

## WILLINGNESS TO PAY FOR TOURISTS TAX IN PREMIUM DESTINATIONS: LABUAN BAJO CASE STUDY

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### ABSTRACT

The government is trying to break away from dependence on the exploitation of natural resources, so in recent years, it has focused on tourism. The Covid-19 pandemic has greatly impacted the tourism sector, but in 2022 the level of foreign tourist visits to Indonesia is slowly starting to improve. Labuan Bajo is one of the areas targeted by the government to be developed in the tourism sector to make premium destination spots, in supporting the existence of tourism, various infrastructures are built so that they can become world-class destinations. In addition, Labuan Bajo also offers natural tourism products that require sustainability to maintain their natural habitat and certainly require considerable costs in conducting regular monitoring and maintenance. The existence of high development and operational costs, the government needs to find ways to obtain optimal state revenue, especially in terms of taxes charged to tourists. The revenue obtained from the tourism tax is a very important financial source for the government and tourism authorities to ensure the sustainability of the tourism sector and can improve the quality of destinations given to visitors to tourist attractions. In an effort by tourism policymakers to create an efficient and fair tax system in tourist destinations, it is very important to understand tourists' perceptions of willingness to pay (WTP), tax rates, and optimal allocation. This research is a qualitative study, and the purpose of this study is to evaluate the tourism tax charged to tourists as compensation to get optimal regional income and to measure the willingness to pay tourists. The ability to pay is necessary to know how much the government can attract taxes to get optimal local revenue but not be too burdensome for tourists. This research will also explore tourist perceptions regarding taxes and what things need to be developed so that absorption from state and regional budgets can be effective in developing destination areas, especially in a sustainable manner. The approach used in data collection using semi-structured in-depth interviews with international tourists visiting Labuan Bajo, East Nusa Tenggara. This research is expected to be used by policymakers to understand the optimal value of tourism taxes to be able to develop their regions.

**Keywords:** Sustainability, Tax Pariwisata, Willingness to Pay.

### INTRODUCTION

The Indonesian government is currently focusing development on tourism to reduce dependence on the exploitation of natural resources. Labuan Bajo is one of the areas targeted by the government to develop it into a premium destination spot. Therefore, the construction of various infrastructure facilities was carried out to make Labuan Bajo a world-class destination. The COVID-19 pandemic has caused a decrease in the number of foreign and local tourist visits.

Labuan Bajo is one of the areas that has also been affected by covid-19, especially in the tourism sector with the loss of foreign tourist markets. Tourism is the largest economic sector for the people of Labuan Bajo, where most of the people are tourists. The decrease in tourist visits and even the absence of tourist visits have an impact on reducing regional budgets, while expenses for tourism business costs and staff still have to be paid so tourists feel overwhelmed in their efforts to support their business (Siagian et al., 2021). In 2022, the level of foreign tourist visits to Indonesia will slowly begin to increase.

Labuan Bajo has been designated by the central government as a Super Priority Tourism Destination area. Tourism in Labuan Bajo offers natural attractions where one of which is the Komodo national park which has been designated as a World Heritage by UNESCO in 1991 and also as a National Biosphere Reserve in 1977. With the natural objects offered by Labuan Bajo, it is currently directed to become a destination that maintains the sustainability of its nature. The role of tourists is crucial in the continuous development of the industry. The World Tourism Organization has stated that sustainable tourism must maintain maximum tourist satisfaction at its maximum and introduce meaningful expe-

periences for tourists not only related to tourist attractions but also sustainable issues and promote sustainable tourism practices (World Tourism Organization, 2004).

Sustainable tourism is not cheap, because to maintain social and environmental conditions, continuous monitoring and maintenance must be carried out. In maintaining the sustainability of a tour, usually, environmentally based tourist attractions cost more than other types of tourism. In addition to maintaining the sustainability of Labuan Bajo, it has also been improving over the past few years to become a premium tourist destination by improving public infrastructure to support tourism actors. Changing socioeconomic conditions favor the characteristics of visiting tourists to be more varied. In terms of demographics, tourists are currently supported by young and mature tourists, as well as international tourists.

One way to be able to manage the cost of maintenance and preservation on the social and environmental side of tourism growth is to include or increase taxes, both direct taxes (such as lodging taxes, and vehicle rentals) and indirect taxes (such as sales tax, VAT) (Cetin, 2014). Departing from the problems described above, problems are formulated, namely 1) how the characteristics of foreign tourists in Labuan Bajo and the sensitivity of tourists' activity to prices. 2) How much of a workable tax ideal value and 3) what investments need to be built from the revenue generated from the tax according to the perception of tourists.

