

Advice for Long Term Council Community Plans for 2009

As local governments all around New Zealand prepare their Long Term Council Community Plans (LTCCP) for 2009, the financing of activities will again come under the spotlight. This means the funding of Regional Tourism Organisations (RTO) and tourism promotion will come under renewed scrutiny. TIA is already hearing of some local authorities that are considering the idea of tourism specific taxes, like bed taxes.



TIA Policy Manager Simon

The information attached has been prepared by TIA to help RTOs and tourism operators argue the case against tourism specific taxes. Please use the information below in your submissions to local Councils. In your submission it will be important to emphasize the economic value of tourism to regions and encourage your local authority to consider alternative funding mechanisms beyond tourism specific taxes like bed taxes.

Economic Value of Tourism

Tourism is a fundamental contributor to the New Zealand economy.

- It contributes close to 10% of gross domestic product (GDP)
- It directly and indirectly employs one in ten New Zealanders.
- It's a \$50 million per day industry delivering \$24 million each day in foreign exchange to the economy and contributing \$26 million each day from domestic visitors.
- In the year ended March 2007, tourism expenditure reached \$20.1 billion and represented 18.3% of New Zealand's foreign exchange earnings.

The Regional Dimension

The economic value of tourism filters down to many regions of New Zealand. Expenditure by visitors, both domestic and international, brings in millions of dollars to the provinces. In recent decades, a number of regional tourism economies have experienced growth in their tourism sector, for example, the West Coast, Otago and Northland. In regional New Zealand, tourism provides employment and business activity that enhances the rating base of local communities, while nearly \$6 billion in added value spend is made in industries that support tourism.

- The industry supports local services, such as shops, supermarkets, cafes, bars, restaurants and service stations.

- The industry sustains sporting events and cultural extravaganzas.
- The industry provides extra or secondary incomes for part-time workers.
- The industry is a catalyst for new capital investments and infrastructure.

The economic value of tourism to regions is much wider than the tariff paid to the accommodation provider or the fare paid to the transport operator. Tourism has an impact at every level of every community in New Zealand.

Bed taxes

A bed tax as a form of taxation is highly discretionary and economically inefficient in that it bears no relationship between the payer and the supposed benefits and as has been demonstrated by international examples, it can be detrimental to growth and costly to administer. The benefits of tourism flow across many sectors yet the costs of a bed tax are most likely to be concentrated on selected accommodation types such as hotels and motels which comprise only a small percentage of tourism services and infrastructure. In short, a bed tax poses the following risks:

- Risks to rates revenue through declining business activity in the regions
- Risks to regional economic growth due to decline in tourist numbers
- Risks to investment, especially by the commercial accommodation sector who already pay high commercial rates
- Risks to individual businesses' viability through cost absorption and extra administrative compliance

The *Shand Local Government Rates Inquiry* of August 2007

<http://www.ratesinquiry.govt.nz/> after assessing visitor bed tax as a funding mechanism came out against its use saying that “such a tax was too industry specific and might create a threat to the tourism industry”. The Inquiry Panel instead suggested local authorities consider alternative forms of rating, such as targeted rating, on the business or tourism sector.

Consider some Alternatives

There are a range of other rating tools available for local authorities to use as a means of raising revenue. Some of these include user charges, targeted rates, development contributions and local taxes;

- *User charges* – charging for the use of private goods achieves greater efficiencies e.g. examples include commercial charging for waste and wastewater and rubbish and recycling services

- *Targeted rates* – available under Schedule 3 of the Local Government Act 2002, targeted rates enable local authorities to charge defined groups of ratepayers where it is clear they benefit from existing services.

Note: TIA only supports targeted rates of tourism where the money collected in this way is directly re-invested or “ring-fenced” in tourism promotion, services and infrastructure. Examples of here these are currently working include Wellington, Taupo, Tauranga, Hurunui and Queenstown.

- *Development contributions* – this mechanism allows local government to collect revenue from developers where growth imposes increased infrastructure burdens, for example, meeting the costs of water and sewerage upgrades.
- *Local taxes* – local government taxes on the consumption of goods and services.
- *Seasonal pricing or peak pricing* – a seasonal surcharge might apply at a time of highest demand. This is a form of user-pays and can be an effective way of managing visitor flows away from peak periods.
- *Litter and waste taxes*

We can help you with your submission

If you need any help in preparing your submission, give us a call or send us a message. We have a range of other information that could be useful for your submission. You might like to refer to the TIA submission to the Local Government Rates Inquiry in 2007 <http://www.tianz.org.nz/Policy/Local-Government.asp#3> which was put together with the help of a number of RTOs. Otherwise, contact TIA Policy Manager, Simon Wallace on 04 494 1842 or by e-mail to simon.wallace@tianz.org.nz