions or business purposes, the destination has a competitive advantage—it is the reason for traveling and cannot be substituted.

While the value of incentives should be carefully evaluated for enclave tourism providers, major tax gifts are hard to justify for attraction-based and business tourism (Box 1). In the latter case, it

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**Box 1: Analyzing Tax Incentives in Attracting Investment to the Eastern Caribbean**

Tax incentives are widespread in the Caribbean. Van Parys and James analyzed the effect of an extension of corporate tax holidays in Antigua by comparing the country’s performance in generating investment to that of six other island economies with similar geographic characteristics and the same macroeconomic environment. The study found that investments were sensitive to the reduced user cost of capital.

However, to analyze the overall impact of the measure on the economy, the costs of incentives in terms of forgone revenue must be considered. The analysis indicates that tax competition between the island economies is likely to result in a harmful race to the bottom within the region.

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**Figure 2: Effective Tax Rates in Tourism Vary Widely**

(Percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Marginal Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho</td>
<td>43</td>
</tr>
<tr>
<td>Madagascar</td>
<td>-42</td>
</tr>
<tr>
<td>Mauritius</td>
<td>14</td>
</tr>
<tr>
<td>Mozambique</td>
<td>40</td>
</tr>
<tr>
<td>Namibia</td>
<td>10</td>
</tr>
<tr>
<td>Rwanda</td>
<td>13</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>22</td>
</tr>
<tr>
<td>South Africa</td>
<td>14</td>
</tr>
<tr>
<td>Tanzania</td>
<td>15</td>
</tr>
<tr>
<td>Zambia</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: FIAS 2007b.

The marginal effective tax rate is a quantitative tool used to assess the impact of the statutory tax regime (instruments, rates, and coverage) on investment. A series of studies using METR analysis to compare tax regimes in 10 African economies found that:

- The effective rates on capital investment in the tourism sector vary substantially across similar economies. For Mauritius, the negative tax “burden” reflects generous fiscal incentives no longer offered.
- The effective tax burden on capital for tourism investments is, on average, relatively low compared to that of other sectors. This is largely due to the high proportion of investment in capital-intensive items coupled with sizeable initial and annual depreciation allowances, particularly in Namibia, Rwanda, Tanzania, and Zambia.
- For countries such as Lesotho, where depreciation provisions were not offered, high METRs indicate the tax system’s unfavorable effect on investment returns.

Source: Van Parys and James (2010).
can make sense to introduce additional, smart instruments to tax economic rents, such as targeted visitor fees. A good example is the recent increase (from $300 to $550) for a permit to visit the gorilla habitat at the Volcano National Park in Rwanda. This measure helped to sustain the natural resource and did not result in reduced visitor demand, due to the high inelasticity of supply in the experience.

**Avoid costly and distortionary incentives**

When deciding to offer incentives, policymakers should focus on those that take industry dynamics into account and do not result in distortions of the tax regime, loss of transparency and equity, and major revenue shortfalls (Table 1).

Depreciation allowances should focus on tourism operators’ major investment items. For hotel investors, land and buildings usually represent 75 to 80 percent of capital expenditures, while furniture fixtures, fittings, and equipment can represent about 20 to 25 percent. For tour operators and ground handlers, vehicles usually represent the largest investment share. To avoid officials using discretion in granting incentives, depreciation rates on buildings and reduced customs duties should be evenly applied and automatically guaranteed to all investors without application and approval processes.

**Tourism-specific levies**

The widespread use of exemptions and difficulties in taxing the sector can lead governments to rely on other instruments to capture some of the rents generated by tourism businesses. These instruments include the widely used surcharge on hotel rooms, entry and exit taxes, and numerous other fees for hotel and tour licenses, airport usage, security, beach and park admission, hunting and fishing permits, and so on.

In Zanzibar and Zambia, for example, a hotel must obtain a hotel license and licenses for several of its operations (boutique, water sports, boat, fishing, liquor) and pay the associated fees in addition to its regular tax obligations. One of the largest resorts in Zambia is required to hold 59 licenses.

<table>
<thead>
<tr>
<th>Table 1: Advantages and Disadvantages of Tourism Industry Incentives</th>
</tr>
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<tbody>
<tr>
<td><strong>Incentive</strong></td>
</tr>
<tr>
<td><strong>Corporate income tax holidays</strong></td>
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<tr>
<td><strong>Lower income tax rate</strong></td>
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<tr>
<td><strong>Investment allowances and tax credits</strong></td>
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<tr>
<td><strong>Accelerated depreciation</strong></td>
</tr>
<tr>
<td><strong>Tariff exemptions</strong></td>
</tr>
</tbody>
</table>

*Source: Adapted from Zee, Stotsky, and Ley (2002).*
While regulating such activities can be important in protecting the public interest (related to environmental, safety, and health aspects), licensing might not be the most efficient option to do so. In fact, it is not uncommon for these licenses to be granted upon payment without the requisite regulatory checks, such as prior review of the application or inspection after the license has been granted. Such levies are generally referred to as parafiscal charges, meaning taxes hidden as fees for licenses or similar regulatory instruments.

