



Tourist Tax

A report by the All Party
Parliamentary Group for Hospitality

29th May 2019

A Report by the All-Party Parliamentary Group for Hospitality

- Chair: Steve Double MP
- Vice Chair: Michael Tomlinson MP
- Treasurer: Scott Mann MP
- Secretary: Luke Pollard MP

Secretariat provided by UKHospitality

This report was produced following the meeting of the All-Party Parliamentary Group on 19th March 2019. We are grateful to the assistance of or evidence submitted by:

- Tommy Sheppard MP
- Laurence Beere, The Queensbury Hotel, Bath
- Kurt Janson, Director of the Tourism Alliance
- Professor Sally Everett, Kings Business School
- Brigid Jones, Deputy Leader, Birmingham City Council
- Jack Irvine, Cut Tourism VAT
- IHG
- Institute for Travel and Tourism
- Historic Houses Association
- Paul Gardiner Resort Development Organisation (RDO)
- David Weston, B+B Association
- Alistair Handyside, Professional Association of Self-Caterers UK Ltd
- Local Government Association

Contents

3. Introduction: Chair Steve Double MP

4. Introduction: Kate Nicholls, CEO UKHospitality

5. Executive Summary

7. Background: What is a Tourist Tax/Transient Visitor Levy

11. Opposition to Tourist Tax: The View of Businesses

- UK VAT Burden

-Targets of a Tourist Tax

- Issues of Implementation

15. The Local Government View

-Funding Gap

-Costs of Tourism

- Fiscal Freedom for Councils

-Who to include?

19. Edinburgh: A case study

- Support from Residents and Visitors

-Opposition

23. Conclusion

24. Recommendations



Steve Double MP: Chair of the All Party Parliamentary Group for Hospitality

This year, the APPG will be hosting five roundtables on key topical issues in the industry. These topics will be the 'tourist tax', business rates, home sharing, online booking agencies and employment. For each of the roundtables we will be selecting expert speakers from across the political spectrum to put forward their different points of view. We want to maintain the APPG sessions as a robust forum for discussion.

The hospitality sector is incredibly important to the UK's economy; it is the third largest employer in the UK, with over 3.2million employees. This is 9% of the total jobs in the United Kingdom and the sector is a top 7 employer in every region. With its importance to the economy of the whole of the UK, we must ensure that the needs and the concerns of the sector are properly considered and addressed.

This report will focus on the 'tourist tax', the topic of the APPG's first session on 19th March. A 'tourist tax' is a levy on hotel/accommodation rooms and is currently used in some European cities.

I would like to thank Tommy Sheppard MP, Kurt Janson, Cllr Brigid Jones, Laurence Beere and Professor Sally Everett for their contribution of sitting on the panel at the event. I would also like to thank all in attendance on the 19th March, whose contributions were extremely welcome. Finally, I would also like to thank UKHospitality, the Secretariat of the APPG for their help in producing this report.

I hope that you enjoy reading the first APPG report of 2019 and do hope to see you at our sessions in the future.

Steve Double MP
Chair, All Party Parliamentary Group for Hospitality



Kate Nicholls, CEO of UKHospitality, Secretariat of the All Party Parliamentary Group for Hospitality

UKHospitality is delighted to be the Secretariat for the All Party Parliamentary Group for Hospitality this year. Members of Parliament will all be aware of how important the sector is to the economies of their constituencies. We were delighted the group took the decision to change their name earlier this year to reflect the value of hospitality.

I would like to thank Steve and all the members of the APPG for their efforts so far this year in recognising the key issues that face our sector. The APPG's programme has been devised to address the key challenges that our industries face. While UKHospitality is vocal in defending our members' interests and is on the record with its position on all of these areas, we welcome the opportunity to make the APPG a forum for real debate.

I would like to thank all those who attended and took part in the tourist tax roundtable on the 19th March and all of the organisations who subsequently provided follow up written evidence.

I hope that you find the report that UKHospitality has produced for the APPG to be both informative and useful.

Kate Nicholls
CEO UKHospitality

Executive Summary

- A tourist tax or a transitional visitor levy is a fee charged by a municipality to visitors. The rationale behind most arguments for a tourist tax is that tourists use facilities and cause some damage to the areas that they visit. This is seen by proponents of a tax as an unfair burden on residents and tourists should also have to contribute.
- Local services countrywide are under pressure and councils are looking for a new potential revenue generator to remedy this shortfall. The Local Government Association recommended to the APPG that councils should have the option to introduce a tourist tax in consultation with their communities and businesses.
- The National Audit Office's 2018 report into councils financial sustainability found that direct council investment in tourism had declined by 50% between 2010-11 and 2016-17. Some proposals for a tourist tax suggested ring fencing the money raised to ensure that it is spent on the visitor economy.
- Bath, Liverpool and Cumbria councils have expressed interest in introducing a tax. In Edinburgh, the most progress has been made towards introducing a tax. In Edinburgh, the local council voted to introduce a tourist tax in February 2019. However, to introduce this tax there would need to be primary legislation from Holyrood. In Edinburgh surveys taken of visitors and businesses have suggested a favourable response to a tourist tax.
- The UK has the second highest taxed hotel sector in the EU. Countries where a tourist tax is applied have reduced rates of VAT, with Italy and France at 10%, Germany 7% and Belgium and the Netherlands 6%. In comparison to this, VAT on the hotel sector in the UK is 20%.
- There are concerns about the potential knock on effects of a tourist tax to the local and regional economy. There are just over 100 million overnight trips in the United Kingdom each year. Day visitors spend on average £36 in comparison to overnight visitors who spend £193 per visit. Disincentivising people taking overnight trips would disadvantage local economies.
- The Hotel sector already views itself as being overtaxed on VAT, excise duties and business rates and any further imposition will squeeze margins and business viability, hitting investment, staff development and the ability of businesses to pay more. There is also distrust of what the revenues from a tourist tax will be used for, as it is assumed the revenue will just be used to replace current council spending, and initial rates will be increased. Addressing the overall tax burden of the sector would be a positive step to mitigate industry opposition to a tourist tax.

