Albert Stöckl; Lena Schachinger

The Austrian Financial Reform of 2015/16 and its impact on SMEs in the tourism industry

106 – Family Business Management

Abstract

Purpose - The purpose of this paper is to investigate the Austrian Financial Reform 2015/16 and its impact on SMEs in the Austrian tourism sector. The focus is set on aspects such as competitiveness of small Austrian tourism businesses and Austria's attractiveness as a tourism destination. As no study has dealt with the impact of legislative measures on tourism activities and SMEs in Austria so far, this paper attempts to close this gap. Approach - A review of related literature and an accurate assessment of the novel paragraphs in the relevant legislative texts provide information on legal changes pertaining to tourism in Austria. Eight in-depth interviews, totaling a duration of 226 minutes with experts in the field including tax consultants, managing directors of regional tourism boards and tourism operators were carried out to identify critical issues in connection with the new legal policies. Furthermore, future impacts and perspectives are evaluated. All interviews were recorded and transcribed to facilitate analysis. Coding followed a general framework of identifying thematic categories followed by interpretation and summing up of findings. Findings - The increase in value added tax and the mandatory introduction of cash registers significantly affect business operations in tourism. Findings reveal that especially small-sized companies – which in the national tourism context are the vast majority of all businesses - struggle due to these new legal regulations. However, external factors such as interest rates and geopolitical affairs have to be taken into account as well. Thanks to a good tourism infrastructure, high-quality offers and high security standards, Austrian tourism operators may be able to maintain a competitive position. Practical implications - Based on the results of this study, effective tourism policies can be developed in order to establish favorable conditions for tourism in Austria. A number of measures and practical implications are outlined in this paper including recommendations concerning investment activities, amortization periods, technical solutions for cash registers and, finally, the advice to consult a professional tax advisor even as a small business. Both, qualitative and quantitative research on the topic along with rigid monitoring on how the sector develops (number of abandonment of the enterprises, bankruptcies) is suggested.

Keywords:

Tax reforms, impact SME management, VAT, tourism, Austria

Einleitung

Background of the study

The competitive position and attractiveness of destinations in the tourism context are highly dependent on the legal environment and its regulatory framework. However, a review of existing literature on success factors in tourism shows that the impact of state interference and tax policies haven't yet been closely investigated. This is quite surprising as there is evidence that the political, juridical and fiscal environment play a crucial role in the development of tourism in general, and tourism in particular; especially when it comes to taxing, pricing and (labor) costs (Stöckl & Caseau, 2016). Overall, it can be assumed that state-imposed, i.e. legislative factors, are of much higher relevance than any other criteria.

Tourism in Austria

Tourism is one of the most important sectors of the Austrian economy. In 2014, the small country of Austria (8.7 million inhabitants) registered 37.6 million tourist arrivals and 131.9 million overnight stays (Statistik Austria, 2016; AIER, 2016). According to the UNWTO, Austria hosts 2,673.2 tourists per 1,000 inhabitants each year (UNWTO, 2016). This makes Austria one of the world's tourism "hot-spots". Tourism accounts for 7.1% of the nation's GDP (in total EUR 329 billion in 2014) which equals EUR 24.108 billion. Putting that into relation, tourism turnover in Austria more or less equals the total GDP of countries like Jamaica (EUR 25.184 billion) or Mauritius (EUR 20.912 billion) (IMF, 2016).

