Proposed Foreign Tourist Tax *

I. INTRODUCTION

Tourism has become a major industry in many economies, showcasing impressive growth records. Thus, it is not surprising for some tax authorities to impose taxes on tourists. The imposition of a foreign tourist tax is being considered as a possible source of additional revenue for the government.

In view thereof, the paper explores the feasibility of imposing a foreign tourist tax in the Philippines, its revenue potential and implications on local tourism industry. It also examines similar tax practices in the ASEAN and other selected countries.

II. PHILIPPINE TOURISM INDUSTRY, 2001 – 2016

Total visitor arrivals in the country was generally on an uptrend during the past 16 years except in 2003 and 2009 when the numbers decreased by 1.3% and 3.9%, respectively. Said declines were due to the outbreak of the Severe Acute Respiratory Syndrome (SARS) that affected travel and tourism in Asia, and the global economic crisis, respectively. (Table 1)

In the ASEAN region, the Philippines ranked 6th in terms of total number of visitor arrivals from 2011-2016, behind Malaysia, Thailand, Singapore, Indonesia, and Vietnam. (Table 2)

On the other hand, among the ASEAN member countries, Cambodia had the biggest average annual share of tourism to GDP with 13.9% from 2011-2016, followed by Thailand with 8.0%, and the Philippines with 7.6%. Meanwhile, Brunei Darussalam, Indonesia, and Myanmar registered the lowest average annual share of tourism to GDP at 1.3%, 1.9% and 2.8%, respectively. (Table 3)

* Prepared by Lianne Carmeli B. Fronteras, Tax Specialist II, reviewed and approved by Monica G. Rempillo, Chief Tax Specialist, Economics Branch, NTRC.

Table 1. PHILIPPINE VISITOR ARRIVALS, 2001-2016

Year	Total Arrivals	Foreign Visitor Arrivals	% Share of Foreign Visitor to Total Arrivals
2001	1,796,893	1,698,062	94.5
2002	1,932,677	1,848,923	95.7
2003	1,907,226	1,806,902	94.7
2004	2,291,352	2,187,610	95.5
2005	2,623,084	2,497,689	95.2
2006	2,843,345	2,696,980	94.9
2007	3,091,993	2,911,254	94.2
2008	3,139,422	2,944,135	93.8
2009	3,017,099	2,819,178	93.4
2010	3,520,471	3,292,026	93.5
2011	3,917,454	3,710,302	94.7
2012	4,272,811	4,056,868	94.9
2013	4,681,307	4,477,695	95.7
2014	4,833,368	4,625,464	95.7
2015	5,360,682	5,148,819	96.0
2016	5,967,005	5,776,582	96.8

Source of basic data: Department of Tourism (DoT)

Table 2. TOTAL ARRIVALS IN ASEAN MEMBER COUNTRIES, 2011-2016
(In Thousands)

ASEAN Member Country	2011	2012	2013	2014	2015	2016	Total	Rank
Brunei Darussalam	242	209	3,279	3,886	218	219	8,053	10
Cambodia	2,882	3,584	4,210	4,503	4,775	5,012	24,966	7
Indonesia	7,650	8,044	8,802	9,435	10,407	12,023	56,361	4
Lao PDR	2,724	3,330	3,779	4,159	4,684	4,230	22,906	8
Malaysia	24,714	25,033	25,716	27,437	25,721	26,760	155,381	1
Myanmar	816	1,059	2,044	3,081	4,681	2,907	14,588	9
Philippines	3,917	4,273	4,681	4,833	5,361	5,970	29,035	6
Singapore	13,171	14,491	15,568	15,095	15,231	12,910	86,466	3
Thailand	19,098	22,354	26,547	24,780	29,881	32,590	155,250	2
Vietnam	6,014	6,848	7,572	7,874	7,944	10,010	46,262	5

Sources of basic data: 2011-2015 – Association of Southeast Asian Nations
2016 – The Statistics Portal, 2017 and various publications.

