

TAXING TOURISTS TO GENERATE REVENUE TO ADDRESS THE NEGATIVE IMPACTS OF CLIMATE CHANGE ON HAWAII NATURAL RESOURCES

APRIL 5, 2024



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By Sumner La Croix and James Mak

*...tourist taxes are now as much a part of a trip as selfies and souvenir shops.
And more are on the way.
– Larry Bleiberg, BBC¹*

There is widespread agreement among Hawaii residents that the state government needs to spend more money on natural resource stewardship. A critical question is how best to pay for it.

In his January 2024 State of the State Address,² Governor Josh Green said that “we must do more to protect our beaches, parks, and other natural treasures from extreme weather fueled by climate change—without raising taxes or fees on Hawaii residents”. He proposed to enact a Climate Impact Fee (hereafter “Climate Fee”) on visitors to provide the needed resources. HB2406 HD2 (and its companion bill in the Senate, SB3095) proposes to “Levy an additional \$25 tax on transient accommodations.”

HB2406 amends Section 237D Hawaii Revised Statutes on Transient Accommodations Tax³ by adding the following:⁴

In addition to the taxes imposed under subsections (a) and (c), there is levied and shall be assessed and collected each month a tax of \$25 on each furnishing of a transient accommodation, including transient accommodations furnished for cash or charge, at no charge, on a complimentary or gratuitous basis, for a nominal charge, or in exchange for points, miles, or other amounts provided through a membership, loyalty, or rewards program.”

HB2406 imposes a \$25 Climate Fee paid by lodging suppliers (i.e., hoteliers and vacation rental owners) for each rental of a transient accommodation. The Climate Fee is a fixed amount of money that a commercial accommodation supplier must pay to the government regardless of the

¹ Larry Bleiberg, “The New Costs of Travel that Tourists Should Know.” BBC, 6 March 2024. Available at: <https://www.bbc.com/travel/article/20240306-the-new-costs-of-travel-that-tourists-should-know>. Last access on 27 March 2024.

² Governor Green’s 2024 State of the State Address is available at: <https://governor.hawaii.gov/newsroom/office-of-the-governor-news-release-governor-green-delivers-second-state-of-the-state-address/>. Last access on 27 March 2024.

³ Hawaii statutes on the transient accommodations tax are available at: https://files.hawaii.gov/tax/legal/hrs/hrs_237d.pdf. Last access on 27 March 2024.

⁴ The 2024 bill in the Hawaii State House of Representatives – H.B. NO. 2406 H.D. 2 – is available at: https://www.capitol.hawaii.gov/sessions/session2024/bills/HB2406_HD2_.HTM. Last access on 27 March 2024.

number of days a unit is rented or the number of occupants (visitors or residents); the same fixed fee is levied on rentals of luxury and budget accommodations.⁵ The proposed Climate Fee would be in addition to the State's 10.25% transient accommodation tax (TAT) and the separate TAT of up to 3% imposed by the four counties. The State Department of Taxation estimates the Climate Fee would generate more than \$68 million in annual tax revenues that would be deposited into a new special fund, the Climate Health and Environmental Action Special Fund. The Department of Land and Natural Resources (DLNR) will administer the Fund so as to "minimize the impacts of, and respond to, climate crises."⁶

In this essay, we consider what the implications of the \$25 Climate Fee might be for the tourism industry, tourists, and residents.

If the Climate Fee is enacted, it will be paid by most but not all visitors. In 2022, nearly one million of 9.14 million out-of-state visitors stayed with friends or relatives while visiting Hawai'i.⁷ Since they do not check into a hotel/vacation rental, these visitors escape paying the fee. An entry fee/tax levied on all air travelers upon arrival could have generated more revenue.

Many countries/destinations around the world impose entry fees/taxes on non-resident tourists upon arrival. Many Caribbean countries impose either an entry or departure tax.⁸ The U.S. government imposes an International Arrival Tax (\$22.10) as well as an International Departure Tax (\$22.10) on air travelers;⁹ both taxes are automatically adjusted for inflation.¹⁰ In the United States, a fee imposed by a state for visitors to enter the state would likely not survive a constitutional challenge. An alternative to an entry fee is a separate lodging tax, paid upon check-in to a hotel/vacation rental (as in HB2406).

Increasingly, tourist destinations are levying "green fees" (i.e., environmental taxes) on non-resident tourists when they arrive. The fees vary considerably in magnitude and details of assessment, with their revenue dedicated to a variety of uses.

