Transient Visitor Levy

Written Submission from UK Hospitality

Introduction

This submission is made by UK Hospitality, the trade body representing the UK's hospitality sector. UKH was established in February 2018 following the merger of the British Hospitality Association (BHA) and the Association of Licensed Multiple Retailers. The organisation is the authoritative voice for over 700 companies including national groups and independent businesses, operating around 65,000 venues in a sector that employs over three million people at UK level.

In Scotland, UKH represents all sub-sectors of the hospitality industry including hotels, serviced apartments, restaurants, bars and pubcos, clubs, contract caterers and visitor attractions. The wider hospitality industry in Scotland is the largest component of the country's tourism industry. It directly employs 275,000 people (10% of Scotland's workforce) and supports a further 70,000 indirect and induced jobs. The industry generates £6.4bn in direct GVA with a further £3bn in the supply chain. Tourism is one of Scotland's economic successes; this is a durable, resilient, innovative and adaptable sector which is worth some £5bn to the economy and employs 207,000 people (many of whom work in hospitality).

UK Hospitality (alongside over 20 other tourism industry representative organisations[1] which are members of the Scottish Tourism Alliance Council) is stridently opposed to the introduction of a Transient Visitor Levy (TVL) in Scotland and, for that matter, anywhere in the UK. UKH believes that applying a further tax on visitors will be damaging to tourism and affect our already poor price-competitiveness.

Transient Visitor Levy

The term Transient Visitor Levy (or Tourist Tax) is commonly used to describe a tax levied on consumers of commercial visitor accommodation such as hotels, hostels, self-catering properties, B&Bs, serviced apartments and even student accommodation when not used for its primary purpose during vacation time. A tax like this, which applies only to visitors, whether travelling for business or leisure reasons, who use commercial accommodation, is discriminatory as it does not apply to day visitors or those who stay with friends and relatives – both of which markets can place significant demands on some destinations.

TVL is usually applied by a local authority as a fixed amount or percentage of the room rate charged to the customer and, where applied, can generate funds for a variety of purposes – possibly to support tourism development or destination marketing or simply to contribute towards local government finances. At present, there are no TVL's in place in the UK although there are in some EU destinations.

[1] STA, UKH (and affiliated hotel associations for Edinburgh, Glasgow, Aberdeen and Inverness), Association of Scottish Self Caterers, Association of Scotland's Visitor attractions, Federation of Small Businesses, Argyll & Isles Tourism Cooperative, British Amusement Catering Trade Association, British Holiday Parks & Homes Association, Caravan & Motor Home Club, Farm Stay, Destination Orkney, Green Tourism, Hostelling Scotland, Outer Hebrides Tourism, Scottish Bed & Breakfast Association, Scottish Beer & Pub Association, Scottish Licensed Trade Association, Scottish Country Sports & Tourism Group, Scottish Destination Management Association, Scottish Tour Guides Association, Sail Scotland, Wild Scotland and Visit Arran.

TVL will apply to all visitors (unless exemptions are put in place) and will increase costs for travellers including the domestic tourists who comprise c60% of Scotland's visitor market. This means additional costs for residents of Scotland who holiday in the country and who are already hard-pressed because of Income and Council tax increases, inflationary price increases brought about by the relative weakness of Sterling, potential interest rate rises and uncertainties surrounding Brexit.

Scottish Government Position

UKH (and its predecessor, BHA) has consistently presented its case (summarised below) to Scottish Government against the introduction of any form of additional tax on its customers – despite this being a tax on consumers and not businesses. It is unlikely that accommodation businesses will absorb a TVL to shelter customers from increased costs.

UKH welcomes the Scottish Government's clear and consistently stated position that it has no plans to introduce a tourism levy, recognising that tourism enterprises suffer, for example, from the impact of high rates of VAT. Scottish Government has gone further (in a letter of 18 December 2017 from Cabinet Secretary for Culture, Tourism and External Affairs, Fiona Hyslop MSP to the then chief executive of BHA, Ufi Ibrahim) to state that *'Irrespective of the mechanism used to introduce the topic, Scottish Ministers are not willing to consider requests to explore a possible tourism levy with local government unless the tourism and hospitality industry are involved from the outset and their long-term interests are fully recognised in any work'*.

