

## **Tax Evasion in Hospitality Industry: Institutional Deficit, Mentality or Necessity?**

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### **Abstract**

This paper focused on the study and analysis of the phenomenon of tax evasion in Greek hospitality companies (hotels). Its main research objective was to investigate the degree of tax evasion of hotel companies, to examine its causes, its implications and how to deal with it. The processing of the replies given shows that a large proportion of hoteliers consider that businesses are 'over-taxed', while a common belief is that if a more favourable tax treatment were to apply it would lead to a strengthening of the overall conscience/ideological perception in favour of the institution of taxation. Finally, it is necessary to take measures to deal more rationally with tourism enterprises and to review the taxation policies of hotel companies as a tool to support them in times of crisis such as the current Covid-19 pandemic.

**Keywords:** Tax evasion, Over- taxed, Hospitality companies, Taxation policies.

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## 1 Introduction

The tax is a mandatory imposition of money in favor of the state. Government revenues derived from taxes on individuals and legal entities are an important source of public revenue for the modern economy (Salanie, 2011; Boadway & Keen, 1993). The purpose of taxation is particularly crucial as the financing of government expenditure in fiscal policy as well as the strengthening and stabilization of economic growth affect the economy as a whole, while the redistribution of wealth is also important in reducing inequalities (Alvarez-Martinez et al., 2018). Mandatory contributions are called taxes and taxation is an important activity for public bodies but also for most societies as it secures more than 90% of this revenue (Jacobs, 2018; Gahvari, 2014; Mirrlees, 1976, 1971).

The taxation of natural and legal entities is the main source of income for the state as mentioned above. Income, despite the difficulties of definition and the economic implications of taxation, is a key indicator of the taxable capacity of taxable entities. The tax system is different in terms of parameters and tax rates but also tax expenditures within a tax system where taxpayers must comply and there must be efficiency on the part of the tax administration (Lyberaki et al., 2017; Pazarskis et al., 2017; Jacquet et al., 2013). There are two categories of taxes, taxes on current production and taxes on property. In the current production, taxes are imposed which are related to the income of natural and legal persons but also taxes on expenses such as on the consumption of products and services. Such is the case with value added tax (VAT) and excise duties (VAT) on products such as tobacco and alcohol. In the second category are the taxes related to the transfer and possession of property which are imposed on the total value of the assets before or after the deduction of liabilities (Stamatopoulos et al., 2017; OECD, 2012). Some economic figures such as the consumption expenditure and the property of the individual or the business are the tax base on which the tax is calculated. Thus, the tax corresponds to one unit of tax base and constitutes the tax rate which is fixed per unit or proportional based on value and at the same time stable, progressive or vice versa progressive. The tax system is determined by the tax rates applied on the tax base and is reflected in the composition of tax revenues in the individual tax categories (Jacobs, 2018; Salanie, 2011).

Our primary motivation for this study is to investigate the degree of tax evasion in hotel companies in Greece, by evaluating the causes and the implication for this. We submit that the current study is important for the following reasons: Firstly, tax revenue plays a significant role in the development of a country. Secondly, tourism section is a very important economic activity for Greece, so it is important to see how tax evasion in this sector impacts the economic growth of the country. Finally, the result of this study will provide a new insight into the contribution of tax evasion in Greek hospitality. It will assist tax policymakers in getting the right and deeper understanding of the tax evasion problem to the economy. The remainder of the paper is structured as follows: Section 2 provides a short-related literature review on direct and indirect tax revenue, the tax system in tourism, the culture of taxation and tax evasion and tax avoidance; Section 3 presents the methodology employed to collect and analyze data for the study and the empirical findings. Finally, section 5 ends the study with some conclusions and proposals.

## 2 Taxation And Tourism

The World Tourism Organization (UNWTO) considers as tourism taxes, those that apply specifically to tourists and the tourism industry or alternatively, if not specific to the tourism industry, those that apply differently to competing destinations (UNWTO, 1998). However, almost all goods and services consumed by tourists are also consumed, at least to some extent, by non-tourists. Therefore, it implies that the taxable position is not the tourism activity itself, but rather a tax base associated with it, and any tax measure aimed at tourism activities very often affects non-tourists as well (Gago et al., 2009). Consider that, it may be more appropriate to explain tourism taxation as indirect taxes, fees and charges, which mainly affect tourism-related activities. Indirect tax revenues generated by tourism expenditure are derived from either general tax, including import duties, sales taxes or value added tax (VAT) or excise duties relating to tourism-related activities, such as hotel and restaurant taxes, airport taxes, visa fees and residence taxes (OECD, 2014).