Table 3. PERCENT SHARE OF TOURISM INDUSTRY TO GDP OF ASEAN COUNTRIES, 2011-2016

ASEAN Member Country	2011	2012	2013	2014	2015	2016	Average
Brunei Darussalam	1.1	1.1	1.2	1.3	1.6	1.4	1.3
Cambodia	14.0	14.8	14.5	14.0	13.7	12.2	13.9
Indonesia	2.1	2.0	1.9	1.9	1.9	1.8	1.9
Laos	5.2	4.8	4.7	4.4	4.1	4.3	4.6
Malaysia	5.1	4.7	4.9	5.0	4.5	4.7	4.8
Myanmar	2.0	2.7	2.6	2.9	3.4	3.0	2.8
Philippines	6.8	7.0	7.2	7.5	8.2	8.6	7.6
Singapore	3.5	3.7	3.8	4.0	4.0	4.3	3.9
Thailand	7.1	7.4	8.0	7.6	8.5	9.2	8.0
Vietnam	5.6	5.1	4.7	4.5	4.5	4.6	4.8

Source of basic data: World Travel and Tourism Council

Table 4. TOTAL INBOUND TOURISM EXPENDITURE, 2001-2016

Year	Total Arrivals	Inbound Tourism Expenditure (in Billion PhP)	Growth Rate (%)	Average Per Capita Tourist Expenditure (in PhP)
2001	1,796,893	102.0	4.3	56,791
2002	1,932,677	110.7	8.5	57,301
2003	1,907,226	105.5	(4.7)	55,339
2004	2,291,352	129.4	22.6	56,461
2005	2,623,084	124.7	(3.6)	47,545
2006	2,843,345	162.0	29.9	56,968
2007	3,091,993	149.6	(7.6)	48,381
2008	3,139,422	125.6	(16.0)	40,016
2009	3,017,099	123.7	(1.5)	41,010
2010	3,520,471	135.5	9.5	38,491
2011	3,917,454	158.5	16.9	40,450
2012	4,272,811	195.2	23.2	45,681
2013	4,681,307	225.3	15.4	48,128
2014	4,833,368	276.9	22.9	57,288
2015	5,360,682	306.6	10.7	57,190
2016	5,967,005	313.6	2.3	52,557
Average	3,449,762	171.6	8.3	49,975

