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## [A Careless Tax on Tourists](#)



Starting from 2018, there will be a new tax in Russia, applied experimentally in just four regions: the annexed Crimea, Altai, Krasnodar and Stavropol. This so-called tourist tax is an idea Putin shared last year with the government, which as usual started to implement the head of state's initiative without checking whether it was well-timed or convenient for Russians – both tourists and tour operators. [Adopted](#) by the State Duma on the first reading at the end of June, the authorities initially intended to introduce the tax at the start of this year, but postponed it after failing to determine who needs it, and where the funds collected from tourists will be accumulated.

Judging by comments from the parties concerned, the answers to these questions have not been found. But such matters have never stood in the way of the Russian government, especially if the issue at stake is extracting funds from its already poverty-stricken population. Meanwhile, the new tax is ideologically dangerous, even from the point of view of the Kremlin policy adepts, since it threatens the plans to turn annexed Crimea into a Russian "tourist gem". If tax rates and prices get too high, law-abiding Russian citizens will choose Turkey over the sanctions-hit peninsula.

After 2022, the tax is expected to expand from the four regions included in the pilot project, applying to the whole territory of the Russian Federation. The purpose of the fee is well-intentioned: The funds will be used to

develop the regions' tourist infrastructure, and, [according to](#) Putin, the tax should be introduced "very subtly, without raising prices too much, discreetly." But discretion is unlikely: Judging by the version of the law approved by the Duma, the fee will be collected not only from holidaymakers but from everyone who visits the four regions, even on business trips. According to the authors of the bill, following introduction of the fee, in 2018-2022 regional budgets will receive an additional 2.02 billion rubles in Stavropol, 8.3 billion in Krasnodar and 16.4 billion in Crimea.

In fact, such a practice has already been tried in Russia. The law "On tourist fees from individuals" was adopted in 1991. It was useless. It applied only to independent tourists, the majority in Russia, but because no controls were established, the law was abolished as ineffective in 2004. In 2015 the Ministry of North Caucasus Affairs proposed charging tourists visiting North Caucasus resorts 50-150 rubles (\$1-3) a day. A year later, Putin took an interest in this proposal and pushed it to the federal level.

So, what is the current price? In August 2016, Finance Minister Anton Siluanov mentioned a level of 50-100 rubles (*i.e.* about \$1-2) per person per day, which [according to](#) the minister, is "acceptable for tourists." At the same time, his ministry referred to the Italian practice, where the average resort fee is 1-2 euros (by comparison, the tourist tax is 13.25% of the hotel room cost in New York, 3.2% in Vienna, and, depending on the accommodation standard, from 2.15 to 8.75 euros a day in Brussels). The Stavropol region's authorities, in turn, came up with the idea of establishing the tourist fee at 3% on the cost of a package tour. That's standard practice in Belarus and other post-Soviet countries, which, with all due respect, are not major world tourist destinations.

In the final version of the document, each region is supposed to establish the amount of the tourist tax for itself; the common rule is that it cannot exceed 100 rubles per person per day. In Crimea, where it was proposed to charge tourists 300 rubles for the entire time they spend on the peninsula, neither local officials nor tour operators are excited about the regulation. In the end, the authorities' concerns that the amount included in the law will scare away tourists were ignored by the federal center; annexed Crimea should be getting used to the fact that since it's no longer useful for the Kremlin's propagandistic and populist aspirations, its special status is gradually vanishing.

It should be mentioned that the Ukrainian Crimea has much more extensive experience in imposing additional taxes on the tourist industry than Russian territories. Before 2011, there was a tourist tax in the autonomous Republic of Crimea, established by the Ukrainian Cabinet of Ministers at 10% of the tax-free minimal income, *i.e.* approximately 1.7 hryvnia (about 20 cents by 2011). Altogether, it brought very little to the region's budget, so in addition, the region's parliament introduced a so-called recreational fee fixed at 5 hryvnia, paid not at the place of accommodation, but immediately upon entrance to Crimea.

