

Caribbean hotel sector overtaxed in detriment of revenues for the wider economy

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Taxation study calls on governments to reconsider the fiscal burden imposed on hotels

Activities in the Caribbean tourism industry are unduly subjected to additional taxes not found in other sectors, such as room tax, import tax, and departure tax. This is according to the study entitled 'Taxation and Tourism Costs for the Caribbean Hotel Sector,' undertaken under the Caribbean Regional Sustainable Tourism Development Programme (CRSTDP) by PA Consulting Group, as part of technical assistance provided to the Caribbean Hotel Association (CHA) with funding from the 8th European Development Fund (EDF). The study looked at the competitiveness of hotels in the Caribbean, in relation to their operating costs, taxation levels, and other non-cost barriers that negatively impact the tourism sector - focusing on four sample destinations: Barbados, Dominican Republic, Jamaica, and St. Lucia. The findings were released on Friday at the Caribbean Small Hotels Retreat held last week in Barbados.

The resulting report shows that most CARIFORUM countries have fiscal incentives for the establishment of hotels, which include exemption of corporate taxes, reduction or exemption from import duties on equipment, and reduction or exemption of duties on construction materials. However, the reduction in duties applies specifically to the construction phase and incentives often run between 5 to 15 years depending on the number of rooms the hotel is constructing. 'On one hand, governments traditionally address the burden of high expenditures by applying taxation to leading sectors in the economy-more often than not, the tourism sector,' said CHA President Mr. Peter Odle. 'By the same token, such an unfriendly fiscal climate makes our destinations less attractive as an investment opportunity and less attractive to visitors, which produces the exact opposite of the intended result of taxation in the first place. It begs the question: 'Do these incentives, as they are, achieve their goals?'

For purposes of comparison with similar island destinations, the report examined the incentive and investment regimes in Hawaii and the Canary Islands, both destinations enjoy incentives that not only create an enabling environment for investments in hotels, but also have a long-term commitment through various concessions that ensure that the inputs into the hotel sector are not over-taxed. The net result is a vibrant hotel sector that has blossomed in a competitive destination. 'That is the challenge facing the hotel sector within CARIFORUM countries,' Odle pointed out.

To address these concerns, the report calls for a new look at taxation practices, especially in the context of how profitability is becoming increasingly challenging amidst high construction costs, rising utility costs and high labor costs. In the long run, the report says, the hotel sector is not expected to be able to sustain the increasing burden of heavy direct and indirect taxation that makes the sector less attractive to investors and visitors.

The report goes on to stress the urgent need for CARIFORUM governments to commit to look at applying concessions to hotels that are upgrading their product, improving technology, and investing on inputs that can improve efficiency, such as environmental management and training materials. In addition, the document recommends the concept of a one-stop-shop, a clearinghouse to coordinate and facilitate hotel investment projects in a more business-like and timely manner.

The 'Taxation and Tourism Costs for the Caribbean Hotel Sector' study is available online at www.caribbeanhotelassociation.com. It completes a series of three economic research projects undertaken by CHA. It is preceded by 'The Caribbean - The Impact of Travel & Tourism on Jobs and the Economy,' conducted by the World Travel and Tourism Council with sponsorship from American Express and published in May 2004, and 'The Accommodations Sector as a Consumer of Locally-Produced Goods and Services and as a Contributor to Government Revenues,' released in February 2007, conducted by Tourism Global Inc. with funding provided by Pro\Invest.

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