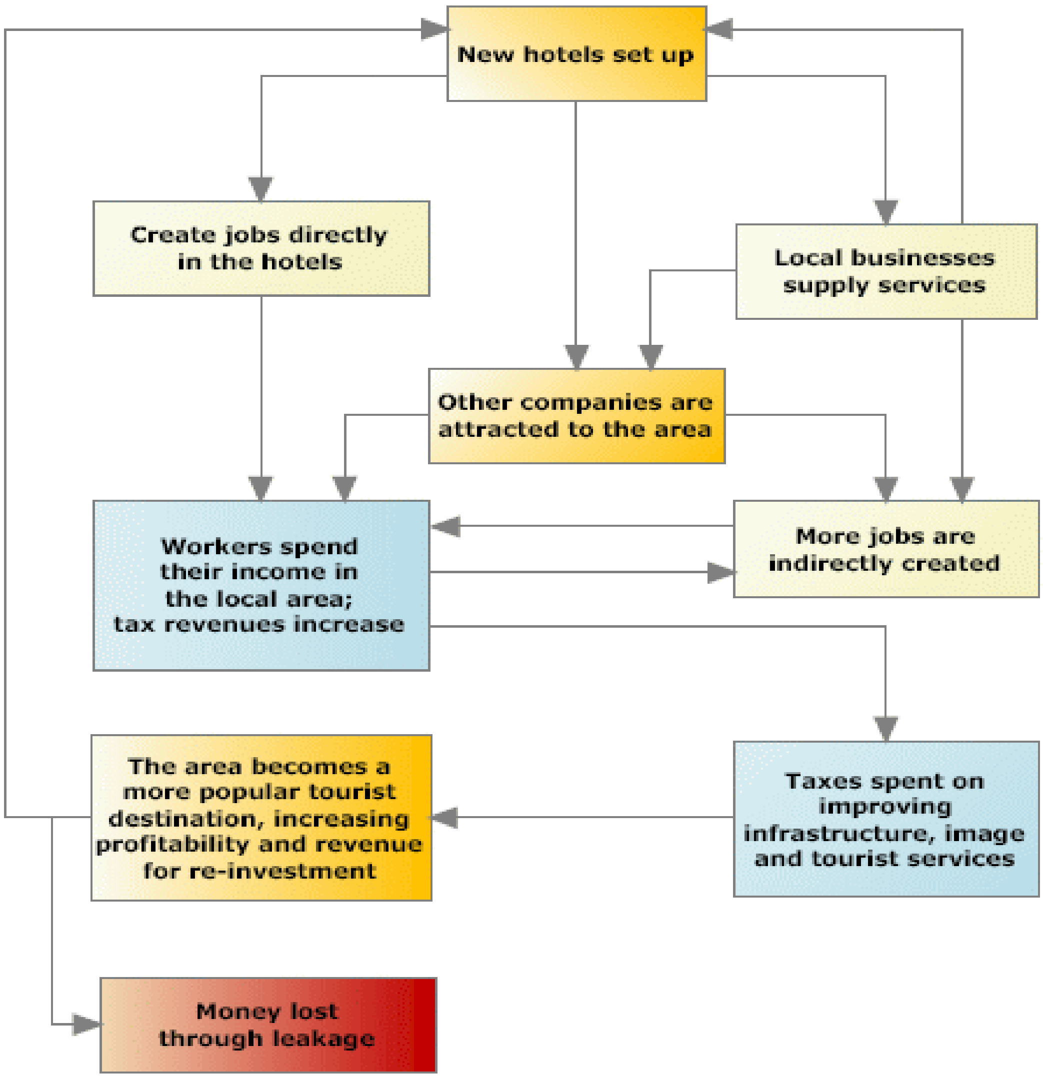
Note: Total arrivals and inbound tourism expenditure include foreign tourist and overseas Filipinos (Philippine Passport holders permanently residing abroad; exclude Overseas Filipino Workers)

Source: PSA

As shown in Table 4, total inbound tourism expenditure grew from PhP102.0 billion in 2001 to PhP313.6 billion in 2016 or by 8.3% annually. The average per capita inbound tourism expenditure ranged from PhP38,491 in 2010 to PhP57,288 in 2014 or an annual average of almost PhP50,000 for the period 2001-2016.

The multiplier effect of tourism is beneficial to the economy. The money spent by a tourist circulates through a country's economy. For instance, money spent in a hotel not only creates jobs directly in the hotel but also indirectly. The hotel has to buy food from local farmers, who may spend some of this money on fertilizer or clothes. The demand for local products increase as tourists often buy souvenirs, which increase secondary employment.[1] Said economic activities result in higher tax revenue for the government that can be used to build infrastructure and provide basic services to its citizens. (Figure 2)

Figure 2. THE TOURISM MULTIPLIER EFFECT



Source: Journal of Economics and Business Research

[1] Rusu, S. "Tourism Multiplier Effect", Journal of Economics and Business Research, pp 70-76. 2011

From 2015-2016, the bulk of total expenditure went to accommodation services which shared 30% and 26% thereof, respectively; followed by food and beverage serving services, 23% and 24%, respectively; and transport services, 20% and 23%, respectively. (Table 5)

For 2017, the government is targeting tourist arrivals of 6.5 million and an average annual increase of 12.3% until it reaches 12.0 million by 2022. (Table 6)

Table 5. PHILIPPINE INBOUND TOURISM EXPENDITURE BY SERVICE SECTOR, 2015-2016 (In Million PhP)

