

The Impact of Taxation on Entrepreneurship in the Tourism Sector

M^a Gabriela Lagos, Juan J. Jiménez, M^a Carmen Jiménez

ABSTRACT

Objective: The objective of this paper is to assess the impact that these legal changes have had on decisions taken by new entrepreneurs in the tourism sector in Spain.

Research Design & Methods: Our aim is to determine how entrepreneurs' decisions to start a business have been affected by the existing tax incentives. To conduct this research we selected the sample and designed an online survey in order to determine both: the entrepreneurs' perception of the taxation in force and whether they had taken advantage of the incentives provided for in the Law on Support for Entrepreneurs.

Findings: Our empirical study clarifies the fiscal reality confronting entrepreneurs involved in the tourism sector. Essentially, the most distinctive feature is that, although they can benefit from the incentives, they operate in an economic sector submitted to a high level of fiscal pressure. This means that if the enterprise is not a start-up, it will be submitted to high taxation, which has an impact on profitability.

Implications & Recommendations: It is undeniable that incentives to entrepreneurship are designed precisely to stimulate the creation of new companies, but it is illogical not to support the continued existence of these companies once the initial benefits are no longer applicable. This situation is the result of the elevated fiscal pressure implemented in a number of countries, including Spain, in an attempt to solve their budgetary deficit problems. This issue does not exclusively affect the tourism industry. However, due to the specific characteristics of the sector, it is an attractive area for all public administrations at national, regional and local level. This is not only because of the economic importance of the sector and the potential revenue involved. Moreover, it is due to the fact that a part of this tax burden falls on the end consumers, who, to a large extent, are not Spanish residents and, therefore, do not vote in the country. Consequently, the direct political impact of the introduction of these taxes is diluted. The concept of tax exportation partly explains the successive attempts to levy taxes on tourist establishments, with or without the pretext is preservation of the environment.

Contribution & Value Added: Our work provides a systematic treatment of tax incentives available to entrepreneurs in the tourism sector, key to the Spanish economy. What highlights is the lack of internal coherence of the tax system to the extent that the fostering entrepreneurial activity is restricted to state taxes, with predominance of direct taxation, and not extend to taxes owned by municipalities and autonomous regions. This situation should be corrected from the sub-central government to give a consistent tax treatment of entrepreneurs in the sector.

Article type: Research paper

Keywords: Entrepreneurship, Rural Tourism, Taxation

JEL codes: L26, L83, E62

INTRODUCTION

This study focuses on tourism as a source of income for the tax authorities. The scenario highlights the attractive nature of this thriving business for the tax authorities, since it guarantees considerable income with minimum regulatory effort. In contrast, the risk over-taxation disincentives the activity and reducing the potential resources, as well as negatively affecting enterprises' profitability and labour costs. In sum, the problem is how to obtain resources from tourism sector without making seem less attractive the business opportunities. Our academic interest focuses specifically on assessing the impact on the tourism sector of tax measures to encourage entrepreneurship, bearing in mind that it is one of sectors with most opportunities for success in the Spanish economy.

From a fiscal perspective, there are two different aspects affecting tourism entrepreneurship. On one hand, entrepreneurs in this sector are subject to the same legislation as all entrepreneurs: the tax burden is the same as that for any entrepreneur. On the other hand, this is a thriving sector with considerable tax revenue potential. Our interest, then, is to identify the impact of recent reforms on the tax burden borne by entrepreneurs in the industry. This is something of a grey area, in which there is a taxpayer who is not legally differentiated but is, however, subject to specific tax treatment as an entrepreneur and as an operator in a specific activity. The underlying aim of this work is to contrast the tax measures designed to encourage entrepreneurship and the tax provisions for the industry so as to assess their compatibility.

The study begins by outlining the general characteristics of the tourism sector in Spain, highlighting the impact of rural tourism on entrepreneurship in the industry. Data demonstrate the maturity of so-called "sun and beach" tourism as opposed to the emerging formats which deviate from this traditional tourist product and offer opportunities for new entrepreneurial activity.

The second section systematically describes the tax incentives for entrepreneurs, their legal framework and the origin of their implementation in Spanish legislation. The wide-ranging nature of these incentives across different tax regimes complicates logical presentation, hence we have opted to approach them from the perspective of their origin: recommendations of the European Commission, provisions consolidated in the recent history of each particular tax, and the provisions of the 2013 Law on Support for Entrepreneurs and its later amendments. This chronological perspective allows us to appreciate the evolution of the tax treatment of entrepreneurship in Spain and to associate it with the recent economic environment.

In order to provide an overall scenario of the taxation of the entrepreneur in the tourism sector, we must define the specific characteristics of the entrepreneur, especially the tax challenges they face. Rather than differences in the payment of taxes, what we find are taxes which although not directly taxing the activity, do have an impact on it. We are referring here to decentralised environmental taxes, which have a major impact on the tax burden supported by these enterprises. However, we will also analyse the fiscal impact of undeclared activities on the tourism sector. This is an important issue, as witnessed by its inclusion among the objectives for the present tax year of Spain's National Tax Administration Agency (AEAT).

Finally, we will propose the next step in this research, which is the administration of a questionnaire directed at the entrepreneurs in the sector, so as to determine their evaluation of the applicable taxes and the incentives they bring to their entrepreneurial activities.

