



Policy Brief

TOURISM TAX IN JERUSALEM: PROMOTING TOURISM DEVELOPMENT

JERUSALEM מכון ירושלים
INSTITUTE למחקרי מדיניות
FOR POLICY معهد القدس
RESEARCH لبحث السياسات



Jerusalem Institute
Milken Innovation Center

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About the Milken Innovation Center, Jerusalem Institute for Policy Research

The Milken Innovation Center at the Jerusalem Institute for Policy Research focuses on developing market-based solutions to Israel's greatest challenges as it transitions from a startup nation to a global nation. Our goal is to accelerate economic growth, build human capital, and cement Israel's role as a pioneer in addressing global challenges in economic development, water, food, education, health, and energy with solutions that others can replicate.

Introduction

Jerusalem possesses the oldest and richest historical, cultural, and religious legacy in Western culture, religion and history. It is no surprise that tourism is one of the key drivers of Jerusalem's economy. Tourists to Jerusalem bring over 1.3 billion shekels into the economy, support over 2,000 businesses, and creates an estimated 20,000 jobs in Jerusalem.¹ Government officials and local Jerusalem leaders concerned with city's economic development and the sustainability of its tourism industry asked the Jerusalem Institute for Policy Research to examine the best practices for the implementation of a tourism tax to support tourism promotion and development.

While there are various revenue strategies in common practice globally, including car rental taxes, dining taxes, user fees, and hotel taxes, Jerusalem does not have a sustainable revenue source to support tourism development and promotion. From among these practices, this policy brief focuses on an occupancy tax based on hotel stays by foreign visitors. Revenues from such a tax can be used to strengthen Jerusalem as a tourist destination, increase municipal revenues, and leverage business activity in Jerusalem through the development of the tourism sector.

This policy brief is a summary of best practices for the design and implementation of a tourism tax. It includes an examination of benchmark cases from around the world, how they may be translated and adopted for the Jerusalem region, and an estimation of the financial impact from such a tax in Jerusalem.

Context: the need to strengthen tourism infrastructure to leverage growth

Since 2010, global tourism has seen constant and dramatic growth. According to UN World Tourism Organization, international tourist arrivals grew six percent between January and April 2018 compared to the same period in 2017. International tourism revenue grew five percent in 2017 to reach over \$1.3 trillion, a business volume on par with oil and automobile exports.²

International tourism in Israel has also grown significantly in recent years. By October 2018, Israel saw a 15 percent increase in tourist visits compared to the same period in 2017, and a cumulative growth of over 35 percent since 2010. Israel's Ministry of Tourism expects the total of incoming visitors to top four million by the end of 2018.³ Even with the relatively high price of food and hotel stays in Israel, tourists continue to visit Israel in increasing numbers.⁴ Israeli hotels report full occupancy, and international passenger traffic through Ben Gurion Airport reached all-time highs in 2018.⁵

¹ Jerusalem Statistical Yearbook 2019, Jerusalem Institute for Policy Research [Forthcoming]

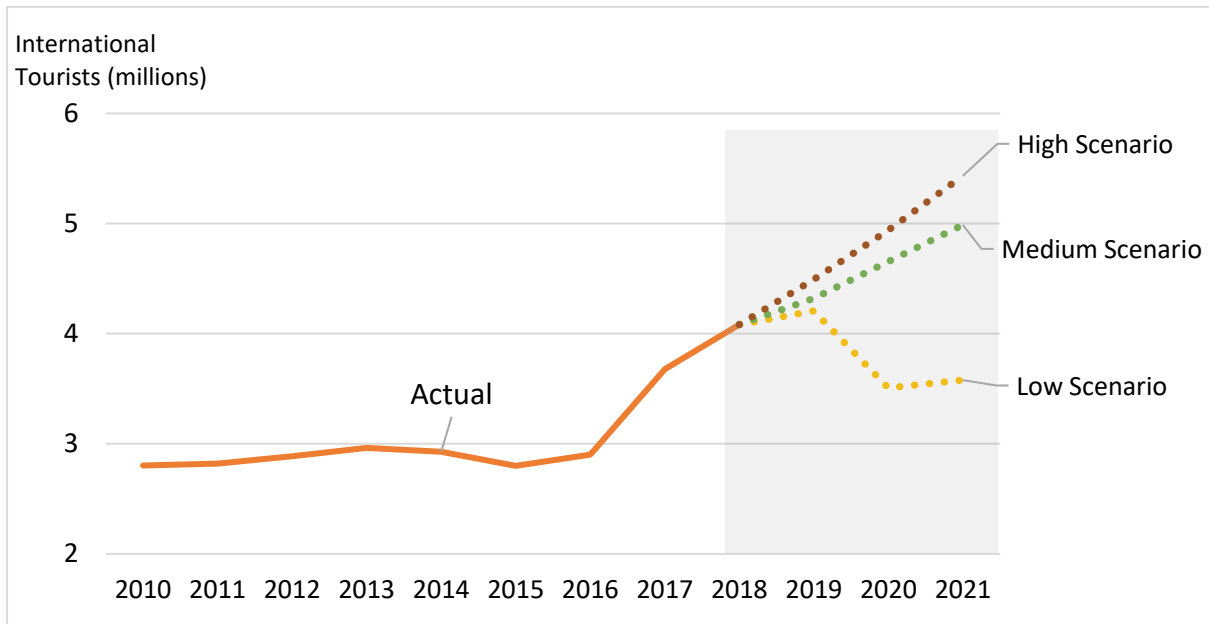
² "World Tourism Barometer," UNWTO, June 2018

³ Gabriela Davidovich-Weisberg, "Record number of tourists arrive in Israel in October," *Haaretz*, 6 November 2018

⁴ Israel ranks 133 out of 136 countries in price competitiveness in the World Economic Forum's 2017 Travel and Tourism Competitiveness Index

⁵ Rina Rozenberg Kandel, "Tourism boom leaving Israel short of hotel rooms for all its visitors," *Haaretz*, 1 Jan 2018; Michal Raz-Chaimovich, "Record Ben Gurion Airport passenger traffic," *Globes*, 28 Aug 2018.

