

## **ARGUING FOR AND AGAINST TOURISM TAXATION: INSIGHTS FROM THE SCOTTISH CONTEXT**

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### **INTRODUCTION**

When the 129-member Scottish Parliament was elected in May 1999 and the new Scottish Executive formed, comprising a coalition of the Labour and Liberal Democrat parties, tourism did not appear likely to be a priority issue. Tourism had not played a significant part in the election campaign. The concept of a hotel occupancy or 'bed' tax was, however, an important element in wider, 'industry', debates surrounding the funding of Scotland's tourism industry and administrative structure in the period immediately before, and for a time after, devolution.

Tourism taxation is a perennially controversial issue, especially when it takes the form of a 'bed tax', a charge against accommodation operators that must be absorbed or passed on to the customer. This paper explores debates about tourism taxation, specifically bed taxes, in the context of the suggestion among certain sections of the tourism industry that such a tax should be introduced in Scotland. The Scottish case is interesting because it allows illustration of the forms of argumentation present in the research literature where most exemplars proffered are post hoc in nature. By focusing on these 'argumentative strategies' the intention is to make both a small contribution to the literature on tourism taxation (which is biased very much towards macro-

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level analysis or impact studies) and a perhaps wider contribution to the ongoing debate about the future of tourism in Scotland.

#### **A BED TAX FOR SCOTLAND?**

Referred to primarily as a 'bed tax', a 2% levy on hotel accommodation was suggested by the present UK government as early as 1996, when then in opposition, as a possible means of financing Scotland's Area Tourist Board (ATB) network. ATBs perform a variety of local and regional marketing functions, including an accommodation booking service for which they charge participating establishments a commission. For some years, the funding of these bodies has been a source of considerable controversy in Scotland (Barron, Kerr and Wood 2001). At present, ATBs are funded by a mixture of grant from the National Tourist Organization, the Scottish Tourist Board, and a discretionary sum from local government authorities in the areas where they operate. The timing of budgetary decisions and the limited funds available to the latter in particular have meant that ATBs often face severe cash flow problems and are limited in their ability to set strategic budgets for their own activities (see Kerr and Wood 2000).

In the run-up to the election of the Scottish Parliament in 1999, the main contributors to debates about the value of a bed tax were, perhaps unsurprisingly, not operators, but senior figures mainly in the public sector, including a number of CEOs (Chief Executive Officers) of ATBs. Pre-eminent among these was the CEO of the Greater Glasgow and Clyde Valley ATB, Eddie Friel. His solution to the perceived ATB funding problem was the introduction of a system to transfer the tax burden of funding tourism from the public sector to the consumer by means of a bed tax (see also Friel 1995). The number of ATBs would, in Friel's scheme, be reduced from 22 to 6 in number. The chairs of each of these bodies would form a new national tourism organization, financed by the government matching pound for pound the income generated by the bed tax (see Wilson 1998).

Understandably, there was some considerable resistance to the idea of a tourist tax from the hospitality industry, particularly the accommodation sector. The Scottish Division of the British Hospitality Association (1999, p. 3) in its governmental briefing document prepared for the 1999 elections, commented that if a bed tax was introduced:

Unless the revenue raised is directly ploughed back into the industry or into the tourism infrastructure, such a tax would simply increase costs without improving the value of the visitor experience or the tourism

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product. The association believes that a tourist/bed tax in Scotland would deter visitors and it strongly opposes such a tax.

Support for the BHA position is also reflected in a 1999 survey of Scottish tourism operators and public servants (Kerr and Wood 2000) which probed attitudes to a bed tax. Some 93% of these authors' respondents were, unsurprisingly, against such a tax. However, when asked if their attitude would change if such a tax were hypothecated, between 60% and 62% of respondents said that they would be in favour if monies thus raised were channelled back into the industry.

