

# Management of the taxation on tourism operators, an important component of revenues and investments in the tourism sector

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## Abstract

We are trying to bring here the importance that tourism taxation has. Based on the fact that tourism industry is becoming one of the most important branches of the economy, it is essential to find the best solution, the best taxes rates that would encourage tourism development, and the most important part is that this funds should be used to invest, to refund tourism industry. In this way we will have an increase of the income from the tourism. Of course, a strong taxation system will have negative impact on tourism industry. High rates of taxes would have negative impact on competitiveness, and would be a great disaster towards competitiveness and incomes. It is extremely important, to do the best towards the tax system, in this way the tourism could be encouraged. To better understand the system taxation in tourism we did the SWOT analyses. Based on these analysis we are going to bring here some conclusions and recommendations.

**Keywords:** tax rates, tourism, competitive advantage, competitiveness, value added tax

## Introduction

Balkan is an attractive peninsula with a great interest by the international tourists. Albania is also attractive, with unexplored resources and interesting spots. It has a wide range of historic, cultural and natural attractions that are of great interest to international tourists<sup>1</sup>.

Tourists that are coming in Albania are foreign, that are interested to explore mainly places that have not seen before.

We have a growing tourism, an increase in the quality of service, a dynamic development of tourism, and growing tendency of the economy. The population is much more aware of the development of tourism and is using in the maximum the picturesque, special

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<sup>1</sup> Strategy and Action Plan for the Development of the Albanian Tourism Sector Based on Cultural and environmental tourism

nature, with clean air, investing to add value and beauty, to attract more tourists, to have increased flow of foreign tourists.

Tourism is one of the most developed industries in the world. Tourism makes a major contributions to the economy. Tourism is a source of income for the country's budget, but however it is very sensitive to tax. Tourism, both for goods and services, should contribute to revenue growth and will be a source of revenue for public services, investment, and infrastructure. Tourists generally pay for good and quality services offered to them. Tourism is linked to and dependent on certain necessary conditions in order to have a growing attendance of tourists: as a clean environment, a commode system of transportation, facilities of communication, a quality, security, tranquility of health system. This high, quick development of tourism affected higher taxation of tourism industry. Tourism is so sensitive to taxes, because taxes will have a great impact on prices, but tourism cannot be exempt from them since it is a significant source of revenue for the budget. Local or national government should, a part of the tax revenues to use in order to increase and improve the tourism infrastructure. For this purpose a part of the tourism tax revenues should be used for increasing and improving human and physical capital, for training, investment etc.

Albanian economy in fact should take the experience of Montenegro, where ports are ports for yachts rather than returning to ware ports, in order to attract foreign tourists and not to decrease or prevent initiatives of investment on tourism. To create a competitive region<sup>2</sup>.

### **Focus of this paper**

Focus of this paper are the tourism aeaers, spots, of the Albania.

### **Why is chosen this topic?**

- Tourism is the resource of the incomes for central and local government but it is so sensitive towards the taxes. Tourism should contribute in the increase of the income that would be the resource of the investments in infrastructure etc.
- Tourists in general pay for high, and quality services that will be offered to them.
- Challange is the management of the tourism taxes.
- It is important findings the best solution.

### **The main aim is:**

Management of the taxation towards the tourism operators is the important component of incomes and investments in the tourism sector

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<sup>2</sup> <http://www.teuleda.org.al> (Strategjia e zhvillimit rajonal)

**The other aims of this paper are:**

- Tendency to create competitive advantages through taxes towards tourism operators Comparison of the tax system on tourism operators in Albania to those of developing countries
- To identify the problems that brings an inefficient tax system.

**Metedology**

Methodology of the study consists on the combination of the secondary and primary search. We have used a combination of these methods. These will help us to test the raised hypothesis.

*Secondary searched.:* first secondary data collection relies on a vast contemporary literature This section helped me to realize the theoretical part of the paper. *Primary search :* Using this method we will study the Albanian reality.

**Hypothesis**

- Hp.1 Increasing taxes on sectors connected with tourism and decreases taxes in other sectors will increase tax revenues and will not affect the reduction of welfare.
- Hp.2 Creating an efficient tax system will enable the creation of competitive advantage.