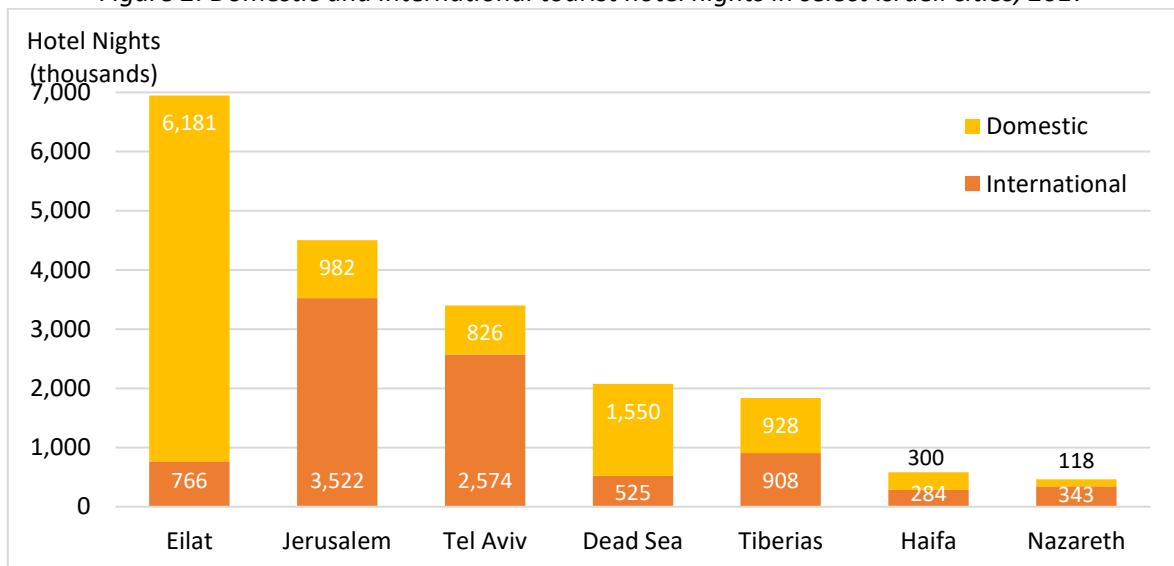
Figure 1: Overnight International tourists to Israel and projections in three growth scenarios⁶



Source: Central Bureau of Statistics, Milken Innovation Center Projection

The international tourist experience is central to Jerusalem’s tourism industry, and a visit to Jerusalem is a central part of tourism to Israel in general. In 2017, 77 percent of international tourists visit Jerusalem during their time in Israel. 29 percent of international tourists stayed overnight in Jerusalem, compared to 24 percent in Tel Aviv, 12 percent in Tiberias, six percent in the Dead Sea area, five percent in Eilat, and three percent in Haifa. 33 percent of all international tourists’ hotel nights in Israel take place in Jerusalem. Without sustaining Jerusalem as an attractive overnight destination, tourism to Israel in general may suffer.⁷

Figure 2: Domestic and international tourist hotel nights in select Israeli cities, 2017



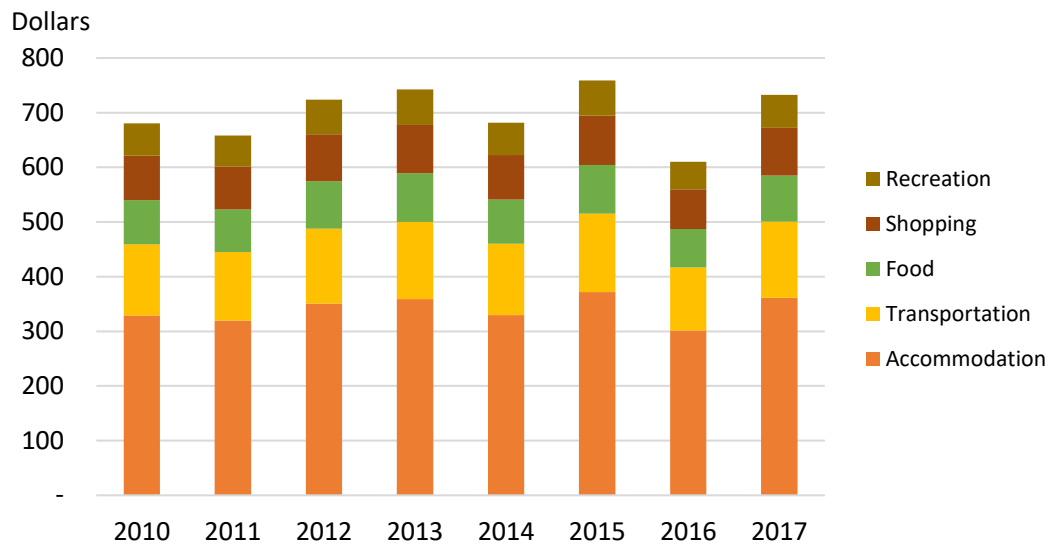
Source: Jerusalem Institute

⁶ Low scenario: Israel will continue the growth trends seen from 2010 to 2016; medium scenario: Israel will continue the growth seen from 2014 through 2017 (following the hostilities of Operation Protective Edge); high scenario: annual increase of 10% percent in overnight stays

⁷ Maya Chosen, Michal Korach, *Jerusalem – Facts and Trends 2018*, Jerusalem Institute for Policy Studies

Not all tourists to Jerusalem are alike. International tourists spend an average of 3.3 nights in Jerusalem. Domestic tourists who lodge in Jerusalem hotels spend an average of 1.7 nights, on par with domestic stays in Tel Aviv and Haifa. Revenue from international tourists accounts for about two-thirds of hotel revenues in Jerusalem (NIS 654 million out of total revenues of about NIS 955 million).⁸ On average, the international tourist spends \$730 during the length of his or her stay in Jerusalem. Lodging represents about half of the total expenditures by international tourists while in Jerusalem.⁹

