# TOURISM FISCAL AND MONETARY POLICIES ADJUSTMENTS DURING COVID-19 PANDEMIC

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**Abstract**

The beginning of 2020 has brought the whole world into a difficult situation on all levels. The global pandemic caused by COVID-19 has led many states to adopt radical decisions and many sectors have been critically affected, including tourism. *The present paper is made of two main components:* Comparison of the impact of value added taxes (VAT) rates in the Tourism Sector in European Union and Comparison between the COVID-19 measures taken by top 3 European countries and Romania**.**

*The aim of this investigation* is to study the importance of fiscal and monetary policies in tourism and to analyze the measures taken by states with the most tourists in the European Union and Romania. Also, this paper can be considered a first part of a study on the impact of COVID-19 on tourism in which the measures taken during this period are analyzed. The next part of the study will analyze the quantification of those measures and their expected impact on the general government deficit and debt in each of the states studied in the current paper.

**Keywords**

fiscal policies, monetary policies, tourism policies, COVID-19, VAT reduced rates

**JEL Classification**

H21; L83; Z32

## Introduction

Tourism, which is constantly developing in recent years, is considered in the European Union the third major economic activity. It has been noted for its positive impact on government revenues, economic growth, employment, and social development. Historically, since civilization began, there have been taxes (Alain Charlet and Jeffrey Owens), thus the value added tax - VAT, at about 65 years, is a relatively new tax. At the initiative of Maurice Loire, VAT was first introduced in France in 1954, and in the next years it was adopted by all Member States, with the same purpose, that of increasing revenues. (Ionela, Porumboiu, Ghețu & Brezeanu, 2019). Tourism is responsive to taxes, also it cannot be exempted from them because it is an important source of budget revenues. The present paper is made of two main components. The first one presents the implication of level of taxes in tourism sector, precisely VAT reduced rates applied to the key goods and services relating to this sector. Tourism is responsive to taxes, but it cannot be exempted from them because it is an important source of budget revenues. Therefore, the decisions on taxation in tourism, must be is preceded by an extensive research and analysis of their impact on tourism and the budget. Also, we presented a panel of top 10 countries according to the 2017 WEF Tourism Competitiveness Index, the VAT reduces rates applied in tourism sector, the change of VAT Revenue and the VAT thresholds. The second component of the paper highlights a comparison between the COVID-19 measures taken by top 5 countries and Romania. As the COVID-19 pandemic continues to spread across the globe, ruining lives, communities and businesses, the European Union and its Member States are working non-stop to fight disease caused by coronavirus, COVID-19. Countries are facing a considerable strain and and have taken steps to reduce, as much as possible, the negative economic impact of COVID-19 to tourism. The table provides an overview of fiscal and monetary measures taken in Romania and in top 5 Member States with the most tourists: France, Spain, Italy, Germany, Austria. The aim of this investigation is on the one hand, to review the appliance of VAT reduced rates in tourism sector, that are often used as a lever for reducing the tax burden on certain sectors, on the other hand, to analyze both fiscal and monetary policies taken, in order to emphasize the differences in the states with the most tourists in the European Union and Romania.

**Literature review**

Indirect taxes are those levied exclusively for the sale of goods, services, import and export. These taxes are characterized by low collection costs, do not require going to pay them, are included in the sale price regardless of the income of buyers and are regressive.

Value added tax (VAT) is an indirect consumption tax paid by the "taxable person" to the revenue authorities and borned by the final consumer, as part of the price of the goods purchased. VAT is a multi-stage sales tax applied to all stages of the economic circuit, respectively: production, services and distribution, up to final consumers, an indirect tax that is established on transactions relating to the transfer of property and service supplies (Avram, M., Avram, V., 2012). Furthermore, it is calculated by the difference between the following two amounts: the VAT collected (for sales) and VAT deductible (for purchases).

Tourism sector is a significant economic activity in the European Union with a wide impact on government revenues, economic growth, employment, and social development. Holidays and the expenditures associated (hotels, restaurants, on flights etc.) are significant elements of composing the tax base, thus related taxes are valuable for government revenues in many jurisdictions. Reduced VAT rates on consumption categories are already applied in majority of the Member States, therefore, the scope to reduce VAT rates to promote tourism demand is limited. Since VAT is borne by both residents and non-residents, it is created a significant tax base, so the reduction of rates can strongly influence the VAT revenues.