**The main taxes in the Albanian Tax System**

According to the Albanian tax system we have that juridical/physical person are subjects of the following taxes<sup>3</sup>: Profit tax 10%, Tax on personal income 10%, Tax on source 10% and Value added tax 10-20%.

Taxes and fees are national or local Local taxes and duties are defined by the law on local tax system.

Some of the national taxes are<sup>4</sup>:

- Port taxes
- Tax of mining rent
- Carbon tax for gasoline, for line, and coal.
- The fee for fishing activity

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<sup>3</sup> [www.tatime.gov.al](http://www.tatime.gov.al)

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## **Tourism tax - definition and interpretation**

According to Fuji, Khaled and Mak (1985) tourism tax exists in different forms, tax of tourism exist in different forms and are imposed by national and local government, to fund the public services that are used by foreign tourists and residents. Combs and Elledgje (1979) define the tourism tax as the source of the financing.

According to Abeyratne (1993, pg 51) tourism taxes are not merely the instruments of the local administration, but he thinks that tourism tax is important in national level. Bird (1992) tourism tax can be separated in two categories: taxation through the general tax system and special taxes imposed on the specific tourist activities<sup>5</sup>. Flexible system of taxation could generate income from taxes could and improve distribution of income.

## **Reevaluation of the taxes on the touristic operators**

In order that tourism to be truly a priority sector to provide more money for the domestic economy should be revised tax policies for tourism. As a result of European or global economic crisis it is good to apply a value added tax equal to or less than currently for hotels as the most European countries do, which apply such a tax.

The crisis is felt by tour operators, such as hotels, restaurants, regardless of the fact that this impact has not been too great.

Taxation of sectors related to tourism is more efficient than other taxation sectors. The higher demands coming from tourists increase the tax revenues, and reduce consumer surplus of foreign tourists, but we do not consider this when we talk about the social welfare. Also, the less elastic demand of the foreign tourists makes the tourism tax more efficient.

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<sup>5</sup> Gordon N Barron, Bill Kerr and Roy C Wood (2001) "Arguing for and against tourism taxation: Insights from the Scottish content."

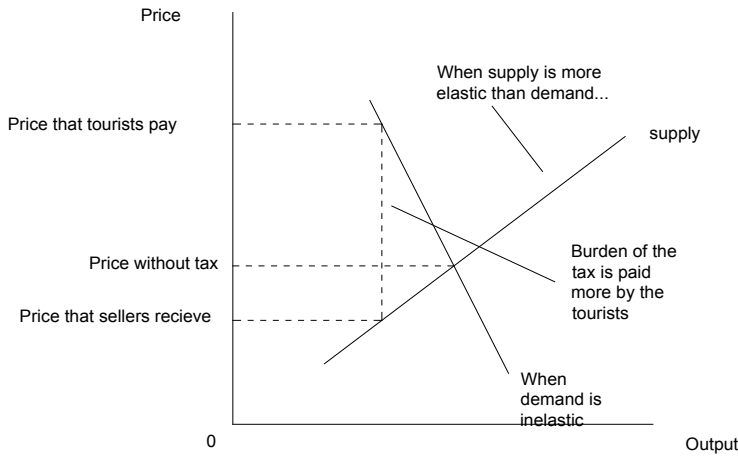


Fig. 1 - The less elastic demand of the foreign tourists makes the tourism tax more efficient.<sup>6</sup>

To stop the decline of the welfare government should increase taxes on goods and services as hotels offered to tourists. Changing the prices of services and goods in the tourism areas, will be accompanied by the changing of the number of tourists visiting the tourism areas and in this way will have an impact also on demand. According to the famous economists Laffer, it is not easy to find the tax rates that will increase the governments income and will decrease the lost<sup>7</sup>.