Figure 3: Average total expenditures per international tourist throughout stay in Jerusalem¹⁰



Source: Jerusalem Institute, Milken Innovation Center Analysis

Israel’s tourism industry experience reflects similar tourist preferences in Europe. Studies recently conducted by the European Union show that demand for unique tourism destinations, such as Paris, and Rome is not affected by a rise or fall in tourism tax collection. Like these destinations, Jerusalem offers one-of-a-kind historical and cultural assets that have been a source of longing for over three millennia. In fact, despite new taxes imposed on visitors to Amsterdam, Berlin and the Balearic Islands, demand to visit these destinations continues to rise. Conversely, demand for destinations with similar features such as beach vacation sites, is highly price sensitive.¹¹ This demand elasticity is an important consideration when looking at the impact of a new tax or fee on those international tourists.

With positive tourism projections worldwide and for Israel, Israeli tourism experts are increasingly concerned that the Israeli tourism industry and infrastructure will fail to meet and satisfy growing demand. In Jerusalem in particular, poor tourist infrastructure, a shortage of affordable hotel rooms, and the lack of convenient transportation options may thwart the tourism industry from reaching its full potential.¹² Yossi Fatael, General Manager of Israel’s Incoming Tour Operators Association, recently said at the World Travel Market Conference in London, “just as the number of incoming

⁸ “Revenue and Employment in Tourist Hotels: January-June 2018,” Central Bureau of Statistics, Sep. 2018. [Hebrew], available: http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201828271

⁹ Maya Chosen, Michal Korach, *Jerusalem – Facts and Trends 2018*, Jerusalem Institute for Policy Studies

¹⁰ The drop in spending in 2016 follows price discounts during a wave of terror attacks in Jerusalem.

¹¹ “The Impact of Taxes on the Competitiveness of European Tourism,” October 2017, European Commission; Gurel Cetin, et al, “Willingness to Pay for Tourist Tax in Destinations; Empirical Evidence from Istanbul,” *Economies*, June 2017

¹² Gabriela Davidovich-Weisberg, “Travel to Israel is easier than ever, traveling inside Israel is another story,” *Haaretz*, 12 July 2018

tourists grows, their satisfaction with their experience in Israel plummets.”¹³ Fatael and others are concerned that Israel is not investing enough to create a satisfactory visitor experience and that the growth of Israel’s tourism industry will stagnate and even reverse.

Furthermore, the growth in tourism raises new demands on public infrastructure used by both tourists and residents, such as sanitation, healthcare, and security. Severe limitations on Jerusalem’s municipal budget prevent the city from investing enough in developing the necessary infrastructures and providing modern tourism services expected by international visitors.

Tourism is a business – how to leverage the increases in value

For decades, the Jerusalem Municipality has suffered from structural deficits. The municipality’s operating deficit is expected to grow by about 8-10 percent annually.¹⁴ Current revenue sources, primarily from property tax revenue, cannot keep up with Jerusalem’s natural growth. Jerusalem must find new revenue sources to add to its investments in tourism infrastructure and tourism marketing.

Compared to current reliance on national government grants and the limited municipal budget, the use of the tax revenues to finance tourism promotion activities is a balanced and equitable way of promoting the tourism industry and ensuring its future sustainability. Currently, visitors to Israel are exempt from paying value-added tax (VAT) and do not pay any special tax on lodging or other tourism products, such as rental cars. A tourism tax provides a means to augment the limited local resources available to promote and encourage sustainable tourism practices.¹⁵ The implementation of a tourism tax is also an opportunity to create a sustainable source of funds to promote tourism that may be reinvested in the tourism sector.

Taxes affect the tourism sector in two important ways. First, taxes directly impact the profitability of tourism businesses and the price of tourism services. In Israel, property taxes are determined by building area as opposed to building value or revenue. Hotels may be particularly burdened by property taxes because they often maintain large non-revenue producing spaces such as lobbies, meeting areas, and large hallways. According to the Central Bureau of Statistics, in 2017, hotels paid about four percent of their revenue in taxes, and saw estimated profits of 19.5 percent (before deducting for depreciation and financing costs).¹⁶

Second, taxes on the tourism sector are an important source of revenue for governments around the world, and they may be used to finance tourism promotion and infrastructure development.¹⁷

¹³ Michal Raz-Chaiimovich, “The number of tourists in Israel increases – but their satisfaction decreases [Hebrew],” *Globes*, 6 Nov 2018.

¹⁴ Milken Innovation Center projection based on Central Bureau of Statistics and Jerusalem Municipality data

¹⁵ Sally Everett,, “Expecting tourists to pay more than locals can be controversial – but it’s the right thing to do,” *Quartz*, 5 July 2017; see an explanation of sustainable tourism taxes here:

<http://www.tourism4development2017.org/>

¹⁶ “Income, Expenditure and Profit(1) Of Hotels - 2017,” Central Bureau of Statistics, 2017

http://www.cbs.gov.il/hodaot2018n/28_18_162t1.pdf

¹⁷ “World Tourism Highlights, 2018” UNWTO, 2018

Table 1: Taxes affecting the tourism sector

Tax	Description
Corporate and Personal Income	Very few exemptions for the tourism sector
Real Estate	Municipalities set real estate taxes based on land area or rental income.
VAT	Many countries allow reduced VAT rates on the tourism sector
Occupancy Tax	Tax levied on short-term, overnight stays
Air passenger duty/ departure tax	Charges added to the cost of airfare
Rental Car Tax	Specific rates for car rentals
Other luxury taxes	Levied at resorts, entertainment venues, etc.

