

RESCUE AND RECOVERY OF INTERNATIONAL TOURISM

International Tourism is an important part of Prague's economy. Since tourism depends on open borders and consumer confidence, the timeline for a return to 2019 tourist levels may take longer than other parts of the economic recovery. How well core tourism industries such as the airport, congress center, hotels, restaurants, and major cultural and tourist sites are sustained during the crisis will determine how the city will be able to respond to any increase in global travel.

Proposal for
Recovery

Proposal:

To preserve the infrastructure for international tourism so that the country could recapture as quickly as possible the national wealth creation lost by virtual cessation of international travel, the City of Prague and national government would introduce several measures aimed at keeping viable enterprises solvent and creating a more stable industry after the global travel returns.

- 1) Program for compensating the fixed costs of businesses reliant on international travel.
- 2) Rooms, apartments, and homes rented for 1 month or less would be regulated and subject to the same taxation as hotel or pension.
- 3) VAT on accommodation would be reduced to 10% until December 31, 2021.
- 4) The maximum government compensation for Antivirus employment support would be established according to regional cost-of-living and wages, and not national.
- 5) To help the government recoup expenditures, the room tax would be raised and half the money would be used to retire government debt. The other half of the room tax revenue would be dedicated to investments into public tourism infrastructure, international leisure tourism, and MICE events.

Background:

In the creation of national wealth, international tourism serves the same role of exports: it creates the opportunity for income created abroad to be spent on Czech services (hotels, restaurants, theater, museums, etc.) and products (retail sales). Since 1989, international tourism has increased its importance in the Czech economy. Income from international tourists now account for slightly more than half of all tourism output in the country.

Tourism Contribution to the Czech Economy	2018
National Tourism Gross Value-Added as % of Total Gross Value-Added	2.75%
Total Tourism Output (CZK millions)	336,852
Total Gross Value-Added (CZK millions)	131,959
Total International (Inbound) (CZK millions)	168,529
International as % Total Tourism Output	50.03%

Source: Czech Statistical Office

The increased importance of international tourism particularly applies to Prague. The city relies overwhelmingly on foreign tourists spending both directly on the tourism and culture industry and indirectly on other products and services to create value. Not only do more foreign tourists visit the city, but international tourists also stay longer (2.4 days to 1.7 days for residents).

Gross Value-added in the Prague Economy, CZK millions	2018
Prague Gross Value-Added	1,236,924
Trade, Accommodation, Food Services	273,796
Trade, Accommodation, Food Services % Total	22.14%

Source: Czech Statistical Office

International Impact on Prague Tourism	2019
Non-resident visitors	6,803,741
% total visitors	84.60%
Non-resident overnight stays	16,371,962
% total overnight stays	88.62%
Average Length of Stay (days)	2.4

Source: Prague Tourism Office

Tourism has been decimated by the spread of the coronavirus and then stopped by the government restrictions needed to contain the virus. If the international tourism infrastructure in Prague is too damaged by bankruptcies, the ability of the city and country to recover after the virus is suppressed could extend for years instead of months. That is why we propose special measures aimed at supporting the country's essential international tourism infrastructure.

Program Proposal

- 1) We estimate that international tourism accounts for 15-25% of the Prague economy either directly or indirectly. To sustain the infrastructure necessary to support the economic level, we propose to create a tourism key infrastructure program. This fund would be based partly on a newly implemented Danish program for compensating small and mid-size businesses for fixed costs.
 - a. Companies applying for this program must prove 1) international tourism (leisure or business) accounted for 50% or more of their revenues and 2) their overall revenue had dropped by 50% or more. Companies must be a tax resident of the Czech Republic.
 - b. The government would compensate qualifying companies for 80% of essential fixed costs occurring from March 1 through May 30. This could be extended through August 31 if international restrictions on travel still apply. A list of essential fixed costs would be specified by decree after consultation with relevant industry associations. Companies would have to present contracts and invoices. The fixed costs would be compensated monthly, and the government compensation would be terminated if the company portion of the payment for the previous month remain unpaid.
 - c. The total amount of this program would be CZK 2 billion for a three-month period. Another CZK 2 billion would be added for each three-month extension of the program.
 - d. Maximum compensation to any company would total CZK 100 million for a three-month period. The compensation to any single company could not exceed their average annual total tax contributions (corporate, VAT, social security, other) for 2017-2019.
 - e. Companies could choose to receive COVID program loans or guarantees or the international tourism program support, but not both. Companies receiving the international tourism program support also could receive Anti-Virus employment support.