## **2.1 The tax system in tourism**

Tourism is an important economic activity in the European Union with broader implications for economic growth, government revenue, employment and social development. Holidays and related expenses (flights, hotels, etc.) are important elements of consumer spending and related taxes are an important source of revenue for governments (Barrios et al., 2020; PwC, 2017). There are various taxes that EU Member States can adapt to the tourism industry. A friendly tax regime for tourism includes reduced VAT rates for accommodation and passenger transport and without residence, fullness or departure taxes. Countries such as Cyprus, Estonia, Finland, Ireland, Latvia, Luxembourg and Sweden have all used these policy instruments. Greece uses all these means, except the reduced VAT rate for passenger transport. Malta, Poland, Portugal, Slovenia and Spain impose a fullness tax, but use the policy instruments used by Cyprus and other countries. Most of these countries have some in common such as their relatively small size or geographical location outside of Central Europe. On the other hand, countries such as Austria, France, Germany, Italy and the United Kingdom use a lot of data to tax tourism-related services, although none of them combine high VAT rates on accommodation. with tonnage tax and departure tax. Some Eastern European Member States, such as Bulgaria, Croatia, the Czech Republic, Hungary, Slovakia and Romania, follow a similar approach (PwC, 2017; Chang & Hu, 2011).

In Greece, the tax system in the tourism sector is based on direct and indirect taxation (Patsouratis et al., 2005; Forsyth & Dwyer, 2002). Charges to the tourism product and the tourism industry are divided into taxes and fees. On the one hand there are the mandatory contributions of the tourist and the tourism industry to the state and on the other hand the fees are the compulsory contribution of the above taxes for the state compensation (Karagiannis et al., 2017; Tatsos, 2012). The first category of taxes includes taxes paid directly by the tourist and shown on the invoices he receives, while the second category includes hotel income tax such as VAT and profit taxes. There are also fees paid by airlines for using airports and providing services to the citizen (Tagkalakis, 2013; Keen, 2007).

The austerity program imposed by Europe on Greece due to the economic crisis, brought a series of measures that affected many sectors. A significant action was the increase of VAT for food and restaurant meals from 13% to 23% announced by the government in July 2015 and then to 24% and with a similar increase for hotel accommodation from 6.5% to 13%. This action has had an impact on the economy, hampering economic growth and costing thousands of jobs and businesses (Mateus & Mateus, 2021). Specifically, as tourism is the sector of the economy in which works one in five Greek adults and is constantly growing (Antonakakis et al., 2015). As a result, tourism has been considered by Greek companies as an industry that should help start the economy (Mateus & Mateus, 2021). However, the increased tax burden for the tourist package that has emerged in recent years, has led to a reduction in profits of hotel businesses by 50% due to competitiveness. The absence of relief limits the possibilities of Greek tourism companies to meet the requirements of increasing international competition. The return of directly competitive destinations, with lower taxes from Greece, to high positions in the world tourist ranking is a fact (SETE, 2018; Marabegias, 2017).

According to the Global Competitiveness Report 2017–2018, tax rates and tax legislation are the first and third most problematic factors for entrepreneurship in Greece. Respectively, there is evidence that Greece has one of the least attractive tax incentive systems among the 27 EU Member States. Indicatively, Greece is ranked 29th among the 35 OECD countries in the Tax Foundation's Tax Competitiveness Index that utilizes data from 2018. In terms of accommodation, it is worth noting that for every 100 euros paid by a visitor to Greece for a night in a 4-star hotel, 33.4 euros correspond to taxes and insurance contributions, while for competing countries the corresponding amounts are 16.1 euro (Cyprus) to 28.2 euros (Croatia) (WEF, 2017). In addition, successive increases in VAT rates, the residence tax in combination with the corresponding municipal tax and increases in other business taxes affect seasonality, impede the ability to service loan obligations and are a deterrent to investment (SETE, 2018).