Local Government Position

There have been calls for the introduction of some form of TVL in Scotland for more than a decade; since 2011, the City of Edinburgh Council (CEC) has been in the lead in advancing the case and this has gathered pace in the last 18 months or so. Other local authorities have indicated support for the concept and, more recently, the Convention of Scottish Local Authorities has begun to press the case on behalf of all 32 councils in Scotland.

Businesses are increasingly concerned at the position being adopted by local authorities and COSLA (whose consultation and engagement with industry interests, especially with national bodies, in relation to a tourist tax has, to date, been scant and less than meaningful) who appear determined to press ahead with planning for the implementation and administration of a tourist tax. This intent is clear from announcements by CEC that:

- A tourist tax could be in operation in the city by the Summer of 2018, and
- It is to launch a consultation on its plans to charge a tourist tax of £2 per room, per night.

It is acknowledged that local authority budgets are under pressure and public funds are scarce. However, imposition of a discriminatory tax on customers of one sector of the tourism industry is not considered to be a fair or equitable means of addressing shortfalls in local authority budgets; there are options which have yet to be explored.

There are assertions from proponents of a TVL that, in some way, tourism and hospitality businesses and their customers enjoy a free ride in terms of government support, both at national and local level, make no contribution to marketing and development initiatives and that visitors make increasing demands on public infrastructure and services without subscription. Analysis for UKH indicates that in Scotland, the visitor accommodation sector alone makes a significant financial contribution both to the Exchequer and to public revenues in Scotland – this totals £719m per annum as shown below:

- Value Added Tax £465m
- PAYE / National Insurance 121m
- Corporation Tax 25m[2]
- Non-Domestic Rates 107m

This excludes contributions by accommodation businesses to local Business Improvement Districts, financial and in-kind support for local destination management and marketing bodies and, indeed, the value contributed to a destination through individual business marketing and promotional activity.

UK Hospitality's Case Against a TVL

UKH's opposition to a TVL is based primarily on grounds of competitiveness.

- The UK is a high-price destination for international visitors, for those who choose to holiday at home and for business travellers. The high rate of VAT compared to our EU competitors is a major contributory factor to this. The UK is one of only 3 EU countries (the other two being Denmark and Slovakia) not to apply a reduced rate of VAT to tourism and hospitality services – for example, the rate of VAT on a hotel room in the Republic of Ireland is currently 9%, in France and Spain it is 10%, in Germany 7% and it is as low as 6% in Portugal and Belgium;
- In its Travel & Tourism Competitiveness Survey for 2017 (conducted annually) the World Economic Forum ranked the UK 5th of 136 countries in terms of tourism capability and readiness but in terms of price-competitiveness, the UK is listed 135th of 136;
- Those who propose a TVL frequently cite that this is applied to accommodation bills in other countries without seemingly affecting tourism flows. It is, indeed, true that some EU countries have a TVL. However, analysis of Eurostat data for 31 European countries in 2014 by HOTREC (the European hotel and restaurant trade body) shows that 17 of these countries have some form of tourist tax - of these, 13 apply a reduced rate of VAT on hotel / tourism services. Of the remaining 14 countries which do not have a tourist tax, ten apply a reduced rate of tourism VAT. Four countries, including the UK do not apply a reduced rate of VAT to tourism services.

Tourism markets, especially international travellers, are price-sensitive. There are several studies which have been undertaken over a period of years which examine tourism price elasticities. These include:

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[2] This figure appears low, but it reflects tax paid by companies registered in Scotland for tax purposes. Notably, the figure excludes Income Tax paid by sole traders and partnerships which are frequently found in the accommodation sector in Scotland.

- Research by the Tourism and Travel Research Institute (TRRI) at Nottingham University *[Tourism Competitiveness: Price and Quality – March 2005]* shows that an increase in prices of 1% relative to competitors reduces international tourism by 1%;
- Also by TTRI, a *Study of Tourism Demand in the UK* (2007) found that a 1% increase in UK prices or relative exchange rates would lead to a 0.61% fall in tourism expenditure in the UK by inbound tourists.
- Research for BTA (now VisitBritain) shows that an increase in the value of a currency of 1% will reduce international tourism earnings by 1.3% *[Sensitive Tourists – The effect of changes in exchange rates and income levels on the UK's international tourism receipts – Caledonian Economics 2001.*

