Tourism Tax

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

Tourism 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. Any government decision leading to an increase in the cost of air travel imposes a barrier to the development of the aviation and tourism industries.

IATA POSITION

IATA strongly opposes any form of tax or fee where the resulting revenue is not reinvested in the aviation industry and is merely meant to increase general government revenues. Such a tax or fee contradicts ICAO principles, where fees charged on air transport are to be associated with services provided in support of aviation (e.g., the provision of airport services).

KEY REASONS WHY TOURISM TAX SHOULD NOT BE LEVIED

- Taxes on aviation will reduce the overall demand for air travel, which, as a result of the multiplier effect, can negatively impact tourism and GDP, which in turn can adversely impact government tax receipts.
- There are over 20 countries globally that levy tourism or tourism-related taxes. For example, in Guatemala, the Departure Tourism Tax has increased one-way international outbound airfare by approximately 9.0%, whereas in Jamaica, the Tourism Enhancement Fee has increased one-way international inbound airfare by almost 7.0% (based on 2014 data).
- As the economic benefits from tourism accrue to the wider economy, levying a discriminatory tourism tax on an enabling sector like aviation is an ineffective and ill-conceived policy choice. Government funding of tourism and tourism-related initiatives should be achieved through less distortionary means (e.g., through general government revenues).

KEY ELEMENTS TO TAKE INTO CONSIDERATION BEFORE INCREASING COSTS TO PASSENGERS

1. ICAO's Policies on Taxation in the Field of International Air Transport (Document 8632) states that "Each Contracting State shall reduce to the fullest practicable extent…all forms of taxation on the sale or use of international transport by air, including taxes on gross receipts of operators and taxes levied directly on passengers or shippers."
2. ICAO's Policies on Charges for Airports and Air Navigation Services (Document 9082) supports the levying of charges related to the provision of aviation and aviation-related services on a cost recovery basis only.
3. Air travel is highly sensitive to price, due to factors such as the Internet, no frills competition and centralized corporate purchasing power.
4. The rise of corporate buying and the increased transparency of price have led to more price sensitivity for business travel as well.
5. When a new tax on air travel is introduced, the ultimate liability for such a tax rests with passengers. This results in an increase in ticket prices in the hands of passengers, which is harmful to air travelers, airlines and the broader economy due to reduced purchasing power, lower passenger volumes, and the negative spillover effect on the economy, respectively.
6. In certain cases, imposing a tourism tax can result in the diversion of tourists and air passengers to neighboring jurisdictions that do not impose such a tax. The loss in economic activity due to the resulting decline in demand for tourism-related services is further compounded by lower than expected government tax revenue due to diverted air travel.