Austria's 2015 Financial Reform

Governmental intervention is deemed necessary due to the importance of tourism activities for the state's economy (Airey, 2015). Legislation in Austria does not only provide a framework for business procedures, but may also have a significant impact on decision-making in tourism management. In particular tax rates are often subject to amendments. According to Gunn (2002, pp. 18-19), successful tourism planning is based on profound knowledge of the tourism market and its attractiveness for tourists. Hence, collaboration between political actors and the public sector needs to be fostered. The Travel & Tourism Competitiveness Index (TTCI), regularly determined by the World Economic Forum (WEF), provides information on the attractiveness of a country's tourism industry. Variables such as infrastructure, statutory requirements as well as natural and cultural resources are considered. The TTCI 2015 ranks Austria number five in terms of destination competitiveness, after Spain, France, Germany, the United States, the United Kingdom and Switzerland (WEF, 2015, p. 5). Austria provides good basic conditions for tourism as well as a great variety of offers. Regions such as the Wachau (UNESCO World Heritage since the year 2000) are perceived as valuable assets. In terms of pricing, however, Austria cannot compete with comparable destinations. According to WEF (2015, p. 5), Austria is ranked 132 out of 140 countries in the TTCI 2015 for price competitiveness. Even though prices in Austria are rather high, other factors such as (political) security and stable weather conditions can be decisive for choosing a holiday in Austria. However, as suggested by Goeldner and Ritchie (2009, pp. 326) six main types of barriers to travel exist. Aspects such as the cost of travelling, lack of time or interest, health problems, family obligations or concerns regarding travel safety have to be mentioned in a tourism context. Over the past decades, research on policy-making in tourism has widely been neglected. Recently, however, the importance of political dimensions in tourism planning has gained recognition (Airey, 2015, p. 246). **Four new regulations** have been adopted in relation to the Austrian Financial Reform 2015. These include the following: an increase in value added tax on lodging from 10 to 13 percent, mandatory cash registers if annual net revenues equal or exceed EUR 15,000, new regulations regarding real estate transfer tax, and the amortization period of investments in buildings. Each of these four regulations may significantly impact future tourism planning in Austria. Preliminary research has revealed that especially the increase in value added tax on lodging as well as the mandatory cash register directive may raise discontent amongst tourism stakeholders. Compared to other European countries, taxes in Austria are fairly high. Due to fierce competition, pricing may prove to be particularly difficult in a tourism context, considering that Austria is surrounded by tourism countries. Some of these neighbors have been gaining international prestige and are strong national and regional destination brands such as Italy, Germany or Croatia. The question has to be raised whether increased costs can be passed on to tourists or if businesses have to bear additional expenditures themselves. Personnel structures may also have to be adapted. Hence, the goal of this study is to investigate if and how the Austrian tourism industry is affected by the Austrian Financial Reform 2015. As the entire Austrian tourism industry is likely to be affected by the Austrian Financial Reform 2015, the purpose of this study is to analyze the most significant amendments thereof and possible impacts on tourism.

Methodology

For this study, first an in-depth review of the pertinent literature on tourism policy and legislation was conducted in order to identify key aspects. Furthermore, secondary data regarding the Austrian Financial Reform 2015 was analyzed. Based on these findings, the basic conceptual framework was established. After that in-depth interviews with experts in the fields of tourism and Austrian legislation were conducted with the objective of collecting rich and extensive data. Interviews were conducted in German following a semi-structured format. An interview guide with key topics ensured that all relevant aspects were covered but leaving room for complementary topics. Interviews were audio-taped and additional notes were taken. The following experts were interviewed: CEO of Accurata Tax Consulting (referred to as I1); -Maker, Landlord and Guesthouse owner in the Wachau region (I2); Managing Director of Krems Tourism (I3); Proprietor of a Restaurant in a tourism hotspot area (I4); Proprietor and Landlord of a Restaurant in a tourism hot spot area (I5); CEO section tourism and leisure management, Chamber of Commerce (I6); Managing director, Tourist Board of Lower Austria (I7); Head of public affairs, Austrian Hotelier Association (I8). In total 226 minutes of interviews were taped.

The overall objective of the applied qualitative data analysis is to provide valid and beneficial answers to the research questions stated earlier. All interviews were recorded and transcribed verbatim which allowed detailed analysis. Given the semi-structured format of the interviews the main themes/categories for coding were based on the interview topics. For upcoming themes during the interview new codes were developed. This coding procedure supported the structuring of interviewees' statements. The final step involved the interpretation of findings which were compared with and linked to law extracts and existing literature.