Shortly after the new Scottish Executive took office, a review of Scottish tourism was initiated by the minister responsible (the Minister for Enterprise and Lifelong Learning). In part, this review arose because of the publication of a critical review of Scottish tourism by the UK House of Commons Scottish Affairs Committee (1999), the research on which the report was based being undertaken prior to the election of the new Scottish Parliament. This committee's report reflected the context in which the term 'bed tax' has been understood in Scotland, namely as 'a charge made on accommodation providers on each letting' as opposed to a charge aimed exclusively at tourists (House of Commons Scottish Affairs Committee 1999, p.x). The Committee was emphatically against such a tax but was critical of the Scottish tourism product and its administration and delivery. Responsibility for tourism having passed from Westminster to Edinburgh, the aforementioned review was undertaken rapidly with a new tourism strategy for Scotland being announced early in 2000, one that studiously avoided the issue of tourism taxes.

This, then, is the context in which debates about the introduction of a bed tax flourished. Before assessing the likely implications of such arguments for Scotland, it is first necessary to explore some of the more general conceptual and evidential issues relating to tourism taxes.

## **TOURISM TAXATION**

Literature dealing explicitly with the subject of tourism taxation is somewhat exiguous in comparison with taxation literature in general. However, the fact that the term 'tax' is employed very much as a generality, referring to a non-specific pecuniary contribution to the state (Abeyratne 1993), means that existing tourism taxation literature has been able to borrow heavily from existing taxation theory. Moreover, de Kadt (1979) and the World Travel and Tourism Council (1999) suggest that, despite any dissimilarity that may exist

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amongst particular interpretations of the term 'tourism tax', the relationship between the taxation of tourism and the taxation of any other export is sufficiently close (particularly with respect to supply and demand elasticities) to necessitate a measure of conceptual overlap.

#### ***Tourism tax - definitions and interpretations***

According to Fujii, Khaled and Mak (1985), tourism taxes exist in a variety of forms, and are imposed by national and local governments as a means of financing public services that are used by both tourists and residents of tourism destinations. Combs and Elledge (1979) also define a tourism tax as a source of finance, but regard such taxes as an instrument whose purpose is to recompense local taxpayers for a plethora of tangible and intangible tourism-related costs. Tourism taxes are not, however, merely instruments of local administration, and it is the definition of Abeyratne (1993, p. 451) that establishes the function of the tourism tax at a national level: '[a tourism tax] is ostensibly aimed at developing tourism in the country whose government imposes the tax'.

As alluded to in the definition provided by Fujii, Khaled and Mak (1985), the term 'tourism tax' encompasses a myriad of individual taxes levied on any number of tourism activities. Bird (1992) suggests that tourism taxes can be broadly categorised under two headings:

- taxation through the general tax system (e.g. VAT);

and

- special taxes imposed on specific tourist activities.

Although the construction of a tourism tax policy should ideally have its basis in this framework, the exact form that a policy will take is dependent upon a host of variable local factors (Bird 1992). The World Tourism Organization (WTO) (1998) propose an alternative means of categorising tourism taxes, distinguishing between those incurred directly by the tourist and those incurred by tourism businesses as operating costs (see Table 1). Although the WTO identifies some forty different taxes which are applied to the tourism industry, they note that many are simply variations of similar taxes, with around twenty-eight falling under the first category and twelve the second. The two most important things to note about these taxes are that, first, at a sectoral level in any given country, several may be levied on different sub-sectors of the tourism industry, and, second, some are generic taxes that affect all industries in an economy. Identifying the economic

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impact of the latter taxes upon tourism industries can thus only be achieved at the most general level.

***The hotel room occupancy tax***

One of the most widespread and remunerative tourism taxes (and the tax with which this study is primarily concerned) is the hotel room occupancy tax (Bonham and Gangnes 1996). Also referred to as, inter alia, the 'transient accommodation', 'transient occupancy' or 'bed' tax, the hotel room occupancy tax is a consumption-based tax. It typically takes one of two forms: an *ad valorem* tax (i.e. assessed as a percentage of the price of an occupied room) or, less commonly, a 'flat' or 'unit room' tax (i.e. some fixed charge per room per night). Both forms are popular for a variety of reasons, not least their administrative simplicity and apparently discriminatory nature that seemingly forces non-residents to absorb the cost of the tax (Bonham, Fuji, Im and Mak 1991; Combs and Elledge 1979; Fuji, Khaled and Mak 1985; Mak 1988). Combs and Elledge (1979) and Spengler and Uysal (1999) also observe that an added attraction of the hotel room occupancy tax is that it is, in most instances, a progressive tax (i.e. the average rate will increase as the level of taxpayer affluence increases). As a result, as most of the tax is levied on those most able to pay, the tax is often deemed an equitable method of taxation.