Source: Milken Innovation Center

Among these taxes on the tourism sector, we will focus on occupancy taxes. Occupancy taxes are often referred to as a ‘tourist tax,’ ‘hotel tax,’ or ‘city tax.’ Occupancy taxes are levied on short-term stays in local accommodations. These taxes may be levied per person per night (often called a ‘bed tax’) or per room per night (often called a ‘room tax’). The tax rates typically vary by the standard of accommodation (e.g. by a hotel’s star rating). Generally, these taxes are enabled by regional, state, or even national governments. These enabling statutes grant local authorities wide discretion over tax implementation use of funds: such as the setting of rates and exemptions, and establishing rules for collection and revenue management.

Some authorities, particularly in the United States, use the tax revenue to finance tourism sector development. Others incorporate the tax revenue into the municipal budget, and make budget allocations from the budget for tourism-related activities.

As shown in the case studies below, the use of tourism tax revenue to promote tourism significantly contributes to economic growth. The benchmark case studies examined below suggest that every shekel invested appropriately in tourism development will bring in 70 shekels into the economy. With this multiplier, the key question is how to implement a tax that enables Jerusalem to capitalize on these incremental revenues.

Benchmark Case Studies

The seven major tourist destinations below exhibit unique experiences in implementing tourism taxes. Lessons from their experience illustrate best practices and key lessons for implementing a successful tourism tax.

Asheville, NC (Buncombe County), USA

Lonely Planet’s #1 US destination for 2017, Asheville, NC, was one of the first American tourist destinations to levy a bed tax to develop and protect its tourism sector. In 1983, Buncombe County hoteliers organized and lobbied the State legislature to create a new law enabling the levy of a special lodging tax and to set aside the new to stimulate visitation. The use of tax revenue (6 percent of the cost of accommodation) is controlled by private industry representatives who sit on an 11-member volunteer board, the Buncombe County Tourism Development Authority (BCTDA). BCTDA transfers 75

percent of the tax revenue to the local independent non-profit agency, Explore Asheville, for marketing, and allocates the remaining 25 percent to a Tourism Product Development Fund.

Key Lessons

- Industry-led investment of public monies allows cooperation between industry and government for effective economic development
- Representatives on tourism promotions boards should come from different elements of the industry: such as large hotels, small hotels and B&Bs, and non-lodging tourism business
- Capital investments help increase community support for tourism promotion
- Tax revenues may be successfully directed by volunteer committees
- Transparency is a key element of community support and engagement

Cleveland, Ohio (Cuyahoga County), USA

Cuyahoga County instituted a lodging occupancy tax in 1992 with the primary goal of financing the construction of Cleveland's Rock and Roll Hall of Fame Museum and marketing Cleveland as a tourism destination. As of 2015, 60 percent of the revenues from the lodging tax (a total of 8.5 percent on the room cost) are used to market and promote Cleveland, and 40 percent are used to finance major capital improvement projects. Cleveland's TPA, Destination Cleveland, receives about 91 percent of its operating budget from lodging tax revenues and the remainder from partner dues. 32 representatives from business, local government, culture, healthcare, and academia make up Destination Cleveland's volunteer Board of Trustees.

Key Lessons:

- Tax revenue may be used to finance tourism-generating capital projects
- Projects may have dual use for both the tourism sector and residents (such as street lighting)
- Leveraging major events (such as the 2016 Republican National Convention) with follow-up activities can provide a lasting positive impact
- Cleveland's rebranding strategy in 2014 focused on highlighting and upgrading existing unique assets (eg. Cavaliers, Cleveland Clinic, convention center) as opposed to developing new ones

Balearic Islands, Spain

The Balearic Islands Government, home to Ibiza, Majorca, and Formentra, reinstated a "sustainable tourism tax" for overnight visitors in July 2016 to mitigate the significant environmental damage caused by its booming tourism sector. The regional government attempted and failed to implement a similar tax in 2002-2003. Since 2016, with the support and direct involvement of local industry shareholders and other interested parties, the regional government has successfully implemented a new and popular program to mitigate the substantial environmental damage caused by tourism. The Balearic Islands levies a tax of € 0.5 to 2 per person per night depending on the level of accommodation. Those under the age of 16 are exempt.

Following the failure to implement a similar tax in 2002, the Islands carried conducted an extensive survey of local stakeholders and visitors, primarily from the UK and Germany. They found that tourists will be more comfortable paying a sustainable tourism tax if they know exactly where their money is going. Thus, when it reinstated the tax in 2016, the government committed 100 percent of the tax revenues would to the control of a special Sustainable Tourism Committee. Members of the committee, from local government, businesses, unions, and environmental organizations approve

grants to local municipalities to implement environmental conservation efforts and encourage sustainable tourism practices. The Islands are expected to raise €120 million in tax revenue from over 12 million tourists in 2017. All supported projects are published on a website in multiple languages.

Key Lessons

- Full transparency in the decision-making process to both industry and visitors helps ease the implementation of an occupancy tax.
- Industry support and supervision is necessary to the successful implementation of a tourist tax.

Rome, Italy

Rome is one of the top tourism destinations in the world (#12 in 2017) and consistently among the top three in Europe (with Paris and London). Following the slashing of municipal budgets by the Italian government in 2011, many Italian cities looked for new ways to raise revenues. The Rome Municipality, struggling to cover its expenses, decided to implement an occupancy tax on tourism in 2011. One Roman official stated publicly that the tax was implemented “in order for the city of Rome not to tax the Romans.” Revenues from the tax are included in the city’s general operating budget. Rome taxes lodging from €3 to 7 per person per night, depending on the level of accommodation. The tax is applicable for up to 10 consecutive nights and exempts guests under the age of 10. Rome introduced the tax in 2011 nearly without warning. Many hoteliers and guests were surprised by the new law and had difficulty reporting the tax revenues to the local authorities. In 2016, the City of Rome opened a new tourism department, known as ‘Turisroma,’ with a budget of €5.5 million. The city raised €123 million in tourism tax revenue in 2016.

