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RESEARCH LETTER

Taxing tourists to manage mass tourism: a case study of Macao

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ABSTRACT

This research letter provides a commentary on the issues surrounding the introduction of a tourist tax to Macao, although the casino city is one of the wealthiest globally. Macao's tourism authorities have suggested assimilating locations such as Venice and Japan who have recently introduced additional tourist levies. With tourism taxes used to address market failure or a need for additional revenues, Macao's motive is the former due to significant increases in mass tourism, particularly from China. Resident to visitor ratio stands at 1:60. This letter will show that the Macao tourist tax suggestion lacks scrutiny and scientific rigor, and runs contrary to tourism tax literature that advocates a thorough analysis towards an optimum and equitable tax framework.

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Tourist tax; government revenue; carrying capacity; tourism management; Chinese tourists

Introduction – the rationale behind a tourist tax

Ending a debate lasting several years, the Venice authorities approved the introduction of a tourist tax in May 2019 aimed at reducing the number of day-trippers to the World Heritage city. The fee structure would range from 2.50 to 10 euros per person depending on season and the new revenues collected would be used to offset rising environmental, operational and heritage conservation costs created by over 24 million visitors to the city of 50,000 inhabitants. With 15 million day-trippers, the tax is seen as a tactic to ensure that even this tourist segment contributes some amount to experience the city and pay for the city's efforts to manage this visitation (Squires, 2019). Venice had already introduced turnstiles into the city in 2018, although no entrance levy had been applied. Traditionally, tourism taxes globally though have been collected mostly due to a paucity of government coffers, not as a means to dissuade mass tourism from visiting. The tourist tax tactic has appeared now as a suggestion by authorities to manage and in particular deter increasing numbers of mass tourism, especially where the environmental, historical and social impacts are more pronounced. As this letter discusses, and in making direct comparisons to cities such as Venice to limit mass tourism, Macao's tourism authorities are now proposing a tourist tax as the casino city similarly contends with annual increases in mass tourism into a small physical and historical setting.

Taxation has several themes in the tourism literature including funding conservation projects, destination marketing programmes and tourism infrastructure as well as cost recovery on tourism services to visitors and tax refunds to incentivise tourist spending (OECD, 2014). In January 2019, with some exceptions for children and those staying less than 24 hours, the Japanese government introduced a US$9 (1000 yen) departure tax to generate additional revenue for tourism infrastructure (Whitehead, 2019). The timing means Japan will benefit from tourism surges caused by hosting the 2019 Rugby World Cup and 2020 Tokyo Olympics. International arrivals to Japan reached a new height of 31.1 million in 2018 (JTB Tourism Research & Consulting Company, 2019). Citing a strain on infrastructure to cope with over 3 million tourists to Queensland, New Zealand, the

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40,000 residents overwhelmingly voted on a new tourist levy collected through a bed tax (Janic, 2019). Although largely absent from the tourism literature, levies can be used as a social issue. Casino entrance levies are applied to visitors in an attempt to deter impulsive and potential problem gamblers. In Singapore, the casino levy is only applicable to domestic visitors and in April 2019 increased 50% to US$110 (S$150) for a 24-hour pass and US$2,190 (S$3000) for an annual casino pass (Channel News Asia, 2019).

Macao – taxing to limit mass tourism

In May 2019, expressing concern on the city's tourism carrying capacity and surges in tourism arrivals especially during festivals and holidays, the Macao Government Tourism Office (MGTO), Macao's national tourism authority, announced it would consider taxing tourists to the casino city. This process would also involve a comparative study of locations such as Venice and Japan which had recently introduced a tourist tax on visitors (GGRAsia, 2019). The mass tourism arrivals to Macao are now a pronounced one. In 2018, Macao received 35.8 million visitors (Table 1), a year-on-year increase of 9.8%. With a population of 640,000 within a physical land area of 12 square miles, Macao is considered one of the most densely populated locations in the world (International Monetary Fund, 2018). Macao also has a resident to visitor ratio approaching 1:60. Previous resident impact and carrying capacity studies in Macao have warned of the pending and rising adverse effects to the community by the annual increase in mass tourists (McCartney and Lei, 2016; Dioko and So, 2017). The average length of stay remains historically low at 1.2 days, with day-trippers who make up half of all visitation spending less than 20% of overnight visitors (Macao Statistics and Census Service, 2019).

As well as using tourism levies to generate additional revenues, the tactic can address externalities such as increased traffic congestion (Gooroochrun and Sinclair, 2005). For Macao the tax levy suggestion is to address overcrowding concerns, and less on genuine financial need. In 2020, it is predicted Macao will become the wealthiest destination in the world reaching US$143,116 in terms of GDP and bypassing Qatar who will become the second wealthiest with a GDP of US$139.151 (The Times, 2018). Macao's public finance success is based on the taxation of its extraordinary gaming revenues. Of the total Macao Government revenue of US$16.8 billion in 2018, US$14.2billion (85%) was tax revenue received from the gaming sector (Macao Statistics and Census Service, 2019). Essentially all casino revenues generated in Macao are visitor exports. Visitor exports contribution to Macao's total exports in 2018 was 94.3%, placing Macao first in the world in this regard (World Travel & Tourism Council, 2018).

Macao's tourism challenge is not an economic one, but one based on market failure on the implementation of strategy to appropriately manage mass tourism arrivals in the past few decades. There is sentiment that a tourist tax in Macao is not a remedy in itself to address the increasing volumes of mass tourism to Macao, but rather other factors such as city branding strategy are important (Inside Asia Gaming, 2019). Attaining perceived critical levels of tourism capacities has also caused other destinations to consider or already implement additional taxes on tourism. Yet as this letter contests in the case of Macao, in the absence of scientific rigor and investigation, it may not be the panacea to mass tourism woes.

