

1st meeting : Need, possibilities and limits in the audit of the economic activities of regional and local authorities – the exercise of auditing rights by regional audit offices



Collection and allocation of tourist taxes

Audit office of the canton of Valais (Switzerland)

EURORAI Seminar - 17th October 2013

Halle / Germany

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Guideline

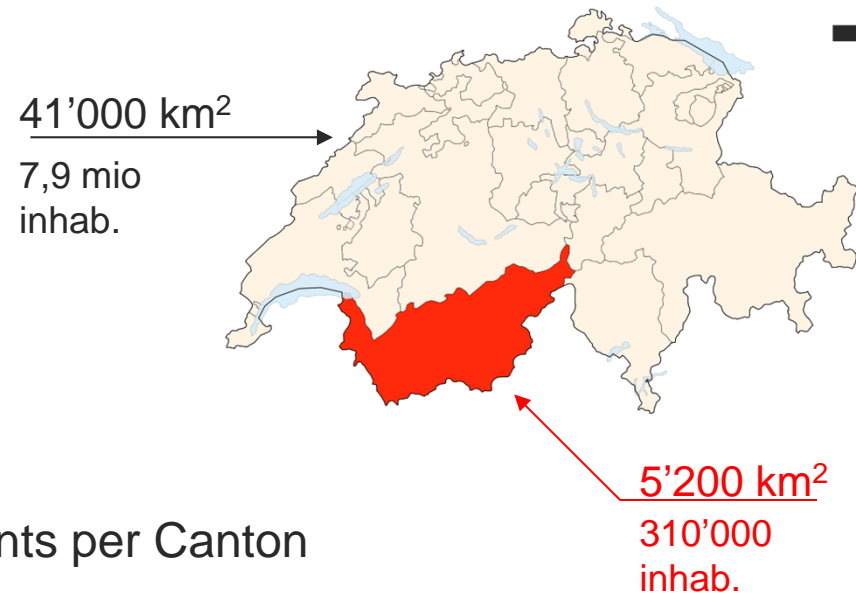
1. Introduction
2. Cantonal law on municipal taxes
3. Tourist taxes audit
4. Identified risks - Findings
5. A system called into question – Centralized promotion
6. Conclusions



1. Introduction (1)

■ **Switzerland**

- Federal structures
- 26 cantons
 - 16'000 to 1'300'000 inhabitants per Canton
 - **Canton of Valais (310'000 inhabitants)**
- 2'551 municipalities (**Valais 143**)
- 81 tourist resorts in the Canton of Valais



1. Introduction (2)

■ *The Canton of Valais*

- A tourist region
- Socio-economic contribution of the tourism
 - 10 million overnight stays per year
 - 30'000 jobs (1 out of 4 worker)
 - €4 billion turnover
 - €2,5 billion added value
 - 25% of GDP