Findings

As already mentioned above, **the Austrian Financial Reform** 2015/2016 introduced four major amendments which may significantly impact tourism activities in Austria. Findings of the expert interviews in relation to these amendments are presented in the following.

Increase of VAT

The most important amendment may be the increase in value added tax (VAT) from 10 to 13 percent. Lodging, gastronomy and other cultural services may especially be affected. Moreover, hospitality businesses such as taverns and restaurants require a cash register as of January 2016 in case annual net revenues exceed EUR 15,000. Every cash sale has to be recorded (WKÖ, 2015b). Small family-owned businesses may be particularly burdened by these regulations. Due to fierce competition and price adjustments related to the tax increase, Austria's competitiveness in Europe may significantly decline.

Austrian businesses may struggle to survive or may eventually cease operations. In order to remain competitive in the European tourism industry, appropriate framework conditions are necessary (DiePresse, 2015a). For any payment in ( ) tourism effected after September 1, 2016, the tax rate of 13 percent applies without exception (WKÖ Fachverband Hotellerie, 2015, pp. 2-3). Breakfast including beverages may be taxed at 10 percent, provided that services directly relate to lodging. If prices are stated separately, food is taxed at 10 percent, lodging at 13 percent and beverages including at 20 percent. As far as package deals are concerned, prices for lodging and meals have to be split according to their costs (ibid., pp. 3-7). The financial reform and the increased VAT mainly affect entrepreneurs and can therefore be seen as one-sided and unbalanced (I1). Especially the area of lodging is affected, provided that total annual revenues exceed EUR 30,000. The question has to be raised whether prices can be increased to the same extent in order to cover additional costs (I1). growing regions in southern Germany, northern Italy and Slovenia can be considered to be Austria's direct competitors for tourism. Disadvantages in terms of pricing are clearly recognizable. Hence, prices play an important role (I7). There is a low level of awareness that Austria is in fierce international competition when it comes to tourism offerings (I6). As a matter of fact, tourism is highly price sensitive.

Mandatory Cash Registers

The directive for mandatory cash registers has been introduced with the objective to prevent illicit earnings, tax evasion and fraud in order to assure fair competition. Tax authorities are responsible for carrying out regular controls (Bundesministerium für Finanzen [BMF], 2016a, pp. 2-4). According to BMF (2015), a cash register can be referred to as an electronic recording system which can be utilized to record and document every single cash receipt. Acquisition costs for simple cash register systems range from EUR 400 to 1,000. The use of such a recording system shall facilitate collaboration between businesses and financial authorities. Moreover, cash registers may be seen as a detailed reporting and merchandise management system for entrepreneurs. A cash register is mandatory if annual net revenues equal or exceed EUR 15,000 provided that annual cash revenues exceed EUR 7,500. Three areas are concerned with the regulation on mandatory cash registers and the duty to issue payment receipts: gastronomic businesses, taverns and small lodging establishments. All these business are essential parts of the Austrian tourism offering (I7) and therefore affect this sector particularly. Tax authorities grant financial support up to EUR 200, which would entirely cover the costs for a basic system. A broad offer of inexpensive providers of register systems has emerged: *Ready2order* is a mobile App developed by a Viennese start-up which charges 1.4 percent of the net turnover as user fee and EUR 30,- per month for license and support; *123bon* transfers receipts electronically for EUR 30,- per month; *dieRegistrierkasse.at* exists in three different versions, the most basic one costs EUR 24,- per month. Other examples are: *orderbird, Etron, HelloCash.at, Cbird.at, Offisy, Pocketbill.at, Gastrofix* and *GMS* (Wienerroither, 2015).