- The LGA believe that the United Kingdom has an overly centralised tax system and recommends that local areas are given more autonomy to control their own finances. Councils are democratic institutions and new fiscal instruments, including a tourist tax would have to be a result of careful engagement with local communities and businesses to ensure their success.
- The All-Party Parliamentary Group is calling for greater examination of the potential impact of a tourist tax on consumers, businesses and the economy before taking any decisions on the principle of introducing one.

1. Background

A tourist tax, otherwise known as a city tax or as a Transient Visitor Levy (TVL), is a fee charged to overnight visitors by a municipality. The oft-mooted introduction of such a tax is the source of a great deal of debate within the hospitality sector, with clear differences in opinion between supportive local and national governments and many within the hotel industry.

The 'tourist tax' charge is not currently issued anywhere in the United Kingdom. However, there is increasing enthusiasm from within local councils to see it introduced. The model that proponents of the tourist tax wish to follow is that of major cities across Europe. UK tourists who visit popular destinations in Spain, Italy and France will have already experienced paying a small levy following their overnight stay. There are a range of arguments for and against a tourist tax.

The rationale behind most arguments for a tourist tax is that tourists use facilities and cause some damage, litter or wear and tear on the areas that they visit, therefore justifying calls that they should contribute to the upkeep of tourist destinations. The Paris Convention and Visitors Bureau states that the tourist tax is *'intended to contribute to the development and promotion of tourism by enabling French municipalities, including Paris, to finance expenses linked to tourist arrivals or to the protection of their natural areas.'*¹

A similar argument is made by Edinburgh Council in their evidence to the Scottish Government in September 2018, stating that *'as many other European cities attest, managing the consequences of a thriving tourism economy creates challenges arising from increased demand on public services, city congestion, pressure on waste and cleansing services and a need to provide enhanced community safety measures.'*²

An additional aspect of this argument is that when tourists visit a destination they make use of 'public goods.' These include local amenities such as parks, waste collection or various other utilities, which are paid for through local or national funding, rather than by tourists themselves.

Some proponents of a tourist tax believe that the improvements to tourist services in the UK could help to increase visitor numbers and, crucially, drive up the value of the industry. This argument stems largely from a reinvestment of funds in infrastructure and services that support tourism – car parks, staff training and higher standards in accommodation and marketing.

Meanwhile, local governments, affected by funding cuts in recent years see the tax as a means of addressing significant funding gaps. The argument made by the Local Government

¹ Tourist tax – Paris Tourist Office - Paris tourist office. [online] en.parisinfo.com. Available at: <https://en.parisinfo.com/practical-paris/money/tourist-tax> [Accessed 4th May 2019].

² Consultationhub.edinburgh.gov.uk. (2019). A Consultation on the City of Edinburgh Council proposal for a Transient Visitor Levy/ Tourist Tax within the city - City of Edinburgh Council - Citizen Space. [online] Available at: <https://consultationhub.edinburgh.gov.uk/ce/tvl/> [Accessed 2 May 2019].

Association (shown on pages 14 to 18) is that greater fiscal freedom, including the ability to introduce a tourist tax is both widely popular and would be beneficial in terms of spending accountability. A tax would also enable local governments to continue to support the tourist economy, an ability that spending cuts have hindered in some areas.

However, there is significant opposition from many within the industry to the introduction of such a tax. Even without a tourist tax, the UK currently ranks 135th out of 136 countries in terms of tourism price competitiveness, according to the World Economic Forum.³ This is a significant drop off from overall competitiveness where the UK ranks 5th of 136 countries.

While a tourist tax may work in other destinations this does not necessarily make it appropriate in the United Kingdom. Proponents of a tourist tax frequently refer to taxation levels already charged in Europe, but the circumstances are very different. Globally, the UK imposes one of the highest rates and number of taxes on its tourism industry, with only Switzerland imposing a higher tax burden than the UK.⁴

Most European countries have significantly reduced VAT on their tourism industries to encourage growth, employment and revenue. In the Balearic Islands for example, a tourist tax does exist, with a €4 charge introduced for 5-star hotels and a €3 charge for four-star hotels.⁵ While this may be effective in Spain, it is important to note that hotels do not face the same cost pressures there. The VAT rate on hotels in Spain is 10%, half of that in the United Kingdom. This reduced rate more than offsets the tourist tax, making overseas hotels more price competitive.

There are also questions regarding who the correct targets of a tourist tax ought to be. The Tourism Alliance suggests that the majority of visitors to destinations are day visitors. A tourist tax applies only to overnight visitors, thus disincentivising overnight stays and penalising those overnight visitors who already contribute more to the local economy via spending. Hoteliers also refute the idea that it is a 'tourist tax' or 'visitor levy' as it would only be applicable to hotels. This argument is discussed at greater length on pages 12 to 15.

