

## 2008 Consumer Tax Rebates Could Boost Travel & Tourism Sales

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### *Study Overview*

The 2008 Economic Stimulus Act approved by Congress in February to boost consumer spending in a slowing U.S. economy, will pump \$106 billion in tax rebate checks in the hands of over 130 million families and individuals, just in time for consumer booking periods for vacation travel for summer, fall and winter. This article outlines who will get the tax rebates, how much, and when they will be distributed. We offer five reasons we think that even in a slowing and uncertain economy, the tax rebates have the potential to boost 2008 hospitality and travel sales.

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## **I. Introduction and Background**

Recently a hotel group in the popular Smoky Mountains vacation destination of Pigeon Forge, TN, discussed economic issues impacting 2008 travel demand and voiced concerns that the current U.S. economic slowdown could also slow demand for 2008 summer, fall, and winter travel. One concerned revenue manager in the area said, “What we need this summer is for someone to fly a plane over our potential tourist’s homes and throw out baskets of money so they will be encouraged to travel.” Beginning in May 2008, a special one-time tax rebate plan called the 2008 Economic Stimulus Act approved by Congress will essentially do just that - injecting \$106 billion in cash in the hands of approximately 130 million families and individuals. The tax rebate checks, designed to stimulate spending in a slowing U.S. economy, are scheduled to land in the checking accounts of consumers and potential travelers over a 10-week period from May 2 – July 11, just in time for booking summer, fall, and winter vacations.

This article outlines who will get the rebates, how much, and when they will be distributed. In addition, we offer five reasons we think the tax rebates, even in a slowing U.S. economy, has the potential to boost 2008 hospitality and travel sales.

## **II. Who gets the tax rebate and how much?**

According the IRS, tax rebate checks will be sent to approximately 130 million middle- and lower income families and individuals that file their 2007 Federal Income Tax returns by April 15 according the following categories of tax filers: (late tax filers with qualified extensions will also receive rebates later in the year)

- Couples filing joint tax returns with combined 2007 adjusted gross income (AGI) less than \$150,000 will qualify for full tax rebates up to \$1,200, or \$600 each for each filer. (AGI, listed on their W-2 forms after all qualified deductions)
- Single tax filers with 2007 AGI of less than \$75,000 will qualify for rebates of \$600 each.
- Children: In addition, rebates will include a \$300 “bonus” added to the taxpayers rebate for each child under age 17 as of Dec. 31, 2007. For example, a family of four would receive a cash rebate of \$1,800 (\$600 for each joint filer, plus \$300 for each child).
- Those receiving Social Security benefits, certain veteran’s disability payments, and those with no income taxes must have at least \$3,000 in this type of income to qualify for rebate checks of \$300 each, and \$600 for couples.

### 1) Tax rebate examples and amounts

Table 1 shows examples of who gets the tax rebates and amounts.

**Table 1. Tax Rebate Examples and Amounts**

| <b>Eligible Taxpayers with Qualifying Income</b>                    | <b>Amount of Tax Rebate Check</b>                             |
|---|---|
| Family of five<br>(Married couple with three children under age 17) | \$2,100<br>(\$600 for each parent, plus \$300 for each child) |
| Married Couple, no children   | \$1,200<br>(\$600 for each person)                            |
| Single, no children   | \$600   |
| Retired couple receiving Social Security                            | \$600<br>(\$300 each)   |

Source: Internal Revenue Service, [www.irs.gov](http://www.irs.gov)

2) When will the rebate checks be distributed by the IRS?

The tax rebate checks will be distributed in two waves depending on if taxpayers file their 2007 tax returns electronically or choose to file with a paper tax return. The IRS has announced the following schedule to distribute the tax rebates:

- **Electronic tax filers:** Rebate checks will be sent by the IRS via direct deposit by the last two digits of the taxpayer’s social security number on May 2, May 9, and May 16. (see Table 2), and
- **Paper tax filers:** Rebate checks will be sent by the IRS via postal mail by the last two digits of the tax payers social security number on May 16, May 23, May 30, June 6, June 13, June 20, June 27, July 4, and July 11. In general, expect the paper checks to be in the hands of consumers five days after the IRS mail drop. (see Table 3).