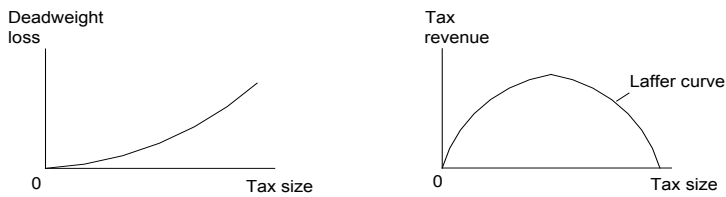


Fig. 2 - Tax revenue first increases, then decreases<sup>8</sup>

According to the Laffer, panel (a) shows us that when the size of a tax grows larger the deadweight loss grows larger while the panel (b) shows us that firstly the tax revenue rises and then falls.

An increase in the tax system causes an increase in government revenues, hence an increase in government spending, then a decrease in consumer welfare and the creation of a deadweight loss.

<sup>6</sup> Source of figures: N.Gregori Mankiw(2008) "Microeconomics" Fifth Edition, South Western Cengage Learning

<sup>7</sup> N.Gregori Mankiw(2008) "Microeconomics" Fifth Edition, South Western Cengage Learning

<sup>8</sup> Source of figures: N.Gregori Mankiw(2008) "Microeconomics" Fifth Edition, South Western Cengage Learning

## Designing of the efficient tourism tax

Countries where the tourism sector is subject to a lower value added tax rate have a competitive advantage to countries where a higher tax rate is set. Lower rates of tax are associated with growing tourism performance. Lower tax rates would be associated with lower prices and thus will have a higher demand and thus increase total revenue. Of course, higher spending by visitors, tourists will have positive effects on employment, this will generate higher levels of employment in tourism and sectors related to tourism. Events are in chain, because an employment growth is associated with increased revenue from other taxes, increased savings and increased profits.

Higher income from tourism will encourage and enable higher expenses even in other sectors of the economy that will enable and generate higher revenues from taxes and other economic sectors.

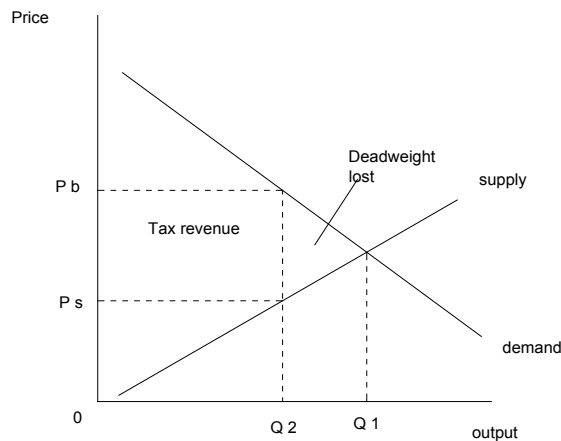


Fig. 3 - Deadweight lost created from the taxes<sup>9</sup>

Taxation of tourism can have positive effects. Many of the tourism products are considered as luxury products and consumption of these products comes primarily from individuals who have high incomes.

It's important to know to put the right taxes, hence the government can get the higher percentage of the taxes by the richer and maybe the decrease in income maybe higher by the poorer, implying in turn that the revenues by the taxes are higher in the state budget. Fiscal policy can be used to stimulate tourism industry<sup>10</sup>. Funding and obtaining political and policy acceptance of sustainable tourism development can be problematic<sup>11</sup>.

<sup>9</sup> Source of figures: N.Gregori Mankiw(2008) "Microeconomics" Fifth Edition, South Western Cengage Learning

<sup>10</sup> Ramesh Durbarry & M.Thea Sinclair "Tourism taxation in the UK"

<sup>11</sup> Edgell, L.D (2006), (pg 15)"*Managing sustainable Tourism: A legacy for the Future,*" Haworth Hospitality Press, USA.

The tourism taxation requires tourism policies to be consistent with macroeconomic policies of the economy<sup>12</sup>. Taxation of tourism has important economic impacts, such as GDP, investment, price level, consumption, trade balance, etc... So normally the local and national government should consider these decisions. Tax system can generate income from fees and improve income distribution. One of the reasons for the Albanian economic growth in those last years have been the result of government initiatives that has implemented the coherent tax systems.

Government intervention in infrastructure investment, tax reduction and a good banking system are the main key in the economic development of a country.

According to Central Bank, Albania has 1.2 milliard Euros of income earned from tourism, it means that we have a positive balance, we have a 20% increase compared to previous year, These increased revenues are the result of increasing number of foreign tourist and also small increased of the daily expenses<sup>13</sup>.