Less about revenue creation, more about how revenues are used

While the MGTO has suggested that the additional tourist tax revenue could be used on tourism and social welfare projects, this justification lacks denotation given the casino city is one of the wealthiest destinations globally. Mainland Chinese make up 70% of visitation and assume most of Macao's tax burden. Gooroochurn and Sinclair (2005) state their concern on a possible retaliation by other countries on which their citizens are getting taxed. It is therefore worth considering potential responses from Chinese authorities to additional taxes placed on its citizens to Macao. With a

Table 1. Visitor arrivals and day-trippers to Macao, 2012–2018 (in millions).

	2012	2013	2014	2015	2016	2017	2018
Mainland China	16.90 (60.2%)	18.63 (63.5%)	21.25 (67.4%)	20.41 (66.4%)	20.45 (66.1%)	22.20 (68.1%)	25.26 (70.6%)
Hong Kong	7.08 (25.2%)	6.77 (23.1%)	6.43 (20.4%)	6.53 (21.3%)	6.42 (20.7%)	6.17 (18.9%)	6.33 (17.7%)
Taiwan	1.07 (1.8%)	1.00 (3.4%)	0.95 (3.0%)	0.99 (3.2%)	1.08 (3.5%)	1.06 (3.3%)	1.06 (3.0%)
Others	3.03 (10.8%)	2.93 (10.0%)	2.89 (9.2%)	2.78 (9.1%)	3.00 (9.7%)	3.19 (9.8%)	3.15 (8.8%)
Total visitation	28.08	29.32	31.53	30.71	30.95	32.61	35.80
Day tripper	14.50 (51.6%)	15.06 (51.4%)	16.96 (55.2%)	16.41 (53.4%)	15.25 (49.3%)	15.36 (47.1%)	17.31 (48.4%)

Source: Macao Statistics and Census Service (2019).

continued financial reserve growth, Macao's reserves reached almost US$64 billion in 2018 (Macau Daily Times, 2019), a further confirmation that the direction of a tax is aimed at market failure and the inability to curb mass tourism arrival numbers to the small isthmus. In addition, Macao's casino tax and various fees means that gaming tax to the government is 40% of gross gaming revenue. The casino concession contracts will all expire by 2022 triggering a re-tendering process and a window of opportunity to address pressing tourism management perspectives such as a more diversified tourism economy (McCartney, 2019). While still unknown the new casino contract terms could include increased financial and tax obligations whereby the government secures even more revenues from gaming.

Tourist tax that's fit for purpose

The MGTO launched an online survey for Macao residents over 18 as part of an assessment to determine the feasibility of imposing a tourist tax (MGTO, 2019). While initially questioning whether the resident agreed or not to impose a tourist tax, some options were asked on possible tourist tax spending such as developing and enhancing existing tourist attractions or as a means to provide more subsidies and enhanced social welfare to the local community. Absent in the research is the expected cost to collect, collection method and suggested amounts. As well as vast arrival numbers, Macao has several entry and exit points by land, air and sea. In their research on whether tourism taxes benefit the community, Sheng and Tsui (2009) warn there can be different 'benefit-externalities' choices within the community due to a huge divergence in host community interests and lobbyists. Many in Macao have business or employment interests in tourism, while others will perceive they receive marginal benefits from tourism. There is also the argument that Macao has substantial fiscal surpluses, implying that the issue rests less on revenue creation, but one on tourism management.

Taxing as part of tourism management strategy

Tourism taxation can be a tactic related to the management of tourism quality and to offset challenges such as seasonality and occupancy capacities (Vjekoslav, Bejakovic & Anton, 2012). In Macao's case, tourist tax has not been presented as part of an overall tourism strategy to manage seasonality visitor surges. Other considerations could include use of smart technologies or greater collaboration with travel intermediaries on timed entry. A coherent city destination image strategy could better target higher spending, longer stay visitors while less appealing to those wishing to spend less on a day trip.

While tourism taxes for the most part can be unnoticed, often included within the cost such as an airline ticket (Gooroochurn and Sinclair, 2005), a tourist tax such as the one being discussed for Macao requires more visibility as means to dampen demand, particularly lower spending mass tourism. There is an indication in the literature of a lack of willingness to pay tourist tax to fund local infrastructure and conservation projects as the visitors were neither aware that a problem existed and did not trust the tax would be used for conservation purposes (do Valle, Pintassilgo, Matias and André, 2012). Sentiment from those in Macao who will assume the burden of an additional levy would require greater analysis.

Conclusion

Presenting a global analysis of tourism taxation, the OECD cited a general lack of proper oversight, evaluation and analysis on the impacts related to tourism taxes achieving previously stated goals, and could in fact impact and negatively affect destination competitiveness, attractiveness and overall sustainability (OECD, 2014). Reacting to critical levels of capacity through an admission fee, Macao needs to also consider other tourism management issues such as future city branding, destination competitiveness, key stakeholders and particular the casino industry, and the targeting of more regional and international travel markets. Additional tourism taxes may also not reverse or reduce arrival numbers (Gooroochurn and Sinclair, 2005). With growing numbers of tourists to destinations globally, the issue of introducing tourist taxes has emerged. This is chiefly to offset the costs to administer and provide infrastructure, technology and a safe environment for the increased numbers. As with Macao there is the hope that a tourist tax tactic can be used to deter those less willing to spend in the city thereby reducing mass tourism numbers. This letter raises awareness and concerns on this recourse and one that should be considered within overall rigorous tourism management strategy.

Disclosure statement

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