Given that this is an ongoing study, the capacity to draw conclusions is limited to the theoretical foundations presented in the work. Nevertheless, we can outline some of the consequences of tax regulations on entrepreneurs in the sector, which we expect to be confirmed by the results of the fieldwork.

THE TOURISM SECTOR

If we consider tourism to be a voluntary activity involving the movement of persons and their temporary stay in destinations other than their place of residence, for reasons of recreation or leisure. Tourism is clearly a major generator of income for the economy of any country with a minimal range of attractions and sufficient resources to satisfy these expectations.

The sector expands visibly in times of economic boom when individuals have sufficient disposable income to dedicate to leisure. Thus, we can see how the growth of tourist business coincides with different economic cycles and how supply is increased to attract a part of this emerging market.

The life cycle of the sector presents processes of expansion and restructuring across recent decades, which are reflected at international, European and national level. Given their specific motivation, tourists are sensitive to the economic conditions and policies of their destinations. However, the principal consumers of tourism, citizens from developed countries or emerging economies, are still predicted to travel, adapting to new circumstances, searching for new destinations and better prices, or opting for shorter stays. Furthermore, data from the UNWTO¹ confirm that predicted numbers are increasing, with the appearance of new forms of travel and accommodation, which are products of the economic crisis, such as low-cost airlines, shared transfers, accommodation search and booking platforms, accommodation exchanges and the barrage of new suppliers.

Europe is the world's leading tourist destination. Aware of the importance of tourism for the economy, the European Union has directly nurtured this activity², implementing specific policies to promote and develop the industry. The sector directly or indirectly generates 10% of the EU's GDP. A total of 1.8 million enterprises provide work for 9.7 million workers. Tourism serves other functions which meet the aims of the European Union: sustainable regional development, protection of the historic, cultural and natural heritage and reinforcement of European identity. Transversely, other policies and programmes, also contribute to the conditions within which the sector operates³.

The tourism industry is one of the pillars of the Spanish economy. Spain is the leading European holiday destination. Supply focuses on the traditional "sun and beach" tourism.

¹ World Tourism Organization (UNWTO): <http://www2.unwto.org/es> (consulted 30/04/2015).

² http://ec.europa.eu/enterprise/sectors/tourism/background/index_es.htm (consulted 30/04/2015).

³ European Regional Development Fund (ERDF), Cohesion Fund, European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), etc.

Coastal areas, both the Mediterranean coastline and the Balearic and Canary Islands, are those which welcome the greatest number of tourists. More than 70% of the tourists visiting Spain come for beach tourism. Although this model continues to be key for the national economy, given the competitive conditions of the sector's maturity⁴, a wide-ranging restructuring of the supply is clearly needed.

In this context, so-called rural or inland tourism, based on exploitation of the historic, artistic, cultural and natural heritage, is gradually expanding to offer an alternative for growth and diversification in the sector. In the areas where it is successful, this type of tourism has traditionally been associated with a model of endogenous development. This model integrates preservation of the environment, conservation and recovery of the cultural and historical heritage. It establishes employment in rural areas, supplying a variety of services (restaurants, accommodation and leisure activities) to a different type of public, which demands a more specific type of product, with more qualitative criteria of selection. Clearly, harmonious development of the rural environment is of vital importance not only for Spain, but for the whole European Union. Consequently, it has been the subject of special attention and has benefitted considerably from EU investment in infrastructures, which has facilitated the emergence of rural tourism as an alternative and/or complementary model to the main productive sector of the industry.

This work focuses on tourism from the perspective of supply and the conditions in which new initiatives are designed and emerged. However, it is necessary to outline some elements of the demand. The first outstanding element is the fact that, as opposed to the traditional "sun and beach" tourism, which fundamentally attracts foreign tourists, rural tourism mainly relies on tourists who reside in this country, logically Spanish nationals. A total of 83.5% of tourists in rural areas are Spanish residents, in contrast to 16.5% of foreign tourists⁵. Another aspect regards the destinations demanded by Spanish tourists, who head for Castilla and Leon (19.57%) and Catalonia (10.19%), while foreign tourists prefer the Balearic Islands (5.01%). We can also highlight the fact that there is no consistent, direct link between the autonomous community of origin and that of destination. Demand does not stem mainly from residents within each autonomous community. For example, in the first case, Castilla and León, the majority of Spanish visitors come from the Community of Madrid (49.06%), while in the second case, Catalonia, most of the tourists originate from the Catalan Community (93.61%). Tourists from the Community of Madrid take up most of the supply from other communities, especially those bordering their region – Castilla and León and Castilla-La Mancha (46.14%). However, they also visit other more remote communities, such as Extremadura (33.50%), La Rioja (29.37%), the Principality of Asturias (28.93%) and Cantabria (20.99%). This phenomenon should be analysed by the tourism sector in these communities to identify the origin and profile of the demand. Regarding foreign residents demanding rural tourism, most of the tourists evidently come from the European Union: Germany (26.04%), United Kingdom (17.43%), France (15.47%), and the Netherlands (6.93%). However, other non-EU European countries (13.43%) and the

⁴ Seasonality, territorial concentration, stagnation/decline in demand, excess supply and capacity, concentrated supply, (wholesalers, carriers, major hotel chains), undifferentiated supply, strong price competition, decreased mean tourist spend, decreased mean time of stay.

⁵ Tourist Accommodation Occupation Survey (Rural tourism accommodations), 2014, provisional data, Spanish Statistical Office.