**III. Five Reasons the Tax Rebates Could Boost 2008 Travel Sales and Revenues**

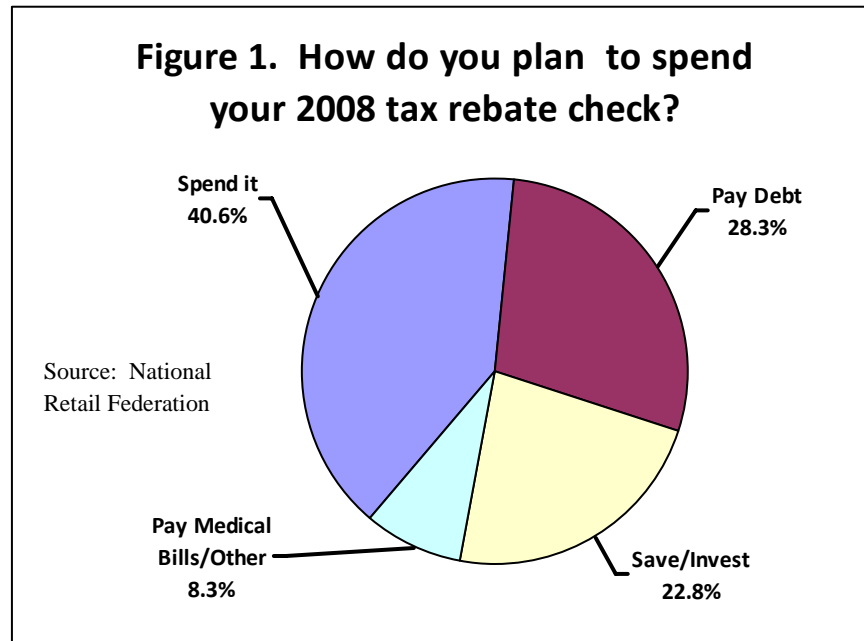
Even in a slowing and uncertain economy, we offer five reasons why the tax rebates have the potential to boost 2008 travel sales and revenues.

1) **Most consumers spend more than they plan when receiving tax rebates.**

Consumer surveys asking people how they plan to use tax rebates before they receive them, is often different than what people actually do after they receive the tax rebates in their hands. Evidence indicates that before consumers receive tax rebates they say they plan to spend less and save more of the rebate; however after they receive the rebate they actually spend more of the tax than they initially indicated on pre-rebate surveys.

a) Current survey of consumer plans for the 2008 tax rebate

As shown in Figure 1, a nationwide survey asking consumers how they planned to spend their 2008 tax rebate by the National Retail Federation found 40.6 percent said they would spend the rebate, 28.3 percent would pay down debt, 22.8 percent would save or invest, and 4.3 percent would pay medical bills. However, people's plans for the rebate do not always match their actions after they receive it.



b) Lessons learned from the 2001 tax rebates

How did consumers chose to spend a similar rebate received in 2001? A study by economists Agarwal, Liu, and Souleles distributed from the research department of the U.S. Federal Reserve Bank of Philadelphia in 2007 (titled, "The Reaction of Consumer Spending and Debt to Tax Rebates: Evidence from Consumer Credit Data") examined how consumers actually used tax rebate cash in a similar 2001 tax rebate program. The study indicates that although consumers said they planned to pay down debt, and some did, consumers actually ended up spending more than they indicated they would. Soon after paying down debt with the rebate (3 to 9 months later) consumers used the credit cards and the new available freed-up credit to spend even more - on average spending 40 percent more than the original amount of the tax rebate.

Thus, if consumers use the 2008 tax rebate in a similar fashion as the 2001 rebate study suggests, consumers will spend more of the rebate than originally planned, generating opportunities for boosting 2008 travel demand.

**2) Perfect timing for consumers receiving tax rebates with travel booking periods.**

Booking patterns for hotels and resorts, airlines, rental cars, vacation destinations, and attractions for summer and some fall travel indicate the majority are purchased during a 60 day period from May 1 – June 30, matching the same period the tax rebate checks will be distributed. During this period, most consumers have needed information to plan trips as most employees have vacations dates approved at work, and they know the summer schedules for children involved in sports activities, summer camps, and other family gatherings.

Tables 2 shows the tax rebate distribution dates for electronic filers, and Table 3 shows the tax rebate distribution dates for paper tax filers. The IRS projects that approximately 46 percent of all 2007 tax returns will be filed electronically, and 54 percent will be files using paper returns. Electronic tax filers will be first to receive tax rebate checks over a three-week period from May 2 to May 16. Next, paper tax filers will receive the tax rebate checks over a seven-week period from May 16 to July 11. Thus, the timing of the rebate checks to land in the hands of consumers has the potential to boost 2008 travel with date-specific targeted marketing campaigns from strategic hospitality sales and marketing managers.

