

# Tourism Tax

## Imposing taxes to finance activities other than airport or aeronautical services has a huge impact on a country's aviation and tourism industry.

Tourism and aviation taxes are counterproductive. In many cases, the revenue raised from such taxes is far outweighed by the economic benefits that are foregone as a result of reduced demand for air travel.

Generally, governments increase tariffs or taxes on a given product – such as tobacco – when they intend to dissuade its consumption, not promote it. It is paramount to keep in mind this basic principle when evaluating such tax proposals by States.

### IATA POSITION

IATA is totally opposed to any form of fee that does not reinvest the revenue in the aviation industry. Such a fee is in contradiction of ICAO principles. Any government decision leading to an increase of the costs of air travel imposes a new barrier to the development of the aviation and tourism industries.

### KEY REASONS WHY TOURISM TAX SHOULD NOT BE LEVIED

- ICAO principles do not support any taxes on aviation that do not generate funds that will be put back into aviation related activities.
- Increased aviation may result in unprofitable routes and reduced frequencies for destinations to, from or within a country.
- Taxes on aviation will reduce the wider economic benefits available from aviation, resulting in a negative impact on economic growth and overall government revenue bases.
- Taxes on aviation charges will negatively impact tourism, an industry that is essential to the economy of many countries.
- Taxes that are only applied to aviation are discriminatory and have an adverse effect on the air transport industry, a key engine for economic development.

### KEY ELEMENTS TO TAKE INTO CONSIDERATION BEFORE INCREASING COSTS TO PASSENGERS

- 1 Air travel is increasingly sensitive to price, due to the Internet, no frills competition and centralised corporate purchasing power.
- 2 The rise of corporate buying and the increased transparency of price have led to more price sensitivity for business travel.
- 3 Several studies demonstrate that amongst all travellers, tourists travellers are most sensitive to price and will therefore experience the greatest decrease in demand if there is a cost increase. For example, a price increase of 10% is estimated to generate a decline of 15% in the number of leisure passengers travelling.
- 4 When a new tax on aviation is introduced it will be transferred to the price of the ticket. As a result, the demand will be significantly impacted. Even if the revenue of these taxes is allocated towards tourism promotion overseas, the result of these campaigns would be offset by a real reduction in the number of tourists actually visiting the country.