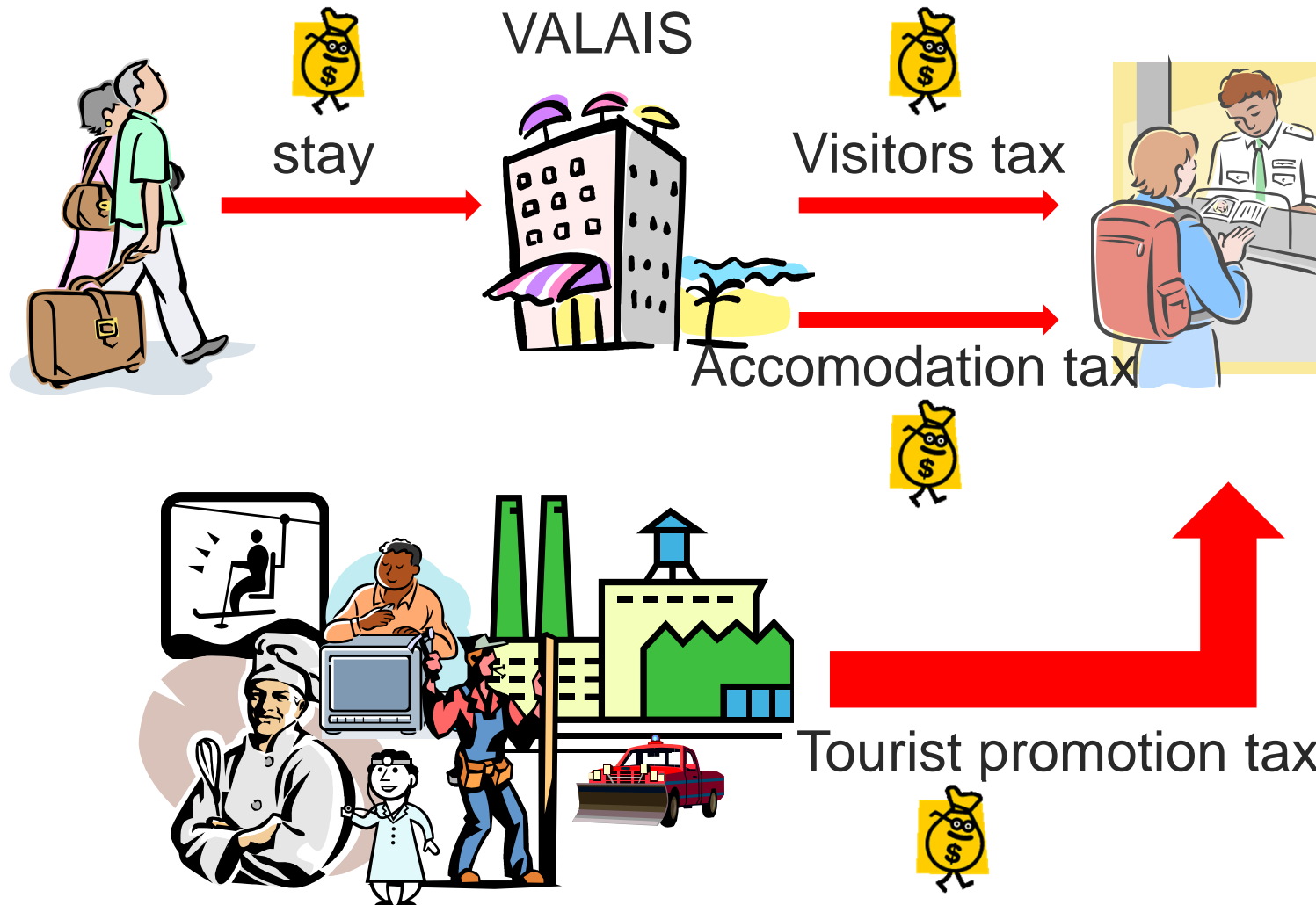
2. Cantonal law on municipal taxes (1)

Cantonal law on tourism decided by the cantonal parliament set out the framework conditions of taxes (€38.5 million)		
Visitors tax	Accommodation tax	Tourist promotion tax
Tax < CHF 2.50/overnight stay decided by the municipal government and approved by the State	CHF 0.50/overnight stay amount set out in the law	decided by the municipal parliament
€ 25 million	€ 3,5 million	€ 10 million

2. Cantonal law on municipal taxes (2)

Cantonal law on tourism decided by the cantonal parliament set out the framework conditions of taxes		
Visitors tax	Accommodation tax	Tourist promotion tax
overnight stays	overnight stays	turnover
hosts	hosting providers	companies and businesses

2. Cantonal law on municipal taxes (3)



2. Cantonal law on municipal taxes (4)

Cantonal law on tourism decided by the cantonal parliament set out the framework conditions of taxes (€38.5 million)		
Visitors tax	Accommodation tax	Tourist promotion tax
€ 25 million	€ 3,5 million	€ 10 million
information/booking entertainment tourist facilities	to promote tourism	

2. Cantonal law on municipal taxes (5)

■ *Legal tasks of the Canton*

- Establish cantonal policy
- Set out framework conditions

■ *Legal tasks of the municipalities*

- Establish local policy on tourism
- Collect tourist taxes, monitor its affectation and use and report abuses to the respective cantonal authority
- Monitor their local tourist companies to which the municipalities can delegate tasks

2. Cantonal law on municipal taxes (6)

■ **Tasks of the local tourist companies**

- Perform the tasks delegated to them by the municipality
- Submit to the municipality :
 - *the budget with the program of activities*
 - *the financial statements and annual report*