**Table 2. Electronic Tax Filers - Direct Deposit Schedule for Tax Rebates**  
(for tax returns processed by April 15)

| <b>Last two digits of Social Security No.</b> | <b>Date payment will be electronically transmitted by the IRS:</b> |
|---|--|
| 00 through 09                                 | May 2  |
| 21 through 75                                 | May 9  |
| 76 through 99                                 | May 16   |

Source: U.S. Treasury Department, Internal Revenue Service, [www.irs.gov](http://www.irs.gov) .

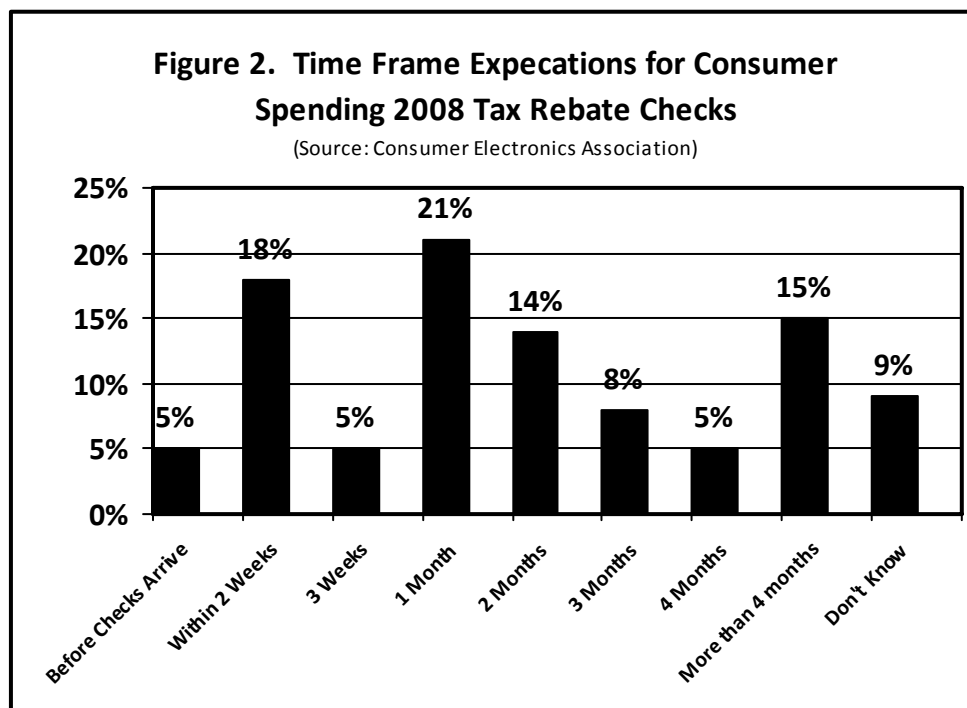
**Table 3. Paper Tax Filers – Postal Mailing Schedule for Tax Rebates**  
(for tax returns processed by April 15)

| Last two digits of Social Security No. | Date payment will be mailed by postal mail by the IRS: |
|--|--|
| 00 through 09                          | May 16   |
| 10 through 18                          | May 23   |
| 19 through 25                          | May 30   |
| 26 through 38                          | June 6   |
| 39 through 51                          | June 13  |
| 52 through 63                          | June 20  |
| 64 through 75                          | June 27  |
| 76 through 87                          | July 4   |
| 88 through 99                          | July 11  |

Source: U.S. Treasury Department, Internal Revenue Service, [www.irs.gov](http://www.irs.gov)

a) When do consumers plan to spend tax rebates?

Figure 2 shows the results of a study by the Consumer Electronics Association (CEA), asking consumers when they expected to spend the 2008 tax rebates. Results indicate consumers intend to spend the tax rebates they receive relatively quickly, with 49 percent of consumers planning to spend the rebates within one month of receiving them, and 76 percent of consumers expected to spend the rebates four months after receiving them.



### 3) Targeted marketing campaigns with travel deals will attract consumers.

In selected vacation destinations, increased competition by summer, fall, and winter travel providers and online travel distributors will generate creative marketing and strategic pricing plans for travel packages targeted to consumers receiving tax rebates. In a slowing U.S. economy, price sensitive and value conscience consumers will seek real or perceived travel deals and discounts for 2008 travel products.