Service Sector	2015	% Share	2016	% Share
1. Accommodation services for visitors	91,556	29.9	81,163	25.9
2. Food and beverage serving services	69,361	22.6	75,735	24.1
3. Transport services	60,369	19.7	71,538	22.8
4. Travel agencies and other reservation services	3,896	1.3	2,418	0.8
5. Entertainment and recreation	36,159	11.8	39,719	12.7
6. Country-specific tourism characteristic services (Shopping)	42,148	13.7	39,243	12.5
7. Miscellaneous	3,087	1.0	3,791	1.2
TOTAL	**306,576**	**100.0**	**313,607**	**100.0**

Source: PSA

Table 6. PROJECTED TOURIST ARRIVALS, 2017 – 2022 (In Millions)

Year	Projected Tourist Arrivals	Growth Rate (%)
2017	6.5	8.3
2018	7.4	13.8
2019	8.2	10.8
2020	9.2	12.2
2021	10.4	13.0
2022	12.0	15.4

Source: DOT

If average per capita tourist expenditure of PhP49,975 is multiplied by the average annual percentage share of tourism expenditure by service sector for 2015-2016, the estimated total tourism expenditure would reach PhP2.68 trillion for the six-year period 2017-2022 broken down as follows: PhP751.4 billion on accommodation, PhP644.1 billion on food and beverage serving services, PhP563.6 billion on transport services, PhP348.9 billion on country-specific tourism characteristic services, PhP322.0 billion on entertainment and recreation, and PhP26.8 billion each on travel agencies and other reservation services, and on miscellaneous. (Table 7) Said growth would trickle down to the economy in terms of employment, business opportunities and higher revenue for the government.

Table 7. PROJECTED INBOUND TOURISM EXPENDITURE BY SERVICE SECTOR, 2017-2022 (In Billion PhP)

Service Sector	2017	2018	2019	2020	2021	2022	Total
1. Accommodation	91.0	103.5	114.7	128.7	145.5	167.9	751.4
2. Food	78.0	88.8	98.4	110.3	124.7	143.9	644.1
3. Transport	68.2	77.7	86.1	96.6	109.1	125.9	563.6
4. Travel	3.2	3.7	4.1	4.6	5.2	6.0	26.8
5. Entertainment	39.0	44.4	49.2	55.2	62.4	72.0	322.0
6. Country-specific	42.2	48.1	53.3	59.8	67.6	78.0	348.9
7. Miscellaneous	3.2	3.7	4.1	4.6	5.2	6.0	26.8
TOTAL	324.8	369.8	409.8	459.8	519.7	599.7	2,683.6

Note: Estimated inbound tourism expenditure by sector is derived by multiplying projected tourist arrivals for the year by the average per capita tourist expenditure and the average percentage share of each service sector from 2015-2016.

Table 8. AVERAGE NUMBER OF ROOMS, OCCUPANCY RATES OF HOTELS IN NCR BY HOTEL CATEGORY, AND LENGTH OF STAY OF FOREIGN VISITORS 2001-2015

Year	Hotel Category					Average Occupancy Rate (%)	Average Length of Stay of Foreign Visitors (Nights)
	Total Rooms	Deluxe	First Class	Standard	Economy		
2001	11,784	6,874	1,779	2,770	361	55.9	9.2
2002	11,878	6,645	1,328	3,291	614	59.9	8.8
2003	12,212	7,255	885	3,367	705	60.1	8.9
2004	12,494	7,617	885	3,567	425	68.2	8.9
2005	12,842	7,796	889	3,727	430	72.0	8.4
2006	14,200	8,103	1,668	3,855	574	72.0	11.0
2007	14,149	7,839	1,770	3,996	544	73.1	9.7
2008	14,048	7,744	1,818	3,852	634	69.8	9.3
2009	14,415	8,086	1,824	3,827	678	64.8	8.7
2010	15,141	8,363	1,821	4,247	710	67.6	7.8
2011	15,567	8,887	1,332	4,423	925	67.7	7.9
2012	16,145	8,965	1,545	4,747	888	67.3	9.4
2013	15,971	8,916	1,599	4,632	824	67.2	9.4
2014	15,371	8,426	1,620	5,042	286	67.2	10.5
2015	16,352	8,770	1,661	5,435	486	67.3	9.8
Average	14,171	8,019	1,495	4,052	606	66.7	9.2

