

Review of the Accommodation Tax (Overview of Draft)

1. Changes in the environment surrounding tourism and the Accommodation Tax and their impacts, and how the revenues should be used

In order to prevail in the competition with tourism destination cities in other countries, it is significant to enhance tourism promotion even more by striving to further increase the attractiveness of Tokyo in enticing visitors from around the world and ensuring the safety and security of tourists. It is also necessary to take tourism promotion measures that harmonizes with residents' lives and the environment, such as garbage disposal measures. Regarding the ways of using the revenues and imposing the tax, the Tokyo Metropolitan Accommodation Tax will support sustainable tourism promotion from a financial aspect by reviewing the tax based on the changes in the environment surrounding the Accommodation Tax including the tourism situation.

Introduction of the Accommodation Tax, and changes in the environment surrounding tourism in Tokyo and the Accommodation Tax

- The Tokyo Metropolitan Government (TMG) established the Accommodation Tax over 20 years ago as a discretionary special-purpose tax to secure a revenue source for its tourism policy. Since then, the TMG's Accommodation Tax has fulfilled a role of supporting the tourism policy from a financial aspect while considering the tax-bearing capacity as a simple and easily understood system.
- During this period, tourism in Tokyo has greatly changed through the increase in administrative demand due to the increase in tourists and other factors, including the appearance of various types of accommodation facilities and changes in accommodation charges. These changes affect the taxation subjects, the tax burden rates, the relation between the tourism policy costs and the Accommodation Tax revenues, etc. Therefore, it is necessary to review the system based on the environmental changes.

Consideration of how the Accommodation Tax revenues should be used

- The Accommodation Tax is a discretionary special-purpose tax that is borne by the persons enjoying the benefits of the tourism policy. It is very important to ensure transparency in the use of the Accommodation Tax revenues so that the public will understand. Accordingly, the scope of how the revenues are used will be further clarified by utilizing the TMG tourism policy plan.
- The specific projects utilizing the Accommodation Tax revenues will be selected from among the projects in the Tokyo Tourism Industry Promotion Action Plan through the budget compilation for each fiscal year by giving consideration to their positioning in the tourism policy and the impression of the policy benefits which will be received. Additionally, information provision to increase understanding will also be enhanced by announcing the target projects for each fiscal year using the TMG website.
- Further, It is also important to have the viewpoints of encouraging all Tokyo residents' support for tourism and leading it to the development of sustainable tourism. The TMG will accelerate its considerations into measures with the intention of utilizing the Accommodation Tax revenues in initiatives for promoting sustainable tourism, including garbage disposal measures and overcrowding measures in tourist areas and ensuring the appropriate management of private lodgings.

Tokyo Metropolitan Accommodation Tax (Existing system)

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|------------------------|--|
| Purpose, etc. | To cover the expenses required for taking measures to increase the attractiveness of Tokyo as an international city and to promote tourism |
| Taxpayers | Those who stay at ryokans (Japanese inns) or hotels in Tokyo |
| Tax payment exemptions | Accommodation for which the room charge is less than ¥10,000 per person per night |
| Tax rates | Room charge per person per night ¥10,000 or more and less than ¥15,000: ¥100 ¥15,000 or more: ¥200 |
| Collection method | Special collection from ryokans (Japanese inns) and hotels |
| Enforcement date | October 1, 2002 (H14) |

PRIME Tourism Destination City Tokyo

Tokyo Tourism Industry Promotion Action Plan



Specify the projects based on the tourism policy plan as the scope of usage and clarify the policy area to use the revenues

Image of assigned projects

PRIME Tourism Destination City Tokyo Project examples

(Specific projects are selected in the budget compilation for each fiscal year)

Enhancement of the environment for welcoming tourists

Development of tourism resources which increase the attractiveness of Tokyo
Initiatives to harmonize tourism with residents' lives

Human resource training and utilization

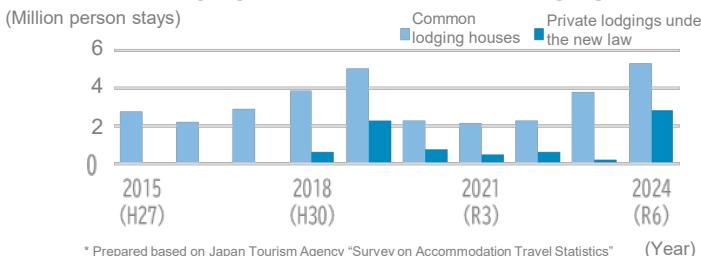
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2. Consideration of how to impose the tax, and initiatives following the taxation system review