### **Comparison of the tax system to tourist operators with those of developing countries.**

Romania has 24% VAT, and put extra tax from 0.5% - 5% for hotels, according to municipal regulations to cities.

Bulgaria has a rate of 9% tourism tax (standard rate 20%) in the tourism sector, replacing the existing rate for organized groups and 20% for individuals. For hotels set a tax rate that varies from city to city and from

Slovakia has a tourism tax or a tax called the city or village ranging from € 0.50 to € 1.65 per person per night (for hotels), it varies depending on the municipal regulations of these cities.

If we consider the Shkoder Municipality's fiscal package, we see that during these years have an increased tax rates unchanged but however we have an increase of the fees for services.

### **Below is the SWOT analysis that shows the impact of tax on tourism.**

#### **Strengths**

- Already we have instruments that define, compare the priorities and the national politics with those of the European, pertaining the taxation system.
- Nowadays we do not have the barriers of the visas to move from Albania to the countries that are members of the European

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<sup>12</sup> Nishaal Gooroochurn (Paper)"Tourism taxation: A theoretical and empirical investigation" Nottingham University, England

<sup>13</sup> <http://www.mia.com.mk/default.aspx?mId=10&vId=63625098&lId=3&title=BALLKAN>

- Economic stability, bank stability
- We have unexplored spots, so the tourist are interested to see these wonderful places.
- We have a lot of possibilities of tourism investments.
- Costs of work are low and we do have flexible work

### **Weaknesses**

- We do not have the full politic stability
- Sometimes, it is a lack of communication mechanism between the central and local government.
- A high percentage of the informal economy.
- Negative impact of the high tax rates.
- Such a high tax rates will decrease the incomes from tourism industry..
- There is a lack of the fiscal politics in the local governments.

### **Opportunities**

- Interaction in group between central and local government, to design an efficient tax system.
- Increasing the role of the local government towards the taxation system.
- Vendosija e një sistemi takse fleksibël, ku mund të përjashtohen ushqimet, dhe produktet e konsumit.
- Higher employment possibilities, and seasonal employment.
- Naturally that ought to be find a way that will make content as state, society, and could increase the competency.

### **Threats**

- Lack of stability on the financial sector.
- The other countries may use the low tax rates.
- Financial crises in Greece.



## Conclusions

- Tourism is a new industry so it is experiencing a considerable problems. Tourism is so sensitive towards the prices and the tax rates. Value added tax has a great impact on the prices. If will see the dates we have the price index price for the items bought by the tourism increased.
- If we look through all the countries that have the tourism as destination, taxes on the services connected with tourism are increased, this is a phenomena that happens much often than decreasing of the tax. There is a lack of the standardization through countries for kinds and the tax rates that are placed for the touristic services.
- The expenditure done by the international tourists, foreign, have a great impact on the national economy. Incomes generated by the transport and traveling of the foreign are always increasing.
- Capacity of the human resources in the tourism sector and that of welcome are not in the demanded standard.
- Central and local government is responsible for the taxation system. They will be able to agree on the tax system. It is very important to gather, to collect incomes by the taxes correctly and to use it properly.
- There is done a lot of in improvement of the image of Albania in the world

## Recommandation

- A decrease in the rate of tax on tourism as a value added tax would increase competition and generate significant income in the tourism sector, because a reduction in the tax rate would increase the number of tourists, and the profits realized from tourists will compensate the reduction of the taxes.
- We think that if a reduction of the for tourists would be associated even will a reduction for goods and services addressed to them we will have a great contribute in this industry.
- An efficient tax system creates the opportunities, chances and favorable conditions for investment, creates more development, creates more jobs, making the economy more competitive.
- Although we have a lot of beautiful, attractive natural tourist spots, local governments should support businesses in these areas by establishing favorable local taxes for businesses, encouraging them and convenient for tourists to have by the way an increasing of the flow of tourists.
- Government should increase tax rates in the sectors that are connected with tourism and should decrease the tax rates in other sector, because this will increase the income from the tourism and will have no impact on the decreasing welfare.

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