The APPG believes that more economic analysis of the impact of a tourist tax should be carried out by both proponents and opponents of introducing a levy. So far, UKHospitality is one of few respondents to the Scottish Governments conversation on a tourist tax to actually carry out an economic analysis of the impact that a tourist tax would have on the economy, suggesting that it could cause up to £94million per year in damage to Edinburgh's economy.⁶ These figures will no doubt be disputed by proponents of the tourist tax, but for

³ Travel and Tourism Competitiveness Report 2017. (2019). The Travel and Tourism Competitiveness Report 2017. [online] Available at: http://reports.weforum.org/travel-and-tourism-competitiveness-report-2017/?doing_wp_cron=1557915763.6241569519042968750000 [Accessed 15 May 2019].

⁴ Davidson, L. (2015). Only one country has higher tourism taxes than the UK. [online] Telegraph.co.uk. Available at: <https://www.telegraph.co.uk/finance/newsbysector/transport/11590273/Only-one-country-has-higher-tourism-taxes-than-the-UK.html> [Accessed 15 May 2019].

⁵ abcMallorca. (2019). What is Mallorca's tourist tax? - abcMallorca giving you the best experience of Mallorca. [online] Available at: <https://www.abc-mallorca.com/balearic-tourist-tax-doubles/> [Accessed 15 May 2019].

⁶ Gov.scot. (2019). Tourism tax: evidence from the national discussion - gov.scot. [online] Available at: <https://www.gov.scot/publications/tourist-taxes-scotland-published-evidence-national-discussion/> [Accessed 23rd April 2019].

a full and informed debate to take place more information is required from both sides of the argument.

Despite the above criticisms, at devolved and local council level there is an increasing interest in introducing a tourist tax. On gaining new tax powers in 2017 the Welsh Government sought the advice of the Bevan Foundation on possible new ways to use these powers.⁷ A tourist tax was one of four potential options proposed to the Government as an option. Significant opposition from within the industry was a key reason that a pan-Wales tax was not introduced at that time, however, the Welsh Government has not ruled out the prospect of allowing councils to introduce one in the future.

Councils in Bath, Liverpool and in London have also spoken positively of introducing a tourist tax. The London Finance Commission report in 2017 recommended that the city's elected officials should be entitled to impose 'new smaller taxes' and called for the implementation of a tourism levy to be considered.⁸ Sadiq Khan, The Mayor of London, is a long time advocate of a tourist tax, supporting its introduction since before he was elected Mayor of London in 2016.⁹ A number of London councils remain interested in bringing in a tourist tax, including Westminster and Camden. Brexit uncertainty was cited by David Harvey of Westminster Council as a reason to avoid an imminent implementation but he refused to rule out the introduction of a tax in the future.¹⁰ When asked about the introduction of a tourist tax in London, Harvey added: "It is reasonable to ask those visitors to fund the services they have a direct impact upon, such as street cleaning."¹¹

While the tourist tax is increasingly popular among local governments in England and Wales, it remains in its embryonic stages partly because of industry opposition. In Scotland, more concrete steps have been taken to introduce a tourist tax. In October 2018, First Minister Nicola Sturgeon announced that the Scottish Government would open a 'national conversation on the introduction on a tourist tax.'¹² The First Minister made clear that the voice of the tourism industry would be heard within this process.

As part of the budget deal between the Scottish National Party and the Scottish Green Party in January 2019, an agreement between the two parties was formed to allow for legislation

⁷ Bevan Foundation. (2017). Five questions about a Welsh tourist tax | Bevan Foundation. [online] Available at: <https://www.bevanfoundation.org/commentary/five-questions-welsh-tourist-tax/> [Accessed 25 Apr. 2019].

⁸ London.gov.uk. (2017). [online] Available at: <https://www.london.gov.uk/sites/default/files/tourism-levy-for-london-wp83.pdf> [Accessed 19 Apr. 2019].

⁹ Evening Standard. (2013). Sadiq Khan: Let London levy a tourist tax to benefit all of us. [online] Available at: <https://www.standard.co.uk/comment/comment/sadiq-khan-let-london-levy-a-tourist-tax-to-benefit-all-of-us-8741976.html> [Accessed 15 Apr. 2019].

¹⁰ Evening Standard. (2019). Hospitality bosses hit out at 'tourist tax' proposals being mooted. [online] Available at: <https://www.standard.co.uk/business/hospitality-bosses-hit-out-at-tourist-tax-proposals-being-mooted-in-london-a4004736.html> [Accessed 15 April 2019].

¹¹ IBID

¹² Scotsman.com. (2017). Nicola Sturgeon triggers 'national conversation' on possible introduction of tourist tax powers. [online] Available at: <https://www.scotsman.com/regions/edinburgh-fife-lothians/nicola-sturgeon-triggers-national-conversation-on-possible-introduction-of-tourist-tax-powers-1-4807823> [Accessed 16 April 2019].

to introduce a tourist tax.¹³ A bill for such legislation is yet to be tabled, yet in February 2019 councillors in Edinburgh voted in favour of a tourist tax. This vote is not yet binding and would require national legislation to be passed in Scotland if it were to be introduced.