Taxation subjects

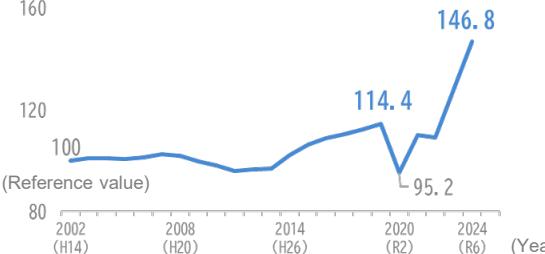
- Regarding the revenue source of the tourism policy, among the wide range of accommodation facilities which include different sales formats and pricing bands, common lodging houses and private lodgings will also be added as taxation subjects for the Accommodation Tax in order to share the tax burden regardless of the type of facility.
- Additionally, while cooperating with related institutions, tax inspections will be implemented for facilities including private lodgings which will be newly added, and the TMG will ensure the suitability of each type of procedure relating to the Accommodation Tax and payment by declaration.
- While responding to the expansion of taxation subjects due to the increases in accommodation charges, the TMG reviewed the tax exemption criterion again and will raise it from ¥10,000 to ¥13,000 per person per night from the perspective of securing the revenue source by sharing the burden more widely in response to new issues including the increase in tourist numbers.

Total numbers of people staying at common lodging houses and private lodgings



* Prepared based on Japan Tourism Agency "Survey on Accommodation Travel Statistics" and "Residential Stay Performance Data for the Housing-based Accommodation Business" documents. Note that the aggregation target periods for common lodging houses and private lodgings do not match because the aggregation periods for each are different.

Changes in accommodation charges (Referenced to 2002)

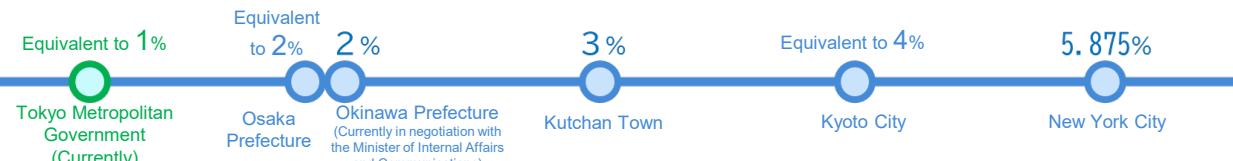


* Prepared taking 2002 as the reference value (100) based on the Ministry of Internal Affairs and Communications "Consumer Price Index (CPI) with Base Year 2020 for Japan" document.

Taxation method and tax rate

- Due to the appearance of an issue following the increases in accommodation charges which resulted in the tax burden rate becoming lower for guests staying at accommodation in the higher price bands, the taxation method will be changed to a fixed rate method (a system in which the tax payment is set as an amount derived by multiplying the accommodation charge by a fixed rate) from the perspectives of fairness relating to tax-bearing capacity, impartiality in the setting of accommodation charges and realizing a simple system for the tax rate.
- For the revenue source amid the requirements to improve the attractiveness of tourism in Tokyo and enhance the measures for developing sustainable tourism, the tax burden rate will be revised to 3% based on the situations in other cities in order to request the persons staying in accommodation, who will be the beneficiaries, to also bear an appropriate burden.
- In order to utilize the Accommodation Tax revenues for positive policy developments, such as garbage disposal measures and overcrowding measures in tourist areas and measures to further improve the quality of tourism, the TMG will proceed to specify the policy from the budget in the next fiscal year.

Comparison of tax rates with other organizations



* Osaka Prefecture and Kyoto City: Tax rate levels when applying the taxation methods of the said organizations to the TMG price distribution (Provisional calculation values)

* Prepared based on the websites of each local government

Initiatives following the taxation system review

With regard to the review this time, the TMG will conduct public relations and other activities to increase knowledge of the taxation system review, in addition to giving consideration to the burden incurred by all accommodation facility providers.

Simplification of the declaration and payment procedures

Consideration of the burden relating to special collection

Initiatives for ensuring appropriate taxation, etc.