In 2011 the Ukrainian authorities introduced a new tourist fee, established at 1% of the cost of accommodation. Judging from the Crimean government's [reports](#), during the first year cities on the peninsula collected 8.5 million hryvnia, *i.e.* more than \$1 million. The greatest amount was collected in Yalta (3.3 million hryvnia), Alushta (1.3 million), and Yevpatoria (1.2 million). Compared to the previous tourist tax, total revenue increased eight-fold. It seemed that the optimal formula for resort taxation had been found, since even private individuals involved in tourist accommodation business, who used to avoid paying taxes, started paying this fee.

After Russia annexed the peninsula, Crimea *de facto* not only lost its legal status recognized by international law, which caused numerous financial problems for its inhabitants, but it also lost its informal title of "Resort No.1." Crimean sanatoria continue to be [less popular](#) than the cities of the Krasnodar region - Sochi, Anapa, Gelendzhik. If Yalta was visited by 2 million holidaymakers last year, Sochi saw three times as many.

In future, however, the main competitors for Crimean hoteliers will not be their Russian colleagues, who will need to collect additional funds from visitors and report to the regional authorities themselves, but Turkish resorts. After the resumption of Russian-Turkish friendship, tour operators are desperately dumping prices, trying to lure back to Antalya's beaches the tourists who last year preferred to go to Yalta or Sochi because of the crisis in relations between Moscow and Ankara. That makes it unlikely that Crimea's authorities will manage to repeat their success from 2016, when, according to some [data](#), almost 6 million people visited the peninsula.

References to the foreign experience don't really work in this case. To adopt the Italian model, for example, the tourist infrastructure of the Russian regions (including the annexed Crimea) should first be upgraded to the European level, so citizens will understand they are in a seaside resort town even without an obligation to pay the tourist tax. So far, it is too early to talk about this; the recreational facilities of Russian resorts, as well as Crimea's, leave much to be desired. Additional expenses that could scare tourists away - in the end, it would cost an additional 700 rubles, or over 10 euros, per week - are just one side of the coin. The other side takes us back to the reasons which made Sevastopol reject the fee.

While the Ukrainian authorities managed to legalize a major part of the tourist business in Crimea by 2013, today it is deep underground once again. According to information from the deputy governor of Sevastopol, Yury Krivoy, the ratio between legal and non-declared, informal accommodation businesses in the city is approximately one to five. According to him, the fee needs to be introduced only once the majority of tourist facilities are operating legally.

Tour operators themselves say the same thing, arguing that when you take the size of the shadow sector into account, the tax will simply not work without a different approach. As Aleksan Mkrchyan, a presidium member of the tourist agencies' alliance, [noted](#), tourists visiting Sochi will pay 100 rubles a day if they stay in an expensive hotel, but people renting private accommodation for 300 rubles a day will refuse to pay an additional 100, as it would increase the price of accommodation by one-third. It is unlikely that accommodation owners will insist on paying a tax that is capable of depriving them of guests and income. In this way, conditions are being created that will make it more beneficial for resort accommodation owners to slip back into the informal sector, and for holidaymakers to go to the Mediterranean, not the Black Sea.

The authorities have proposed that the tax will be charged by hotels, private entrepreneurs and individuals who provide temporary accommodation to holidaymakers and are registered with the tax authorities. After receiving "tourist tax operator" status, all these parties will be obliged to collect the tax and pay it to the local budgets. Local authorities will list such operators in a registry and require them to regularly report on the funds collected. There are certain doubts that accommodation owners will be enthusiastic about such a headache, and they may well return to avoiding taxes, so that there will be nothing in the way of their earning money and tourists enjoying their vacations.

A decline in organized tourism, Russians returning to Turkish holiday resorts and entrepreneurs joining the shadow economy sector: All this can lead to a simple failure of the tourist season in the regions taking part in the experiment. For the annexed Crimea, this would mean the return of summer 2014, when local residents witnessed empty beaches at the very height of the season.

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