United States (4.62%) also provide visitors. Given this profile, the promotion and improvement of this type of tourism is important since there are still considerable opportunities for growth and it provides a reasonable alternative to the conventional product.

TAXATION OF ENTREPRENEURS IN THE TOURISM SECTOR

Taxation of Entrepreneurs

In recent years entrepreneurship has been promoted as the perfect solution to overcome the effects of the recession suffered by Europe since 2008. The public policies designed to incentivize this activity have triggered the publication of numerous regulations aimed at fostering entrepreneurship, both at national and regional level. However, without a doubt, the most direct intervention is Law 14/2013 of 28 September on the Support of Entrepreneurs and Internationalisation. Following this national law, several Autonomous Communities passed their own laws in the same regard.

The problem with entrepreneurs is that they are not taxable persons submittable to an integrated tax intervention. As a result, the effectiveness of tax measures depends on the legal status they choose for their enterprise and the sector it belongs to. Bearing in mind, furthermore, that economic activities are subject to different taxes, the impact of this policy of incentives to entrepreneurship should be extended to all areas of tax law, including both direct and indirect taxes. This policy should be uniform, despite involving different tax administration agencies, as previously mentioned. The complexity of this situation makes it easy to underline the difficulty to unify the incentives to entrepreneurship implemented by the different tax agencies and applied to varying tax entities. It is evident that coordination of tax measures is a priority if entrepreneurship is to be given effective, favourable tax treatment.

However, the difficulty of the context cannot hinder the design and administration of an effective policy. The need to take action is clear from the recommendations made by national and international organisations regarding guidelines for the policy to be implemented by the public authorities. The Lisbon European Council of 2000, which aimed to make Europe a more competitive and dynamic economy, included among its measures the creation of a friendly environment for starting up and developing innovative businesses, especially SMEs. One of the requirements to meet this goal is to lower the costs of doing business – including taxes – and remove unnecessary red tape.

Research on entrepreneurial activity suggests that the proliferation of administrative, legal and fiscal red tape and the notable complexity of certain procedures act as a deterrent to starting up enterprises. This has a considerable impact on the process of starting up a business and the consequences of the decisions taken during this process influence the start-up and development of business activity. The Eurobarometer (2012) showed that during the onset and the development of the economic recession the proportion of citizens wanting to be their own boss had fallen considerably from 45% to 37%. At the same time, it was demonstrated that the implementation of business creation programmes in secondary schools led to between 15 and 20% of participants becoming entrepreneurs. Despite the importance given to the knowledge economy in EU development policies, the intention is to act in other areas which permit greater implementation of new enterprises.

Priority Areas for Incentivising Entrepreneurship, as Considered by the European Commission

In 2013 the European Commission presented an action plan to support entrepreneurs and *revolutionise entrepreneurial culture in Europe*. The plan highlights the key role of education and training to nurture entrepreneurship and includes specific measures to help young people, women, seniors, migrants and the unemployed to become entrepreneurs. The commission states that the high level of EU unemployment leaves untapped resources, especially amongst women and young people. The plan identifies obstacles to entrepreneurship which it aims to tackle by actions to support emerging enterprises and facilitate start-ups. It specifically aims to *make transfers of business ownership more successful, improve access to finance and give honest entrepreneurs a second chance*.

The Figure 1 summarises the obstacles to entrepreneurship detected by the EC and the measures to be taken, on the premise that entrepreneurship is a key driver of economic activity to create more employment, more innovation and more competitiveness in the economies of the EU Member States.

Obstacles to entrepreneurship
<ul style="list-style-type: none"> • Access to finance • Support during the crucial phases of the business lifecycle • Unleashing of new business opportunities of the digital age • Easier transfer of business ownership • Second chances for honest entrepreneurs after bankruptcy • Administrative simplification

Figure 1. Key areas for entrepreneurship in the EU.

Source: Compiled by authors using the Eurobarometer (2012)

Most of the ideas proposed by the Commission refer to tax measures which each member state has attempted to implement within their respective legislations. In the case of Spain, the Table 1 shows the progress towards the EU recommendations.

Table 1. Tax regulations for entrepreneurship. Spain 2015

Area	Tax incentive provided for in Spanish legislation
Access to private finance	Deduction for investment in new or recently created businesses. Art. 68 LIRPF
Support during crucial phases of business	Unrestricted depreciation during first five years for Workforce-Owned Limited and Public Companies and priority agricultural associations. Art. 12.2 a) and d) LIS
Digital enterprises	Application of VAT rates of destination member states for services provided European directive 2008/08/EC
Transfer of business ownership	Not subject to increase in value derived from transfer of ownership Art. 33.3 c) Income Tax Law Exemption from property tax. Tax incentives in the tax on inheritance and donations (Art. 20.6 LSD and Autonomous Community Regulations CC.AA.)
Second opportunity	Unpaid liabilities waived after bankruptcy in the case of an entrepreneur acting in good faith Art. 178 and 178 bis of the Bankruptcy Law

Simplification of administrative procedures	Electronic tax administration
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Source: Prepared by the authors

The information in the table above shows the efforts made by the Spanish administration to adapt its tax regulations to the EC recommendations. However, each measure should be studied separately so as to calculate its effectiveness and its impact on entrepreneurship.