Real Estate Transfer Tax

In general, any acquisition of property is subject to real estate transfer tax. Basically, there are four scenarios which may result in the transfer of property: (1) the conclusion of a legal transaction which recognizes the entitlement of the transfer of ownership; (2) sales transactions which acknowledge the further transfer of property rights; (3) the acquisition of the right of realization of property; or (4) transfer of property in case 95 percent of all real asset shares are united in single ownership within a period of five years. The term 'property' refers to land, buildings and ancillary parts such as business inventory. No real estate transfer tax is charged in case the property's basis for assessment does not exceed EUR 1,100 or if the acquisition of property is fully or partly free of charge. Tax exemption is only granted up to a maximum amount of EUR 900,000. The real estate transfer tax is calculated based on the value of the equivalent consideration (e.g. sales price). As far as the real estate transfer tax is concerned, the views of the interviewees differ considerably. Some experts expect fewer business transfers. Taking over a business may be perceived as less attractive. However, significant impacts are rather unlikely. Even though suitable successors may be present, the question of economic profitability has to be raised. Family-owned businesses will be burdened the most (I8, I3). In contrast to the general tendency it was also argued that hardly anybody is concerned with the real estate transfer tax at this point (I1); the tax amount due will be even less in some cases.

Amortization period of buildings

Finally, the amortization period of buildings was also restructured in the course of the financial reform. As defined by law on income taxes, assets which are owned by the company and used for business purposes to the extent of more than 50 percent are considered business property. Business property must be capitalized and shown in the register of assets. As from 2016, the depreciable amount is calculated by dividing the cost of manufacturing or acquisition by the statutory useful life of 40 years or by multiplying costs by 2.5 percent (WKÖ, 2016, pp. 1-6). Analysis shows that experts' opinions regarding the extended amortization period of buildings vary considerably. On the one hand, it was stated that hardly anybody will notice the extended amortization period of buildings (I1). Changes will only be noticed at the moment the annual financial statement is elaborated. Or it was argued that that the extension of the amortization period will not have a significant impact as urgent investments have to be made in any case (I5). Current low interest rates can be seen as advantageous. On the other hand, concerns have been raised in terms of quality standards and changes of investment activities. The extended amortization period of buildings will have a significant impact as profit taxes increase due to lower depreciation (I8). Especially in respect of timely replacements this raises a problem, and the overall investment mood in Austria is restrained anyways. There has been a general lack of investments of Austrian companies in the last years (I6). The Austrian Department of Commerce admitted that a lack capital expenditure in the amount of estimated EUR 100 million is slowing down the economy. It was stated that investments in e.g. bathroom facilities are considered as 'investments linked to the building'. Depreciation is calculated based on a 40-year period, which does not correspond to its actual lifespan. For this reason, investments are considerably more expensive (I8).

Conclusion

Research on the Austrian Financial Reform 2015 raised the question to which extent the Austrian tourism industry will be affected by new regulations. Findings reveal that the increased value added tax on lodging will most likely cause an increase in prices for the customer. Online booking platforms allow tourists to thoroughly evaluate tourism offers. Due to high transparency and comparability of offerings, price sensitivity is high. Additionally, tourists tend to be very flexible in travel decision-making. Especially when it comes to substitutable offers, shifts in demand are likely. Therefore, Austria's competitive advantage as a tourism destination may decrease. Germany and other neighboring countries constitute the strongest competitors. Due to three different tax rates, billing is perceived to be extremely complex, tax consultation is therefore largely needed. Furthermore, the mandatory cash register directive, together with the duty to issue payment receipts, significantly burdens the tourism industry. Especially small-sized and family-owned businesses have difficulties with the practical implementation; high efforts for personnel training are required. Regulations are perceived as theoretical concepts with low practical orientation. Practice-friendly solutions should be adopted. The attempt to conceal illicit earnings may be the actual reason for objection rather than the anticipated higher costs. Lower investment activities and investment backlogs may be related to the extended amortization period of buildings. However, analysis reveals that external factors such as the restricted credit policy of banks may significantly impact the overall investment volume. Nevertheless, urgent investments will still be undertaken. In the long run, quality standards may be affected. The decreasing cost-earnings-ratio as well as general uncertainty regarding future changes of basic economic conditions may discourage foreign investors. Sincere governmental commitment and investment incentives are urgently required. Analysis shows that fewer business hand-overs may be related to amendments in respect of the real estate transfer tax. However, the lack of successors may be another reason.

