

# 12 The taxation of tourism activities in Andalusia

While tourist taxes exist in several European countries, there is currently no specific tax on tourists in Andalusia. The tourism industry is one of the major economic sectors in the Andalusian economy, contributing to 13% of the region's GDP and to 14% of employment (Villegas, Del Carmen Delgado and Cardenete, 2022<sup>[1]</sup>). There currently is no specific tax on tourist stays in the region. Taxes on tourist stays exist in several European countries at the regional, local or city-level, such as in Switzerland, or in the cities of Amsterdam or Lisbon (Responsible Travel, 2022<sup>[2]</sup>). In Spain, the Autonomous Communities of Catalonia and the Balearic Islands have established tourist taxes (see Annex 12.A). In most of the cases, such taxes cannot be considered environmental taxes as their main goal is not to account for the environmental impact of tourism, but rather to raise funds for municipal expenses. Typically, these taxes do not incorporate environmental considerations explicitly but are fixed charges per night ranging from EUR 0.50 to EUR 5 or charged as a percentage of the price of the accommodation (up to 7% in Amsterdam). Whilst several tourist taxes use revenues to relieve some of the (environmental) pressures caused by tourism, there are few cases in Europe where the tax rate itself varies with explicit environmental criteria. This is the case of the Balearic Islands Tourist Tax (see Box 12.1 and Annex 12.A).

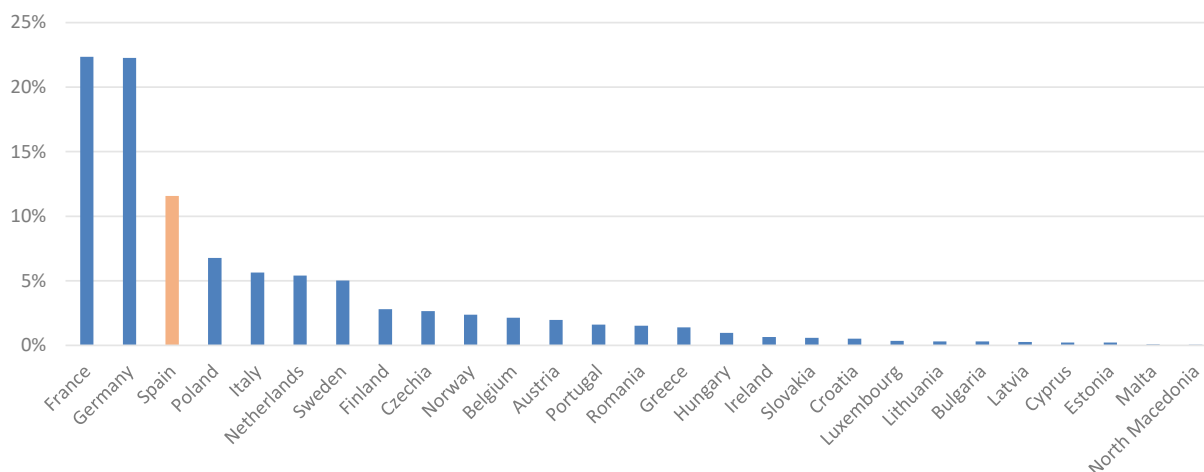
This chapter lines out few dimensions that may need to be considered in reflections on tourist taxes, without providing concrete recommendations on their implementation or design. Additional research on the actual extent of the problem and potential policy approaches to resolve them, reflections and discussions would need to be conducted (e.g. on the impact of specific design and management features), which is not in the focus of this report.

## 12.1. Setting the Scene


Spain is one of the most popular destinations for international tourists in the world. In 2019, Spain was ranked among the top foreign destinations for EU residents in terms of number of trips (Figure 12.1) as well as number of nights spent or expenditure.

**Figure 12.1. Destinations for outbound trips made by EU residents within the EU (Nights spent in 2019)**

Source: Eurostat (2022)



Source: Eurostat (2022<sup>[3]</sup>).

StatLink  <https://stat.link/7a8ejs>

Within Spain, Andalusia accounted for approximately 14% of all visits in 2021 (Instituto Nacional de Estadística, 2022<sup>[4]</sup>). Prior to the COVID-19 pandemic, Andalusia received between 11 and 12 million visitors annually. In 2021, Andalusia received approximately 4.2 million visitors, though as pandemic related restrictions are being lifted, visitor numbers are expected to increase again to near pre-pandemic levels. Recent low levels of tourism and the stress it exerted on the sector may affect support for the introduction of a new tourist tax.