Key Lessons

- To prevent backlash and the introduction of a tax should be smooth and transparent to businesses and consumers.
- Collection should not burden the lodging establishments.
- TPA’s may be run as a municipal department.

Amsterdam

One of the most studied and celebrated city marketing efforts was the campaign to rebrand Amsterdam. In the early 2000s, Amsterdam evoked images of crime, soft drugs, and prostitution. Thanks to an exhaustive branding effort that involved all of the city’s sectors, Amsterdam became one of the highest quality and most expensive destinations in Europe. In 2004, a new organization “Amsterdam Partners,” a partnership between governments a local business, gathered the city’s multiple stakeholders to create a unified marketing language and strategy. This strategy, still used to do, is based around the “I Amsterdam” slogan. In 2008, the various organizations engaged in tourism development consolidated into “Amsterdam Marketing.” Business partners are represented in Amsterdam Marketing’s decision-making by the Amsterdam Metropolitan Area Club. Club membership grants access to the TPA’s brand and marketing tools. Business investment provides 50 percent of Amsterdam Marketing’s operating budget. Importantly, Amsterdam was the first major European capital to reach a tax collection agreement with Airbnb. Charging a 5 percent rate on accommodation cost, Amsterdam raised €46.4 million in tourism tax revenue in 2016, which was about 8 percent of Amsterdam’s total tax revenue. For 2017, Amsterdam is considering raising the tourism tax to encourage higher quality tourism and alleviating overcrowding tin the city center.

Key Lessons

- Significant investment in marketing and a unified branding can have a large payoff.

- A lodging tax can be a major revenue source.
- Cities should reach agreements with sharing economy players, like Airbnb, to collect taxes in a transparent and efficient way.
- Tax can be used to achieve other policy goals such as attracting specific groups of visitors and lowering local burdens.

Berlin

Berlin's tourism promotion agency, "visitBerlin" was founded in 1996 to encourage the development and growth of the recently unified German capital. Like the rest of Germany, Berlin was struggling to rise economically. From extensive campaigns and efforts, Berlin, transformed into a world economic and cultural capital and one of the most sought-after European destinations. Berlin instated a tourism tax in 2014 to raise city funds and help defray the costs of visitors to the metropolis. Berlin levies 5 percent on the cost of accommodation and, uniquely, exempts business travelers. VisitBerlin is jointly owned by the city of Berlin, a partner hotels organization, the Berlin investment bank, Berlin's airport, exposition center, and the Brandenburg tourism board.

Key Lessons

- Regional stakeholders, such as hotel associations, airport authorities and convention centers may own shares in the TPA.
- Local business stakeholders may be represented by independent organizations, such as Berlin's PartnerHotels. Membership in the organization grants access to visitBerlin's marketing services. The organization elects its representatives to visitBerlin's supervisory board.

Prague

Prague was one of the first European cities to open a local tourism promotion organization. Since 1958, "Prague City Tourism" (PCT) has managed Prague's tourist infrastructure and attracted visitors from around the world. A wholly owned corporation of the Prague Municipality, PCT's budget is comprised primarily of revenues from entrance fees to Prague's Old Town Hall, one of the city's main attractions. Prague charges an occupancy tax of CZK 15 per person per night. Revenue from the tax is collected is not the municipal budget.

Key Lessons

- TPAs may find sources of revenue beyond government transfers and marketing services.
- Even as a city department, the TPA should operate with full transparency to encourage partnerships with local stakeholders. PCT publishes extensive annual reports on its revenue, expenses, activities, and results.

Table three summarizes the population and geographic characteristics, and the tourism tax schemes of each of the localities above. Localities that collect an occupancy tax as a percentage of room cost tax between five and eight-and-a-half percent. Localities that charge a fixed amount charge between 50 cents to three dollars per person per night. With the tourism taxes, the localities raise revenues of between 26 and 515 million shekels.

Table 3: Benchmark Cities Profile Summary

	Asheville	Cleveland	Balearic Islands	Rome	Amsterdam	Berlin	Prague
Local Population in 2016* (thousands)	256	1,280	1,107	4,300	2,333	4,460	2,156
Geographic Area (km²)	1,709	1,184	5,000	5,352	2,580	3,743	496
Overnight visitors in 2016 (thousands)	10,900	7,400	12,000	9,600	8,000	12,700	7,000
Tax Scheme	6 percent on cost of room	8.5 percent on cost of accommodation	€0.5 - 2 per person per night	€3 - 7 per person per night	5 percent on cost of room	5 percent on cost of accommodation	CZK 15 per person per night
Revenues Generated in 2016 (millions)	\$ 18	\$ 22.5	€ 30**	€ 123	€ 46.4	€ 45	CZK 158
Revenues Generated in 2016 (NIS millions)	NIS 64	79	126	515	194.25	189	26

*metropolitan area

**tax instituted in second half of 2016, expected revenues of €120 million in 2017 (NIS 502 million)

Source: Milken Innovation Center

Table 4 summarizes the profiles, sources of funds, and activities of the tourism promotion agencies in the case studies. Tourism promotion agencies are often organized as public-private partnerships, but some are part of government bodies. The agencies maintain budgets on average of one million shekels per 200,000 tourists, and employ on average one staff person per 600,000 visitors. The agencies spend most of their resources on marketing activities, while the American agencies also invest in large infrastructure projects.