- The deduction in the total tax liability established in article 68 of the Income Tax Law provides for a 20% reduction in contributions for the acquisition of shares or participations in the social capital of new or recently created enterprises, with a limit of €50,000 in the basis for calculation. This incentive cannot be interpreted as direct stimulus to entrepreneurship since to be applied it requires that the shareholder – and spouse and relatives, either direct or collateral, by blood or affinity, up to the second degree, own no more than 40% of the voting rights in the organisation. There is no parallel to this regulation in direct company taxation. This limited tax incentive with considerable legal requirements, is restricted to capital contributions made by individuals.
- Unrestricted depreciation for investment in tangible and intangible fixed assets and property is restricted to the types of businesses referred to above, it is not a general incentive to entrepreneurship, but a formula traditionally used in Spanish corporate income tax to encourage the continued existence of organisations where shareholders only contribute their labour.
- The application of the VAT rates of the member state of destination is the aim proposed for the harmonisation of the principal indirect tax in the EU member states. It has been in force since January 1, 2015. Until that date the VAT of the state of origin was applicable. It is a somewhat complex matter since previously a difference was made in the tax treatment between operations conducted over the Internet, between goods and services and goods provided in digital format were classified as intangible assets⁶. This difference in treatment has disappeared with the coming into force across the EU of the destination-based VAT rate regulations. The result is that any business will be responsible for paying the VAT corresponding to the end consumer of the product sold in accordance with the legislation of the buyer's member state. They will have to adjust to the formal requirements and, most importantly, will have to apply the tax rate of the buyers' member state.
- Another of the classic incentives in the Spanish tax regulations is the omission of capital gains on the transfer of corporate assets or shares in the same. In this situation the requirements provided for in Article 20 of the Law on Inheritance and Donations are applicable. This provision is valid in the case of transfer of

⁶ As a result of this difference in treatment, digital assets were taxed as services, at the tax rate applied in the Member State where the provider was domiciled. For this reason, the largest multinational enterprises in the sector, such as Amazon, had their tax residence fixed in countries with low indirect taxation by VAT. Amazon's digital product service was subject to the rate in Luxembourg, 3%, as compared to 21%, which is the rate applied to eBooks in Spain. This gives an idea of the loss in revenue this represents for some states.

ownership to a descendent once the previous owner is no longer working and has ceased managerial activity. If these conditions are met, the transfer is subject to lower taxation, with a reduction of up to 99%, depending on the autonomous community⁷. Strictly speaking, this is not an incentive for entrepreneurship, but is more directed at family businesses.

- The recent Royal Decree 1/2015 of 27 February includes what has come to be known as the second chance mechanism. This law provides for a mechanism by which a taxpayer who has suffered a business failure is free to undertake a similar initiative. The law provides that in certain circumstances a debtor is exonerated of his or her responsibility to meet debts. Provided that the debtor is acting in good faith, in other words, it is not a case of strategic insolvency aimed at avoiding the liquidation of debts to creditors, the insolvent person may have his or her pending debts cancelled following the insolvency proceedings. This initiative is designed to bring the civil liability regime into line with the limitation of liability provided for in corporate legislation. The justification for this measure expressly mentions entrepreneurship and the facilities the public sector should provide to foster it.
- An important aspect for the promotion of entrepreneurship is the reduction of the associated administrative procedures. In recent years, the administration has expanded its Internet services and a growing number of procedures may be completed online. Local administrations have played a key role here by reducing or eliminating a number of the procedures involved in starting up a business⁸.

This review of the EC recommendations for incentivizing entrepreneurship, does not include all the measures taken by the Spanish authorities in this respect.

Other Measures to Promote Entrepreneurship

In this section we will address the actions taken by the central government in various areas, especially in taxation, prior to passing the Law on the Support of Entrepreneurs. In order to conduct a brief review of these tax measures and their impact, it is necessary to define the legal form they have taken. These decisions are not limited only to taxation. What we wish to highlight here is how they affect direct taxes, in other words, the difference in taxation on the income they generate.

A large number of the incentives previously mentioned, are applicable to individual entrepreneurs or natural persons, also known as self-employed workers. In this case, the business person will be taxed within the regime of income from business activities provided for in the Income Tax Law (IRPF). If the entrepreneur decides to register as a trading company, he or she will be taxed under the Law for Corporation Tax (IS). The Figure 2

⁷ The tax on inheritance and donations is now administered by the autonomous communities. Each community has established its own percentages and requirements for the application of this incentive. Coinciding with the economic recession, this tax reduction was uniformly applied to the transfer to a third party, with no family relationship, who had held a management post at the company during a period ranging from 5 to 10 years. The aim was to promote the continued existence of the enterprise rather than the family nature of the business. A more debatable issue is the requirement that the recipient of the company be a resident of the autonomous community in question. In fact, the Supreme Court has declared this condition null and void in the Autonomous Community of Valencia.

⁸ For example, many municipalities permit the establishment to be opened without the entrepreneur being in receipt of the opening licence (...)

summarises the tax options available to an entrepreneur depending on the legal form he or she adopts for the business and the amount of revenue or operations declared.