Several economic arguments can justify the taxation of tourism, such as external cost management, revenue raising or rent extraction. Tourism activities involve different types of external costs, e.g. pollution, noise and congestion that may not be reflected in prices, they may also raise the costs of living. For example, extensive tourism activity in a region puts additional stress on ecosystems such as national parks and beaches due to visitor increases and littering. Tourism also affects infrastructure needs: the seasonal inflow of tourists requires investments in road, water and waste infrastructure etc. to be designed to carry a larger capacity than required for local residents only. This infrastructure is however typically financed from funds to which temporary visitors do not necessarily or only partially contribute. Finally, in cases where the tourism sector receives preferential tax treatment (e.g. exemptions from waste taxes or water charges, preferential treatment through the VAT or CIT), equity concerns can arise between the treatment of local residents and visitors. This section provides an initial reflection on ways how the tax system in Andalusia could account for such impacts.

## 12.2. Dimensions to consider when reflecting on a tax on tourist stays

Andalusia currently does not levy a tax on tourist stays, as is the case in other autonomous communities such as Catalonia and the Balearic Islands. Importantly, if the objective of a tourist tax is to internalise external costs, “double taxation” should be avoided. For example, in instances where environmental impacts or other external costs by tourists are already sufficiently priced through consumption-based taxes

(such as an air pollution tax, a carbon tax, or levies on road use, waste and water), an additional tourist tax on these external costs would involve double taxation. It is advisable to include tourism in such general consumption-based taxes and use and design a tourist tax only to account for additional external costs that cannot be covered through reforms of existing taxes or levies.

### **12.2.1. Removing preferential treatment in existing taxes or levies granted to the tourism sector**

Equity and economic efficiency considerations call for a removal of preferential treatment of tourism related to external costs. Tourists use infrastructure, consume resources and energy, generate waste and emit pollutants to water and air just like local inhabitants. In a Pigouvian tax scenario, impacts caused by the consumption through tourism activity would thus ideally be charged at equal tax rates than impacts caused by locals. For some consumption-based taxes and levies, however, the tourist sector is currently taxed at lower rates.

For water consumption, hotels currently face a lower water abstraction charge compared to local households. While both tourists, as part of non-residential urban use, and local residents pay the improvement fee (currently temporarily suspended from 1 January to 31 December 2023), non-residential users do not face a fixed charge as locals do and the variable charge is not progressive (see Part III). Municipal fees also apply, but these are city-dependent and can vary significantly (Arbués and García-Valiñas, 2020<sup>[5]</sup>). This unequal treatment across users is even more important when considering that tourists tend to have a higher per-capita water consumption due to regular cleaning and towel washing in hotels and the existence of private pools in accommodation. Moreover, contrary to the increasing rate of the variable charge faced by local residents, the fixed rate of the variable charge for hotels does not make it more expensive to use water above certain thresholds. This in turn, does not include a sustainable use criterion in water pricing for the tourism industry.

In the context of vehicle taxes, rental cars are currently exempt from the national registration tax which results in locals paying a different price for using a car compared to tourists and tourist car drivers not contributing to costs associated with the construction and maintenance and public streets and highways.

A differentiation needs to be made between consumption of formal services of tourists, such as formal hotel and car hires, and consumption of services provided by private households, such as peer-to-peer lodging services or car rentals or other services provided through a sharing economy. Services of the latter are not subject to preferential treatment, as the owner, usually a private resident, is being charged the residential use rate, whereas formal services receive abovementioned exemptions.

Where the removal of preferential treatment is difficult, a tourist tax per night that aligns with a rough approximation of these consumption-based costs (e.g. for water consumption or waste generation) may be a second-best choice. Such a tax could be levied by the accommodation and could vary at the accommodation level, which would require reviewing the water and waste profile of the accommodations and apply higher rates for those with more harmful effects on the environment or to apply approximations for this. A regulation on the resource-efficiency of tourist accommodation may be another option to tackle these points.

To what extent a tourist tax would be passed on to tourists and what behavioural reactions to expect would need to be the subject of a more detailed study as it is not the focus of this report. Using tax and pricing policies jointly with non-pricing instruments (such as educational campaigns, nudging, encouraging the adoption of resource efficient technologies) could further improve the environmental performance of the tourism sector. In this respect, informing tourists about their water and energy consumption during their stay (and related costs) could be an interesting strategy to explore as a complement and/or alternative policy.

