



BED TAXES:

comforting funding stream or destination nightmare?



SCOTLAND'S CAPITAL SHOCKED
THE DMO WORLD WITH A PROPOSAL TO SLASH THE CITY MARKETING BUDGET
AND INTRODUCE A BED TAX (SEE PP.37). **PHILIP COOKE** LOOKS AT SOME GLOBAL EXPERIENCE
OF USING SUCH A FUNDING SYSTEM

Many countries and cities are able to devote large sums of money to promoting and developing their tourism industries via a system that taxes the visitor, not the host.

These competing regions, most notably in the USA and Canada, use a *Transient Visitor Tax* system to raise funds that can only be used for the promotion and development of their tourism industries and related activities, and they do this by means of a locally-determined tax that is placed on related expenditure.

In fact, hotel accommodation is just one of several related transient visitor taxes that are often employed in the USA and which include a Food and Beverage Tax added to restaurant bills and a Convention Centre Development Tax added to the cost of hiring a conference centre or similar venue.

Transient visitor taxes are 'hypothecated' taxes which means that

the income they generate can only be used, by law, for specific purposes – in this case to attract more visitors, to improve and invest in local business tourism facilities and to help resolve some of the environmental problems created by visitors.

When I first visited Miami in the 1990s it was operating four different *Transient Visitor Taxes* which, in total, were then generating US\$40.5m for re-investment in the city's visitor economy, derived from:

- a **3% Convention Centre Development Tax**, yielding \$17.2m pa
- a **2% Resort Tax** (i.e. the Bed Tax), yielding \$12.5m pa
- a **2% Food and Beverage Tax**, (hotels and restaurants only) yielding \$6.7m pa, and
- a **1% Sports Facilities Tax**, yielding \$4.1m pa.

These taxes were then used to fund the Miami Beach Convention Center

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and Miami's Orange Bowl Football Stadium, Lipton's Tennis Stadium and even Miami's Formula One Grand Prix circuit - activities which were to then attract further high-spending overnight stay visitors in a virtuous economic development cycle.

In New York, my hotel bill in those days included a 6% City Occupation Tax, a 6% Room Occupation Tax and a whopping 13% Liquor Consumption Tax!

Next stop on that trip was Albany, the state capital of New York - a hugely politicised city with a suitably massive hotel stock that was needed to accommodate visiting politicians and media. Here, a 3% Accommodation Tax generated c.\$670,000 pa, which was being used to repay money borrowed by the city for the construction of the Albany Convention Center.

Self-regulating

Today, transient visitor taxes are

RESERVATION SUMMARY	
26 Nov 2015 – 27 Nov 2015	
1 room for 1 adult	
1 KING BED	
Price:	249.00
Taxes:	47.31
Room Subtotal:	297.15
Total for stay:	\$296.31 CAD

designed to meet local circumstances and resolve local problems; but they are also self-regulating and can help prevent the modern-day scourge of ‘over-tourism’.

For instance, if an American city gets greedy and taxes its incoming ‘transient visitors’ at a too high a level, then meeting planners will simply take their footloose business to a lower taxed destination.

Hotels and restaurants that operate in a Transient Visitor tax operating environment are required, by law, to add the appropriate percentage tax to their customer’s bills before passing it on, usually retaining a 10% administration fee, to their respective town/city councils, according to the terms of Interlocal Agreement legislation, which specify exactly what the tax revenues can (only) be used for, as shown in the sample Canadian hotel bill above.

Hypothecated taxation is found in many other parts of the world. Barbados is now considering a Bed Tax along with a 2.5% Airline Travel and

Tourism Development Tax on international air fares and other ‘direct tourism services’, such as car hire; and New Zealand is evaluating the introduction of an Entry Tax for ‘transient visitors’ from 2019 onwards.

UK

Many UK local authorities like the idea of transient visitor taxation and are attracted by the much-needed funds it can generate, especially as it isn’t paid by local residents or local businesses.

For instance, Oxford City Council has been arguing to be given the power to develop a local tourism tax, linking it to Brexit, and saying that “...the devolution of power to local authorities to impose tourist taxes may be well worth fighting for, at a time of post-Brexit uncertainty and public spending cuts”.

Other UK authorities that are considering the introduction of a tourist/visitor/bed tax include Camden, Westminster, Bath, Birmingham, Brighton, Cornwall and Edinburgh, which is exploring the

Above:
Life’s only certainties:
death and taxes...

introduction a ‘flat rate’ levy of either 2%, or £2 per night, per hotel room or Airbnb-style short-term let and calling for a ‘national, rather than local’ debate.