- 2) To recoup these costs, the residence tax would be raised to CZK 60. The entire tax revenue would be dedicated to the tourist industry. 50% of the new tax would retire government debt until the entire cost of the international tourism support program had been covered. 20% of the tax would be invested in public tourism infrastructure projects. 15% would support domestic tourism in 2020 and international tourism in cooperation with the Prague Airport starting in 2021. 15% would be used to increase international MICE business.

Examples of Room Taxes in EU member countries, 2020

Percentage of Cost	Rate	Comments
Berlin	5%	capped at 21 days
Amsterdam	7%	

Flat Charge	Amount	Comments
Austria	.36-3.2 euros	
Dresden	1.30 euros	
Spain	2.50 euros	Five-star
	1 euro	Four-star
	.50 euro	Other
France	0.88 euro	Hostels
	3.30 euros	Five star
Italy	1.50 euros	
	10 euros	Rome, Venice
Greece	4 euros	
Portugal	2 euros	Lisbon
Slovenia	2.5 euros	maximum national tax
	3.13 euros	Ljubjana, Bled

Source: National finance ministries, city tourism sites.

Proposed Room Tax Revenue and Program Compensation Table

Annual room nights	16,000,000	14,000,000	12,000,000
Total Room Tax Revenue	960,000,000	840,000,000	720,000,000
<i>Compensation for Rescue Program</i>	480,000,000	420,000,000	360,000,000
<i>Investment into Public Tourism Infrastructure</i>	192,000,000	168,000,000	144,000,000
<i>International Tourism Promotion</i>	144,000,000	126,000,000	108,000,000
<i>MICE Promotion</i>	144,000,000	126,000,000	108,000,000
Years until Full Compensation (CZK 2 Billion)	4.17	4.76	5.56
Years until Full Compensation (CZK 4 Billion)	8.33	9.52	11.11
Years until Full Compensation (CZK 6 Billion)	12.50	14.29	16.67

Source: Prague Tourism Office, AmCham

- 3) Private homes, apartments or rooms rented for one month or less through Air BNB and other similar platforms would be subject to the same regulations and taxes as any other accommodation starting in September 2020.

Unregulated Accommodation	2020
Number of Listed Apartments or Houses on AirBNB	10,637
Avg. Rental Price	2,261
Days Occupied Annually	113
Estimated Room Tax Revenue (Current)	25,241,601
Estimated Room Tax Revenue (Proposed)	72,118,860
Estimated Revenue from Unregulated Accommodation	2,717,679,041

Source: Inside AirBNB, Amcham

- 4) VAT on industries dependent on international travel would be reduced to 10% from March 2020 through December 2021.

- 5) The government's Anti-Virus program could be extended until June 30. Instead of setting a maximum level of compensation based on national wage levels, compensation would be set according to the median wage in each region.

Regional Comparison of GDP and Wages	2019, private sector				
	GDP per Capita 2018, CZK	Median gross wage, CZK	Total employed (1000s)	Professionals (1000s)	Professional%Total
National level	500,973	30,158	3,071.0	362.0	11.79%
Prague	1,056,761	36,054	585.0	138.1	23.60%
Central Bohemian	453,456	31,950	339.2	28.0	8.25%
South Bohemian	413,901	28,255	169.3	13.2	7.77%
Plzensky	449,822	30,864	165.9	15.9	9.59%
Karlovarsky	323,718	27,379	65.3	3.5	5.44%
Ustecky	358,988	29,177	191.2	13.2	6.92%
Liberecky	386,789	30,057	115.4	9.5	8.25%
Kralovehradecky	450,841	29,816	156.0	11.7	7.51%
Pardubicky	410,635	28,742	143.8	12.5	8.66%
Vysocina region	405,488	29,198	135.6	10.1	7.46%
South Moravian	485,662	29,674	351.9	51.6	14.66%
Olomoucky	392,855	28,071	166.8	16.1	9.63%
Zlinsky	424,876	28,309	168.2	15.5	9.19%
Moravian-Silesian	418,263	28,646	319.6	29.9	9.36%