3. Tourist taxes audit (1)



- **Control of the tourist taxes**

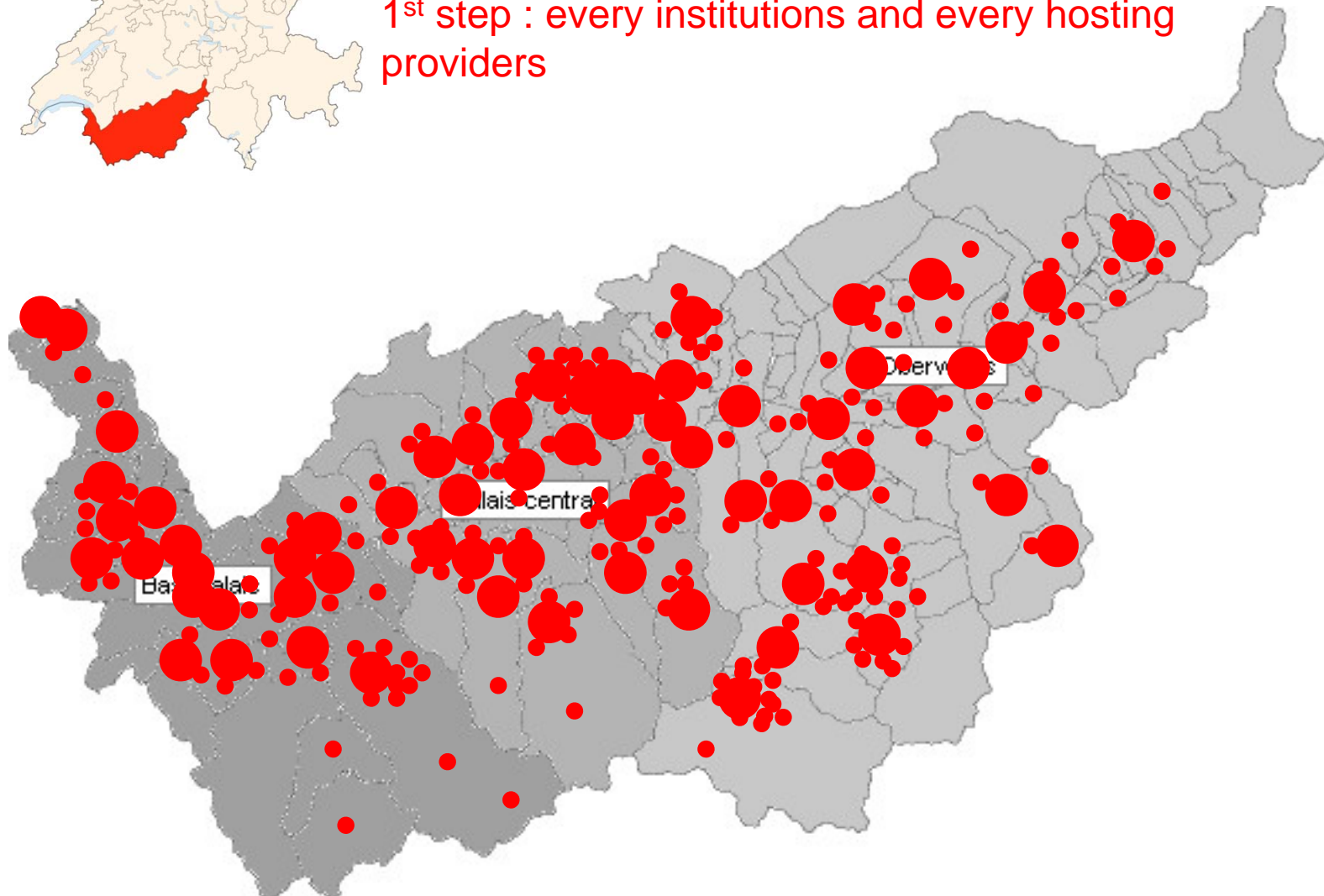
- by the collection agency (municipalities or local tourist companies) :
 - The collection agency is authorized to carry out controls on the regularity of the tourist tax payments
- by the Canton (Audit office of the Canton) :
 - Collection, encashment and proper allocation of taxes are periodically controlled
 - The Audit office of the Canton has full investigation power (can request all necessary supporting information)

3. Tourist taxes audit (2)



Audit strategy in 3 steps :