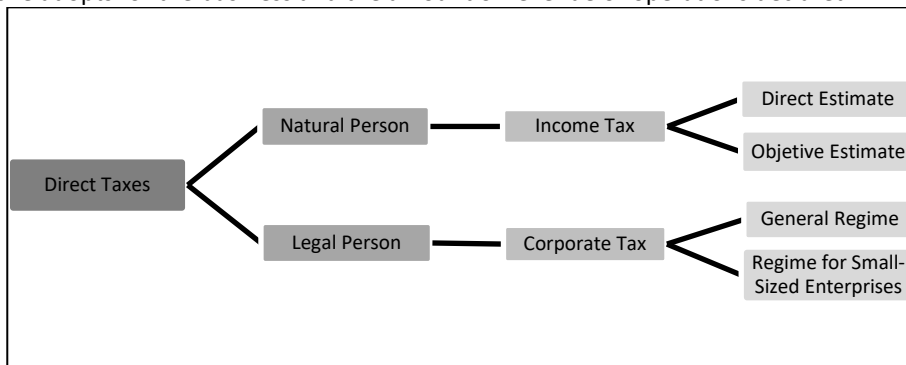


Figure 2. Taxation and legal forms

Source: Prepared by the authors

Three additional measures have also been included in the personal income tax regulations to promote the creation of new business activities (Figure 3).

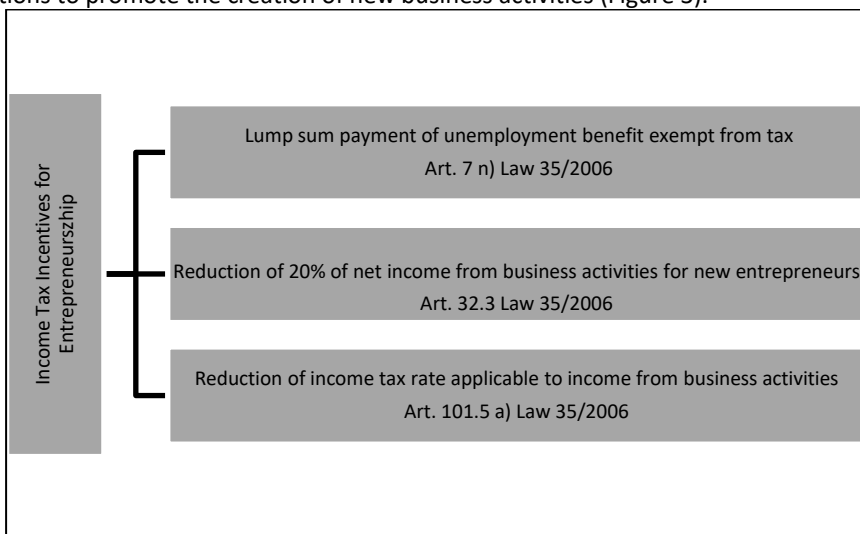


Figure 3. Income tax incentives for entrepreneurship

Source: Prepared by the authors

A brief analysis of each of these incentives is required to appreciate their actual impact on entrepreneurship:

- The aim of tax exemption on unemployment benefit payments is to provide an initiative for the unemployed to start up in self-employment, either by registering as self-employed or by becoming a partner in a workers’ cooperatives or employee-owned companies, or as a stakeholder in a business corporation. This incentive already existed in the income tax law, as shown by the reference to compliance with the provisions of Royal Decree 1044/1985 of 19 June. Application is dependent on the amount received being dedicated to the

declared ends and the recipient is obliged to register a business activity within a month of receipt of the amount. The recipient is also obliged to keep up the activity or stake holding during a period of five years, in the case of a taxpayer entering a workers' cooperative or employee-owned company or having made a contribution to a firm's social capital. A self-employed worker is equally obliged to maintain his or her business activity during the same period. The tax treatment of redundancy payments is established in article 7 e), which permits greater capitalisation. Amounts up to a total of €180 000 are tax-exempt according to the regulations currently in force.

- According to 32.3, tax-payers starting a business activity and declaring net income in compliance with the direct estimate method, will be entitled to a 20% reduction in the net deducted income declared in the first tax period in which the result is positive and also in the following one. The aim of this regulation is to provide tax incentives for entrepreneurs when they start to obtain profit from their business by reducing their income tax obligations. This can be regarded as an incentive for entrepreneurship since, although the application of the regulation requires that the taxpayer has not undertaken any economic activity during the twelve months prior to starting up the new business, this does not include activities which were terminated without ever having obtained positive net income, that is to say undertakings which resulted in business failures. The maximum amount of reduction is fixed at €100 000 per year. In order to avoid this being used for new activities stemming from previous working relationships, it is not applicable in a tax period in which more than 50% of income proceeds from a person or organisation from which the taxpayer has obtained earnings during the twelve months prior to the starting date of the new activity.
- The regulation stipulates the reduced income tax rate on professional earnings for the first year and the next two years after start-up. The tax rate is lowered from the general rate of 19% to a reduced rate of 9%.

With regard to corporate tax, we have already mentioned a number of incentives motivated by the EU proposals. Furthermore, it must be remembered that the tax regime applicable to small-sized enterprises, those whose turnover does not exceed €10 000 000 in the financial year, is significantly more favourable than the general regime. Since start-ups qualify for this regime, they benefit from its conditions. However, apart from this lower tax rate dependent on the amount of turnover, there is also a specific incentive applicable to new or recently created enterprises. Law 27/2014 establishes the application of a reduced tax rate for new business activities in corporate form, which will be taxed at 15% in the first financial year the enterprise generates profit and the following year, too⁹. This represents a reduction of 10% on the rate established in the general regime, which results in a lower tax burden for new enterprises. To be eligible for application, the business must not previously have been conducted by other persons or entities related to the new enterprise, or have been carried out during the twelve months prior to constitution, by any natural person with a direct or indirect stake of more than 50%, in the capital or equity of the new undertaking.