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**Table 1**

**Examples of Tourism Taxation**

Taxes Charged Directly to Tourists	Taxes Charged to Tourism Businesses
Entry taxes (visas)	Fuel tax (notably on aviation fuel)
Exit formalities & taxes	Duties on the import of tourist equipment
Terminal departure taxes at airports, sea ports and road borders	Property taxes directed at hotels and resorts
Accommodation taxes: VAT, sales tax, hotel levy, bednight tax	Corporation tax
Transport, food & beverage, shopping and environmental taxes	

*Source: WTO Business Council (1998)*

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Despite its attractions, the hotel room occupancy tax is, as Combs and Elledge (1979) point out, not immune to criticism. Indeed, just as the tax is agreeably discriminatory in terms of whom it targets for taxation, so it is often perceived as the fiscal embodiment of governmental exploitation of the tourism industry. Bonham and Gangnes (1996:1290) succinctly capture this sentiment, stating that in practice, occupancy taxes 'are seen as a ready and politically palatable source of revenue by proponents, but as a significant tax burden by the hotel industry'. In short, an hotel room occupancy tax is seen by industry as an additional cost of doing business. In tourism destinations where demand for accommodation is low, possible additional charges to the customer may be perceived as a further threat to stimulating demand for accommodation and the destination more generally. In theory, this could place pressure on hoteliers to absorb the cost of any tax rather than passing it on to clients. In this context, the inherent appeal of the hotel room occupancy tax's ability to shift the tax burden from residents onto non-residents/non-voters is not assured; the opportunity for discontent thus arises amongst those forced to pay the tax. If it is local hoteliers as residents and voters who pay, the implications for government are manifest (McMahon 1999).

Having noted this, and by way of contrast, it is important to recognize that accommodation ownership is not always in the hands of 'local people', but large national and multi-national organizations. In the absence of detailed empirical evidence it is possible only to speculate on the implications of such ownership patterns for the impact of hotel room occupancy taxes. Large organizations may be better able to absorb such charges, or they too might pass the cost on to consumers (many hotel industry organizations used the cost-transference argument as one reason for their opposition to the introduction of a national minimum wage proposed and implemented by the Labour government elected in 1997). Large organizations have an opportunity to employ both methods by use of another form of transference – from area to area or region to region, within their overall cost structures.

It is not always hoteliers, however, who absorb the cost of the hotel room occupancy tax: tourists subjected to, for example, high rates of VAT in addition to an occupancy tax are likely to be discouraged from visiting what is perceived as being a high price destination. Nevin (1999) elaborates this view, remarking that, on the basis of case studies and existing econometric analyses, 'if the rate of tax levied on tourism increases, receipts from tourism will fall'. A possible refutation of this argument, however, is that the UK and Germany, countries with the third and fourth highest respective rates of VAT on hotel accommodation in Europe, are the fourth and fifth highest earners from tourism in Europe respectively. Indeed, both the UK (6.3%) and

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Germany (2%) saw tourism receipts increase in 1998 over the previous year despite their comparatively high rates of hotel taxation. Regardless, 12 out of 15 EU countries have preferred to introduce a reduced rate of VAT on hotel accommodation.

Despite the unpopularity of tourism taxation in general, the *ad valorem* hotel room occupancy tax has found considerable application within the international hotel industry, more so than the flat tax. Although, as Mak (1988, p. 10) observes, 'there is always a unit tax that would generate the same revenue as a given *ad valorem* tax rate', the *ad valorem* tax is favoured primarily for its ability to allow for varying levels of revenue to be collected from different classes of hotel room, the yield automatically responding to changes in the tax base (Bird 1992; Mak 1988). Additionally, as noted by Musgrave and Musgrave (1989), owing to unchanging relative prices under an *ad valorem* tax, the consumer decision-making process is impeded less than under a flat tax. When considered against the backdrop of European monetary integration and the mooted of Europe-wide tax-harmonisation, Musgrave and Musgrave's (1989) observation seems particularly relevant; issues of competition arising not only from the Euro's putative 'price transparency' effect but those arising from variable supply and demand factors are self-evident. Nevertheless, with the majority of the EU shunning higher tax rates for accommodation, the possibility exists that tax harmonisation will be tantamount to tax increases.