Tourism is arguably among the sectors hit hardest by parafiscal charges; governments tend to use them as politically practical tools for taxing mostly non-residents, who often come from more affluent countries. Also, highly subjective inspection processes related to parafiscal charges are often used to generate additional revenues through fines. In some cases, as with India's luxury room tax, the taxes are unevenly applied across states, allowing for discretionary interpretation.

Parafiscal charges are usually small but can accumulate to a significant administrative burden for governments and firms, making it difficult for companies to package their tourism products and generally inefficient for collectors and taxpayers. These charges can become a greater burden for business—particularly small firms—than the application of the general regime.

In Tajikistan, for example, smaller operators pay the most for licenses (an average of more than $640 annually) relative to other sectors, and 88 percent have been required to obtain at least one permit, according to a recent study. In such cases, it is essential to streamline, rationalize, and harmonize the tax and levy system affecting the tourism industry (Box 2).

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**Box 2: Reforming Hotel Levies in the Republic of Yemen**

Hotels must comply with more than 15 tourism-specific fees and levies in the Republic of Yemen. These tourism-related costs to business are in addition to standard taxes (corporate income tax, goods and services tax, property and property transfer taxes, fuel tax, and a tax on insurance contracts), and earmarked contributions to social, transport, and development funds. All together, a large hotel faces a complex web of more than 20 different instruments. While the fees do not impose a significant financial burden, the administrative cost to comply is steep. Most of the tax bases, rates, and fee schedules are different, as are the payment procedures, the collecting agencies involved, the inspection processes, and the frequencies of payment.

Taxes and fees levied on five-star hotels in Yemen include:

- Operating fee (District; 500+ categories, annual)
- Professional permit fees (Governorate; other categorization; annual)
- Registration fee (Ministry of Trade; annual)
- Membership fee (Chamber of Commerce; annual)
- Three different local council support fees as monthly surcharges on electricity bill (1 percent); water bill (3 percent); phone bill (1 percent)
- Three different city improvement fees as surcharge on electricity bill (5 percent)
- Hotel and residency fee (5 percent)
- Annual fee of YR40,000 for five-star hotels
- Tourism tax (5 percent daily fee on rooms)
- Zakat: a religious tax (2.5 percent on capital) used as a business operation levy
- Property and property transfer taxes
- Fuel tax
- Three different earmarked contributions to social, transport, and development funds.

A proposal to replace numerous tourism-specific levies with a unique surcharge on the hotel's electricity bill has been approved recently by the Ministry of Tourism. This is likely to significantly reduce compliance costs for tourism businesses and free resources for more productive purposes.

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**The value-added tax in the tourism sector**

Indirect taxation is a major source of government revenue from tourism activities. Yet applying the VAT and hotel sales taxes causes sector-specific problems. In many countries, especially in sub-Saharan Africa, ambiguity about what is subject to the VAT leaves too much to the discretion of tax officials. The VAT is usually imposed on domestic supplies, and imports and exports are zero rated. However, tourism is not usually considered an export service; it is not always clear which components of a tourism product (such as a tour package) should be treated as exports.
Some countries zero-rate tour-operated services provided to customers outside their borders, while others treat these as standard services. In South Africa, a distinction is made between resident and foreign tourists, but evidently this adds significant monitoring costs.

In theory, relying on a single rate is the most effective way to administer the VAT and reduce compliance costs. However, in some cases lower VAT rates are applied to hotel and restaurant services.

International firms’ prominence in the sector adds to the complexity. Usually foreign tour operators offer packages combining several inputs. When these goods and services (for instance, a package including accommodations, tour guiding, tour brokerage, and transport) are treated differently under the VAT, the risk of taxpayer evasion increases and significant cost and complexity are added to the compliance and monitoring process. In short, multiple rates complicate administration and compliance, creating opportunities for abuse and corruption.

To minimize compliance costs, tourism-specific VAT treatment should be avoided; rather, the goal should be to pursue a level playing field for all actors in the economy through an evenly applied VAT rate. International tour operators should be able to either register for the VAT when they open for business or be charged the VAT on all taxable supplies purchased from domestic firms.

How should smaller operators be taxed?