⁹ This tax reduction for start-ups was introduced in the 2013 financial year and the new regime marks a substantial change to previous years, in which 15% was applicable to the taxable income between €0 and €300 000, after which the rate was 20%.

Another measure prior to the Law on Support for Entrepreneurs was the introduction of reduced social security contributions for entrepreneurs, consisting of reduced rates for new self-employed workers under the age of 30¹⁰. Any entrepreneur registering in the Special Regime for Self-Employed Workers is permitted to pay a minimum standard contribution during the first six months of activity. In the first six months directly following registration an 80% reduction in the minimum contribution is applicable. The contribution payable by new self-employed workers under the age of 30 is approximately €50 during the first six months. In the following six months, the reduction on the minimum contribution is set at 50%. After this period and during the next 18 months a 30% reduction is provided for in the case of male workers under 30 years and female workers under 35.

The only drawback to this incentive to entrepreneurial activity is that it penalises self-employed workers who hire personnel, since the regulations exclude those with salaried staff.

Attempts have also been made to extend financial support to entrepreneurs by widening the network of the Official Credit Institute and facilitating access to credit lines. Organisations supporting the internationalisation of enterprises have also been reformed in an attempt to step up business abroad.

The Law on Support for Entrepreneurs

As highlighted in the above, current Spanish legislation has received institutional backing in the support of entrepreneurship, impacting on many areas, especially taxation. Law 14/2013, of 27 September on Support for Entrepreneurs and Internationalisation, overhauls the tax treatment of entrepreneurs, complementing previous measures designed to encourage entrepreneurial activity.

The following is a summary of the new measures introduced:

- The regulation introduces the concept of the *limited liability entrepreneur*. This entrepreneur has the legal status of a natural person – self-employed. Liability from business debts will not affect the primary residence provided its value does not exceed €300 000. This amount is multipliable by 1.5 in the case of residence in cities of more than 1 000 000 inhabitants.
- The *Limited Liability Capital Growth Company*. This new regime allows private limited companies to be incorporated without paying the minimum share capital required¹¹. Companies unable to provide the minimum amount required by law, will be subject to a number of restrictions: not less than 20% of the year's profit must be allocated to legal reserve; the sum total of payments to shareholders and directors must not exceed 20% of the company's corporate equity; and, dividends may only be distributed if the corporate equity value is not less than 60% of the legal minimum capital.

As well as measures to facilitate the creation of enterprises, changes are also introduced in the three main state taxes:

¹⁰ Royal Decree-Law of 22 February on measures to support entrepreneurs and to stimulate growth and job creation.

¹¹ Fixed at €3 000 for limited liability companies and €60 000 for limited companies.

- Value added tax: A new VAT cash accounting regime has been established, by which self-employed entrepreneurs and SMEs are able to defer payment of VAT until when the invoice is collected. This deferment of payment of VAT allows enterprises to adjust tax burden to their real income. The drawback of this system is that it obliges both parties to agree to adopt the measure, so it cannot be applied to transactions conducted with entrepreneurs and enterprises who continue to operate on an accrual basis.
- Corporate income tax: Companies with a turnover of less than €10 000 000 may deduct up to 10% of profits obtained in the tax year in which they reinvest in economic activity. This regime also applies to the self-employed.
- Income tax: The figure of the *Business Angel* (already mentioned in a previous section) is fostered in the form of tax benefits for individual investors that temporarily participate in new and recently incorporated companies, with a 20% deduction in the state personal income tax quota for investment made in a company. The maximum base for deduction is of €20 000 per annum. It also establishes full capital gains exemption, provided reinvestment is made in another new or recently incorporated company.

Taxation of Tourist Companies

Firstly we should note that tax obligations for tourist companies are the same as those for all taxpayers. Depending on their legal identity, they will be liable to pay corporate tax or personal income tax and in both cases they are liable to the obligations of value added tax.

Spanish tax regulations provide for no special tax regimes for these companies, which coincides with our observations in the introduction to this work regarding the revenue potential of the tourist industry in Spain. Indeed certain tax benefits have been excluded which were especially applicable to these companies. We are referring to deductions established in the previous legislation and which are presented in Table 2.

Table 2. Tax benefits of special relevance for tourist enterprises removed from the corporate tax regulations

Deduction	Incentive	Date Abolished
For promotion of information and communication technologies	15% of amounts invested for this purpose	1 January 2011
Export activities	25% of amounts spent on advertising and publicity, market research and visits to trade fairs	1 January 2011
For investment in navigation and localisation systems	12% of the investment, limited to a percentage of the value of the asset.	1 January 2011
Environmental investments	10% of amounts invested.	1 January 2011

Source: Prepared by the authors

In personal income tax, it is worth noting that tourist services are included in the regulations for the modules of the objective estimate system, with no general or specific limits established by law.

Although the disappearance of these incentives increases the taxation on tourist companies, the main challenges faced by tourist enterprises are related to three different areas:

- Pressure of indirect taxation.
- Impact of rises in local taxes.
- Ecological tax on activities which damage the environment.