#### ***The hotel room occupancy tax - some issues***

Regardless of the precise form adopted, the effect of a hotel room occupancy tax on a destination's tourism industry is the subject of ongoing debate. Combs and Elledge (1979), Mak and Nishimura (1979) and Bonham and Gangnes (1996) argue that the effect of an occupancy tax on visitor demand is minimal. Combs and Elledge (1979, p. 203) conclude that 'a small *ad valorem* tax imposed on motel rooms and other forms of temporary lodging would have very little impact on the industry and would generate substantial revenue for the local government'. This contradicts conclusions reached by later studies (Arbel and Ravid 1983; Fuji, Khaled and Mak 1985), whereby econometrically estimated demand elasticities showed that visitors were more sensitive to fluctuations in room prices than previously thought. Additionally, recent research by the World Tourism Organisation (1998, p. 2) argued that significant increases in the rate of hotel room occupancy tax were likely to lead tourists to consider alternative, less taxed destinations. For this reason, the World Travel and Tourism Council (1998) has recommended that the rate of an hotel room occupancy tax is set only after extensive private-

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public consultation, and has acknowledged the importance of the issues of competitiveness, employment, and sustaining of the industry's revenue base. The concept of hotel room occupancy tax hypothecation in particular has wide-ranging implications for such issues.

An hypothecated or 'dedicated' tax can be defined, after the World Tourism Organization (WTO 1998, p. 22), as 'one whereby the revenues generated are used directly in the sector from which the tax was collected'. While a hypothecated hotel room occupancy tax could mean that revenue obtained is spent, for example, on tourism training or marketing, in practice hypothecated hotel room occupancy taxes have often been used in funding both industry and non-industry related activities. The International Monetary Fund (IMF) has endorsed this practice of sharing tax revenue among sectors by encouraging governments to collect all tax funds centrally before allocating them to individual economic sectors. The result has been that tourism has often had to share the proceeds of a hotel room occupancy tax with a host of non-tourism related beneficiaries.

LaVelle's (1998) account of San Diego's 'hypothecated' hotel room occupancy tax typifies the scenario in many areas where the tax operates. As the revenue obtained from the tax has increased, so its purpose has migrated from one of financing the promotion of tourism-related activities to subsidising the miscellaneous activities of the local council. The incidence of fully hypothecated occupancy taxes is, therefore, somewhat limited, owing to the attractiveness of their 'cash cow' status and the resultant tendency to use the tax's revenues to support other activities (WTO 1998). However, the WTO (1998) believes that a hypothecated tourism tax remains feasible, so long as the cost of collection is low and revenues generated are directed to the country's national tourism board for marketing purposes.

A further issue to be considered here is the nature of demand and supply in the context of tourism taxes. Implicit to several discussions of tourism taxation so far encountered in this paper is the assumption that elasticities of demand for tourism destinations vary little, and that the cost of such taxes will either be absorbed by local hotel accommodation providers or passed on to guests. The question thus arises as to whether the intermingled price concerns of both tourists and tourism businesses can be addressed to their mutual satisfaction. It is realistically possible to envisage only one scenario in which any one party is satisfied with the absorption arrangement (i.e. tourists are satisfied when accommodation providers pay the tax). Considering this situation more closely, it is evident that tourists must first be aware of changes in price before they evince either positive or negative

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feelings towards a bed tax. As a tourist's interest is not so much in the bed tax per se, as in who absorbs it, a tourism tax which goes 'unseen' in the sense that it is absorbed by business interests will not evoke the same sentiment as one which affects the tourist directly. However, as an 'unseen' tax is likely to have a cumulative effect on quality (as hotel profits are eroded), its toll on consumer perceptions of the tourism product will be distributed over a longer period of time than an immediate price rise. In other words, regardless of whether it is the tourist or the business that absorbs the tax, there is always the potential for a future negative outcome.