Table 4: Tourism Development Agency by City

	Asheville, NC	Cleveland, OH	Baleaeric Islands	Rome	Amsterdam	Berlin	Prague
	Explore Asheville	Destination Cleveland	Sustainable Tourism Promotion	TurisRoma	I Amsterdam	VisitBerlin	Prague City Tourism
Ownership	Independent non-profit organization	Independent non-profit organization	Government Department	Municipal Department	Independent non-profit organization	Independent non-profit organization	Municipal Company
Governance	Overseen by the Buncombe County Tourism Development Authority, an 11-member volunteer board	32- member volunteer Board of Trustees incl. politicians, industry, and community reps.	32- Member Committee for Sustainable Tourism Promotion incl. regional and local politicians, industry, community reps ⁺	Municipal Government	Amsterdam Marketing Supervisory Board incl. business, culture, municipality, airport, finance	9-member supervisory board incl. municipality, hotels, and business reps.	Municipal Government
Sources of Funds (2016)	Occupancy Tax 100%	Occupancy Tax 91% Membership Fees 9%	Occupancy Tax 100%	City Budget 100%	City Budget 50% City Member Fees 50%	Membership Fees 50% City Budget Shareholder Grants 44% 6%	Old Town Hall Entry 80% Ticket Sales 20%
Employees	25	50	4	50	45	200	30
2016 Budget	\$18 Million	\$22.5 Million	€ 30 M (first half of 2016) € 120 M expected in 2017	€5.5 Million	€10 Million	€22.6 Million	113 Million CZK
2016 Budget in NIS	NIS 64.15 Million	NIS 78.9 Million	NIS 125.6 Million (first half of 2016) NIS 502.4 Million	NIS 23 Million	NIS 42 Million	NIS 94.6 Million	NIS 18.6 Million
Use of Funds	Marketing 75% Capital Improvements 25%	Marketing Capital Improvements 60% 40%	Capital Improvements 100%	Marketing 100%	Marketing 100%	Marketing 100%	Marketing 100%

Source: Milken Innovation Center

Lessons from Best Practices

Seven lessons for policymakers emerged from the Milken Innovation Center's benchmark analysis of the use of tourism taxes around the world:

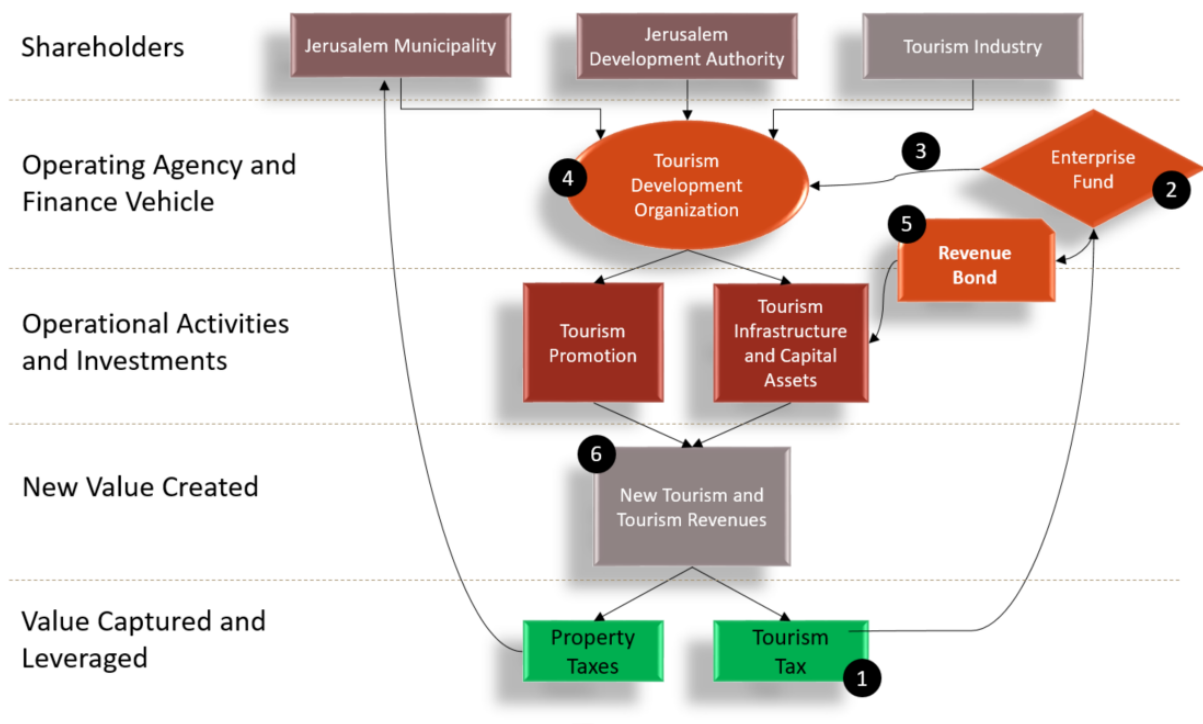
1. **Tourism taxes should be conceived in partnership with local stakeholders, especially tourism-related businesses. These stakeholders should have a role in deciding how the tax revenues are used. Decisions regarding the use of the tax revenue should be made in full transparency to all local stakeholders.**
2. **Expected tax revenue should be leveraged (e.g. via municipal bonds and tax anticipation notes) to finance tourism investments. Debt financing allows municipalities to use anticipated future cash flow to pay for current capital costs and thereby increase the chances of raising revenues in the future.**
3. **Tax collection should be simple and transparent for all parts of the tourism sector.**
4. **Tax authorities should reach collection agreements with business operating in the sharing economy, such as Airbnb.**
5. **Tourism promotion agencies should collect fees or membership from business partners for advertising service. Successful agencies collect membership or service fees from their business partners to create a sense of ownership over the agency.**
6. **Authorities should design tax regimes with equity concerns in mind. Some occupancy tax regimes favor certain groups over others, such as leisure over business visitors, adults over minors, or budget over luxury travelers, and international versus domestic tourists.**
7. **Tax and investment programs must maintain accurate and transparent data that informs the decision-making regarding tourism sector investment. This data often helps make the case for the importance of public investment in tourism infrastructure for the local economy.**

Model for a Jerusalem Tourism Development Organization

Based on best practices from developed countries, and discussions with representatives of key stakeholder groups, including the Government, municipality, tourism organizations, hotel associations, the Milken Innovation Center recommends establishing a tourism development organization for Jerusalem to encourage economic growth, create jobs, and improve the quality of life for Jerusalem residents and visitors. Such an agency would be formally responsible for promoting Jerusalem as a tourist destination for Israelis and international visitors, enhancing and expanding the role of the Jerusalem Development Authority (JDA) in carrying out this activity, and giving a dedicated stream of income to support their activities.