Source: PSA

Table 8 depicts the average number of rooms and occupancy rates of hotels in the National Capital Region (NCR) as well as the average length of stay of foreign visitors. As of 2015, on the average, the hotels at the NCR are of deluxe category (57%), followed by standard category (29%), first class (11%) and economy class (4%). During the recent years, almost two-thirds of the hotels were occupied by tourists at an average length of stay of nine nights.

III. PHILIPPINE TOURISM INDUSTRY, 2001 – 2016

Foreign tourist tax, also known by various names such as accommodation tax or sojourn tax, is common in most European countries. Some countries apply the tax locally while others impose it on a national basis. Some countries base the tax on hotel category/type while others compute it as a percentage of hotel room charges. (Table 9)

As observed in most European countries, the tourism tax varies depending on the location and type of accommodation. The rates are as low as €0.15 (PhP9.09) in Austria to a high as €5.00 (PhP302.86) in Italy per person per night or PhP605.70 to PhP3,028.60 for 10 nights. In addition, the tourist tax partakes the nature of an accommodation tax since it is levied on the hotel accommodation of the tourist.

Meanwhile, New Zealand is planning to impose a tourism tax of NZ$25 (PhP914) for every international tourist who will visit the country. The fee is aimed to create more infrastructures to support its booming tourism industry.[2]

In the ASEAN region, Malaysia started imposing the Tourism Tax for foreign tourists in September this year. The said tax is in the nature of an accommodation tax based on hotel rooms and other lettable rooms at the rate of RM10 (PhP119.60)[3] per room per night or PhP1,196.00 for say 10 nights. Lodging premises with four rooms or less as well as homestays and village stays (kampong) registered with the Ministry of Tourism and Culture (MOTAC) are not covered by the tax. Also, Malaysian nationals and permanent residents who hold MyPR card are exempted from paying the tax.[4] Malaysia expects to collect up to RM30 million (PhP358.80 million) this year for four months and around RM200 million (PhP2.4 billion) annually thereafter. The revenue collected will be used by the MOTAC to promote tourism and cultural activities nationwide. The revenue will be split equally for each state at 10% share, while the remaining balance will be used to finance tourism promotional activities. It will also be used to promote and showcase Malaysia's diverse and rich cultural heritage by bringing more local cultural groups abroad.

---

[2]Travelwireasia.com/2017/08/new-zealand-labour-party-proposes-tourism-tax-international-tourists/#QK5DZDVLVT6ym7q2.97), August 31, 2017.

[3] RM1 = PhP11.96

[4]Royal Malaysian Customs Department, "General Guide on Tourism Tax", 10 August 2017, http://mybha.org/wp-content/uploads/tax/Untitled.pdf.

Table 9. TOURISM TAX IMPOSED ON SELECTED EUROPEAN COUNTRIES[5]