European legislation is based on Directive 2006/112 / EC (further VAT Directive) on the common system of value added tax, which regulates the actual scope of the tax, as well as the application of a minimum standard rate of 15%. For several reasons such as economic growth, public debt, budget deficit, targets set at European level cannot be achieved collectively, national governments have the freedom to take their own measures, but they must be in line with the principle of subsidiarity set out in the Treaty on the European Union. So, Member States have the option to apply one or two reduced rates that shall be minimum 5% (Article

99 VAT Directive) and may be applied to goods or services listed in Annex III of the VAT Directive but not to electronically supplied services (Article 98(2) VAT Directive).

**Impact of value added taxes (VAT) rates in the Tourism Sector in European Union / General aspects regarding Value Added Tax – VAT in European Tourism**

Considering that neither the VAT rates nor the exemptions are fully harmonised, the common system of VAT should lead a high degree of neutrality in competition, such that within the territory of each Member State similar goods and services bear the same tax burden, regardless the length of the production and distribution chain. (Directive 2006/112/CE). However, in EU, only about two thirds of total consumption is subject to the standard VAT and the other third being subject to exemptions or reduced rates (Copenhagen Economics, 2007). VAT is often used as a lever for reducing the tax burden on certain sectors, in order to stimulate the specific sectors. In most of the countries, reduced rates are applied for tourism and to the key goods and services relating to tourism.

The World Tourism Organisation (WTO, 1998) identified around 45 different taxes and fees related to tourism sector. Also, Gooroochurn and Sinclair (2003) highlighted that from these taxes, around 30 are created by tourist guests and 15 are born by hotel and other accommodation companies, although the change may differ depending on demand and supply price elasticity (Fish, 1982). VAT is a one of the taxes that burden business activities in hotel industry and in tourism. It is mostly included in the category of hotel accommodation and restaurant and in all other sections, such as: transport of passengers, admission to sporting events or admission to cultural services.

Deloitte and Touche's (1998) study pointed out that high taxation lowers the revenues of hotels and tourism, while the decisions of the tourists about the destination of a trip are strongly influenced by increasing or decreasing the tax rate. According to the ”Study on reduced VAT applied to goods and services in the Member States of the European Union” (Copenhagen Economics, 2007), if there is a change in rates it may take up to two years for the full effect to be achieved, while others, for example Wason & Nevin, with more conservative assumptions suggest that would take four years to obtain the full effect (Cut Tourism VAT, 2012).

Most of the EU countries make use of applying reduced rates to the key goods and services relating to tourism. Table no. 1 gives a overview of the VAT rates in the Tourism Sector in top 10 EU Countries at 1st July 2019. We have chosen the top 10 countries relating to WEF Tourism Competitiveness Index corresponding to 2019 (The Travel & Tourism Competitiveness Report, 2019). We included in the analyse United Kingdom, considering that was part of European Union, in the period analysed.

The first remark we can make from Table no. 1, is that in the analysed countries the so-called VAT reduced rates are applied to almost all key goods and services relating to tourism, excepting UK, which applies a reduced rate in only one category, the transportation of passengers. More than that, many countries apply zero rates or exemptions in at least one domain related to tourism. For example, admission to cultural services is exempted in most of the states, such as: Germany, Spain, Austria, Portugal and Netherlands.

Secondly, it can be noted that VAT standard rate is, as well, applied in tourism related activities by all top 10 countries, but not in Romania. From top to down, Sweden it is the country with the highest VAT standard rate (25%), followed by Portugal (23%), Italy (22%) and Spain, Netherlands Belgium (all 21%). At the bottom France, Austria, United Kingdom (all 20%) and Germany (19%). Romania has the lowest standard VAT rate (19%), same like Germany, which is the first in the top. Regarding the VAT revenues, it is notable that in Sweden, with the highest standard rate, VAT revenue had the highest percentage of GDP (9.2%). The comparative analysis shows that VAT revenues had a trending in 2019 compared to 2018, in almost all countries, excepting Spain, Belgium and Romania or remained the same in contries like Sweden or Austria.VAT registration thresholds are relevant for the tourism sector, given that the small business owners are providing many tourism-related services. The growth of the sharing economy suggests that some small businesses linked to tourism may have recently increased (for example, homeowners who rent a spare room or car owners who rent/share their car). Excepting UK, the VAT registration thresholds are quite similar in the analysed states. Sweden has the lowest rate (€8 535) that was introduced only recently.