This study, although dealing with a niche topic and market, may motivate other researchers to further investigate the impact of legislative measures on the tourism industries, destinations, policies and marketing.

References

AIER - Austrian Institute of Economic Research (2016), "Tourism in Austria. Facts and Figures" available at: https://newsroom-en.austriatourism.com/tourism-in-austria-facts-figures/ (accessed 1 March 2016).

Airey, D. (2015), "Developments in understanding tourism policy", Tourism Review, 70 (4), 246-258.

Bundesministerium für Finanzen (2015), "Informationen zur Registrierkassen- und Belegerteilungspflicht", available at: https://www.bmf.gv.at/services/publikationen/BMF-BR-Registrierkassenpflicht-2015.pdf?56ss1z (accessed 5 March 2016).

Bundesministerium für Finanzen (2016a), "Informationen zu Registrierkassen", available at: https://www.bmf.gv.at/top-themen/Registrierkassen.html (accessed 5 March 2016).

DiePresse (2015a), "Tourismus: Steuerreform macht Hotels teurer", available at: http://diepresse.com/home/politik/innenpolitik/4688675/Tourismus_Steuerreform-macht-Hotels-teurer- (accessed 20 November 2015).

Goeldner, C. R. and Ritchie, J. (2009), "Tourism: principles, practices, philosophies", John Wiley & Sons, Hoboken.

Gunn, C. A. (2002), "Tourism planning: basics concepts cases", Routledge, New York.

Statistik Austria (2016), "Tourismus-Satellitenkonto für Österreich", available at: http://www.statistik.at/web_de/statistiken/wirtschaft/tourismus/tourismus-satellitenkonto/wertschoepfung/019848.html (accessed 3 January 2017).

Stevens, B. F. (1992), "Price value perceptions of travelers", Journal of Travel Research, issue 31, p. 44-48

Stöckl, A. & Caseau, C. (2016), "Luring Tourists Back to the Traditional Taverns (Heurigens) of Vienna, Austria", In book: Best Practices in Global Tourism: 15 Case Studies from Around the World, Chapter: 2, Publisher: Miranda Press, Editors: Liz Thach, Steve Charters, pp.15-28

Stöckl, A., Lick, E., Cavicchi, A., Lecat, B., Santini, C., Moreno-Melgarejo, A., Treiber, B. (2014), "The Drink Driving Dilemma in Connection with Food & Events: A Cross-National Evaluation of Best-Practice Solutions from the Generation Y's Point-of-view", In book: Food and Events in Europe - A Stakeholder Approach, Publisher: Routledge, Editors: Alessio Cavicchi, Cristina Santini.

WEF, World Economic Forum. (2015), "The Travel & Tourism Competitiveness Report 2015", available at: http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf (accessed 9 April 2016).

Wienerroither, A. (2015), Salzburger Nachrichten (newspaper), 19.11.2015 - 15:12 “Wenn das Smartphone die Registrierkasse ist”, available at: http://www.salzburg.com/nachrichten/oesterreich/wirtschaft/sn/artikel/wenn-das-smartphone-die-registrierkasse-ist-173988/_(accessed 2 January 2017).

Williams L. (2014), Irish Examiner (newspaper): High tax on alcohol is unfair to small Irish businesses, 19.12.2014, available at http://www.irishexaminer.com/lifestyle/features/high-tax-on-alcohol-is-unfair-to-small-irish-businesses-303295.html (accessed 2 January 2017).

WKÖ Fachverband Hotellerie (2015), “Steuerreform 2015 – Mehrwertsteuer”, available at: https://www.wko.at/Content.Node/branchen/t/Hotellerie/Service/MwSt-Steuerreform-2015.pdf (accessed 15 March 2016).

WKÖ, Wirtschaftskammer Österreich (2016), “Steuerreformgesetz 2015/2016: Die wichtigsten Änderungen”, available at https://www.wko.at/Content.Node/branchen/oe/Steuerreformgesetz.html (accessed 5 March 2016).