One of the most frequently voiced concerns of the sector is the introduction of a VAT rate favourable to the competitiveness of the Spanish tourism industry in the neighbouring markets. There was concern in 2012 when the VAT rate for hotels and restaurants was raised from 8% to the current 10%. This was increased to 21% in the case of other services related to tourism, such as shows and discotheques. The impact is greatest on *sea and beach* tourism, where differences in costs in similar countries such as Greece and Croatia, negatively impact on tourist bookings, especially those made by foreign tourists.

Local taxes have also increased consistently in the form of property tax or service-related taxes such as those on waste water treatment or refuse collection. The most relevant milestone here is the binding ruling on the 30% reduction applicable to economic activity, which permits the inclusion of property assets, which is not permitted in local authority regulations.

Finally, note must be made of the fiscal impact of the taxes established by autonomous communities and cities to cover the expenses generated by damage to the environment. The Autonomous Community of the Balearic Islands led the way in this regard by introducing, in 2001, a tax on stays in tourist establishments, known as the “eco-tax”. The amount of revenue was destined to funds for the improvement of tourist activity business and preservation of the environment. This was based on the principle of “who pollutes, pays”, on the premise that it is tourists that damage the environment. However, not all tourists: only those who stay in tourist establishments. The incongruity of this definition, together with criticism from the industry, led to the repeal of the act a year after being passed. Since then, green taxation has been focused on taxing CO₂ emissions and energy production¹², which, while it may impact on the tourist sector through its effect on passenger transport, for example, it is not directly aimed at tourist accommodation or restaurant services.

EMPIRICAL APPROACH

In our view, tax issues do not have an influence on decisions taken by entrepreneurs in the tourist industry, despite the significance of the weight of the taxation. In order to verify this hypothesis, we designed a questionnaire comprising 18 questions, which requests information on the identity of the company, the year of creation, its location, the business activity conducted (accommodation, restaurant services, other services), size and legal status. This is followed by three close-ended questions, assessed on a 7-point Likert scale, regarding tax burden, the effect on the early years of the enterprise and the decision on

¹² The recent ruling of the Constitutional Tribunal, 22/2015, of 16 February, declared unconstitutional a part of the regulations governing the tax in the Autonomous Community of Extremadura on establishments impacting the environment.

the legal status of the company. Next, there is a 5-item question (financial responsibility, taxation, administrative procedures, aid, capital) regarding factors taken into account when deciding the legal status. These items are rated on a 5-point Likert scale. This is followed by another 5-item question on the effect of recent tax reforms (VAT cash accounting, limited liability regarding the residence, reduction of income tax payments, reduced corporate tax and exemption from declaration) to be answered on a 5-point Likert scale. The last question is an open-ended one requesting ideas for proposed tax measures. The questionnaire finishes with personal details regarding age and gender of the respondent.

The questionnaire is designed for start-ups, typified in accordance with the National Classification of Economic Activities (NCEA), 2009: 55. Accommodation services, 56. Food and beverage services, 79. Travel agency, tour operator and other reservation services and related activities, and 93. Sports activities and amusement and recreation activities.

The Spanish Central Business Directory for the 2014 financial year lists a total of 47,909 new companies under these activities: 1768 in 55. Accommodation services (3.69%); 39,596 in 56. Food and beverage services (82.65%); 1,422 in 79. Travel agency, tour operator and other reservation services and related activities (2.97%); and 5,123 in 93. Sports activities and amusement and recreation activities (10.69%).

The Table 3 provides statistics regarding size and legal status of these enterprises.

Table 3: Number of new companies by legal status and employee level 2014

NCEA-2009	Total	None	1 to 5	6 to 9	10 to 19	20+
55 Accommodation services	1 768	1 201	424	76	34	33
56 Food and beverage activities	39 596	19 863	18 281	1 085	269	98
79 Travel agency, tour operators	1 422	1 150	257	9	4	2
93 Sports activities, ...	5 123	3 179	1 598	191	129	26
Physical persons						
55 Accommodation services	664	523	132	8	0	1
56 Food and beverage activities	26 130	14 412	11 440	252	22	4
79 Travel agency, tour operators	720	661	59	0	0	0
93 Sports activities, ...	1 966	1 487	454	20	5	0
Public limited companies						
55 Accommodation services	22	12	6	0	0	4
56 Food and beverage activities	19	7	7	3	1	1
79 Travel agency, tour operators	12	5	6	1	0	0
93 Sports activities, ...	5	1	1	1	1	1
Limited liability companies						
55 Accommodation services	834	473	238	62	33	28
56 Food and beverage activities	7 814	2 427	4 346	721	236	84
79 Travel agency, tour operators	573	385	175	7	4	2
93 Sports activities, ...	1 701	925	563	112	84	17
Other legal statuses						
55 Accommodation services	248	193	48	6	1	0
56 Food and beverage activities	5 633	3 017	2 488	109	10	9
79 Travel agency, tour operators	117	99	17	1	0	0
93 Sports activities, ...	1 451	766	580	58	39	8

Source: Spanish Central Business Directory, 2014

In order to limit the field work, we decided to carry it out in the Autonomous Community of Castilla-La Mancha. This is an inland region of Spain, with a surface area of