Beginning February 14, 2024, Bali began charging international visitors a flat fee of 150,000 Indonesian rupiah (about US \$9.50) per person (including children) to enter the island. Bali's governor says that revenues collected would be used to "preserve the environment, nature, and culture as well as improving quality."¹¹

⁵ Economists describe such a fee as a "lump sum tax." See Joseph J. Cordes (2005). "Lump sum tax." In Joseph J. Cordes, Robert D. Ebel, and Jane G. Gravelle, eds., *Encyclopedia of Taxation and Tax Policy*, Urban Institute Press, p. 245.

⁶ The bill stipulates that "the department shall allocate at least twenty-five per cent of the funds each year for grants to counties and nonprofit organizations to plan for and implement climate crisis prevention projects..."

⁷ State of Hawai'i, Dept. of Business, Economic Development, & Tourism (2023). *2022 Annual Visitor Research Report*. Available at: <https://files.hawaii.gov/dbedt/visitor/visitor-research/2022-annual-visitor.pdf>. Last access on 27 March 2024.

⁸ Robert Curley, "Beware the Hidden Costs of a Caribbean Vacation." *Tripsavvy*, 26 June 2019. Available at: <https://www.tripsavvy.com/hidden-costs-of-a-caribbean-vacation-4105915>. Last access on 27 March 2024.

⁹ Airlines for America. Data & Statistics. U.S. Government-Imposed Taxes on Air Transportation. 1 January 2024. Available at: <https://www.airlines.org/dataset/government-imposed-taxes-on-air-transportation/>. Last access on 27 March 2024.

¹⁰ Urban Institute & Brookings Institute, Tax Policy Center. Briefing Book: Key Elements of the U.S. Tax System. Available at: <https://www.taxpolicycenter.org/briefing-book/what-are-major-federal-excise-taxes-and-how-much-money-do-they-raise>. Last access on 27 March 2024.

¹¹ Thomas Bywater, "Date for new Bali tourism tax revealed, sooner than anticipated." *nzherald.co.nz* 5 October 2023. Available at: <https://www.nzherald.co.nz/travel/date-for-new-bali-tourism-tax-revealed-sooner-than-anticipated/HF5BHT2GTNFFONAB4N5ZOOQEGOOQ/>. Last access on 27 March 2024.

Since July, 2019, New Zealand requires international travelers to pay an International Visitor Conservation and Tourism Levy (IVL) of NZ \$35 (approximately US \$21) prior to entering the country. Travelers holding passports from Australia, New Zealand and many Pacific Island nations are exempt, as well as those who hold a Business Visitor Visa.¹² It was expected to raise around NZ\$80 million per year for the first five years. IVL revenues are split “50:50 between tourism and conservation investment areas”. Revenues collected through June 2022 have been far below expectations due to the COVID pandemic and the country’s closure to most tourism until August 1, 2022.¹³ A follow-up report concluded that the “impact on visitor numbers and on-the-ground expenditures are minimal due to low rate of levy.”¹⁴

Greece employs a different approach. Effective January 1, 2024, Greece imposes a “climate crisis resilience fee.”¹⁵ It is a per diem tax (rather than a per visit tax as in HB2406) payable by guests in local currency at their accommodations at the time of check-in. The size of the fee depends on the category of lodging and the fee is applicable only during the busy March-to-October tourist season. For tourists staying at five-star luxury hotels, the fee is 10 euros (nearly US \$11) per room per night. The new tax also applies to short-term rentals (1.5 euros per night) booked through online platforms. Revenues collected—estimated at 300 million euros in 2024—are dedicated to reconstruction and enhance climate resiliency after devastating wildfires and floods ravaged the country in 2023.

In the Balearic Islands (Spain), the Balearic Government enacted the Tax for Sustainable Tourism in 2016 on all overnight stays in tourist accommodations to fund “major investments to compensate the territorial and environmental impact of tourism on Mallorca, Menorca, Ibiza and Formentera.”¹⁶ Tax rates are per person per day, include cruise ship passengers (children under the age of 16 are exempt), and vary by season and star rating and type of their accommodations. Revenue from the fee is used “to invest in promotion of sustainable and low-season tourism”¹⁷

One way to understand how HB2406’s proposed flat tax would work is to think of it as equivalent to an increase in the round-trip airfare to Hawai’i.¹⁸ For the Hawai’i visitor, the airfare paid is essentially an entry fee to Hawai’i. A group of tourists staying together in a hotel room or short-term vacation rental would see the \$25 climate fee as a \$25 increase in the entry fee to the state, i.e., as a \$25 increase in the visitor party’s airfare to Hawai’i. How big is the average visitor party?