The organization could be incorporated as an independent public-private partnership between the tourism industry, community representatives, the Jerusalem Development Authority, and the Jerusalem Municipality. An independent agency that operates in partnership with the tourism industry will ensure stability of Jerusalem's tourism promotion efforts as national and municipal governments change.

Figure 4: Conceptual structure for a Jerusalem tourism development organization that leverages and captures the value created by strategic investments



Source: Milken Innovation Center

Figure 4 outlines the conceptual structure for how the tourism development organization captures and reinvests the value created by new tourism revenues. Revenues from a new tourism tax (1) are collected in a designated enterprise fund (2) overseen by the public-private board of directors and used solely for the promotion of tourism. The fund is used to support the budget of the Jerusalem tourism development organization (3). The organization (4) conducts tourism promotion activity such as marketing and conference planning, and invests in or directs the development of tourism infrastructure and capital assets. Tax revenues are also used to issue revenue bonds (5) that may be used to finance the development of infrastructure and capital assets. Tourism promotion and infrastructure investments lead to the growth of new tourism and tourism revenues (6). These revenues raise business activity whose value is captured by both the tourism tax and by the city's normal property tax.

The organization's board of directors will oversee the use of the funds collected via the tourism tax. While each sector will hold a seat on the organization's board of directors, representatives of the tourism industry will hold slightly larger weight. Board members should include representatives from large and small hotels, non-lodging tourism business such as tour guides and restaurants; the Jerusalem Municipality, the Jerusalem Development Authority; and the Government of Israel.

While the agency's board oversees the use of the tourism tax revenue, the agency may collect revenue from additional sources including membership fees – as practiced in Asheville, Berlin, Cleveland, and Amsterdam – and government grants.

Estimated Revenue from a Tourism Tax in Jerusalem

The Milken Innovation Center estimated the potential revenue from the implementation of a tourism tax in Jerusalem. The model used assumed three growth scenarios and different types of tax regimes.

Growth Scenarios

To estimate revenue from a tourism tax in Jerusalem, the Milken Innovation Center projected three scenarios for growth of incoming overnight international tourist stays in Jerusalem through 2021. From these growth scenarios, our analysis forecasted overnight hotel stays in Jerusalem based on average stays in the past eight years.

The low scenario assumes that the growth trends seen from 2010 to 2016 will continue. This period followed the Great Recession of 2009-2010, in which international tourism volume decreased, and includes drops in tourism as a result of Operation Protective Edge in 2014 and violent tensions in Jerusalem in 2015-2016.

The medium scenario continues the growth trend in tourism that began a few months after Operation Protective Edge in 2014 and the increase in international flights to Israel following the implementation of the EU-Israel Open Skies Agreement and the fall in oil prices.

The high scenario assumed 10 percent annual growth in tourism.

Estimate Assumptions

The analysis included the following assumptions: Revenue is based on the average tourist expenditure on hotel stays and the expected number of overnight stays in the three growth scenarios. To remain conservative in the projection, the estimate assumes that only 50 percent of potential revenues will be collection. Additionally, the estimate assumes that five percent of the remaining revenue will be lost and/or uncollectable. Finally, 0.25 percent of the revenue will be recovered in penalties for late or faulty payment.

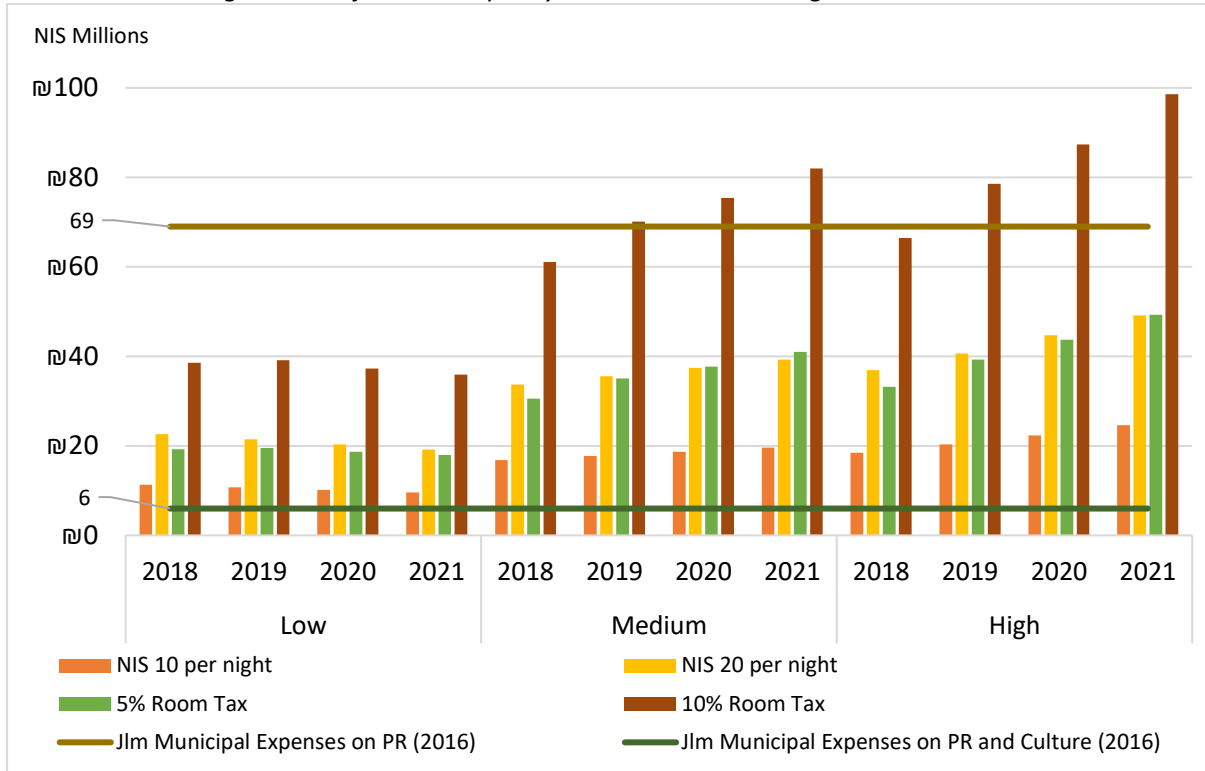
Tax Schemes

Estimates were made for the two primary types of taxes used around the world: a fixed fee per visitor, and tax as a percentage of room cost. Our model did not graduate fees based on the level of accommodation (e.g. budget versus luxury).¹⁸

