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Media release

Tourism industry will sleep better without bed tax

The Productivity Commission has dropped its support for local bed taxes and has accepted Tourism Industry Aotearoa's position that international visitors are already more than paying their way, primarily through the GST system.

The Commission's Report into Local Government Funding and Financing has been tabled in Parliament this afternoon.

In its draft report issued in July, the Productivity Commission had recommended the introduction of accommodation levies – or bed taxes – to fund tourism-related infrastructure at a local government level. TIA strongly pushed back on this recommendation, and actively engaged with the Commission to broaden their understanding of how the visitor economy works.

TIA Chief Executive Chris Roberts says TIA took up this fight on behalf of the accommodation sector and the wider tourism industry. He is delighted the Productivity Commission is now recommending councils should use the existing tools available to them.

"Bed taxes would miss the majority of travellers and add costs to a small set of operators already struggling with increased business and compliance costs, at a time when tourism is slowing."

The Productivity Commission report says councils already have a wide range of funding options available to them and need to make better use of these, including user pays, rates and debt funding. The Commission says there is also a role for central government funding support, which could be targeted more efficiently to ensure councils can plan and prepare for tourism.

Mr Roberts says TIA agrees with all eight of the tourism findings and the four tourism recommendations outlined in the report. TIA also agrees wholeheartedly with the Productivity Commission's conclusion on tourism (page 279), which states:

'Better use of existing tools and central government funding should be enough to address tourism funding. Given the small scale of the funding gap, introducing new tools would incur significant implementation, administration and enforcement costs and is unlikely to result in a net benefit to councils.'

The report also notes that tourism is the only industry that is 'double-taxed' by the GST system – '…international tourism not only incurs 15% GST; the imports funded from its foreign-currency earnings also incur 15% GST. This charging of GST on both the export and import sides is not consistent with the principles of a pure GST' (page 263).

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Mr Roberts says this observation supports TIA's position that central government should consider distributing funds equivalent to a portion of the GST take from international visitors to local government.

"The new Stats NZ figures out this week showed that international visitors spend $17.2 billion a year in Aotearoa, $1.8 billion of this going directly to the Government in the form of GST.

"As the Productivity Commission quite correctly points out, international visitors more than pay their way: '…this GST represents a large excess of revenue from international tourists above and beyond the costs they impose but don't already pay for…'

"We look forward to working with the relevant agencies to progress the work and recommendations of the Productivity Commission," says Mr Roberts.

The Commission's tourism findings and recommendations are:

Findings

F10.1	Tourists already pay for most of the costs they create. But they do not cover the costs incurred by councils for the local public amenities and services that tourists consume directly. While difficult to quantify, this funding shortfall is small in terms of total council revenue.
F10.2	International tourists pay a large amount of GST to central government relative to the normal benchmark of a zero rate of GST on exports. Some of this GST can be regarded as payment for the costs they do not otherwise pay for. Yet overall, international tourists more than pay their way. The excess revenue from GST on international tourists could still provide a net benefit to New Zealand even though the GST will cause some efficiency loss. Evidence suggests that many international tourists are relatively insensitive to modest changes in the cost of visiting New Zealand. To the extent they are, the tourists will bear most of the burden of the GST, efficiency losses will be small, and New Zealand Inc will benefit from the additional revenue.
F10.3	Central government provides significant funding support for local infrastructure, including local mixed-use infrastructure that tourism puts pressure on. GST revenues from international tourists greatly exceed the costs of the national services that tourists are free to access. Yet at a local level, some councils face costs of international tourism that exceed the revenues they receive from such tourism. This imbalance is mitigated by councils' ability to apply for and receive funds for tourism costs from central government.
F10.4	Councils in tourism hotspots have taken very different approaches to financial management and infrastructure investment, and to responding to tourism pressures. Some councils have focused on addressing past underinvestment in essential infrastructure, with consequent increases in debt levels and rates. Some other councils are now struggling to deal with pressure from tourism, at least in part due to a legacy of deferred investment.
F10.5	Standalone homes rented out through peer-to-peer platforms for a significant proportion of the time are acting as accommodation businesses. It is therefore appropriate that they pay business rates, or a proportion thereof.

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F10.6	There is scope for many councils to make better use of existing tools for funding and financing mixed-use infrastructure. This includes better use of debt to finance the upfront capital investment in infrastructure, greater use of user charges to help fund the ongoing operational costs, and more effective use of efficient targeted rates. In addition, there is a wide range of strategies and tools that councils can use to manage and respond to peak demand.
F10.7	To-date central government funding for tourism and mixed-use infrastructure has focused on upfront capital costs, and has been allocated largely through time-limited contestable processes. Initiatives like the Tourism Infrastructure Fund, The Responsible Camping Initiative and the Provincial Growth Fund provide significant funding to councils but provide little funding certainty for councils. This hinders councils' ability to plan and prepare effectively for tourism pressure and growth.
F10.8	Better use of existing tools and central government funds should be enough to close the tourism funding shortfall. Given the small scale of the funding gap, introducing new funding tools would incur significant implementation, administration and enforcement costs and is unlikely to result in a net benefit to councils.

Recommendations

R10.1	The Department of Conservation should ensure that visitors contribute towards the costs of construction, maintenance and renewal of the mixed-used infrastructure and services it is responsible for providing. This could be done, for example, through user charges that apply, where practical, to both overnight and day visitors.
R10.2	Central government should explore ways to assist councils to identify properties operating as short-term rental accommodation businesses within their districts. Options to explore include requiring booking platforms to provide information to a national register of short-term rental accommodation providers.
R10.3	Councils should make better use of existing tools for funding and financing mixed-use infrastructure, including better use of debt and greater use of user charges. Councils should also make better use of efficient targeted rates, and communities under significant pressure from tourism should introduce a broad-based targeted rate on ratepayers in business districts benefiting from tourism, levied on land value.
R10.4	Some central government funding for councils for tourism and mixed-use infrastructure is justified – particularly in tourist hotspots with a high proportion of day visitors. Such funding should be distributed in a more predictable, efficient and fair way by using a transparent allocation formula.

Read the Productivity Commission's final report.
Read TIA's submission to the Productivity Commission's draft report.

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KEY FACTS
• Tourism in New Zealand is a $112 million per day industry. Tourism delivers around $47 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another $65 million in economic activity every day. • Tourism is New Zealand's biggest export earner, contributing $17.2 billion or 20.4% of New Zealand's foreign exchange earnings (year ended March 2019). • 14.4% of the total number of people employed in New Zealand work directly or indirectly in tourism. That means 393,279 people are working in the visitor economy. • The Tourism 2025 & Beyond sustainable growth framework/Kaupapa Whakapakari Tāpoi has a vision of growing a sustainable tourism industry that benefits New Zealanders.
Visit **www.tia.org.nz** for more information

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