¹² New Zealand Government, Ministry of Business, Innovation & Employment. What is the IVL? Available at: <https://www.mbie.govt.nz/immigration-and-tourism/tourism/tourism-funding/international-visitor-conservation-and-tourism-levy/what-is-the-ivl/#:~:text=Most%20international%20visitors%20applying%20for,some%20short%2Dterm%20work%20visas>. Last access on 27 March 2024.

¹³ New Zealand Government, Dept. of Conservation. *International Visitor Conservation and Tourism Levy (IVL)—Annual Performance Report 2021/22*. August 2023. Available at: <https://www.mbie.govt.nz/assets/international-visitor-conservation-and-tourism-levy-annual-performance-report-2021-22.pdf>. Last access on 27 March 2024.

¹⁴ See New Zealand Government, The Treasury. *Cost Recovery Impact Statement – Proposed Changes to the International Visitor Conservation and Tourism Levy*. 31 August 2022. Available at: <https://www.treasury.govt.nz/publications/risa/cost-recovery-impact-statement-proposed-changes-international-visitor-conservation-and-tourism-levy>. Last access on 27 March 2024.

¹⁵ Matthew Norman, “Greece Introduces Climate Tax for Tourists in 2024.” *Greek Reporter*, 8 January 2024. Available at: <https://greekreporter.com/2024/01/06/greece-climate-tax-tourists-2024/>. Last access on 27 March 2024.

¹⁶ See *Sustainable Balearic Islands* website. Available at: <http://www.illessostenibles.travel/en/home-en>. Last access on 27 March 2024.

¹⁷ See Governilles Balears [Government of Balearic Islands, Spain]. “Your Islands. Your Holidays. Your Contribution.” Available at: <https://www.caib.es/sites/impostturisme/en/tax/>. Last access on 27 March 2024.

¹⁸ The analytical framework is described in James Mak (2008), “Taxing cruise tourism: Alaska’s head tax on cruise ship passengers.” *Tourism Economics*, 14(3), 599-614.

Data from visitor surveys conducted by the Dept. of Business, Economics & Tourism indicate that the average size of a visitor party in 2022 is 2.21 people.¹⁹ An alternative estimate of party size, based on the daily transient accommodations stock (adjusted for occupancy) in 2022 and the number of daily visitors staying in transient accommodations, is 2.86 people.

How much would the \$25 fee affect visitor arrivals? To make these calculations, we gather data on median airfare to Hawai'i from each state and the number of air arrivals from each state. Air arrival data by U.S. state for 2022—the latest year available—are reported in the state's 2022 *Annual Visitor Research Report Tables*.²⁰ The U.S. Bureau of Transportation Statistics conducts a quarterly *Airline Origin and Destination Survey* (DB1B) which covers a 10% sample of airline ticket prices from reporting domestic air carriers.²¹ Thanks to our colleague Peter Fuleky who compiled seasonally-adjusted DB1B data, we were able to obtain estimates of median round-trip airfares from each U.S. state to Hawai'i. For the third quarter of 2023, the lowest round-trip median airfares are from the western states, e.g., California (\$529), Oregon (\$577), and Washington (\$613). The highest median airfares are from the eastern states, e.g., West Virginia (\$1,291), Connecticut (\$1,241), New York (\$996), and North Carolina (\$1,045). Median airfares vary considerably across states between the coasts, e.g., Arizona (\$675), Texas (\$777), and Illinois (\$919). A \$25 increase in airfare represents a higher percent of air fare in West Coast markets than in East Coast markets and thus we expect a bigger response to the Climate Fee in West Coast markets.

Fuleky et al. (2014) estimate U.S. consumer response to increases in airfares to Hawai'i, and find that a 10% increase in airfares would decrease arrivals by 2%.²² Thus, a \$25 flat tax is expected to have a larger impact on travelers originating from Hawai'i's West Coast markets where visitors pay lower airfares than travelers from East Coast markets where visitors pay much higher airfares. This is important because California, Oregon and Washington account for more than half of all U.S. visitors to Hawai'i in 2022.

We estimate the decline in domestic visitor arrivals due to the Climate Fee by applying the Fuleky et al. demand elasticity of -0.2 and our two estimates of the average number of occupants of a transient accommodation (2.21 and 2.86 people) to the U.S. state data on air fares and air arrivals. The average size of the party checking into the transient accommodation is important, as the \$25 fee is only paid once by the traveling party sharing the hotel room or vacation rental and is spread across the airfare(s) of the entire party.²³ If the size of the visitor party is 2.21 people, then we estimate domestic visitor arrivals to decline by 23,760 people, or a little more than three-tenths of one percent of total domestic visitor arrivals. Alternatively, if the size of the visitor party is 2.86 people, then we estimate domestic visitor arrivals to decline by 18,360 people, or a little less than one quarter of one percent of total domestic visitor arrivals. In both cases, the decline in visitor arrivals is concentrated among visitors from California, Oregon, and Washington, with these tourists amounting to 63.6 percent of the total decline.²⁴

¹⁹ See State of Hawai'i, 2022 *Annual Visitor Research Report Tables*, Table 5. Available at: <https://www.hawaiitourismauthority.org/research/annual-visitor-research-reports/>. Last access on 24 March 2024.