But, the UK has a very centralised taxation system, with income and expenditures defined and controlled by HM Treasury, an organisation that does not favour any form of locally-determined taxation, so, only time will tell whether these initiatives will mature.

A recent poll in Edinburgh showed 85% per cent of respondents, including a majority of the city’s businesses and accommodation providers in favour of introducing a transient visitor levy (TVL), or tourist tax.

The council estimated the proposed scheme could raise between £11.6m and £14.6m per year for the city, although some business groups have warned it could have an impact on other revenue from tourism.

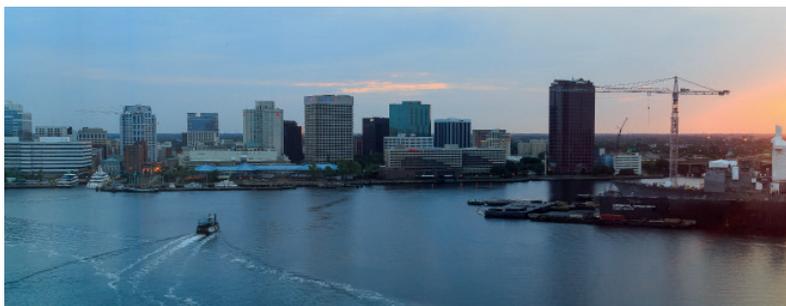
The scheme had extremely high support among residents, with 91% in favour, while only just over half – 51% – of accommodation providers who responded to the consultation were behind it.

However, nearly three-quarters of respondents (72%) agreed with City of Edinburgh Council’s proposed rate of £2 a night or 2% of the cost of accommodation, while another 19% felt this was too low.

But, not everyone is behind Edinburgh’s proposed transient visitor tax and the leaders of the city’s hotel and hospitality sector have voiced their opposition to any form of tourist tax, claiming that it would damage the city’s tourism and hospitality sector.

Writing in *The Scotsman* newspaper, John Donnelly, Marketing Edinburgh’s chief executive, said: “More people coming to the city is brilliant news for our economy – but it puts increased pressure on our ability to service them.

“So, how can we secure sustainable investment to maintain our position as



one of the world's best destinations, without compromising the city experience for those who live here? A tourist tax is a proven model.”

Meanwhile, the Interlocal Agreements which govern and regulate transient visitor taxes and the operation of Visitor and Convention Bureaux in the USA get straight to the point.

For instance, Albany CVB in New York State is simply required to “promote Albany County, its cities, towns and villages in order to increase convention, trade show and tourist business” and the Greater Miami CVB can use these incomes for “developing, promoting, marketing, booking and securing conventions, tradeshows and group business” activities.

Significantly, these bureaux are supervised by industry-led management boards and directors are required, again by law, to a) evaluate the performance of the bureau's Chief Executive Officer (i.e. hire and fire), b) set bureau policies, c) provide community access and political direction and d) approve work

programmes and monitor budgets.

Significantly, these board directors come only from the private sector, usually hotel and restaurant owners, travel companies and attractions, local media and even local bank managers.

Transient visitor tax incomes also provide American CVBs with impressive staff resources. For instance, the executive team employed by the Norfolk CVB in Virginia, population 245,000 – about the same size as Plymouth, UK - comprised:

- Executive Director
- Director of Marketing
- Director of Convention Sales
- Director of Tourism Services
- Seven Tourism Services Managers
- Five Sales Managers
- Administrative and secretarial staff

I suspect that's a great deal more staff resources than is, or ever has been, available to Plymouth?

www.ec.europa.eu

The European Commission's website (www.ec.europa.eu) contains much information about the extensive range of 'Occupancy' or 'Transient Visitor'

US 'taxing' destination;
clockwise
from top left:
 1 – Norfolk
 2 – New York
 3 – Miami
 4 – Albany.

taxes that are currently being levied across the EU.

Nearly 20 EU member states, including France, Germany, Greece, Italy, Portugal, Spain and Switzerland, currently apply country-specific forms of the transient visitor tax at city, municipality or provincial levels, with comparatively low rates charged in the eastern EU countries and much higher rates in Western and South-Eastern Europe.

Tourism-related taxes are also applied in other parts of the world, such as Indonesia, Thailand and Singapore. And, of course, Air Passenger Duty applies globally, but it is not hypothecated and it applies to outbound travel only.



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