1st step : every institutions and every hosting providers



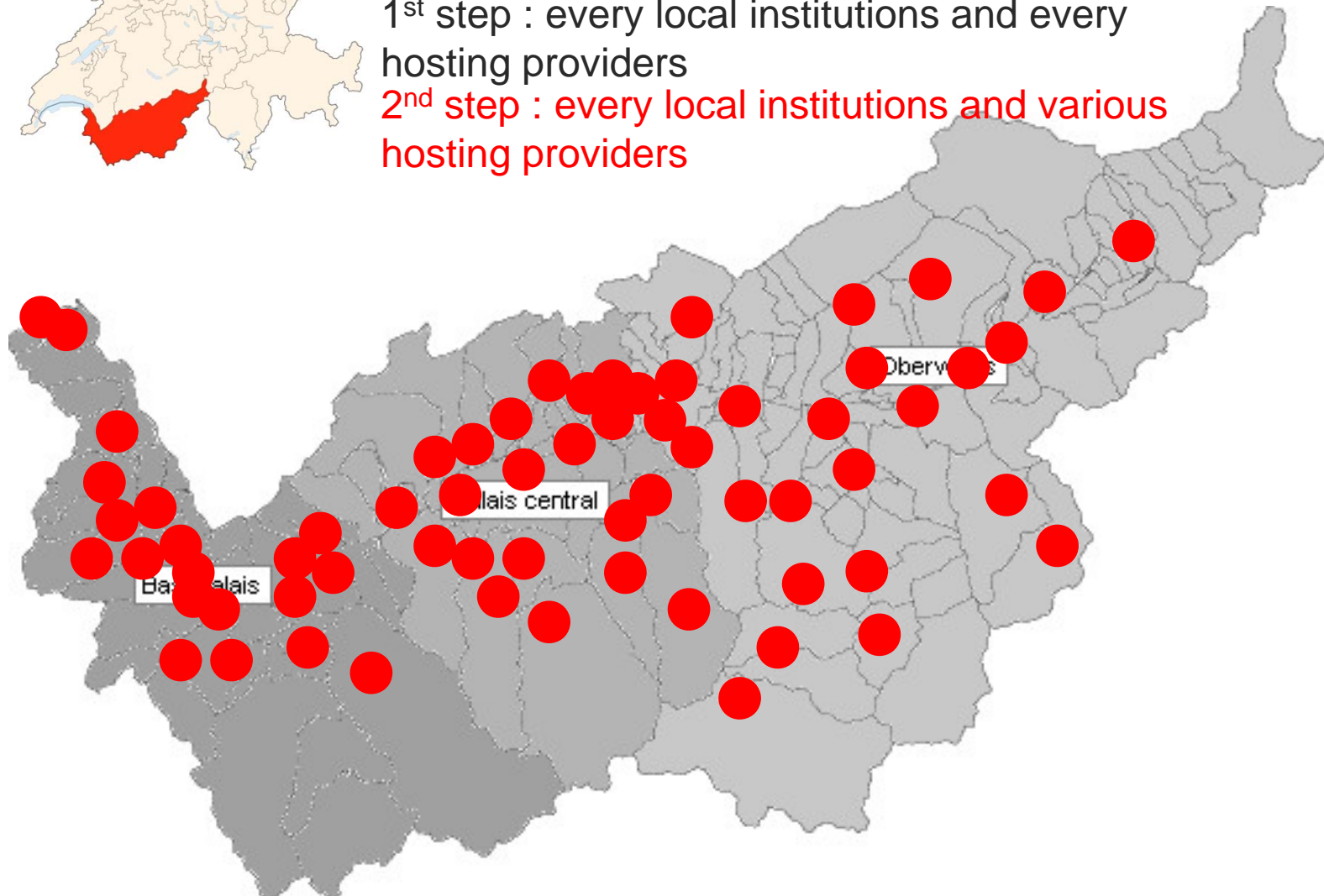
3. Tourist taxes audit (3)



Audit strategy in 3 steps :