²⁰ See State of Hawai'i, 2022 *Annual Visitor Research Report Tables*, Table 19. Available at: <https://www.hawaiitourismauthority.org/research/annual-visitor-research-reports/>. Last access on 22 March 2024.

²¹ U.S. Dept. of Transportation, Bureau of Transportation Statistics. *Airline Origin and Destination Survey*. Available at: https://www.transtats.bts.gov/DatabaseInfo.asp?QO_VQ=EFI&Yv0x=D. Last access on 24 March 2024.

²² Peter Fuleky, Qianzue Zhao, and Carl S. Bonham (2014). "Estimating demand elasticities in non-stationary panels: The case of Hawai'i tourism." *Annals of Tourism Research*, 44, 131-142.

²³ This means that the percentage increase in the airfare of the traveling party due to the Climate Fee will be much larger for smaller than larger traveling parties.

²⁴ Our analysis assumes that the decline in travel to Hawai'i will not affect air fares. Instead, airlines adjust to the smaller number of air travelers by supplying fewer seats to the Hawai'i air passenger market. We focus only on the domestic visitor market because we do not have recent data for international air fares to Hawai'i.

The 18,360 – 23,760 decline in domestic visitor arrivals will decrease demand for transient accommodations and this should be reflected in a small decline in accommodation prices.²⁵ As long as transient accommodations do not have a perfectly inelastic supply (in other words, the supply of transient accommodations responds somewhat negatively to net-of-tax price decreases), then the burden of the Climate Fee will be shared by both accommodations providers and visitors staying in transient accommodations.²⁶ Currently, researchers have not estimated the elasticity of supply for transient accommodations but there is a strong presumption that it is highly, but not perfectly, inelastic. If so, then both visitors and suppliers would each bear some share of the \$25 Climate Fee.

The proposed \$25 Climate Fee will be paid several times by roughly 15% of Hawai'i visitors. This is because visitors are taxed each time they check into a visitor accommodation. Thus, a visitor who spends a few days in a Waikiki hotel and a few days in a Maui hotel has to pay the \$25 tax twice. In 2022, 85% of the 9.139 million visitors who arrived in Hawai'i by air visited one island only and the remaining 15% visited multiple islands. For all out-of-state visitors who came by air, the average number of islands visited was 1.19. Obviously, the effect of the tax on visitors is larger for those who visit more than one island and stay in commercial visitor accommodations.

Although the bill's intent is to make visitors rather than Hawai'i residents pay the Climate Fee, the proposed fee could have significant impacts on Hawai'i residents who use commercial transient accommodations when they travel within Hawai'i. While there are no publicly available data on residents' use of Hawai'i transient accommodations, we know their use is a substantial share of the overall market.²⁷ Residents from the neighbor islands travel to 'Oahu for medical care and often stay in 'Oahu hotels the night before their appointments. Residents from all islands take vacations on other islands and many stay at hotels. Many neighbor island residents travel to 'Oahu for shopping, sporting events, or just to enjoy the varied entertainment amenities available in a big city. 'Oahu residents travel to the Big Island to see Kilauea Volcano erupt, and may stay overnight at a Hilo hotel. Hilo area hotels are typically heavily booked by local residents during the annual Merrie Monarch Festival. Residents also travel to other islands for work, and often stay in hotels for one or more nights on multiple work trips.

For Hawai'i residents traveling to other islands, the \$25 flat fee on lodging represents a much larger percentage increase in an interisland airfare than for visiting out-of-state tourists flying to Hawai'i. A \$25 flat fee on a median round trip fare between islands of \$82 represents a 30.49 percent increase. Some residents take frequent interisland trips involving overnight stays each year, and would have to pay the \$25 tax each time they stay in a commercial transient accommodation.

To sum up, taxing non-resident tourists to pay for government expenditures is common practice around the world. Hawai'i is no different. HB2406 is not about levying a tax to make tourists pay for the negative impacts of their visits on the state's natural resources. Its objective is to raise tax revenue from non-residents to help pay for climate action in Hawai'i. HB2406 proposes a simple way to generate the additional revenue desired. However, we estimate there could be between 18,360 and 23,760 fewer U.S. visitors to Hawai'i each year if the proposed Climate Fee is enacted. If fee revenues are not diverted from their intended purpose and are wisely used, the climate projects undertaken by the state and county governments with these revenues have the potential

²⁵ The small decline in the price of transient accommodations will offset a portion of the 18,360 – 23,760 decline in visitor arrivals.