**Table no. 1 VAT rates in the Tourism Sector in selected EU Countries at 1st July 2019**

| Member state | Standard rate | Hotel accommodation | Transport of passengers | Admission to cultural services | Admission to amusement parks | Restaurant and catering services | Admission to sporting events | VAT Revenue 2018* | VAT Revenue 2019* | Registration Threshold (in EUR equiv.) |
|---|---|---|---|---|---|---|---|---|---|---|
| Germany | 19% | 7% 19% | 7% 19% | [ex] 7% | 19% | 19% | 7% 19% | 7.0 | 7.1 | €12 500 |
| France | 20% | 10% | 10% | 2.1% 5.5% 10% 20% | 10% 20% | 5,5 %; 10% | [ex]; 5,5% | 7.1 | 7.2 | €10 000 |
| Spain | 21% | 10% | 10% | [ex] 10% 21% | 21% | 10% | 10%; 21% | 6.6 | 6.5 | €10 000 |
| Italy | 22% | [ex]; 5%, 10% | 10% | 10% | 22% | 10% | 10%; 22% | 6.2 | 6.3 | €10 000 |
| UK | 20% | 20% | 0% | 20% | 20% | 20% | 20% | 7.0 | 7.0 | €94 741 |
| Austria | 20% | 10% | 10% 13% | [ex]; | 13% | 10% | 13% | 7.6 | 7.6 | €11 000 |
| Portugal | 23% | 6% | 6% | [ex]; 13%; 23% | 23% | 13% | 23% | 8.7 | 8.9 | €10 000 |
| Netherlands | 21% | 9% | [ex] 9% 21% | 9% | 9% | 9% | 9% | 6.8 | 7.1 | €10 000 |
| Sweden | 25% | 12% | 0% 6% | [ex]; 6%; 25% | 25% | 12% | [ex]; 6%; | 9.2 | 9.2 | €8 535 |
| Belgium | 21% | 6% | 0% 6% | [ex] 6% | 6% | 12% 21% | [ex] 6% | 6.9 | 6.8 | €11 200 |
| Romania | 19% | 5% | 19% | 5% | 5% | 5% | 5% | 6.3 | 6.2 | €7 291 |

*Notes: * in % of GDP*

*Source: EC -VAT Rates Applied in the Member States of the EU and online sources situation at 1st July 2019.*

**Comparison between the COVID-19 measures taken by top 3 countries and Romania**

In the next part you can find the centralization of the measures taken by the countries with the most visitors in European Union. The sources of this measures are some official documents from European Commission and World Tourism Organization.

**FRANCE**
**Fiscal policies:**
- suspended payments of fiscal and social charges
- rents, electricity and gas bills -suspended if the sector activity is interrupted
- postponement of aviation charges for French airlines
-banning the postponement of tax and social security payments for large companies
**Monetary policies:**
- EUR 1,500 aid for small, self-employed and micro-enterprises in the most affected sectors
-EUR 300 billion in state aid and the mobilization of Bpi France for cash guarantee lines for affected businesses
-Support provided by the State and the Bank of France (credit mediation) in renegotiating or rescheduling loans
- Public loans with favorable interest rates for companies
-permission of the tourism business to issue a loan to customers: credit notes valid for 18 months, instead of repayment.

**SPAIN**
**Fiscal policies:**
-support for businesses, especially SMEs and self-employed workers to reduce operating costs
-offering fiscal incentives and the flexibility to pay taxes (personal income tax for self-employers, income corporate tax and VAT) and special support for SMEs and self-employment
- support jobs of permanent workers with discontinuous contracts
- Exemption of 50% of the employer's social security contributions (February - June 2020), for workers with permanent contracts in the tourism sector or related activities
- Exemption from social contributions for maintaining employment through temporary adjustment schemes during COVID -19.
- for SMEs the exemption will be 100%, and for the rest of the companies 75% of the social security contributions
**Monetary policies:**
-the extension of the credit line provided for the Thomas Cook crisis by 200 million euros, but also its validity to all companies and the self-employed
- benefits granted to self-employed workers affected by the suspension of economic activity
-The social benefit for energy supply ("social bonus") runs until September 15
-compensation for the suspension of public contracts (caused by COVID-19), in order to avoid the termination of contracts that would lead to the insolvency of companies.