While large operators who benefit from economies of scale, access to finance, and global experience are the strategic focus of most investment promotion activities, numerous smaller businesses provide related services, run small hotels, and supply the sector’s larger firms. Incentive regimes can create a bias against small firms when incentives apply only above a certain threshold. In Tanzania, for example, small firms that invest less than $100,000 do not qualify for investment incentives, placing them at a competitive disadvantage. Similarly, in Papua New Guinea a reduced income tax rate of 20 percent is restricted to hotels with more than 150 rooms.

In countries with special tax regimes, smaller enterprises are likely taxed on a presumptive basis (on turnover or indicators) in order to reduce their compliance costs. To ensure a well-aligned, equitable treatment of tourism businesses under both the presumptive and general tax regimes, governments can conduct survey-based assessments of profit margins to inform the choice of presumptive rates.

Enterprises with a turnover below the VAT threshold and those that operate informally also cause a break in the VAT chain. In these cases, a withholding tax can be introduced to ensure some tax collection. With such a tax, larger operators either withhold a tax payment from the purchase price when they buy from non-registered (informal) sources in order to justify these expenses, or they cannot claim deductions for their inputs. Thus, the tax allows revenue collection from the informal sector and helps encourage informal suppliers to register their operations and potentially opt into the VAT regime.

Implications for policymakers

1. The general principle of keeping taxation simple, transparent, and fair should be practiced, and policymakers should be careful in treating tourism differently than other sectors. Sector-specific incentives should be reduced or eliminated over time in favor of lower, regionally comparable, and evenly applied tax rates for all investments. In particular, the standard corporate tax regime should apply, without incentives that reduce the income tax rate.

2. To mitigate potential costs when fiscal incentives are used:
   ❑ Choose incentives that have low revenue costs, such as allowances and tax credits for capital-intensive investments or accelerated depreciation.
   ❑ Limit opportunities for discretion and enhance transparency by ensuring that incentives are provided by law and approved by the legislature. Incentives should be granted against a pre-defined set of criteria. Eligibility should be automatic for companies satisfying the criteria.
   ❑ Ensure that the incentive policy is not biased against local investors, who typically have less capital and more limited access to markets.
   ❑ Regularly quantify the effects of the incentive scheme to monitor its impact on the budget.
建立有效的控制机制，使用常规税单和相关形式作为前提条件，以获取任何激励。

- 假设激励提供是为了促进活动，明确一个时间框架，其中激励被取消。

3. 特定于旅游的税款可能被合理化并被证明，当它们由政府设置，易于遵守，且有效率地产生收入（所有三个条件都应适用）。其中许多的繁文缛节和其他税收和财政费用可能被消除或合并为一个简单的税。

4. 不同的税收在旅游部门应尽量避免。这种税收体系应通常采用简单、平均的系统，以有利于降低行政和合规成本，并减少滥用的机会。

### Endnotes

1. 该行业占发展中国家服务出口的70%以上，按联合国世界旅游组织。《世界旅游业与发展》旅游业倡导组织，该组织成员涵盖世界上最大的旅游业务，估计占世界总人口的10%以上，8%的全球就业，和12%的全球贸易。见Mak (2006)。

2. 这对于发展中国家和其他受制于小型市场的国家尤其适用。该行业还有显著的收入潜力，用于发展中国家政府。

3. 一个分析数年的世界银行企业调查数据（其中分解数据可用）显示在布基纳法索（86%），喀麦隆（74%），危地马拉（51%），和肯尼亚（62%）考虑增值税作为“重大”或“严重”约束。这些数字是相似的，当企业被问及“税制”约束时，在相同的国家。

4. 本节侧重于三个方面，改革税收政策可以产生重要的影响。对于更全面的讨论旅游业税收在发展中国家，请参见Bird (1992)。

5. 价格弹性可能在旅游产品中差异显著。商务旅游和旅游目的地具有独特的自然属性，往往具有强烈的弹性，而一些休闲产品如狩猎和海滩度假可能非常弹性。

6. “成本加运费”是指在国际运输，意味着卖方必须在装运港清关，但所有成本和风险由买方承担。

### IN PRACTICE

#### The Investment Climate Advisory Services of the World Bank Group

该企业家顾问服务由世界银行集团提供，有助于改善各国的商业环境。这包括改善商业环境的改革的实践。

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Examples include Barbados, where a rate of 7.5 percent (instead of 15 percent) applies to hotel accommodations; Jamaica also applies a preferential VAT rate to certain tourism services; Montenegro has a preferential rate of 7 percent (instead of 17 percent) for tourism activities. Several EU countries, including France (with its reduced VAT rate of 5.5 percent for restaurants) and most recently, Germany, offer reduced VAT rates to the tourism sector. Similarly Kenya is offering a reduced rate of 14 percent (instead of 16 percent) to the sector.

See FIAS (2007b).

For a more detailed discussion on the design of simplified presumptive regimes, see Loeprick (2009).

References