It has been suggested that this tax could raise between £11.6m and £14.6m per year in Edinburgh.¹⁴ Proponents of the tax cite a survey undertaken by the councils which suggested that 70% of tourists surveyed said that they would support a tourist tax. As Tommy Sheppard stated at the APPG roundtable, when Edinburgh Council surveyed residents in Edinburgh, 85% said that they would be in favour of the introduction of a tourism tax.¹⁵ The counterpoint to this from within the industry is that because of the high levels of price elasticity in the sector, a tourist tax may significantly cost the capital city and drive visitors away. The full debate on tourist tax in Edinburgh is featured on pages 18-22.

The debate on tourist tax is likely to continue for the foreseeable future. This report will build on the discussions had at the All-Party Parliamentary Group roundtable on 19th March and will look to capture both sides of the argument, for and against a tourist tax. The aim of this report is to outline the questions that need to be answered ahead of the introduction of a tourist tax while also concluding with a list of recommendations.

¹³ BBC News. (2019). SNP and Greens strike Scots budget deal. [online] Available at: <https://www.bbc.co.uk/news/uk-scotland-scotland-politics-47056844> [Accessed 15 Apr. 2019].

¹⁴ BBC News. (2019). Edinburgh 'tourist tax' backed by council. [online] Available at: <https://www.bbc.co.uk/news/uk-scotland-47157011> [Accessed 15 Apr. 2019].

¹⁵ Tommy Sheppard MP to the All Party Parliamentary Group for Hospitality, March 19th 2019

Opposition to Tourist Tax: The View of Businesses

There is significant opposition from within the industry to the introduction of a tourist tax. Evidence from within the sector suggests that the imposition of higher taxes has been shown to inhibit growth, employment, revenue and holiday-taking.

Firstly, despite the increasing support for the introduction of a tourist tax from councils there remain many unanswered questions about its implementation. The APPG has spoken extensively with businesses from within the sector and the following questions were raised as being unanswered:

- How will a tax be levied: per room, per person, per night or as a percentage of the bill? The answer to this question will clearly impact on both consumer and accommodation provider.
- Will a tourist tax be introduced nationally and at a set rate?
- Who will be responsible for setting and reviewing the rates of tax in the future?
- Will all types of visitor accommodation - including university accommodation used as such out of term time - be liable for the tax? What about home sharing properties, which represent an ever-growing proportion of tourism accommodation?
- Will there be a definitive purpose for the funding raised?
- Many justifications for the tourism tax suggest that it will be ring fenced to help the visitor economy, will this be mandated?
- How may a database of businesses in the scope of the tax be compiled in the absence of a comprehensive register of the supply of accommodation?
- Will the tourist tax be subject to VAT? If so, at what stage of billing would it be applied and who will pay it?
- Who and by whom will collection and compliance be enforced or audited?
- Will penalties be applied for non-compliance and will these be criminal or civil?

The majority of the sector will likely remain opposed to the introduction of a tourist tax for the reasons that are outlined below. However, given the increasing calls for a tax or levy on hotels within some quarters, it is important to realise that a lack of clarity for all businesses is unhelpful. Clear proposals outlining exactly what it is that will be introduced are essential. Opponents to a tourist tax suggest that it is not good practice to introduce a tax without having fully examined the potential impact that it could have or discussed reasonable alternatives.

UK VAT Burden

The model frequently cited by proponents of a tourist tax is that of European cities. As noted at the APPG roundtable by Laurence Beere, owner of the Queensbury hotel in Bath, there is a fundamental difference between the countries that have a tourist tax in Europe and the UK in terms of the levels of VAT. Of the current 28-member states of the EU, 25 have viewed VAT on hotel accommodation as a barrier to performance and have implemented reduced rates to make their accommodation offer more competitive. Countries where a tourist tax is applied have significantly reduced rates of VAT, with Italy and France at 10%, Germany 7%, Belgium and the Netherlands 6% and even in Ireland, which does not have a tourist tax, VAT is only 9%.¹⁶ In the UK, VAT is at 20%, making the UK the second highest taxed hotel sector in the EU.

In 2017 a report was written for the European Commission by PwC on the impact of taxes on tourism in all 28 EU countries. The report suggested that to remain competitive, countries should keep their total taxes for tourism low.¹⁷ An important counterpoint made to this by proponents of a tourist tax is that the overall tax burden of the sector needs to be examined when claiming that the sector is overburdened in the UK. Corporation tax for example, is lower in the United Kingdom than it is in other EU countries.¹⁸ It should also be noted that the UK has the second highest levels of property tax in the OECD.

Opponents of a tourist tax question how equitable it would be. One of the essential features of the tax system is the principle that tax is fair and equal in its application. A tourist tax as proposed, is seen by hoteliers to be unfair as it singles out hotels and asks them to bear a unique burden, whilst the wider beneficiaries of tourism are exempt. As noted by hoteliers who attended the APPG, why should hotels have to pay this tax, when tourists benefit restaurants, high street retail outlets, visitor attractions and many other services?

Targets of a Tourist Tax

Other points raised to the APPG include the consideration that the price mark up of £2 on every hotel room, as has been proposed in Edinburgh, will prove more significant to those using budget accommodation. A flat rate of £2 would only be 0.8% of a £250 a night room but would be 4% of a budget £50 B&B room.

Kurt Janson of the Tourism Alliance spoke to the APPG about tourism trends in the UK and suggested that imposing a tax on overnight visitors was misguided. There are 1.9bn trips in the UK each year, of these 1.8bn are day trips, just over 95%. According to the Tourism Alliance, there are just over 100 million overnight trips in the United Kingdom each year.