#### a) Travelocity and Expedia marketing examples from 2001.

For example, after a similar 2001 tax rebate plan was announced, online travel distributors *Travelocity* and *Expedia* packaged special travel deals and promotions with hotels and resorts, cruise lines, golf, spa, attractions and other travel products targeted toward consumers receiving tax rebates. In 2001, *Travelocity* produced a targeted campaign for tax rebate recipients with the promotion “What Uncle Sam Giveth, Useeth to Go Away”; and *Expedia* used a marketing campaign with the tagline “The Great Tax Rebate Vacation,” targeted mostly to consumers seeking short weekend getaways trips and longer family vacations.

Thus, consumers with tax rebate checks will be attracted by creative advertising campaigns and could be motivated to spend on travel with competitive marketing programs generating real or perceived travel deals and discounts, proving another opportunity to boost 2008 travel demand.

### 4) Consumers could use tax rebates as new income in their travel budgets to off-set higher gas prices.

Higher gas prices remain a major factor for consumers considering traveling to drive-to vacation destinations. How did travelers react to the spike in gas prices in 2006 and continuing into 2007? Research from the Tourism Institute at the University of Tennessee (available online at: [www.utk.edu/tourism](http://www.utk.edu/tourism)) found that even with higher gas prices in 2006 & 2007, travelers to Tennessee still had a strong propensity to spend on travel. However, the study suggests consumers compensated for higher gas prices by making trade-offs in their travel budgets by choosing less overnight trips and more day trips, decreasing lengths of stays on overnight trips, and spending less in restaurants. With rising prices, economists refer this trade-off as the “substitution effect,” where consumers substitute lower quantities of other travel products (hotel nights, restaurant sales) freeing up money to be available to purchase gas at higher prices, and still attain a similar level of satisfaction of the trip within a given travel budget.

However, unlike 2006 and 2007, the travel consumer in 2008 will receive the tax rebate (representing a temporary increase in income) to consider in their new travel budget. With this new rebate cash, consumers still concerned about high gas prices may view the rebate cash as an opportunity to off-set the higher gas prices with the increase in rebate income. Economists refer to this type of consumer purchasing behavior with higher

prices and new income as the “income effect” where consumers use the new tax rebate cash as income to off-set higher gas prices and still attain a similar level of trip satisfaction.

Thus, if 2008 travel consumers choose to exhibit the “income effect” and off-set higher gas prices with the new tax rebate cash, this could boost 2008 travel sales.

**5) In a slow 2008 economy, some consumers will still seek to reward themselves and escape with travel and vacations.**

American workers work more days and longer hours than most other workers compared to other countries. For many families and individuals, travel, leisure, and vacations are essential elements in their measures of a balanced quality of life. Tourists have consistently cited the need to “escape” everyday issues and concerns at home by traveling for vacations. Even in a slowing economy, some travelers seek travel as a means to “escape” and reward their families for hard work – Americans feel they “deserve” to travel for vacations to getaway.

Once consumers understand the 2008 tax rebates are special one-time cash injections over and above their regular incomes, even in a slow economy, they may choose to spend more of the rebate cash than they had planned on travel and vacations in order to reward their families with leisure, temporarily escape, and experience some create some fun experiences.

#### **IV. Spending on U.S. Goods and Services Have Larger Impact on Economy**

In meeting the goals of the 2008 Economic Stimulus Act to generate economic activity and support U.S. jobs, consumer spending will have a larger impact if consumers choose to spend on U.S. made goods and services, as opposed to buying imports made in other countries. While spending on imported electronics (i.e. computers, flat-screen TV’s) produced in other countries will support economic activity in the U.S. transportation and retail industry selling the foreign made products, spending on imports will marginally support the U.S. economy.

Spending on travel and tourism represents one way consumers can, 1) provide a vacation and getaway from the concerns of a slowing economy, and 2) support the U.S. economy, and generate jobs in the hotel, restaurants, transportation, attractions in vacation destination areas, and the businesses that support them. Travel and tourism generated jobs will never be outsourced to another country.

#### **V. Conclusion**

The 2008 Economic Stimulus Act, designed to boost spending in a slow economy will inject new money in the hands of potential travel consumers. In general, for the five reasons outlined, this injection of money has the potential to boost 2008 hospitality and travel demand and support

U.S. jobs. In particular, if consumers spend the rebates on travel and tourism, it will have a larger impact on the U.S. economy than spending on imported products.

## **VI. About the Authors**

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