This study looked at how tourists think about taxes, the ideal value of taxes that can be charged, and the allocation of these taxes to certain areas of investment based on travelers' perceptions. Through this research, the public gained an understanding of the optimal tax value that can be charged to tourists without reducing tourists' interest in visiting as well as tourists' perception of a decent investment that is needed to develop tourism in Labuan Bajo.

## LITERATURE REVIEW

### Sustainability and Willingness to Pay

Development costs derived from these taxes can either directly or indirectly serve to improve tourism products (such as infrastructure, preservation of nature and surroundings, promotion, tourist experience, etc.) and bring a positive effect to demand, and will increase tax revenues even more in the future. Tourism development, environmental quality improvement, and economic growth can go hand in hand. Therefore, policymakers need to analyze the influence of tourists on sustainable tourism (Cerina, 2007). In the last two decades, there have been many concepts related to "sustainable tourism". From several existing studies, the idea emerged that consumers consuming tourism products must also play a role in maintaining the environmental, social, and economic quality of the place where they vacation (Fernandez and Sanchez, 2016).

Environmental sustainability refers to the optimal and adequate use of natural resources that can improve the experience of traveling and the competitiveness of the destination (Hasan, 2000). Tourists' concern for related natural resources and their willingness to support environmental sustainability has been a concern for researchers and practitioners (Dodds et al. 2010). The concept of the tragedy of the commons (Hardin, 1968) is a resource that can be destroyed because no one monitors or controls its use. If it is used freely by many people and exceeds the limit, it will be difficult to regenerate and recover.

The perspective of tourism destinations being sustainable from an economic point of view is to maintain an optimal development growth rate while still considering the limitations of the destination itself so as not to overdo it (Choia and Sirakaya, 2006). Finally, the social dimension of sustainability refers to understanding and respecting local culture, traditions, and values in a destination (Perez and Bosque 2014).

Currently, the concept of a tourism economy is interesting if it also sees the willingness to pay as an economic instrument for sustainable tourism management, especially in destinations that are trying

to restructure business models towards sustainability (Fernandez and Sanchez, 2016). Regarding Willingness to Pay, several existing references indicate that there are tourists who are willing to pay more to support the sustainability of the tourist objects or destinations (hotels, transportation, products, etc.) visited (Jeong and Jang, 2010).

## **Taxes in Tourism**

The lodging tax (also referred to as a municipal tax, occupancy tax, hotel tax, room tax, or bed tax) is the most common tax used by the government to earn revenue in the tourism sector (Gago et al. 2006). Sales taxes derived from tourism represent more than 10% of tax revenues for most developing countries. For example, Cetin (2014) in Turkey found that 35% of tourist spending goes to the central government in the form of tax revenues. Local governments in a destination have widely used lodging taxes to increase local revenues; however, such actions are often opposed by the hospitality industry because they are considered unfair and reduce the competitiveness of companies (Aguiló et al. 2005).

Representatives of the tourism industry state that the tax negatively affects the increase in tourists and the competitiveness of the destination, which will reduce receipts and ultimately have an impact on the total VAT. Taxes on tourism accommodation are often polemical because if they are excessive, they can reduce demand, and have an impact on fixed operating costs but declining sales which are also followed by a decrease in terms of tax revenues. Traveler behavior is very important to measure to be able to see the fair value of the taxes that will be applied to tourists to get optimal results but not reduce the number of tourists themselves (Chung et al. 2011).

A well-managed optimal accommodation tax will be part of the investment in promoting the destination through improving tourism infrastructure and carrying out sustainable development without compromising quality when traveling to the destination. This tax allocation can also create an investment that generates even greater profits for the hospitality industry and local government in the long term (Cetin et.al, 2017).

## **METHODOLOGY**

This research first tries to identify the investments needed for tourists to have a better travel experience. And, second, determine the level of tax that travelers are willing to pay to be able to fund those investments based on a demand-side perspective. A qualitative approach was carried out with semi-structured in-depth interviews used to identify tourists' perspectives on tax introduction in tourists in Labuan Bajo where this technique is considered optimal for collecting valid data because the topic of tax is fairly sensitive. Tourists will be asked to answer a series of open-ended questions regarding what areas require investment in the Labuan Bajo area, the level of taxes they are willing to pay, and price sensitivity based on the economic capabilities of tourists. In addition, tourists will be interviewed about their thoughts on the imposition of a lodging tax as a measure to improve the sustainability of destinations in Labuan Bajo.