¹⁶ Laurence Beere to the All Party Parliamentary Group for Hospitality, March 19th 2019.

¹⁷ Europarl.europa.eu. (2017). [online] Available at: <http://www.europarl.europa.eu/cmsdata/130660/The%20Impact%20of%20Taxes%20on%20the%20Competitiveness%20of%20European%20tourism.pdf> [Accessed 15 April 2019].

¹⁸ Davidson, J. (2018). The cost of being accommodating: tourist tax for and against. [online] Holyrood Magazine. Available at: <https://www.holyrood.com/articles/inside-politics/cost-being-accommodating-tourist-tax-and-against> [Accessed 24 Apr. 2019].

Day visitors spend on average £36 in comparison to overnight visitors who spend £193 per visit.¹⁹ A significant concern that hoteliers relayed to the APPG was that in an industry with high levels of cost elasticity, a tourist tax would incentivise people to take day trips as opposed to staying overnight. This would decrease overall spend, impacting not only the hotel industry but also cities as a whole.

Academic research by Peng et al along with a University of Nottingham study have found that price elasticity in the UK is higher than on the continent. Price elasticity is the measure used in economics to highlight the responsiveness of the quantity or service based on a change to its price. A University of Nottingham study found that a 1% increase in prices in the UK reduced the demand for tourism from tourist from France by 2.2%.²⁰ The industry in the United Kingdom is more exposed to small price changes than other European countries. If prices go up, the demand for service will be impacted and will decrease.

While much of the enthusiasm for a tourist tax is that it will provide a much-needed boost to council coffers, there is debate as to how much it will raise. The Tourism Alliance estimates that the maximum countrywide amount that would be generated would be £120 million.²¹

Issues of Implementation

If a tourist tax were to be introduced, there would need to be significantly more time dedicated to working out how it would be collected and the extent of its impact on business. Key questions, such as the role of the digital economy and tourist tax must be answered before one is considered. If there is not a recognised system for implementing and collecting this tax, it will be inefficient, costly and will fail to deliver the revenues that local authorities are trying to raise to plug holes in their budgets. This evolution in the hospitality sector at the present time allows some commercial operators the opportunity to circumvent taxation and regulation. Without compulsory registration and enforcement, it is doubtful that they would be forthcoming in applying a tourist tax and reporting it accurately. The application of a tourist tax would again then fall heavily and unfairly upon the regulated accommodation market.

The APPG received evidence from the Resort Development Organisation calling for timeshare resort and timeshare owners to be exempt from being included in the tourist tax regime. The rationale behind this argument was that timeshare owners should not be considered visitors or in the same light as homesharing users. Owners are already required to pay annual maintenance fees for management of their resort. The RDO also noted that a large number of these resorts are run on tight budgets and are significant local employers, often in remote communities.²²

¹⁹ Kurt Janson to the All Party Parliamentary Group for Hospitality March 19th 2019

²⁰ <http://www.europarl.europa.eu/cmsdata/130660/The%20Impact%20of%20Taxes%20on%20the%20Competitiveness%20of%20European%20tourism.pdf> [Accessed 15 April 2019].

²¹ Tourism Alliance Submission to the All Party Parliamentary Group for Hospitality

²² Submission by the Resort Development Organisation to the All Party Parliamentary Group for Hospitality.

While proponents of a tax suggest that it will only be a small amount charged to consumers, there will be a cost to businesses. At least initially if a tourist tax is introduced, businesses will presumably have to spend time and money retraining staff, re-programming systems along with the administrative costs on local authorities. For the hotel sector, there is a clear desire to consult government directly and promote a holistic approach to examining the costs and the tax burden borne by tourism businesses.

There is also a wider point about who pays the tax. It is claimed that this is simply paid by the customer. But as was noted by businesses who attended the APPG meeting this misunderstands the economics of a business. If businesses felt they could charge an extra £2 per night with no impact on their business then they almost certainly would do. The reason they do not is that rooms are priced at the optimum business level. An extra tax would therefore either have to be absorbed by business or lead to a drop off in business (and tourism).

There is opposition to the naming of the tax as a tourist tax, given that it applies only to accommodation providers. Within the sector there is an understanding of the severe constraints that local governments face. However, representatives from the sector at the APPG frequently suggested that a more effective way of getting tourists to contribute to the economy of the cities that they visit would be applying the charge on hotels and art galleries which are currently free.

It is unlikely that the sector's view on this issue will change, without an addressing of wider sector tax burden. It is viewed as overtaxed on VAT, excise duties and business rates and any further imposition will squeeze margins and business viability, hitting investment, staff development and the ability of businesses to pay more. There is also distrust of what the revenues from a tourist tax will be used for, as it is assumed the revenue will just be used to replace current council spending, and initial rates will be increased. Who is going to ensure that tax rates do not kill the golden goose of accommodation businesses?

Local Government View

Despite questions raised by the sector over its collection, effectiveness and its impact on the UK's visitor economy, local councils are increasingly looking at the option of introducing a tourist tax. Edinburgh, Bath, Liverpool and Birmingham are just a few of the councils to have stated their support for introducing a levy. The view of local governments was presented to the APPG at the roundtable by the Local Government Association representative Cllr Brigid Jones, Deputy Leader of Birmingham Council.