²⁶ Assuming the demand elasticity for lodging is not zero or infinity.

²⁷ In 2018, 39% of total inter-island passengers who flew on Hawaiian Airlines were residents of Hawai'i. We do not know how many stayed in commercial transient accommodations. ICF, *Hawaiian Airlines 90th Anniversary Economic Impact Report*, July 2019. Available at: https://www.responsibilityreports.com/HostedData/ResponsibilityReportArchive/h/NASDAQ_HA_2018.pdf. Last access on 24 March 2024.

to benefit both residents and tourists in the long run. As discussed above, some Hawai'i residents who regularly fly between islands and stay at transient accommodations could be hit hard by the proposed tax.

As of 1 April 2024, the Hawai'i State Senate appears to have decided not to advance HB2406 to a final vote. While the bill is dead, the issue is not and will be further discussed by policymakers, researchers, and the public over the coming year. Besides HB2406, Hawai'i lawmakers are also considering a per diem tax on transient accommodations as an alternative option.²⁸ Given the high incidence of resident interisland travel, a modest per diem tax, possibly with different rates for different categories of lodging, might be a better fit for Hawai'i. Based on 2023 data, a tax of \$3.50 per room/unit per day on hotels (15.2 million room nights)²⁹ and vacation rentals (4.9 million nights)³⁰ could generate about as much revenue as HB2406's proposed \$25 flat tax. A daily fee of \$3.50 is a modest sum compared to the average daily hotel room rate of \$428 and short-term vacation rental daily rate of \$318 in 2023.

Finally, some tourism experts suggest that tourists who are being taxed should be informed how their payments will be used.³¹ Research finds that tourists are more willing to pay higher taxes if they think that their payments will be used for a good purpose.³² Dedicating the revenues from an additional daily fee or a lump sum tax into a special fund rather than the general fund could increase the likelihood that visitors respond positively rather than negatively to the new levies. In the case of Bali, a spokesperson from the Ministry of Tourism and Creative Economies said of the new tourism tax after the first week of implementation: "...as long as the purpose was clear, especially for sustainability issues, cultural and environmental issues, then they [the tourists] welcomed it. The important challenge here is that our communication must be clear about its purpose, and its management must be contained within a good governance structure."³³

Acknowledgments: We thank Bob Ebel, Peter Fuleky and Dylan Moore for insightful comments and suggestions on earlier drafts.

²⁸ See HB2081HD2 at https://www.capitol.hawaii.gov/sessions/session2024/bills/HB2081_HD2_.PDF Last access on 29 March 2024. The bill proposes a \$20 per diem tax.

²⁹ State of Hawai'i, Dept. of Business, Economic Development & Tourism (2024). December 2023 Hawai'i Hotel Performance Report. Available at: <https://www.hawaiiauthority.org/media/12189/hta-december-2023-hawaii-hotels-performance-final.pdf>. Last access on 24 March 2024.

³⁰ State of Hawai'i, Dept. of Business, Economic Development & Tourism (2024). December 2023 Hawai'i Vacation Rental Performance Report. Available at: <https://www.hawaiiauthority.org/media/12200/december-2023-hawaii-vacation-rental-performance-final.pdf>. Last access on 24 March 2024.

³¹ See <https://www.bbc.com/travel/article/20240306-the-new-costs-of-travel-that-tourists-should-know#>. Last access on 24 March 2024. John Dixon, Kirk Hamilton, Stefano Pagiola, and Lisa Segnestam, *Tourism and the Environment in the Caribbean, An Economic Framework*, The World Bank Environment Department, March 2001. Available at: <https://openknowledge.worldbank.org/entities/publication/d38a17d5-4694-54ea-a10c-1a81daf45048>. Last access on 24 March 2024.

³² Lucia Rotaris and Marta Carrozzo (2019), "Tourism taxes in Italy: A sustainable perspective." *Journal of Global Business Insights*, 4(2), 92-105. Available at <https://digitalcommons.usf.edu/cgi/viewcontent.cgi?article=1079&context=globe>. Last access on 24 March 2024.

³³ "Tourists Don't Mind Paying Bali Tourism Tax Says Top Official." *The Bali Sun*, 21 February 2024. Available at: <https://thebalisun.com/tourists-dont-mind-paying-bali-tourism-tax-says-top-official/>. Last access on 24 March 2024.

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