Data collection will be carried out around March to April 2021 at tourist attractions around Labuan Bajo, as well as at Komodo international airport. The number of tourists to be interviewed is around 50 foreign tourists who visit the Labuan Bajo area for tourism (not in the context of a business or anything else). The interview is predicted to last about 20-40 minutes and each interview will be recorded electronically and photographed. The number of respondents will be increased or decreased depending on the quality of the findings to be obtained.

## **ANALYSIS AND DISCUSSION**

### **Descriptive Analysis**

The average age of respondents ranged from 32 years old. Most of those on the survey are male tourists 11 people as well as female tourists 9 people, with an average annual income ranging between

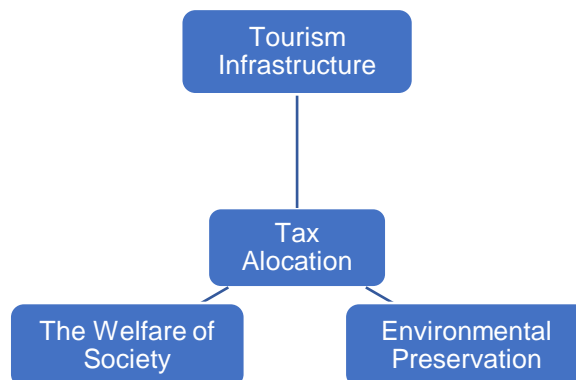
30,000 thousand euros. Of the several respondent countries sampled, most of the tourists who visited came from Europe and parts of Asia. The respondents also visited Indonesia both with family (6), and alone (6), but quite a few were also with friends from one country (8). Almost all of the new tourists are visiting Labuan Bajo for the first time, with the length of the visit ranging from 6 to 8 days. Usually, foreign tourists visit Labuan Bajo to be part of their vacation when visiting Bali. The descriptive k statistic of the observed samples can be seen in Table 1.

**Table 1.** Descriptive of the Respondent's Profile

<b>Gender</b>		<b>Travel Partners</b>	
Man	11	Family	6
Woman	9	Friend	8
		Alone	6
<b>Age</b>		<b>Frequency of visits</b>	
18 – 25	5	1 time	18
26 – 35	9	2 times	1
36 – 49	6	3 times	1
50 +	0		
<b>Revenue per Year (In Euros)</b>		<b>Length of stay</b>	
0 – 14.999	3	1-3 days	3
15.000 – 29.999	4	4-6 days	10
30.000	13	7+ days	7
<b>Citizenship</b>			
Asia	3		
Europe	16		
Afrikaans	0		
North America	1		

**Investments that Need to Be Developed**

The thing that needs to be known is that the purpose of the tax that has been obtained is allocated appropriately to the expectations and wishes of tourism users or connoisseurs. This research explores areas that tourists hope to improve or create to improve tourist attractions for the better. Some respondents who gave their true opinions were quite satisfied with the current state of Labuan Bajo even though some negative things made them dissatisfied during the few days of visiting Labuan Bajo. From these things, they are grouped into several sub-topics, namely Tourism Infrastructure, Tourism Services, and Environmental Preservation.



**Figure 1.** Tourism Infrastructure, Tourism Services, and Environmental Preservation

Tourism infrastructure includes services and buildings of tourist attractions used by local people and tourists. Tourism infrastructure can concern tourist buildings, modes of transport, energy networks,

roads, and others. From several opinions of respondents obtained the first one related to transportation. Some of the complaints are caused by the unclear value of the price of tourist taxis which often makes tourists confused to pay for the services of the vehicle they rent. "They often ask for too much compared to the cities I visit in Indonesia". (A12). This is caused by the almost absence of regular public transportation in the Labuan Bajo area that tourists can use, especially to visit city tourist areas, restaurants, and accommodations that are not too far from each other.

Telecommunication infrastructure is an important part for tourists, especially in Labuan Bajo who need a fast network and are available at points around their stay, especially foreign tourists which can make it easier for them to send news, find information, and also complete work that they often bring on vacation. "Coffee places with good wifi networks for work need to be improved". (A7). On the other hand, Labuan Bajo still has challenges where there are several areas where the network is still not well monitored. "4G here is still very ugly". (A9). As premium tourism targets international tourists, it is necessary to improve the quality in terms of information technology and quality networks, and international standards.