Funding Gap

Cllr Jones stated that local councils had seen significant cuts over the past 9 years, amounting to losing the equivalent of 60p for every £1 of central government funding that they received in 2010.²³ The funding crisis that local government faces was laid out in the LGA's written submission to the APPG, noting that, UK-wide, local government faces a funding gap of nearly £8billion by 2025.²⁴ Local services countrywide are under pressure and councils are looking for a new potential revenue generator to remedy this shortfall. The LGA believes that councils should have the option to introduce a tourist tax in consultation with their communities and businesses.

Liverpool City Council is supportive of introducing a "tourist tax" on guest accommodation with the stated aim of helping to fund future cultural events in the city. Cllr Wendy Simon said on the potential introduction of a tourist tax that: 'We are in a funding crisis in local government and we are being asked to look at new and innovative ideas.'²⁵

It is true that councils are often heavily involved in supporting the tourist economy. It is important that the industry champions the work local councils carry out for the visitor economy and the need for increased funding to promote UK inbound tourism. The responsibility to create clean, safe and attractive public spaces does often fall to local councils. UK wide, councils spend over £2 billion every year on culture and heritage and support major cultural, business and sporting events.²⁶ Yet with the significant financial constraints placed on councils, their ability to effectively fund the tourism sector is diminishing. The National Audit Office's 2018 report into council's financial sustainability found that direct council investment in tourism had declined by 50% between 2010-11 and 2016-17.²⁷ There is scope for improved partnership working between business and councils.

Costs of Tourism

The argument for a tourist tax relates to the costs that visitors cause a city. These spill-over effects are what economists call negative externalities. The belief is that tourists aren't facing the true cost of their visit when they pay for their hotel or entrance to a museum. For example, Bath, another city that is enthusiastic on introducing a tourist tax, will spend

²³ Cllr Brigid Jones to the All Party Parliamentary Group for Hospitality March 19th, 2019

²⁴ Cllr Brigid Jones to the All Party Parliamentary Group for Hospitality March 19th, 2019

²⁵ BBC News. (2019). Liverpool considers 'tourist tax'. [online] Available at: <https://www.bbc.co.uk/news/uk-england-merseyside-46905959> [Accessed 18 Apr. 2019].

²⁶ Submission by the Local Government Association to the All Party Parliamentary Group for Hospitality

²⁷ Submission by the Local Government Association to the All Party Parliamentary Group for Hospitality

significantly more of its budget than it otherwise would do on services such as street cleaning. Meanwhile the daily lives of residents are impacted by the tourists who visit the city.

The argument for a tourist tax suggests that the views of local residents should be incorporated into any decision on the introduction of a tourist tax. Proponents suggest the right to travel should not outweigh the rights of local people to enjoy their homes, or the need to preserve the environment.

Tourism is a key part of the United Kingdom's economy and is the lifeblood of many communities around the country. However, its economic costs are not discussed as frequently. Issues such as traffic congestion and the carbon emissions it produces, the waste generated by hotels and restaurants that needs collecting, the littering of streets and beaches, the policing of major events and maintenance of popular mountain footpaths are a few pressures that tourist destinations face. Professor Sally Everett stated at the APPG roundtable that 'tourists have a moral responsibility to pay for the upkeep of the destinations they visit.'²⁸

As mentioned in the previous section there is a debate as to how applicable the European model is to the United Kingdom. While opponents to a tourist tax point to other cost pressures on the industry, proponents may well point to a lower corporation tax rate. 19 of the 28 EU member states currently have a form of a tourist tax/TVL.

Birmingham City council have looked at the idea of introducing a tourist tax in order to fund the 2022 Commonwealth Games. The council needs to raise £180 million locally and have proposed that visitors to the city pay £1 in addition to their hotel charge and that this will be collected by the council. Cllr Jones as Deputy leader for the Council in Birmingham spoke at length to the APPG about the importance and feasibility of a hotel bed tax to raise money for the games. However, due to significant industry opposition and a need for primary legislation to introduce the tax, it is possible that the council will look at other means to raise the money. Birmingham councillor Cllr Merion Jenkins described the plan as 'bonkers,' and stated that it would 'make our hotels uncompetitive, bearing in mind you already pay 20 per cent VAT on a hotel room.'²⁹

To date the discussion around a tourist tax has generally been based on a blanket imposition. However, little attention has been paid to the possibilities of using it as a tool to incentivise good behaviours within the sector. It has been suggested that a tourism tax could tie in to wider sustainability goals and environmental improvements.

²⁸ Professor Sally Everett to the All Party Parliamentary Group for Hospitality March 19th 2019.

²⁹ Dare, T. (2019). Tourism tax plan for Birmingham is 'bonkers', claims councillor. [online] birminghammail. Available at: <https://www.birminghammail.co.uk/news/midlands-news/tourism-tax-plan-birmingham-bonkers-15836578> [Accessed 15 May 2019].

Fiscal Freedom for Councils

The rationale for introducing a tourist tax is not simply to support the visitor economy but is also part of a local government effort to increase fiscal freedom at a local level. The LGA believe that the United Kingdom has an overly centralised tax system and recommends that local areas are given more autonomy to control their own finances. Councils are democratic institutions and new fiscal instruments, including a tourist tax would have to be a result of careful engagement with local communities and businesses to ensure their success. This desire to see the money made from tourism retained within local areas is a key part of the pro tourist tax argument put forward by Bath and Liverpool councils.