79 463 Km² (15.70% of the national territory), the third largest in Spain. It has a population of 2,078,611¹³, the ninth-largest in Spain, with a population density of 26.16 inhab/km², which is similar to that of other inland regions - Castilla and León (26.8 inhab/km²), Aragón (27.2 inhab/km²), Extremadura (26.2 inhab/km²)-, compared to the mean national average of 79.9 inhab/km². The population is distributed across 5 provinces and 919 municipalities, of which only 40 have more than 10 000 inhabitants¹⁴. The per capita GDP is €17 780 which situates it ninth in the national ranking. Given its location in the centre of mainland Spain, it has a good transport (road and rail) and communications network, which are mostly radial, connecting the centre with the outlying areas of Spain. It is rich in historic¹⁵, artistic, cultural and natural heritage¹⁶. It is a major tourist destination for residents of the bordering regions: Community of Madrid (46.14%), Community of Valencia (15.23%), Region of Murcia (6.27%), and Andalusia (4.20%). With its 1 419 tourist accommodations with 12 166 beds, it attracts 6.16% of the domestic tourism and 0.15% of foreign tourism 0.15%¹⁷. These data give it a suitable profile for a study of new enterprises in the tourism sector. Furthermore, the Community of Castilla-La Mancha enacted a pioneering Law on Support for Entrepreneurs¹⁸, so entrepreneurs in the region have had time to judge the possible impact of the incentives. To identify the population and sample, we used the Iberian Balance Sheet Analysis System¹⁹ and we contacted the various regional, provincial and local rural tourism business associations and federations, in order to reach undertakings not registered as trading companies, but which are also start-ups included in the field of interest. We sent a link with access to the online questionnaire to the representatives of these organisations in order for them to refer it to any members who had started business in the last year. The process is ongoing.

CONCLUSIONS

Our empirical study clarifies the fiscal reality confronting entrepreneurs involved in the tourism sector. In essence, the most distinctive feature is that although they can benefit from the incentives, they operate in an economic sector submitted to a high level of fiscal pressure. This means that if the enterprise is not a start-up, it will be submitted to high taxation, which impacts on profitability.

It is undeniable that incentives to entrepreneurship are designed precisely to stimulate the creation of new companies, but it is illogical not to support the continued

¹³ Castilla-La Mancha Statistical Office <http://www.ies.jccm.es/> (consulted 04/05/2015).

¹⁴ According to data from the Spanish Statistical Office 2014: <http://www.ine.es/> (consulted 04/05/2015).

¹⁵ The historic centres of (1986) and Cuenca (1996) and the Mercury Mines of Almadén (2012) have been declared World Heritage sites. There are many towns with important historical heritage, for example: Alcaraz, Almagro, Atienza, Belmonte, Budia, Chinchilla de Montearagón, Huete, Mora, Tembleque or Villanueva de los Infantes.

¹⁶ 45% of the regional territory comprises forest and mountains in which are located 2 national parks, 6 natural parks, 22 nature reserves, 6 river reserves, 24 natural monuments, 48 micro-reserves and one protected landscape.

¹⁷ Tourist Accommodation Occupation Survey (Rural tourism accommodations), 2014, Spanish Statistical Office, <http://www.ine.es/> (consulted 04/05/2015).

¹⁸ *Law 15/2011, of 15 December on Entrepreneurs, Self-Employed Workers and SMEs*, BOE 27 March 2012.

¹⁹ A total of 60 new companies are registered as trading companies, which meet the conditions regarding activity and longevity (compiled as of 01/01/2012).

existence of these companies once the initial benefits are no longer applicable. This situation is rightly seen as a result of the elevated fiscal pressure implemented in a number of countries, including Spain, in an attempt to resolve their budgetary deficit problems. This issue does not exclusively affect the tourism industry. However, due to the specific characteristics of the sector, it is an attractive area for all public administrations at national, regional and local level. This is not only as a result of the economic importance as a potential source of revenue. Rather, it is due to the fact that a part of this tax burden falls on the end consumers, who, to a large extent, are not Spanish residents and, therefore, do not vote in the country. Consequently, the direct political impact of the introduction of these taxes is diluted. The concept of tax exportation partly explains the successive attempts to levy taxes on tourist establishments, regardless of whether or not the pretext is preservation of the environment.

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Author(s)

M. G. Lagos prepared the literature review, the state of the art and the research design, J.J. Jiménez prepared the Entrepreneurship topics and the methodology and M.C. Jiménez prepared the questionnaires and the statistical calculations.

M. Gabriela Lagos

Professor Assistant in the Area of Political Economy and Public Finances, Economic Statistics and Businesses and Economic Policy in the Faculty of Economics and Business of the University of Castilla-La Mancha (Spain). PhD in Laws by University of Castilla-La Mancha (Spain). Degree in Laws by University of Castilla-La Mancha (Spain).

Juan J. Jiménez

Full Professor in the Area of the Business Administration in the Faculty of Economics and Businesses of the University of Castilla-La Mancha (Spain). PhD in Economics and Businesses by the University of Castilla-La Mancha (Spain); Degree in Economics and Businesses with Extraordinary Prize of Degree, by the University of Murcia (Spain)

M. Carmen Jiménez

Undergraduate in Psychology in the University of Valencia (Spain). International Baccalaureate Diploma (IBO), with specialty of Technology.

Correspondence to:

Prof. M^a Gabriela Lagos, PhD
University of Castilla-La Mancha
Facultad de Económicas y Empresariales
Plaza de la Universidad 1, 02071 Albacete, Spain
Gabriela.Lagos@uclm.es