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The Tax Man's War on Vacations

By Maximo Alvarez

Those who thought they could get away for a summer vacation with tax season behind them better think again. Many of the goods and services necessary for travel — including airline tickets, rental cars, gasoline, hotels and meals out — are taxed at significantly inflated rates. Call it the vacation tax.

Nearly 25 percent of the cost of an average airline ticket now goes to taxes. That includes the standard 7.5 percent excise tax on air travel as well as a myriad of other surcharges like the “Federal Segment Fee” and “September 11th Security Fee.” But it does not take into account the sales tax paid by the traveler or the corporate tax paid by the airline.

Don't think you can escape vacation taxes by driving. Federal and state fuel taxes make up about 20 percent of the cost of a tank of gas depending on what state you live in and the current price at the pump. The number of toll roads in the nation also has increased by 15 percent in the past decade taking a further bite out of travelers' wallets.

Upon arrival, vacationers often face double-digit taxation on lodging, rental cars, meals out and vacation indulgences like alcohol. In some major cities, for example, they can expect to pay approximately 15 percent on hotels, 20 percent on rental cars, and 10 percent on meals out. Tax on alcohol varies significantly by state, but is about

33 percent on average.

What does the tax man have against the vacationer? It's nothing personal. It's just that vacation expenses tend to also be the things that are much easier for politicians to tax.

Air travel, fuel and alcohol, for example, are products whose taxes are “hidden” in their sale price, meaning that consumers cannot readily recognize how much of what they are paying is tax. This means that politicians can raise these taxes without fearing backlash because most consumers will simply attribute the corresponding price increases to inflation.

Taxes on airfare, for example, have risen by nearly 50 percent since 2000; meanwhile, the base ticket price has actually decreased 8 percent over that time. As a result of this discrepancy, airlines are pushing to pass the Transparent Airfares Act, which would unbundle the base price from government taxes, giving consumers some transparency and checking the government's taxing power.

Supplemental taxes on hotels and other forms of lodging, rental cars and meals out, on the other hand, are usually clearly delineated on receipts. But they too are easy for politicians to raise because they usually don't target their own constituents who have the ability to vote them out of office for raising taxes too much. In fact, constituents

often approve of such tax hikes paid for by tourists because they help subsidize their own tax bill. Forget soak the rich — soak the visitors.

So what does this mean in practice? Say a household budgets \$1,000 for a weekend vacation, planning to spend \$400 on flight tickets, \$150 on a hotel stay, \$100 on a rental car, \$50 on gasoline, \$150 on dining out, and \$50 on their favorite bottle of bourbon. (They must also budget \$50 to cover state sales tax.)

Based on the aforementioned average tax rates on these goods, they can expect to pay nearly \$200 out of their \$1,000 budget in vacation taxes. Throw in the \$50 of sales tax and nearly 25 percent of the vacation budget is spent on tax. To pay this high of an effective income tax rate, the household would have to make more than \$300,000 a year.

Compared with their developed country peers, Americans are notorious for taking very little vacation, only using about half of their already meager yearly allotment of vacation days. Perhaps if vacations were \$750 rather than \$1,000, this would change. Policymakers should end their war on vacations, so Americans can get some relief.

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