In a tangentially related point to the tourist tax, there is an extremely strong argument for local councils to see more of the tax revenue that already comes from the sector through VAT, Air Passenger Duty, business rates and alcohol duty. These taxes are used by central government and spent on general public spending. Greater ability to reclaim these revenues would potentially offer an effective way to solve local funding issues.

There is already strong support for allowing local councils to have more fiscal freedom. A 2014 poll found that 82% of respondents favoured giving more decision-making powers to local councils on issues such as tax, education and policing in local areas.³⁰ While this does not amount to support for a tourist tax specifically, it is interesting that there is a demand at local level for more powers including the ability to introduce different types of tax.

The opposition from industry to a tourist tax was put forward clearly at the APPG roundtable. However, it is noteworthy that Cllr Jones was aware of the concerns of industry and stressed the importance of ensuring that if a tax were to be introduced, the funds raised would be ringfenced to help the local visitor economy. This is a commitment that was echoed by the Scottish Government's findings paper on their conversation on a tourist tax.³¹ While this should be the case there is clearly concern from within the industry that the tax will be spent at the council's discretion, with no guarantee that it will be used on areas linked to the visitor economy.

When asked by the APPG for its vision on implementing a tourist tax the LGA suggested that it was necessary for there to be a national conversation about the various models of adopting a levy. This conversation would look at possible models but also examine how the tax would be collected.

Who to include?

Another key point that the LGA raised was whether to incorporate homesharing platforms into a tourist tax. The justification for this was to ensure a level playing field between accommodation providers, however in many ways this is already not the case. If local councils are unable to effectively register all home sharing properties within their

³⁰ Submission by the Local Government Association to the All Party Parliamentary Group for Hospitality.

³¹ Gov.scot.(2019). Tourism tax: evidence from the national discussion - gov.scot. [online] Available at: <https://www.gov.scot/publications/tourist-taxes-scotland-published-evidence-national-discussion/> [Accessed 23rd April 2019]

boundaries, then is it possible for them to effectively impose a tax on them? Resolving this issue and clarifying other issues that give online platforms an unfair advantage is important before any model of tourist tax is introduced. Efforts to introduce a tourist tax without effectively regulating the digital economy beforehand will create an uncompetitive market and will harm the tourism industry.

Clearly local councils play an important role in promoting and protecting the visitor economy within their regions. However, finding a solution to local councils funding issues while also not taking a risk that would negatively impact the visitor economy in the region is essential. Nobody would benefit from decreasing the amount of visitor spend within a region. An excessive focus on overcrowding does not take into account tourism being seasonal and the impact that off seasons have on industry. The visitor economy is clearly price sensitive and legislating for a further tax will have an impact. It is important that the impact of a tourist tax and how it is implemented are not ill-conceived or hastily introduced.

There is also a pervasive counter argument that a tourist tax/TVL is not excessive. For all the arguments about the tax being regressive, adding £2 or less to the price of a room is still a small amount of money, particularly if this is capped within a certain time frame. Models that suggest that the damage to the economy will be hundreds of millions of pounds can and should be questioned and rigorously analysed. As will be discussed further in the Edinburgh Case Study section (P18-21), the Leader of the Edinburgh Council suggested that only a 'minute number' of tourists say a TVL would affect their decision on where to go.³²

³² Davidson, J. (2018). The cost of being accommodating: tourist tax for and against. [online] Holyrood Magazine. Available at: <https://www.holyrood.com/articles/inside-politics/cost-being-accommodating-tourist-tax-and-against> [Accessed 24 Apr. 2019]

Edinburgh: A Case Study

Edinburgh is the city where the clearest progress has been made towards introducing a tourist tax. Tommy Sheppard MP said to the APPG that ‘there is now a cross-party support for a tourist tax being implemented in Edinburgh.’³³ Former Scottish Labour leader Kezia Dugdale has also called for the Scottish Government to move quickly to introduce the legislation that would enable a ‘modest levy’ to be raised by the council.³⁴ Meanwhile, the SNP Government committed itself to introducing legislation for a tax in its 2019 budget agreement with the Scottish Green Party.

The value of tourism to the Scottish economy is well recognised –£5.3bn direct expenditure by 14.9m overnight visitors per year. Employment in the tourism-related industries sector (as measured by the Scottish Government's Sustainable Tourism Growth Sector) in Scotland was 207,000 in 2016 - accounting for around 8.0% of employment in Scotland.³⁵

It would be incorrect to say without caveat that Scotland’s tourist economy is in rude health. Recent years have seen a decline in visitor numbers. The number of domestic tourism visits made by Great Britain residents to Scotland has fallen by around 11% between 2006 (12.9 million) and 2016 (11.5 million).³⁶ The number of combined (overseas and domestic) visits to Scotland in 2016 (14.3 million) was down 9% on the 2006 total (15.6 million). Decisions that are made in Scotland on a tourist tax will for better or worse impact Scotland’s wider visitor economy.³⁷

Support from Residents and Visitors

In Edinburgh both sides of the debate on tourist tax are currently playing out. There is support from residents for the introduction of the tax as a result of the incredibly busy periods that they see during the Edinburgh Festival. On the possibility of introducing a tourist tax Cllr Adam McVey, leader of the Edinburgh City Council stated that the Council has “found residents to be in favour of it and tourists about 50/50 support and opposition.”³⁸ When asked if it would impact their decision to stay in Edinburgh only a “minute number” of tourists say it would affect their decision on where to go.³⁹

McVey made reference to price elasticity in Edinburgh, stating that ‘we know the market and price point changes vastly and I don’t think we’ll be interfering with that in any major way.’ According to McVey, ‘The commitment to introduce a tourist tax gives us the ability to

³³ Tommy Sheppard MP to the All Party Parliamentary Group for Hospitality March 19th 2019

³⁴ Edinburghnews.scotsman.com. (2019). Kezia Dugdale: Capital needs tourist tax now, so why delay?. [online] Available at: <https://www.edinburghnews.scotsman.com/news/opinion/kezia-dugdale-capital-needs-tourist-tax-now-so-why-delay-1-4895124> [Accessed 26 Apr. 2019].