1st step : every local institutions and every hosting providers

2nd step : every local institutions and various hosting providers



3. Tourist taxes audit (4)

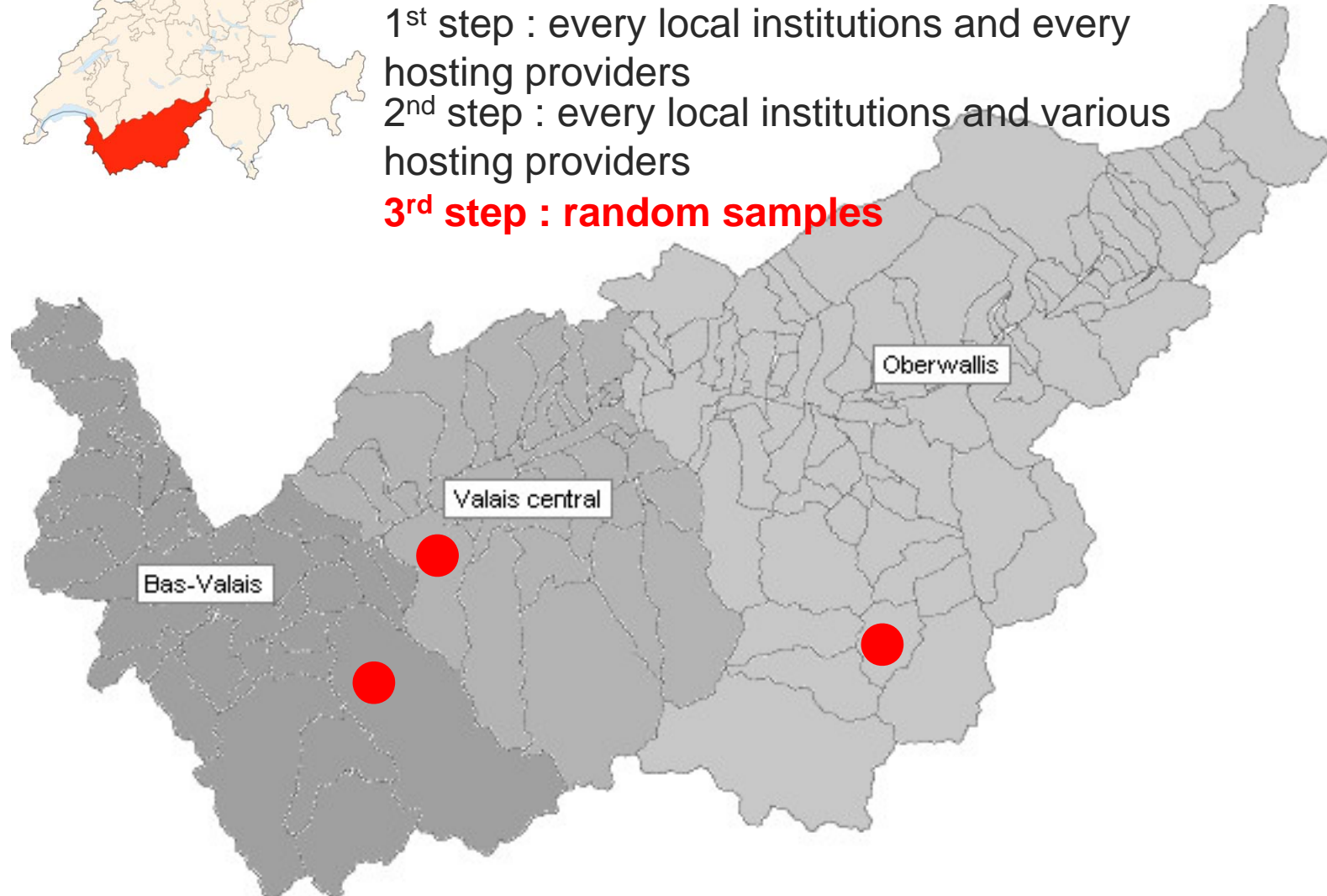


Audit strategy in 3 steps :

1st step : every local institutions and every hosting providers

2nd step : every local institutions and various hosting providers

3rd step : random samples



4. Identified risks – Findings (1)

■ *Completeness of collection*

- Visitors and accommodation tax (to be settled per overnight stay)
 - **Accommodation providers do not declare all the stays**

Example : Rental agency in a resort

Comparison : Rental agreements / owners settlements / local entity tax settlement

50'000 overnight stays undeclared during 5 years => € 100'000 being reimbursed following our report



4. Identified risks – Findings (2)

■ *Completeness of collection*

- Tourist promotion taxes (basis : companies taxation)
 - **Entities subject to taxes escape the powers of taxation**
 - *Municipality holds an incomplete inventory of entities subject to taxation*

Examples :

- **Companies operating only in a part of the municipal territory**
- **Various categories of companies (reale estate companies)**