**ITALY**
**Fiscal policies:**
- Suspension of tax and social security payments for 2 months in the most affected cities
- for tourism sector the postponement of tax and social security payments until 31st of May
- Postponement of tax payments (direct, indirect or social security contributions) until 31 May, without penalties and zero interest rates or the possibility of paying 5 monthly installments thereafter
- in case of emergency situations, the deductibility of donations up to maximum 300000 EUR
- postponement by 2 years of fiscal checks for 2015
- EUR 600 per month tax exemptions for self-employed workers (including VAT)
**Monetary policies:**
-approval of additional resources for salaries, in order to protect jobs (in the most affected cities)
-Allowance of EUR 500/ month for 3 months for self-employed workers

- 50% single contribution (up to 20,000 euros) for the sanitation of work areas in enterprises
-the extension of the social benefits until 1/6/20
-for persons with annual incomes below EUR 40,000 granting a premium of EUR 100 per month (if they worked in March)
- EUR 200 million from the government to support the airlines Alitalia and Air Italy
-loan guarantees for affected businesses and a moratorium on mortgages and payments.

The modification of the fiscal policies at the level of the states presented by reducing the VAT has as main objective the recovery of the economy affected by the COVID-19 crisis. The role of the measures presented and implemented at the same time by the mentioned countries is quantifiable for a good functioning of the economy.

**Table no. 2 Measures taken by Romania during COVID-19**

| | FISCAL POLICIES | MONETARY POLICIES |
|---|---|---|
| ROMANIA | -Accelerate VAT refunds. No budgetary impact for the whole year 2020<br>- Suspension of the beginning of the forced execution for amounts due to the state budget (exceptions are the amounts resulting from court decisions)<br>-postponement (March 31 - June 30) of the deadline for payment of tax on construction, land and transport equipment (local taxes)<br>-postponement of payment of all taxes during the state of emergency +30 days (3 months)<br>-discount for taxpayers who pay corporate income tax until April 25 (5% for large companies, 10% for others) | - offer of 75% of the salary (not more than 75% of the average salary in the economy) for parents who have to stay at home with children under 12<br>-The Government has adopted an emergency ordinance to support local businesses affected by coronavirus<br>- the state will pay the technical unemployment for the companies that sent the employees home and suspended their activity either due to the restrictions imposed by the authorities or due to financial problems<br>- the state will pay the minimum wage in the economy to those who cannot claim technical unemployment (self-employed or micro / family enterprises)<br>-The Minister of Regional Development will launch a financing line for the granting of a maximum aid of 1 billion euros for SMEs from European funds |

*Source: European Commission, 2020*

Unlike developed countries, Romania has implemented a number of fiscal policies (taxation, subsidies) and more, the impact on developed countries being much smaller. This is a consequence of the fact that developed countries have allocated substantial sums for them, while Romania has relied on austerity measures to reduce the budget deficit to avoid a situation of collapse.
A series of measures that would contribute to the development of the Romanian economy and implicitly of the economy of the European community through the multiplier effect would be absolutely necessary by allocating the budget of the Ministry of Development and allocating subsidies.
Although we are talking about a consumption-based economy, the intervention of the public sector in development can have positive long-term effects for Romania.

## Conclusions

Once an optimal solution is found, no frequent changes should be done, considering the fact that any change in the tax rate will influence the tourists' decisions, which ultimately form the demand

The emergence of Covid-19 has led to a sudden and rapid decline in tourist flows, with the most affected industry in the world becoming tourism. As an effect of this situation, in the future new behavioral habits of tourists will be defined after the stabilization of the pandemic. Many companies have gone bankrupt, this being the consequence of the multiplier effect of tourism. At the opposite pole are the companies that have chosen to change the business model, resorting to repositioning in the market.

The negative effects of the pandemic could be controlled, but only by correlating the efforts of the state and companies in this time of crisis. Thus, they must establish a series of measures to stabilize economic activity.

Therefore, the measures taken by each state are closely related to the density of tourism activity in that country. Thus, their impact will be visible in the representative statistics on the number of tourists in the next period.

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