## 2.2 The culture of taxation

The culture in every society and organization is changeable and comes from a complex relationship between all people. It includes what the individual believes (knowledge, attitudes, expectations) and acts (behaviors and habits) as a member of a society or organization. Take consider to this, when describing the culture of taxation, it refers to the way that people think and do things around the tax environment (Varotsis & Katerelos, 2020; Chuenjit, 2014). The culture of taxation has been used as a determinant of the success of tax reform in many countries (Jairaj & Harriss-White, 2006; Atuguba, 2006; Sinkuniene, 2005). Jairaj and Harriss-White (2006) noted that there is a relationship between tax culture itself and standard tax rules, the creation of taxation and the role of social identity structures in order to establish and enforce regulatory relationships between tax authorities and of taxpayers (Haga et al., 2019). For example, some people may think that paying taxes is a liability that should be accepted, while others may think that tax fraud does not matter. These perceptions can create different attitudes between the actors of the tax system. Positive values and attitudes towards the tax system may have a positive effect on tax collection (Chuenjit, 2014; Torgler et al., 2008).

Trust is another concept that is related to the culture of taxation and arises from the perception of justice. For example, taxpayers have more confidence in tax collectors who treat them with fairness and respect. In addition, trust can include expectations. If taxpayers expect their taxes to be spent on public programs that allow the government to provide adequate services to taxpayers, the latter are more likely to trust the government and the tax system. Greater trust in government, tax administration, and the legal system tends to increase individuals' willingness to contribute with their taxes (Hartner et al., 2008; Torgler et al., 2008; Hyun, 2005; Murphy, 2004). In essence, the relationship between taxpayers and tax collectors is an interaction. What taxpayers have done can influence the attitude and actions of tax collectors and vice versa (Chuenjit, 2014).

## 2.3 Tax evasion and tax avoidance

Tax evasion is a circumvention of the law where the amount paid is minimized by the taxpayer himself. It is attributed to the fraudulent intention of the taxpayer who does not pay his tax, which means that the state has financial losses (Varvaresos, 2008). Tax evasion is the non-payment of taxes to the State which, however, have been collected by the individual and are paid by a third party. There is also tax avoidance which is essentially the minimization of the tax liability of the taxpayer so that he evades taxation and does not suffer the consequences of his act (Varotsis & Katerelos, 2020). Tax evasion implies a very good knowledge of the tax system where the individual identifies its weaknesses which he exploits (Riedel, 2018; Saez et al., 2012). This phenomenon has a significant impact on the Greek economy as it has contributed to the change of economic conditions since the 1970s. which, however, did not bring the expected results (Varotsis & Katerelos, 2020; Tagkalakis, 2013). Thus, the fight is not appropriate as in some cases further measures are needed to address it, given that when the marginal momentum for consumption is equal to one, for example income is consumed, tax revenues increase. This means that tax evasion in some cases works to boost business income but does not cease to be a major fraud (Danopoulos & Znidaric, 2007).

## 3. RESEARCH METHODOLOGY

The purpose of this research is to study the concept of tax evasion and its perceived causes, its effects and ways to deal with it. Sub-objectives of the research are to identify the degree of tax evasion of the participants, to investigate the attitudes and perceptions of the respondents regarding the general context of tax evasion (causes, accountability, ways of dealing) and to highlight useful suggestions for the effective treatment of phenomenon study. The research hypotheses of the research are the following:

*H0: There are no negative effects on the national economy and society due to the over-taxation of hotel companies.*

*H1: There are negative effects on the national economy and society due to the over-taxation of hotel companies.*

*H0: There is no difference of opinion among the respondents based on the demographic variables (age, educational level) regarding the level of tax evasion, the causes and the policies for dealing with the phenomenon.*

*H2: There is a difference of opinion among the respondents based on the demographic variables (age, educational level) regarding the level of tax evasion, the causes and the policies for dealing with the phenomenon.*

The research tool (questionnaire) was distributed to Greek hotel business entrepreneurs of all categories (1-5 stars), operating in different geographical units. Initially, 120 questionnaires were distributed, of which 111 were answered. Both descriptive and inductive statistics were used to process the data. For the part of the research that applies descriptive statistics, Frequency Distribution, Average, and Standard Deviation were taken into account. The demographic variables "age" and "educational level" were used as independent variables to control the research hypotheses - the attitude of the participants, on taxation and the causes of tax evasion of research participants. Quantitative and qualitative measurements, as well as a series of statistical analyzes were used both for the description of these variables and for the investigation and verification of the possible relations between them.