COUNTRY	TOURISM TAX	TAX RATE			REMARKS
		Per Person, Per Night, Unless Otherwise Specified		Per Person For 10 Nights	
		In Euro[6]	In PhP		
Austria	Tourismusgesetz & Beherbergungsbeiträge	€0.15 - €2.18	PhP9.09 - PhP132.05	PhP605.70- PhP1,320.50	Applies to overnight accommodation including campsites; Provincial basis
Belgium	Accommodation Tax	Antwerp: €2.25 Bruges: 1.8% of the hotel room rate Brussels: €1.00 - €4.00 Ghent: €2.50	PhP136.29 PhP60.57- PhP242.29 PhP151.43	PhP1,362.90 PhP605.70- PhP2,422.90 PhP1,514.30	Depending on the room rate
Bulgaria	City Tax/ Resort Tax	€0.50 - €1.50	PhP30.29 - PhP90.86	PhP302.90- PhP908.60	Depending on type of establishment
Croatia	Sojourn Tax	€0.25 - €1.00	PhP15.14 - PhP60.57	PhP151.40- PhP605.70	Depending on category of establishment and season
Czech Republic	Tourist Tax	€0.85 - €1.00	PhP51.49 - PhP60.57	PhP514.90- PhP605.70	Per room
France	Taxe de séjour	€0.20 - €1.50	PhP12.11 - PhP90.86	PhP121.10- PhP908.60	For camping and 1-star hotels For 4-5-star hotels
Hungary	Accommodation Tax	€1.50	PhP90.86	PhP908.60	Varies regionally; average rate is per room
Germany	Kulturförderabgabe or Bettensteuer	€0.50 - €3.00	PhP30.29 - PhP181.71	PhP302.90- PhP1,817.10	Depending on room rate and location
Italy	Tassa di soggiorno	€1.00 - €5.00	PhP60.57 - PhP302.86	PhP605.70- PhP3,028.60	Depending on the region and star rating of the accommodation
Lithuania	Pillow Tax	€0.50 - €1.00	PhP30.29 - PhP60.57	PhP302.90- PhP605.70	Depending on the city
Malta	Tourist Tax	€0.50	PhP30.29	PhP302.90	Maximum rate is €5.00 (PhP302.86) for continuous stay
Netherland	Toeristenbelasting	€0.55 - €4.76 or 4.50% to 5.00% of the hotel charge.	PhP33.31 - PhP288.32	PhP333.10- PhP2,883.20	Varies among municipalities; Depending on the type of accommodation
Romania	Taxa Hoteliera Locala	0.5% - 5%			Varies among municipalities
Slovakia	City Tax/Tourist Tax/ Village Tax	€0.50 - €1.65	PhP30.29 - PhP99.94	PhP302.90- PhP999.40	Varies among municipalities
Slovenia	Tourist Tax	€0.60 - €1.25	PhP36.34 - PhP75.71	PhP363.40- PhP757.10	Depending on the region and star rating of the accommodation
Spain	Tourism Tax	Catalonia: €0.75 - €2.50 Balearic Island: €0.25 -€2.00	PhP45.43 - PhP151.43 PhP15.14 PhP121.14	PhP454.30- PhP1,514.30 PhP151.40- PhP1,211.40	Depending on location and grade for stays up to 7 nights Depending on the length of stay and the type of accommodation
Switzerland	Tourist Tax				Varying percentage amount determined by grade of hotel

[5] *European Tourism Association* (http://www.etoa.org/)

[6] €1 = PhP60.57

On the other hand, Myanmar's Tourism Federal (MTF) plans to impose a tourism tax on visitors at a rate of US$1 (PhP51.07) per person per night or around PhP306.42 for say six nights when they stay at hotels or guest houses. The tax will be applicable only to visitors staying for less than one week and not for the tourists who will stay for work purpose. The MTF wants to raise money for tourism promotional activities without relying on the government.[7]

IV. PROPOSED FOREIGN TOURIST TAX

A tourist tax is a tax specifically levied on foreign tourists, which can be in the form of entry taxes, hotel taxes or other specific tourism industry-based tax. Its imposition has gained interest among policymakers and stakeholders as it is a potential source of revenue to finance tourism infrastructure and tourism-related projects and programs and compensate for tourism-related negative externalities such as environmental degradation and crimes.