### Box 12.1. The Balearic Islands Tourist Tax

The Balearic Islands Tourist Tax applies since 2016 with a tax rate varying from EUR 1 to EUR 4 per day, depending on the type of accommodation. More luxurious lodgings are being charged a higher rate as a proxy for a higher environmental footprint. Tax revenues are earmarked and dedicated to promoting sustainable tourism and mitigating environmental impacts associated with tourism.

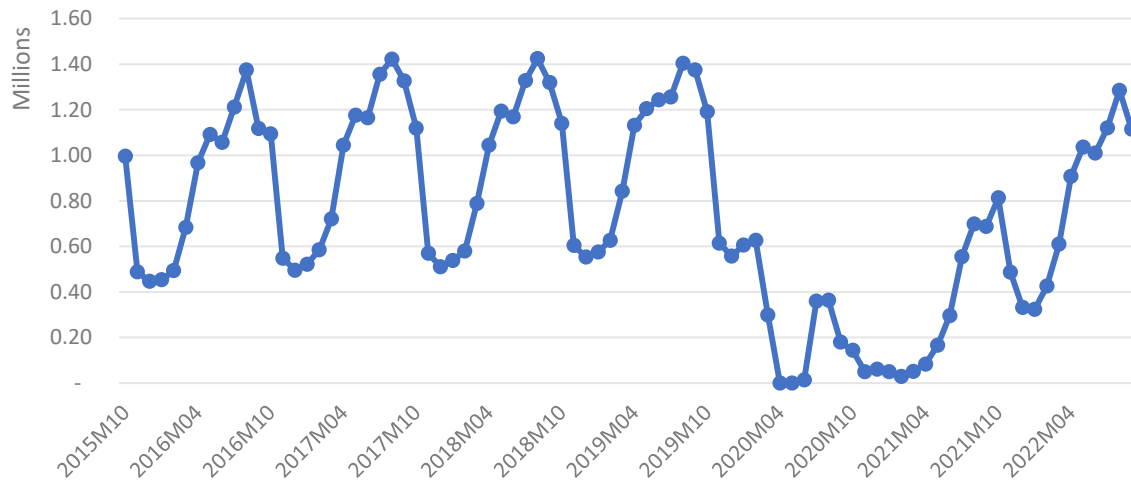
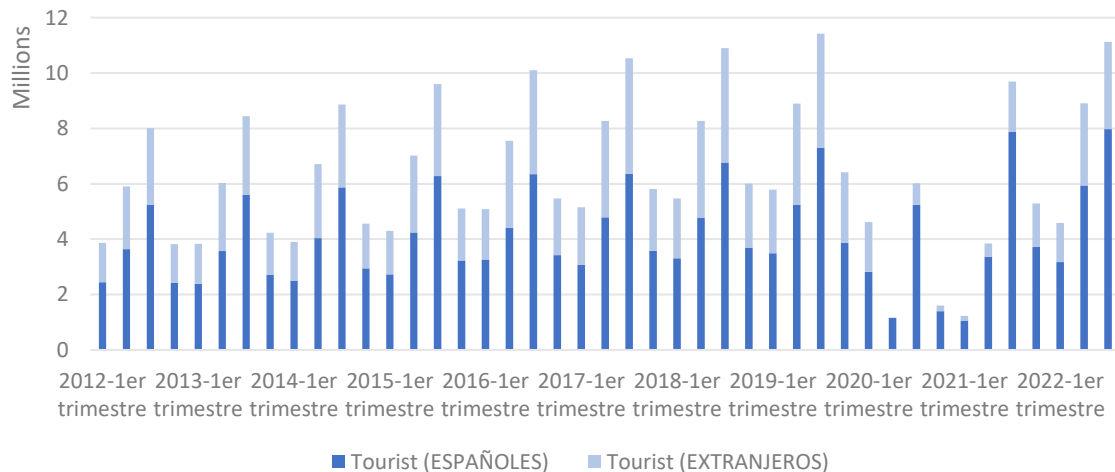
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A differentiated tax allows to account for differences in environmental footprints of different tourist accommodations. However, a more direct association with the specific environmental footprint could strengthen the incentive of lodgings to reduce their impact. For instance, in the Balearic case, a 4-star hotel does not have an incentive to implement water efficiency or waste reduction measures, because even if it did, its fixed charge would remain at EUR 4.