4. Identified risks – Findings (3)

■ *Regularity of collection*

- Visitors and accommodation tax
 - **Incorrect tax rate**
 - **Exemption of certain hosts categories is not legally stated**
(eg. 6- to 16-year-old children, athletes)
- Tourist promotion taxes (basis : companies taxation)
 - **Misstatement in determining the tax rate**
 - *Wrong or non current data (number of employees, turnover)*
 - *Wrong taxable entity category*

4. Identified risks – Findings (4)

■ *Completeness of encashment*

○ Visitors and accommodation taxes

- Trade receivables follow-up process is deficient



Example : Findings - local tourist company

- Lack of trade receivables reminder procedure
- 64% of the trade receivables relate to due tax claims, some of them being prescribed
- Lack of monitoring by the municipality

4. Identified risks – Findings (5)

- ***Regularity and legality in the allocation of taxes***

- Allocation of taxes does not comply with legal policies

- **Examples :**

- *Visitors tax finances promotion, though being not a matter of law*

- *Tourist promotion tax is not entirely allocated to promotion*

4. Identified risks – Findings (6)

- ***Local communities (municipalities) do not use the means of sanction provided by law***
 - Immediate taxation
 - Denunciations to the cantonal Department which may impose fines



4. Identified risks – Findings (7)

- ***Lack of monitoring by the local communities***

- Budget / Financial statements

- **Lack of approval by the municipality**

- Use of taxes

- **The municipality does not set up concrete objectives in terms of proper use of taxes**

- **Use of taxes is not checked**

4. Identified risks – Findings (8)

- **Results** of audits performed at accommodation providers level
 - **Out of 1'092 audited entities :**
 - 174 (16%) satisfactory
 - 368 (34%) insufficient
 - 550 (50%) to be improved, while showing satisfactory aspects



4. Identified risks – Findings (9)

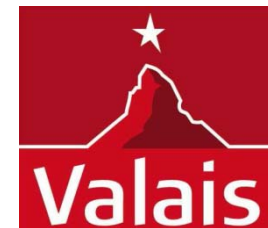
- **Results of audits performed:**

- Summary, reminder of legal bases
- Recommendations at collection, encashment and tax allocation level
- Re-invoicing of understated overnight stays to accommodation providers

5. A system called into question

- **Limits of the current law being highlighted by the Parliament**
 - Obsolete funding / insufficient financial means
 - Size and number of the structures (Valais Tourisme, Valais Agriculture, Valais Brand...)

Valais★tourisme




- **A draft of a new law was rejected by the population in 2009 particularly because of taxes**
- **A new direction to come ? For the time being, creation of :**

5. Centralized promotion



■ *Valais/Wallis Promotion as of 2013*

- Governing body (corporation under public law)
- Company dedicated to the cross-sector promotion of the economy in canton Valais (tourism, agriculture, business and industry)
- Management of the Valais brand The Valais brand logo consists of a red square containing a white silhouette of a mountain peak with a white star above it. Below the square, the word "Valais" is written in white, bold, sans-serif font on a red rectangular background.
- Funding through the Canton budget => € 7 million / year (2/3 of the budget)
- **Financial statements and management subject to the control of the Audit office of the Canton**

6. Conclusions (1)

- *The tourist sector represents a sizeable economic weight for the Canton of Valais and its local communities. Therefore, audits are justified and deemed necessary.*
- *Local communities (municipalities) delegate their tasks to local tourist companies, but do not monitor if the delegated duties are carried out properly.*
- *Small local structures are lacking of professionalism and local authorities controls are missing.*
- *Accommodation provider is tempted to not fully declare and to evade public taxes for private purposes.*

6. Conclusions (2)

- *An audit strategy focused on many years and many steps allowed to :*
 - *on a 1st step, raise the awareness of all the relevant actors*
 - *on a 2nd phase, sanction non-compliance with the legal provisions*
- *Audits at cantonal and municipal governing bodies and accommodation providers level allow to add value (integrated vertical vision, cross or transverse vision between the same level entities).*
- *Cantonal and local authorities welcomed the thorough audits performed by the Audit office of the Canton Valais, as an independent and autonomous external body.*

To conclude ...

**Tourism funding remains a central
issue of the political debate
which should not obscure the
need of implementing the existing laws.**

Thanks for your attention