In each case, the central trend indices and the dispersion of the distributions were calculated for each variable. The statistical analyzes and methods used to test the research hypotheses were proportional to the type of research data, such as one-way analysis of variance and T-tests, where the existence of statistically significant variables was investigated, between at different levels. For all the above analyzes the level of statistical significance was set at 5%. Therefore, the null hypothesis (Ho) is rejected when the observed Sig. is less than 0.05. Initially, the demographic variables of the research, in terms of gender, age and educational level of the respondents are presented as follows (Table1):

**Table 1: Demographic sample data**

<b>Variables</b>		<b>Frequency (n=111)</b>	<b>Rate</b>
Sex	Man	61	55%
	Woman	50	45%
Age	18-30	7	6.3%
	31-40	35	31.5%
	41-50	52	46.8%
	51-65	17	15.3%
Education	Primary school/ High School	59	53.2%
	University	48	43.2%
	Master's degree- Doctorate	4	3.6%

The following are some of the most important views of the respondents. Quite interesting is the position of the respondents for the financial results of their companies during the previous year (2020), with the majority of companies reporting marginal profitability (47.7%) while 37.8% satisfactory profitability (Table 2):

**Table 2: Financial Statement of Companies for 2020**

Financial Statement of Companies for 2020	Rate
Deficit	9.9%
Marginal profitability	47.7%
Satisfactory profitability	37.8%
Above expectations profitability	4.5%

The main perceived reasons for tax evasion (Table 3) are high tax rates (53.2%) and multiplicity (31.5%). This is followed by impunity (13.5%) and lack of culture. Impressive is the fact that only 1.8% of the sample, considers the absence of culture an important reason for someone to fall into a tax offense. This may be indicative the lack of understanding of the concept of culture, which is undoubtedly important and can also be an important weapon in the fight against tax evasion.

**Table 3: Causes of Tax Evasion**

Causes	Yes	No
High tax rates	53.2%	46.8%
Multiplicity	31.5%	68.5%
Impunity	13.5%	86.5%
Lack of culture	1.8%	98.2%

Regarding the controls performed with t-tests for two-tier categorical variables but also the controls with the one way-Anova method presented very important statistical findings, the main ones of which are listed below. First, (Table 4) the control of significant differences in relation to the real tax evasion is presented of the respondents (*If in the past you have committed a tax offense did this happen spontaneously or following calculations?*).

**Table 4: T-tests, control variable “The spontaneous tax evasion of the participants (yes-no)”**

Variable	Spontaneous (Yes-average)	Spontaneous (No- average)	t-value	Sig.
In your opinion, can a fair tax system enhance the competitiveness of tourism businesses while securing the necessary revenue to meet the needs of the state?	4.12	<u>4.35</u>	2.653	0.009

Those who say they have not spontaneously evaded taxes in the past are more likely (compared to those who have) to believe that a fair tax system can enhance the competitiveness of hotel businesses while providing the necessary revenue to cover them the needs of the state. Internal resistance to spontaneous tax evasion is therefore linked to the positive belief in the important contribution of a fair tax system.

The controls with the one way-Anova (Table 5) shows that respondents aged 40-50 tend to feel significantly more perceived injustice than those aged 50-65 (who think taxation is unfair, that if they had less taxes, they could do more recruitment and offer more to society, and that taxes on tourism are higher than competing countries-markets reducing the competitiveness of Greek hotel companies).

**Table 5: One way-Anova, control variable the age of the participants**

Variable	18-30	30-40	40-50	50-65	F	Sig.
Perceived injustice of taxation	4.1905	4.1238	4.1282	3.8824	3.069	0.031

The controls with the one way-Anova (Table 6) shows that those who have finished High School are less informed about their tax obligations and any changes, compared to AEI / TEI graduates. The same applies in comparison with the graduates of AEI / TEI and those with a postgraduate / doctoral degree (the former take more care). Also, those who have finished High School believe less that a fair tax system can enhance the competitiveness of tourism businesses while ensuring the necessary income to meet the needs of the state, compared to university graduates. Finally, those who have finished the Gymnasium / Lyceum have a higher total hostility / opposition to the institution of taxation, compared to the graduates of university.