We can summarise the core issues relating to the merits or otherwise of a tourism tax in a series of points as follows.

- There are two principal classes of tourism tax: those incurred directly by the tourist, and those incurred by tourism businesses as operating costs.
- Hotel room occupancy or 'bed taxes' take one of two forms: an *ad valorem* tax where the tax rate is assessed as a percentage of the price of an occupied room, and a flat rate tax, i.e. a fixed charge per room night – the former is the most popular form currently employed.
- At destinations where the price elasticity of demand for hotel rooms is limited, operators may choose to absorb the tax rather than pass it on to the consumer: a bed tax thus becomes another operating cost imposed on business. If a bed tax is passed on to the customer, however, then demand for a destination may be discouraged.
- Analysts of tourism taxation are divided as to the effect and impact of bed taxes: several studies suggest consumers are sensitive to fluctuations in room prices, others that a small bed tax has little negative effect on the industry. A note on some of the evidence concerning impact is contained in an Appendix at the end of this paper.
- A key element in debates about the merit of tourism taxes is the view that such a levy is likely to have a deleterious effect on the quality of the hotel product as profits are eroded and investment curtailed: over a period of time this has the potential to become a 'vicious circle' as customers observe the decline in the quality of the tourism product and take their business elsewhere.

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As with many debates in economics, both theoretical and empirical commentaries on bed taxes give little succour to those seeking definitive policy advice on the putative benefits or disbenefits of such a levy. The difficulties in arriving at a decision about the merits or otherwise of a bed tax in particular can, in terms of the issues summarised above, be further usefully illustrated in contexts where such debates are current, as is the case in Scotland.

#### **ASSESSING THE ARGUMENTS FOR A TOURISM TAX IN SCOTLAND**

There is general agreement among academic commentators and policy makers that Scottish tourism has been in decline for some years, with falling visitor numbers attributed to a range of factors including climate, relative cost, accessibility and the perceived or experienced quality of the Scottish tourism product (Kerr and Wood 2000; 2000a). The Millennium therefore seems a less than auspicious time to introduce a bed tax. We have noted above that, in the Scottish case, it was a bed tax that was clearly on the agenda of advocates of some form of tourism tax. The tourist would therefore incur any tax, unless business operators chose not to pass a levy on, instead absorbing it themselves. At the same time, the most widely discussed levy was an *ad valorem* tax where the rate is assessed as a percentage of the price of an occupied room.

At various points in the public debate in Scotland about levying such a tax, the assumed levy rate was 2%, in addition to the 17.5% VAT rate already levied on hotel accommodation in the UK (the Scottish parliament has no jurisdiction over VAT). Indeed a source of hostility to the idea of a bed tax advanced by the Scottish division of the British Hospitality Association (BHA) (1999), representing diverse operators, was that VAT on accommodation charges should be reduced to give Scottish tourist accommodation a competitive fillip. This was harnessed to a view that, in general, the costs of 'doing business' should be reduced in the tourism sector.

Such pleadings to government for economic privileges by the hospitality industry are not new or unique to the UK (see Hall (2000) and Wood (1996) for specific comments on the UK situation). Yet, as we have seen, in terms of VAT on accommodation, the UK is already amongst the heaviest taxed tourism destinations in Europe, the fourth highest, with no apparent detriment to the growth of tourism receipts. It is thus possible, in an abstract sense at least, that a bed tax could be comfortably passed on to the tourist, or

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absorbed by operators. Against this is that while tourism receipts in the UK have increased in recent years, Scotland itself faces decline, a decline that could be accelerated as a result of long-term erosion in profits and a concomitant decline in the quality of accommodation whether or not the tax is absorbed by businesses or passed on to the customer (thereby discouraging a demand for Scotland as a tourism destination).