[Further, UKH's economist has concluded that there is a strong body of evidence from studies conducted over a period of time which examines and confirms tourism price-sensitivity. This includes recent work by PwC for the EU, the WEF series of reports on tourism price-competitiveness referred to above, work on a tourist tax for London and Partners (Wason & Nevin), reports by the TRRI at Nottingham University as well as work on tourism taxation by Geoff Ransom for BHA. These consistently illustrate that tourists, especially international travellers, are sensitive to price increases in a destination. The work of Dubarry and Sinclair shows that an increase in UK prices of 1% would result in reduced demand of 2.2% by French tourists and a model developed by researchers at Nottingham University found that an increase in prices of 1% in the UK, Italy and Spain reduced tourism demand from France by 2.2%, 1.75% and 1.8% respectively. Of most significance, perhaps, is meta-analysis of international tourism demand elasticity studies which found an average price elasticity of -1.29 for inbound tourism in Europe – in effect, an increase in price of 1% would lead to an average fall of 1.29% in tourism demand.]

In its October 2017 report *(The Impact of Taxes on the Competitiveness of European Tourism)* for the EC Unit for Tourism, Emerging and Creative Industries, PwC, among other conclusions, reached the view that *'If any part of the UK introduces an occupancy or bed tax (in addition to high VAT on accommodation and air departure tax) it will represent the most comprehensive (and we would argue most damaging) tax regime on the tourism sector in Europe'.*

UKH has other reasons for questioning a TVL. These include:

- The absence of analysis of impacts on consumers (increased prices and resultant reduction in spending on other goods and services); on the economy (as a result of reduced visitor spending in businesses); on businesses (as a result of reduced consumer spending, increased costs arising from administering, collecting and accounting for the tax and related bureaucracy, for example in auditing amounts collected);
- Concerns about what any funds raised will be used for and how this might be managed;
- Concerns about the level at which a TVL will be set and how this might be controlled in future;
- Lack of clarity in relation to existing legislation affecting hotel and accommodation businesses and VAT regulations;
- The failure thus far to examine options to the introduction of any new tax on consumers. These options might include:

- hypothecation of a portion of non-domestic rates collected from tourism and accommodation businesses (hospitality businesses are already highly rated compared to other sectors, as acknowledged in a series of reports by SPICe),
- hypothecation of a portion of the 50% VAT collected in Scotland from tourism and accommodation businesses which is due to accrue to the Scottish Government from 2019/2020,
- discussion on the validity of reducing / abolishing Air Passenger Duty in Scotland (although currently stalled) while contemplating the introduction of another tax. Surely APD is already a tourist tax,
- examination of the revenues which might accrue to public funds if the Small Business Bonus Scheme is withdrawn (many of the hospitality and accommodation businesses which pay the Large Business Supplement on business rates can scarcely be described as 'large businesses');
- recognising that 'tourism is everyone's business' and considering the application of a small supplement to the business rates payable by all enterprises which benefit from the visitor economy.

UKH is undertaking analysis of the potential economic impact on the accommodation and tourism sector of the introduction of a TVL. This is a work-in-progress and, when complete, the results can be made available to the Committee if so requested.

<u>Tourism and Hospitality Industry Request of Scottish Government</u>

Business interests continue to be reassured by the Scottish Government's position that it has no plans to introduce a TVL. Despite this, UKH is increasingly concerned at the position being adopted by local authorities and COSLA who appear determined to press ahead with planning for the implementation and administration of a TVL – with no consent from Scottish Government even to the principle of this. This approach was amply demonstrated at a meeting convened by COSLA on 21 September which was attended by local authority representatives, Scottish Tourism Alliance, UK Hospitality, Federation of Small Businesses the Association of Scotland's Self Caterers and Scottish Government officials.

In recent exchanges of correspondence and meetings with Scottish Government, member bodies of the STA Council, including UKH, have asked that Government take charge of what has become an intractable impasse between industry and local authority interests by agreeing to hold a national conversation to explore tourism priorities, including a tourist tax. We believe that this conversation should encompass, inter alia, research and analysis of tourism taxation including the need for a TVL, examination of options to a TVL and assessment of the impacts of any new tax on consumers and businesses. A response from Government is awaited and is all the more urgent in the light of the announcement (26 September) by the City of Edinburgh Council that it is to consult on its plans to charge a tourist tax of £2 per room, per night.

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