Note: See Annex 12.A for further details on the tourist tax in the Balearic Islands.

### **12.2.2. Accounting for infrastructure investment from tourism activity that exceeds needs of residents**

Seasonality and fluctuation in tourist and visitor numbers to a destination is a common phenomenon linked to tourism activity. Seasonal fluctuation is well visible in the number of visitors that Andalusia is receiving, with monthly visitors being nearly three times as high in the summer months compared to the winter months (Figure 12.2). The net fluctuation in the number of visitors amounts to nearly 1 million tourists (compared to 8.4 million inhabitants in Andalusia). In certain smaller cities and villages, in particular along coastal areas, the seasonal fluctuation may be much greater than the Andalusian average shown in these figures (Cisneros-Martínez and Fernández-Morales, 2013<sup>[6]</sup>).

**Figure 12.2. Number of tourist visits in Andalusia (in millions)****Panel A: Monthly****Panel B: By quarter**

Source: Panel A: Instituto Nacional de Estadística (2022<sup>[4]</sup>); Panel B: Junta de Andalucía.

StatLink  <https://stat.link/jkygov>

Destinations with high fluctuations in seasonality face various challenges. One main issue caused by tourism seasonality is the need to provide infrastructure capacity, such as roads, housing, water systems and sewage pipes and waste services, for the maximum capacity of users in peak-season, including regular inhabitants and tourists. When local residents pay for the additional infrastructure needs due to seasonal fluctuation of tourists (e.g. because the general budget finances the construction and maintenance of this additional infrastructure capacity) a fee on tourists may help alleviate equity concerns. A tourist charge could account for the costs of constructing and maintaining additional infrastructure capacity, which is only used during tourism peaks.

The under-use of tourism facilities during low-season and their maximum occupancy at full capacity during high-season, creates various additional challenges for the local economy, such as, among others, overcrowding, high prices, environmental degradation, a lack of services and job opportunities in shoulder

and low seasons. Some tourism goods and services are more elastic than others to adjust for these fluctuations. For the inelastic goods and services, seasonality can be a significant external factor, which negatively affects the private sector, but also public services and environmental amenities.

For example, in the case of wastewater treatment, infrastructure must be able to adapt to the high variation of wastewater flow. To be able to accommodate larger effluent flows in peak-season, larger capacities for sewer and treatment facilities must be built. Whilst these additional treatment capacities remain idle for prolonged periods during low season, their construction and maintenance in low-season times, creates costs for wastewater treatment services, which can be directly linked to tourism seasonality. These additional costs, however, are usually integrated in and distributed across general wastewater treatment charges and thus borne by tourists, as well as year-round local inhabitants. Similar to wastewater treatment infrastructure, capacity for some waste services may also be required to accommodate demand changes during seasonal peaks. This would include additional kerbside pick-up trucks, as well as cleaning machines for sidewalks and beaches, which would be required to handle increased waste generation and littering during peak tourist seasons.

### **12.2.3. Policy recommendations**

The tourism industry is one of the major sectors in the Andalusian economy, but generates external environmental costs and places pressure on local infrastructure. While tourism makes important contributions to the regional economy, it can weigh on resources and infrastructure and can thereby cause environmental and economic impacts. At the same time preferential tax treatments exist for tourists, such as reduced water abstraction charges or exclusions from national-level vehicle taxes for rental cars. Where the impacts of tourism are not priced appropriately through fiscal measures, there is a risk that the external and infrastructure costs are ultimately born by local inhabitants. The Junta may want to consider tools to align pricing with the external costs of the tourism sector, where possible.

Andalusia could adjust existing taxes to align with the external costs generated by the tourism sector and could consider additional tools to internalise costs and fund infrastructure. To internalise external environmental costs, Andalusia could reform existing taxes on use or consumption, such as the water improvement levy, which currently provides for a preferential tax rate for hotels. Mobilising existing taxes helps avoid double taxation, where costs associated with tourism would potentially be priced through both consumption-based taxes and specific tourist taxes. However, as Andalusia does not have direct control over certain taxes (e.g. the national vehicle registration tax), the scope for action at the regional level will be limited in some policy areas. In addition, existing taxes may be insufficient to fully cover costs, such as the additional infrastructure capacity needed during tourism peaks. In these cases, Andalusia could explore the introduction of a tourist tax. Two considerations are therefore proposed in the following order:

