

Tourism

- **Generally consistent with standard regime;** some countries offer sector incentives;
- ***Other issues*** have equal or greater ***impact*** on tourism demand & profitability: lack of infrastructure & utilities & high cost of substitutes, poor local production, limited marketing & promotion, high cost of transportation, high, flight costs & air access, land access, administrative barriers;
- ***Corporate tax little impact***, unless low depreciation rates & limitation on losses carried forward (Lesotho, Madagascar);
- ***Customs duties large impact***

Tourism – Major impacts

- **Tourism** inherent **low profitability** and **highly capital intensive**;
- Greatest impact from **high customs duties & low depreciation rates** impacts competitiveness and viability of projects,
- **Some handle** through incentives (not recommended), others written in **tax law**:
 - Zero customs duties during project development (Rwanda, Sierra Leone, Tanzania), especially in land locked and poor production countries;
 - Initial capital allowances on buildings, Kenya (100%) Tanzania (50%), Namibia (20%), Zambia (10%), Sierra Leone (5%); Lesotho and Madagascar (none);
 - Accelerated depreciation on buildings treatment varies: Lesotho and Madagascar (0%), Mozambique (2%), Namibia (4%), South Africa, Tanzania, Rwanda and Zambia (5%), Sierra Leone (10%).

Tourism – Major Impacts contd.

- Discretionary incentives relatively common, focused on **large investors** not **small investors**;
- **Incentives** hard to administer and **open to abuse**;
- **Many incentives not in tax law**;
- **Possible solution**
 - Eliminate incentives, move towards **lower evenly applied tax** rates (Mauritius) to all investments;
 - Use accelerated depreciation and initial capital allowances, **best practice**;
 - Reduce customs duties, across the board;

Tourism - VAT

- Different treatment of VAT a major issue:
 - ***Transport exempt*** (Not Namibia and Rwanda)
 - ***Travel Agent Commission Zero rated***
(Mozambique, Namibia, South Africa)
 - ***Export service zero rated*** by definition but not applied to tour operator, except South Africa;
 - ***No export service*** (Madagascar, Sierra Leone and Tanzania)
 - ***Tour packages zero rated*** (Rwanda, Zambia)

Tourism - VAT

- ***Different VAT rates*** (14% - 20%), not level playing field;
- Tourism ***products differ***:
 - highly price elastic (beach & safari tourism),
 - price inelastic (business, unique tourism products),

If regionally harmonize VAT, can eliminate elasticity (individual game lodge elastic, Southern African game experience inelastic)
- VAT in tourism, ***too complex***, especially when applied to packages (e.g. South Africa) must ***simplify***, consider ***standard rating tourism products*** and services