Our findings are in line with previous surveys. For instance, Gainous et al. (2010) survey shows that a significant proportion of Greek society has created a firm belief that tax laws are unfair and do not apply to everyone equally. Varotsis & Katerelos (2020) claim that the main failure of the tax system in Greece is that it reproduces “tax evasion” and overdue debts of established taxes, distorting the real economy. Also, they claim that even continuous tax “reforms” have not stopped the continuous reproduction of tax evasion or the continuous increase of non-taxable income. Finally, Williams & Kronsniqi (2017) in their survey which data collected from 35 Euroasian countries, shows that citizens of higher education have a higher sense of tax compliance.

## 4 Conclusions

Tax evasion can be a very important problem with direct and indirect effects, especially in the hotel business. The immediate effects are the reduced state taxes that can create a multitude of issues, such as the reduced capacity to provide social services (support for the weak, hospitals, transport, etc.), the reduced capacity to intervene and actions and the increase in taxation that can contribute to the onset of recessionary potential. The indirect effects are the spread of misconceptions, the breach of trust between the state and organizations, the prevalence of a culture and a climate of inefficiency, the lack of justice, impunity, low trust and lack of leadership and direction which can have devastating social and economic consequences.

Regarding the attitudes of the respondents, it was observed that a large portion of the participants in the survey believe that companies are over-taxed and that if they had less taxes, they could make more recruitments and offer more to society. It turned out that a very small part of the respondents claim that it is easy to follow the letter of the laws and regulations. On the other hand, a very large part of the respondents claim that they attend to be informed about their tax obligations and any changes. Furthermore, a significant part of the sample completely agrees that the tax liabilities for a business are so large that they could lead to its final closure.

The vast majority argue that the main perceived reasons for tax evasion of hotel businesses are high tax rates and multiplicity. The lack of culture, although it is, as has been mentioned in the international literature, the main reason for tax evasion, in the present research is not considered of paramount importance, perhaps because no such culture has been developed in Greece.

As for the factors of responsibility, most of the participants believe that the main reasons for tax evasion are high tax rates, pluralism and impunity, while responsibilities are mainly attributed to the system, government and mentality (which can be considered part of the culture). In any case, the majority argue that hotel businesses are over-taxed and that if they had less taxes, they could hire more employees and offer more to society.

The results shows that the over-taxation of hotel companies leads to tax evasion the businessman, in limited hiring of employees and in financial losses the state. For that the null hypotheses of the (H1) hypotheses can be rejected. Based on controls with the one way-Anova, there were also statistically significant differences of opinion among respondents based on demographic variables, age and educational level, on the level of tax evasion, causes and policies to address the phenomenon. Therefore, based on the evaluation of the research results, the rejection of the null hypotheses of the research is documented, as

formulated based on the research methodology and the acceptance and confirmation of the alternative hypotheses. Regarding the question of the title “Tax Evasion in Hospitality Industry: Institutional Deficit, Mentality or Necessity?” the results show that all three dimensions may apply. But the institutional deficit and mentality are the main causes that lead to tax evasion.

In order to deal effectively with the phenomenon, a basic condition is the restoration of perceived justice at all costs. Perceptual justice is a central variable in the social sciences, and feelings of injustice are commonly accepted to lead to negative and often extreme behaviors. Dialogue and the development of relationships between social groups is a necessary step to cultivate trust and find constructive solutions. In addition, the commitment of each competent body (government) is a very important element. Even very small movements can create very large positive effects and chain effects, while the direction must be structural-overall changes and individual (in terms of attitudes, emotions, etc.). The most important ways to improve are simplification, computerization, and modernization. Simplification is an important proposition and way to improve the current situation, as perceived opportunities are reduced, while increased controls are not suggested by many researchers, as they reduce the likelihood of voluntary compliance. Modernization and e-government are also very important dimensions of the issue, as the behavior of individuals in relation to the phenomenon under study can be better understood. Providing knowledge and assistance to businesses (especially small ones) is a very important step in developing trust and mutual respect. Therefore, an investment where knowledge, help and necessary explanations are provided, can have very positive results, as opposed to a climate of mutual suspicion, where everyone loses in the end. Finally, the knowledge of tax obligations is important not only to businesses but to the citizens too. That could be accomplished with tax education from school refereeing to overlapping generations and persistence in a fair tax system without many changes and exceptions.

Future research could focus on the concept of mental accounting and on the differentiation of taxpayers' visions in relation to the perceived cost-benefit of these transactions. Also, given the current Covid-19 pandemic crisis, it would be particularly useful in the future to record the effectiveness and acceptance of existing tax measures and tax breaks.

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