1. **Consider reducing preferential treatment in existing levies granted to the tourism sector.** Due to preferential tax treatment, some environmental costs (e.g. water consumption, road use) are only partially priced for tourists. The Junta may consider fully or partially repealing exemptions that apply to the tourism sector. Other reforms, such as aligning water use charges across residential and non-residential users, would indirectly reduce the preferential tax treatment that applies to the tourism sector.
2. **Explore alternative options to fund additional infrastructure investment and maintenance and to internalise the external costs associated with tourism.** While there is a strong seasonality and fluctuation of tourism activity over the year, infrastructure such as wastewater pipes needs to be built to carry the capacity of peak months and requires maintenance during off-peak months. Andalusia could consider whether a tourist tax would be appropriate to ensure tourists contribute to the costs of constructing and maintaining this additional infrastructure capacity. Additionally, where reducing the preferential tax treatment of the tourism sector is not feasible, a tourist tax would be a second-best option to internalise the externalities associated with tourism.

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## Annex 12.A. Detailed case studies: Balearic Islands Tourist Tax

The tourist tax in the Balearic Islands applies since 2016 as defined in Law 2/2016 Annex Table 12.A.1. The tax rate varies from EUR 1 to EUR 4 per day and depends on the type of accommodation (Annex Table 12.A.2). The tax is earmarked and funds are used to incentivise sustainable tourism. Since 2016, the revenue has been used to carry out 163 projects, equivalent to EUR 258 million. Most of the funds have been dedicated to environmental projects (42%), followed by social renting projects (20%), sustainable tourism (17%), research and development (11%), education and labour (7%) and historical heritage (3%). Most of the projects within the environmental area focussed on biodiversity, but some were also on water treatment plants and waste management (Govern Illes Balears, 2022).

### Annex Table 12.A.1. Best practices: Summary of the Balearic Islands Tourist Tax

Balearic Islands	<p><b>Title:</b> Balearic Islands Tourist Tax</p> <p><b>Objective:</b> The purpose of the tax is to reduce the environmental impact of tourism on the Balearic Islands. The tax is earmarked, and funds are used to incentivise sustainable tourism.</p> <p><b>Competence:</b> Government of Balearic Islands</p> <p><b>Legal basis:</b> Law 2/2016 on the taxation of tourist accommodation on the Balearic Islands and measures to boost sustainable tourism</p> <p><b>Setter:</b> Parliament of the Balearic Islands</p> <p><b>Beneficiary:</b> Fund to promote sustainable tourism regulated by Law 2/2016</p> <p><b>Payer:</b> Persons who stay in hotels and other types of tourist accommodation</p> <p><b>Taxable event:</b> The stays made in the Balearic Islands in tourist establishments</p> <p><b>Calculation:</b> The tax rate varies from 1 to 4 EUR per day and depends on the type of accommodation</p>
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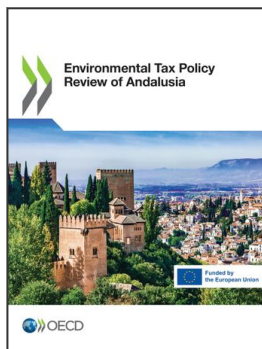
Source: Own elaboration.

### Annex Table 12.A.2. Tax rates of the Balearic Island Tourist Tax

Type of accommodation	EUR per day
Hotels, city hotels and apartment hotels of 5 stars, 5 stars grand luxury and 4 stars superior	4
Hotels, city hotels and apartment hotels of 4 stars, 4 stars grand luxury and 3 stars superior	3
Hotels, city hotels and apartment hotels of 3, 2 and 1 stars	2
Tourist apartments with four keys and four superior keys	4
Tourist apartments with three superior keys	3
Tourist apartments with one, two and three keys	2
Non-residential lodging establishments of tourist-residential companies	4
Holiday tourist homes, homes subject to commercialization of tourist stays and dwellings object of tourism marketing	2
Rural hotels, agrotourism, inns and tourist accommodation inland	2
Hostels, hostels-residence, pensions, inns and houses of guests, tourist camps or campsites	1
Shelters	1
Other tourist establishments or dwellings	2
Tourist cruise boats	2

Source: Ley 2/2016, de 30 de marzo, del impuesto sobre estancias turísticas en las Illes Balears y de medidas de impulso del turismo sostenible (BOIB núm. 46, de 2 de abril de 2016).





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