There are options that can be explored by the government to tax foreign tourists. Under option one, the foreign tourist tax may be in the nature of an "accommodation tax" similar to those imposed in most European countries. The tax may be imposed on foreign visitors at a rate of say PhP1,000.00 or PhP1,500.00 per person. The proposal would give the government an average annual revenue ranging from PhP9.4 billion to PhP14.2 billion. The percentage share of said option to total per capita tourist expenditure is very minimal at 2% and 3% for PhP1,000.00 and PhP1,500.00, respectively; hence, it is deemed affordable to the tourists. (Table 10)

In option two, the proposed foreign tourist tax may be included in airline tickets of foreign visitors arriving in the country. A foreign tourist tax of PhP1,620 (US$31.91) may be charged to airline tickets, which is equivalent to the travel tax paid by Filipinos when traveling abroad. For the succeeding five years, around PhP15.3 billion annually is expected to be raised by the government from this source. The percentage share of said option to total per capita tourist expenditure is only around 3%. (Table 10)

[7] Tourist Tax to Fund Myanmar Promotions, dated May 16, 2017 (http://www.ttrweekly.com/site/2017/05/tourist-tax-to-fund-myanmars-promotions/), viewed on August 31, 2017.

Table 10. PROJECTED REVENUE ON THE PROPOSED FOREIGN TOURIST TAX, 2018 – 2022

Year	Projected Foreign Tourist Arrivals (in Million)	Potential Revenue (at Billion PhP)		
		Option 1		Option 2
		PhP1,000	PhP1,500	PhP1,620
2018	7.4	7.4	11.1	12.0
2019	8.2	8.2	12.3	13.3
2020	9.2	9.2	13.8	14.9
2021	10.4	10.4	15.6	16.8
2022	12.0	12.0	18.0	19.4
Total	47.2	47.2	70.8	76.5
Average	9.44	9.4	14.2	15.3

Source: DOT

One issue about the proposed imposition of a foreign tourist tax in the country is its possible adverse effect on the tourism industry. It is a known fact that a tax imposed on any sector can somehow stifle growth especially if said tax is excessive. The proposal may also be difficult to administer considering that the purpose of tourists traveling to the country may vary. There are those that visit the country for medical treatment, official trip/mission, pilgrimage, potential business venture, among others. Said travelers are not the target of the proposed tax but those who are traveling to the country for leisure and/or vacation purposes.

Moreover, the proposed tax may dampen the country's tourism industry and consequently derail all efforts of the government in promoting the country as a premier tourist destination. The possibility of government not attaining its projected tourist arrivals until 2022 is likewise not farfetched.

Considering also that the country lags behind other ASEAN member countries in terms of attracting tourists, a tax imposed thereon would further make the country uncompetitive. It may be worth mentioning that the Philippines in the 2017 Travel and Tourism (T&T) Competitiveness Report ranks 79 out of 136 economies, down by five notches from its 74 ranking out of 141 in the previous year. The Report reveals that although the country's T&T continues to develop on the back of the country's rich natural resources and high price competitiveness, it shows a lower competitiveness performance due to a more restrictive visa policy that reduces its openness performance (60th place), a reduction of the government budget dedicated to the development of the T&T sector by almost half, and reduced efficiency of ground transport (107th place). The full effect of these factors may not be felt yet, but they may reduce tourism activities in the future. In addition, security concerns remain high (126th place). Although, environmental policy has improved, it still remained low (118th place), risking to undermine natural resources which is the main asset for attracting tourists in the country. Although the Philippines' T&T potential remains high, there are several areas where policy interventions could help to regain competitiveness.[8]

[8] Excerpt from the World Economic Forum, "The Travel and Tourism Competitiveness Report 2017".

V. CONCULSION

Albeit the potential of the proposed foreign tourist tax to raise much needed revenue for the government to be used for tourism-related projects and programs, its imposition, as of the moment, may need further study given the negative effect it may pose to the tourism industry and the administrative difficulty in identifying those who travel purely for leisure and/or vacation purposes who are the real target of the proposed tax and those who visit the country for medical treatment, official trip/mission or potential business venture.

It may be worthy to weigh the potential revenue to be raised from the said tax proposal vis-à-vis its impact on tourist arrivals and their ability to bring about economic benefits to the country in terms of income, employment, and revenue associated therefrom.