Labuan Bajo which offers natural tourism as the main tourist attraction makes the visitors who come also more or fewer nature enthusiasts who want to enjoy the nature reserve as naturally as possible. "don't invest too much, we like it as it is". (A7). With natural attractions dominated by beaches and islands, tourists want to enjoy themselves without being disturbed by garbage. But often the garbage that is thrown carelessly in the water area and dragged to the beach area and surrounding islands makes some areas dirty. "What I dislike the most is the smell of the garbage around the area". (A16). Landfills are still very lacking at strategic tourism points in Labuan Bajo and the lack of learning in the surrounding community regarding waste makes often household waste due to tourist activities fall into the sea. "There needs to be increased sensibility and learning for people to throw garbage into the san basket instead of into the street or the sea". (A12). Environmental conservation is one of the great concerns for foreign tourists who want Labuan Bajo tourism to protect nature and the sea as well as nature reserves such as Komodo national park to remain natural and sustainable.

In terms of the surrounding community, it is also an important thing to raise. Labuan Bajo over the past few years has experienced very rapid development. Many people from outside the area take advantage of this to find work and develop businesses in Labuan Bajo. This often makes local communities rivaled and difficult to compete, especially for people or industries that have much greater experience and capital. Some things that need to be considered by the local community, especially with their relationship with foreign entrepreneurs, such as improving foreign language skills, self-confidence, security of tourist areas, and understanding of the value of services and products so that they are not too expensive (or too cheap), as well as strengthening local culture so as not to be eroded by cultural changes and migrants looking for work to Labuan Bajo.

### **Willingness To Pay Tourism Tax**

Tourists who were the focus of the sample in this study were asked questions related to how much they were willing to pay some taxes to be able to help improve the development and welfare of the Labuan Bajo area. The amount of tax is measured from the percentage of costs they spend while on vacation in Labuan Bajo. Of the respondents who were asked the majority said they wanted to pay taxes to be able to improve tourist services in Labuan Bajo, especially if the use of the tax was carried out openly. "I want to pay the tax if it is used transparently, if necessary if there is a report on the expenses". (A4).

From the data on costs incurred during visiting Labuan Bajo, it was obtained per person that the smallest cost was 350 euros and the maximum respondent's expenses were 2500 euros, which is usually to finance transportation, consumption, and accommodation. As conveyed by A10. "170 euros for planes, 166 euros for boat rental, 100 euros for residence, and about another 100 euros for some activities in Labuan. (A10). Related to the costs that must be incurred by the participants can be compared with some of the tourist attractions they visit where the Labuan Bajo area leads to

premium tourism. "What I dislike the most is that holidays in bajo are quite expensive compared to other cities". (A9).

In analyzing the ability to pay taxes, a cost comparison is used. The first is the value of the costs incurred by tourists while in Labuan Bajo, then the ceiling cost, which is an increase in the original costs they want to spend which does not change the respondent's decision to travel in Labuan Bajo, which also shows how much percentage of the costs they spend in Labuan Bajo. These values are shown in Table 2.

**Table 2.** Respondents' Willingness to Pay (WTP)

Respondents	$\Delta$ Cost Ceiling (in Euros)	The ratio of indifferent % based on travel expenses
A1	500	20
A2	250	10
A3	8450	10
A4	32	10
A5	50	4
A6	50	10
A7	32	10
A8	18	4
A9	3	5
A10	8	1
A11	18	2
A12	175	5
A13	250	7
A14	60	10
A15	50	5
A16	128	5
A17	90	8
A18	64	10
A19	70	8
A20		7

The ratio of indifference in percentage terms is based on travel costs incurred while in Labuan Bajo is the smallest at 1% and the largest is around 20% of the cost of expenses. When taken the average percentage of willingness to pay based on total travel costs is obtained around 7.5%, as is related to the additional costs to be incurred based on the multiplication of the percentage by the cost of real expenses, the smallest value of 3 euros with a percentage of 1% and the largest amount of 500 euros with a percentage of about 20%.

The majority of respondents voluntarily pay more to enjoy their activities so that taxes can continue to build infrastructure, prosper local communities, as well as build facilities that support environmental preservation especially since Labuan bajo offers natural tourism. Participants strongly support sustainability where there is a relationship between the infrastructure that is built must be environmentally friendly and still maintain the nature of Labuan Bajo as natural as possible without changing the landscape too much.

## CONCLUSIONS AND RECOMMENDATIONS

This research wants to analyze how tourists can contribute to creating sustainable tourism. Labuan Bajo tourism products that focus on nature and culture require full attention from every circle, namely the government, local communities, and also tourists to be able to jointly preserve tourism and increase development in the Labuan Bajo area which until now is still in the development stage to become a premium tourism place.

On the other hand, the understanding in distributing collected taxes be distributed to several things that are urgently needed or desired by both local people and tourists to create comfort and an attractive destination picture.

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