There are, however, a number of objections to the view that, as profits diminish, so does investment in the tourism product, especially tourist accommodation. First, it takes no account of the existing standards of the stock of accommodation. Small businesses still dominate the hospitality and tourism sector, particularly in Scotland where much accommodation is often provided on a seasonal basis as an adjunct to some other, dominant, business form (notably agriculture, with farmers 'diversifying' into accommodation provision). There is little or no incentive to invest substantially in what operators view as a 'sideline', especially when such operations operate at the margins of the economy and are often invisible to state or para-statal regulators (Wood 1996). Indeed, there is no conceptual or theoretical imperative to suppose that small and medium sized enterprises for which the provision of accommodation is the main business have sufficient incentive to encourage investment in physical infrastructure beyond the minimum necessary to meet legislative requirements. In short the relationship between taxation (and indeed other costs of operation) and investment requires to be empirically demonstrated rather than treated as a matter of inductive reasoning. To this we can add the observation that the purpose of many small hospitality businesses is not primarily entrepreneurial but a matter of 'lifestyle', suggesting at least a dilute relationship between economic motivation and investment decisions (see, for example, Lowe (1988)).

Secondly here, the relationship between tourism taxation and demand sensitivity is at best vague and at worse ambivalent. As noted earlier, there is some disagreement among analysts of tourism taxation as to the effect of bed taxes: several studies suggest consumers are sensitive to fluctuations in room prices, others that a small bed tax has little negative effect on the industry. A useful parallel here is a legally enforceable minimum wage where debates among economists parallel those in the tourism taxation field. In general, there is no firm evidence to suggest that the introduction of a minimum wage into the hospitality and tourism (or indeed other) sectors 'costs jobs' (or otherwise has a negative effect on operations). This is despite the potential of a minimum wage to be an 'additional cost to business' if set at a rate in excess of prior market tolerance (Wood 1997). A national minimum wage was introduced for the first time in the UK in 1999 and employer representative

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organizations, not least in the hospitality industry, were in the vanguard of opposition in the debate preceding the government's enacting of its legislation. The arguments proposed were familiar ones: a national minimum wage was an additional cost burden on business; it would cost jobs – employers would make some current employees redundant and job creation in the hospitality sector would be diminished; and it would raise prices of tourism products, prices that would be passed on to ultimately resistant consumers.

In so far as it is possible to make an early judgement on these matters, they seem ill founded. Demand for labour in the tourism and hospitality industry has not dropped below the level achieved prior to the introduction of the national minimum wage and, as we have seen, at the UK level at least, existing rates of taxation in the form of VAT on accommodation have relatively little impact on tourism demand. The picture for Scotland is less clear. The decline in Scottish tourism referred to earlier appears to result from deeper-rooted structural problems and possible policy failures (and of course, nature!). This observation is a relatively neutral one from the point of view of any putative bed tax. Instinctive reactions on the one hand might favour the view that the introduction of a bed tax would add to an already difficult situation or, on the other, the view that it might make little or marginal difference to receipts provided the level of the tax is not punitive.

This last point is critical because, to return to the parallel with the national minimum wage, there is some measure of agreement (as implied in the World Tourism Organization's (1998) observations reported earlier) that 'getting the rate right' can generate useful revenue streams without damaging, in the case of the minimum wage, job maintenance and creation and, in the case of a bed tax, the quality of the tourism product or indeed tourist flows. Indeed, it is conceivable that even a small bed tax might drive out of business those establishments which critics of the Scottish tourism product see as of poor quality, many of which operate at the economic margins as we have seen. Whatever the case, matters relating to the possible use of bed or other tourism taxes in Scotland or elsewhere cannot be finessed by some reference to hard and fast empirical data, or to some higher order theoretical schema. Such decisions are political and policy decisions and are, of course, as easily reversed as they are introduced.

## **CONCLUSION**

This paper has attempted to appraise possible implications of a proposed tax increase on Scottish tourism. It has also related issues regarding a bed tax in Scotland to existing taxation theory. In the light of the preceding commentary, there is, in abstract terms, no absolute reason or objection to the introduction of a bed tax, which could be very successful in generating a useful income stream. Studies of the impact of bed taxes are, as has been shown, inconclusive. The critical issue in the case of Scottish tourism is likely consumer responses to such a tax. Established industry and other interests argue that various forms of taxation already discourage visitors to Scotland relative to other destinations, but these claims are at best ambiguous and require serious research investigation.