The estimates included a fixed fee per room of NIS 10 per night and NIS 20 per night, amounts on par with fees across the world which range between \$3 and \$15. A tax as percentage of room cost was estimated at five and ten percent of the room price, tax rates correspondent with sales tax and special tourist VAT rates from around the world.

¹⁸ Graduated fees may be applied and are common practice in European cities. In 2017. According to the classification of the Central Bureau of Statistics, Jerusalem hosts 6,562 (61 percent) luxury hotel rooms (levels I and II), 3,275 (30 percent) budget rooms (level III) and 904 unclassified rooms. See Maya Chosen, Michal Korach, *Jerusalem – Facts and Trends 2018*, Jerusalem Institute for Policy Studies

Figure 5: Projected occupancy tax revenue in three growth scenarios



Source: Milken Innovation Center

The estimates show that by 2019, the implementation of a 10 percent room tax on overnight stays will generate annual revenues that exceed Jerusalem’s annual expenditure on PR and Culture.

Best practices suggest and Jerusalem stakeholders consulted recommend that the tax revenues be used in addition to municipal budgets committed to tourism promotion. This revenue source should complement existing expenditures. As indicated in the benchmarks above, tourism industry stakeholders should have a direct say over the use of the funds, thus they must be collected and used in addition to regular municipal budgets.

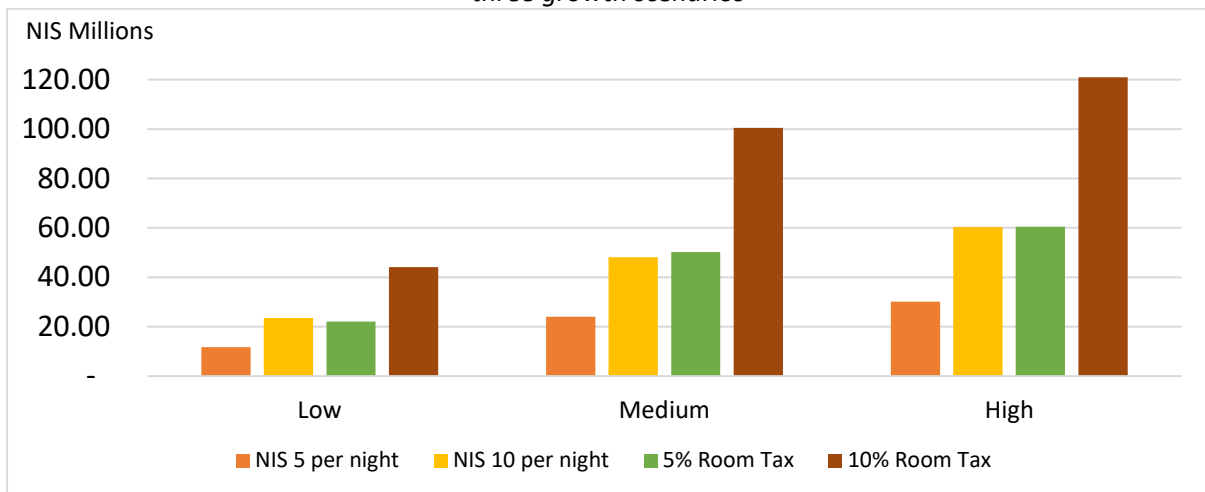
Leveraging Future Revenues

Jerusalem can invest fully in its tourism by capturing the value of future tourism tax cash flows and using that value to finance improvements of Jerusalem’s tourism assets. For example, we conservatively estimate that a NIS 10 tax per night implemented through 2021 will permit the issuing of bonds for NIS 24 million, while still leaving around NIS 13.5 million available annually to cover the cost of bond issuance, operating costs, and capital improvements.

The Milken Innovation Center estimate makes the following conservative assumptions: 25 percent of the fund will remain liquid to cover debt payments, the debt coverage ratio will be 1.5, bonds will be issued for 10-year terms, and the annual interest rate is six percent.

The estimated potential for issuing revenue bonds based on different tourism tax schemes in different tourism growth scenarios are outlined in figure 6 below.

Figure 6: Financing potential of issuing revenue bonds based on expected occupancy tax revenue in three growth scenarios



Source: Milken Innovation Center

Next Steps

The implementation of a tourism tax and the establishment of an independent public-private tourism agency to oversee the use of the tax revenues will help ensure the sustainability of Jerusalem’s tourism sector. Tourists are accustomed to paying tourism taxes around the world, and it is time that Jerusalem collects some form of payment. Tourists will not be deterred by small price increases, while Jerusalem will develop a new source of revenue to finance tourism promotion and improve the products that the city has to offer.

Policymakers interested in furthering the important idea of a tourism tax in Jerusalem should take the following next steps:

1. Gather support among the tourism sector, particularly Jerusalem hoteliers.
2. Develop the necessary legal framework and national political support to allow the Jerusalem Municipality to collect a tax and use its revenues to issue bonds.
3. Establish an independent tourism promotion agency.
4. Begin to collect tax in partnership with Jerusalem’s hotels.

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