Indeed, speculation as to the likely impact of a bed tax from advocates and detractors alike is of limited value until consumer dispositions in this regard are better understood. The real enemy in debates about tourism taxation, not least in Scotland, is partial knowledge (or partial ignorance!) of consumers' beliefs, values and motivations.

Beyond this remains the question of hypothecation. In general, there is a deep suspicion that governments cannot be trusted to administer a hypothecated tax fairly in terms of the distribution of the bounty raised. This objection could be overcome by having any levy administered by an arms length body ensuring that funds are channelled back to the sector. Legislation relating to such a levy would, however, have to achieve some measure of agreement as to what proportions of money were to be devoted to alleviating the costs of tourism, as well as supporting tourism development. Moreover, the risk attached to developing this type of strategy is relatively low and could serve as a useful method of assessing the strengths and limitations of selective taxation.

Matters of taxation are, of course, also matters of political will. The increasing sterility of the wider debate over the future of the Scottish tourism industry (see Kerr and Wood 2000, 2000a) suggests that 'progress' in addressing the future of the sector will be via middle-way accommodations and compromises rather than radical root and branch change. In an atmosphere when politicians are instantly paralysed by talk of increased taxation, the introduction of a bed tax seems unlikely. Advocacy of such a tax will, as likely as not, continue to be viewed as a preference of eccentrics and the idea of such a tax as an enemy of enterprise. Neither position makes a lot of sense. Scotland needs a radical and vigorous debate about the future of its

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tourism industry with nothing ruled either 'out' or 'in' – including tourism taxation in all its forms.

#### **APPENDIX: EVIDENCE CONCERNING THE IMPACT OF TOURISM TAXES**

Evidence concerning the impact of tourism taxes is not plentiful and frequently contradictory. The impact of taxes not specific to tourism activity but with implications for buyer choice, such as fuel charges, is almost impossible to judge. As noted in the body of this paper, the impact of indirect charges by government, such as value-added tax (VAT) can be assessed to some degree by comparing variations in VAT rates with tourist arrivals, but this is something of a blunt instrument.

The World Tourism Organization (WTO) Business Council (1998, pp. 18-29) has reported a number of discrete instances of the impact of taxes specific to travel and tourism but offers little in the way of systematic analysis. There is a notable absence of information on hotel room taxes. The WTO argue that tourism-specific taxes are rarely neutral because tourism activity is price sensitive. Examples proffered by the WTO include the following.

- New York State introduced a 5% tax on hotel bedrooms priced over US\$100 in 1990. This allegedly saw a significant reduction in New York's conference trade and an overall estimated fall in revenues of US\$275m over the four-year period of its existence (the tax was withdrawn after this time).
- Visa charges, which the WTO chooses to classify as an example of entry taxes, can add costs to travel. The example of a traveller from a developing country in Asia is cited. Faced with an unavoidable stopover in London en route from New York to home, the cost of a visa for entry to the UK is estimated to be the same as a month's salary in the traveller's country.
- Departure tax is also seen as equally problematic in its impact. Note is made of the US government's increase of departure tax from US\$6 to US\$12 in 1997 and the introduction of a new arrival tax of US\$12. The tax differential thus rose from US\$6 to US\$24. The WTO also suggest that similar levies by the UK government raise more money than British Airways does operating profit on its world-wide activities.

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The above examples give some flavour of the evidence marshalled in critiques of tourism taxation. Useful further information, including a regularly updated database on world developments in tourism taxation culled from the press, can be found on the World Travel and Tourism Council's (WTTC) Tax Policy Center web site at Michigan State University. This includes a 'tax barometer' for 52 world city destinations. However, the WTTC is, in addition to a research organization, a lobbying group for the tourism industry and the WTTC's own interpretations of the data provided must be treated with appropriate caution. The site can be found at: <http://www.traveltax.msu.edu/> (last visited February 2001).

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