³⁵ Ww2.gov.scot. (n.d.). Tourism. [online] Available at: <https://www2.gov.scot/Topics/Statistics/Browse/Tourism> [Accessed 29 Apr. 2019].

³⁶IBID

³⁷ IBID

³⁸ Davidson, J. (2018). The cost of being accommodating: tourist tax for and against. [online] Holyrood Magazine. Available at: <https://www.holyrood.com/articles/inside-politics/cost-being-accommodating-tourist-tax-and-against> [Accessed 24 Apr. 2019]

³⁹IBID

find a sustainable revenue stream to continue to invest in and support our tourist economy.⁴⁰

The Scottish Government 'discussion document' was launched following the First Minister's speech to the Scottish Tourism Alliance in October 2018. Edinburgh Council launched its own consultation on a tourist tax at the end of 2018, with responses published in early 2019. The responses to Edinburgh Councils consultation suggest that there are strong levels of support for the introduction of a tax within the city.⁴¹ However, the veracity of these figures has been questioned.

The key findings of Edinburgh councils consultation were that 85% of those who had been surveyed strongly supported the introduction of a TVL in Edinburgh. The findings also suggest that the majority of stakeholders, including businesses, supported the introduction of a charge, with 81% of respondents wanting to see a cap on charges of no less than seven days to help protect festival performers and other nonleisure visitors.⁴²

Tommy Sheppard, the member of Parliament for Edinburgh East put forward the case for introducing a tax in Edinburgh at the APPG roundtable. Sheppard described the number of visitors to Edinburgh as 'quite daunting', with an estimated 4.5 million coming to the capital each year.⁴³ Like Adam McVey, Sheppard referenced the consultation findings suggesting that 91% of residents backed the move to introduce a city tax, including more than half of accommodation providers.⁴⁴

John Donnelly, Chief Executive of Marketing Edinburgh, is also in support of the introduction of a tourist tax. Donnelly stated that "Combined with Marketing Edinburgh's own independent research - which found that 88% of summer visitors would still come to Edinburgh if a £2 per room, per night charge were in place and that 59% of residents are in favour – the results are conclusive. Donnelly suggested that "A transient visitor levy is a widely supported means of keeping the city at its best for residents, visitors and businesses alike."⁴⁵

Opposition

The figures referenced by proponents of a tax in Edinburgh have been questioned. The Scottish Tourism Alliance (STA) has called Edinburgh Council's response to results "ambiguous." STA said in a press statement following the figures release: "Out of the 2560

⁴⁰ Ft.com. (2019). Edinburgh eyes UK's first overnight tourist tax | Financial Times. [online] Available at: <https://www.ft.com/content/3d9c60ac-2621-11e9-8ce6-5db4543da632> [Accessed 15 Apr. 2019].

⁴¹ <https://www.thenational.scot/news/17344799.edinburgh-tourist-tax-backed-by-overwhelming-majority-in-consultation/>

⁴² <https://www.thenational.scot/news/17344799.edinburgh-tourist-tax-backed-by-overwhelming-majority-in-consultation/>

⁴³ Tommy Sheppard MP to the All Party Parliamentary Group for Hospitality, March 19th 2019

⁴⁴ Tommy Sheppard MP to the All Party Parliamentary Group for Hospitality, March 19th 2019

⁴⁵ Council, T. (2019). Overwhelming support for a tourist tax in Edinburgh | The City of Edinburgh Council. [online] Edinburgh.gov.uk. Available at: http://www.edinburgh.gov.uk/news/article/2609/overwhelming_support_for_a_tourist_tax_in_edinburgh [Accessed 15 April 2019].

responses to the consultation, just 17 per cent were from all businesses types, both within and outside Edinburgh which is very low considering the importance of the tourism economy to the majority of businesses within Edinburgh, and only seven per cent of these were from Edinburgh accommodation providers.⁴⁶

A submission to the APPG by the Cut Tourism VAT campaign questioned the small number of responses that the consultation received and suggested that the self-interest of residents was an insufficient rationale for imposing a tax on visitors, who will be further taxed without any sort of representation.⁴⁷

There has been significant and vociferous opposition from some quarters of the industry in Edinburgh against the introduction of a tourist tax. UKHospitality modelling for the Scottish Government consultation predicted that the tourist tax could cost the capital's economy up to £94million per year. Opposition has also been related to the flat rate that has been proposed of £2 per night. A flat rate of £2 would only be 0.8% on a £250 four-star hotel room for the affluent, but would be a 4% on a £50 budget B&B. The view of hoteliers present at the APPG roundtable was that a tax would likely be passed on to consumers in Edinburgh which will include residents of Scotland who are making business and leisure trips.

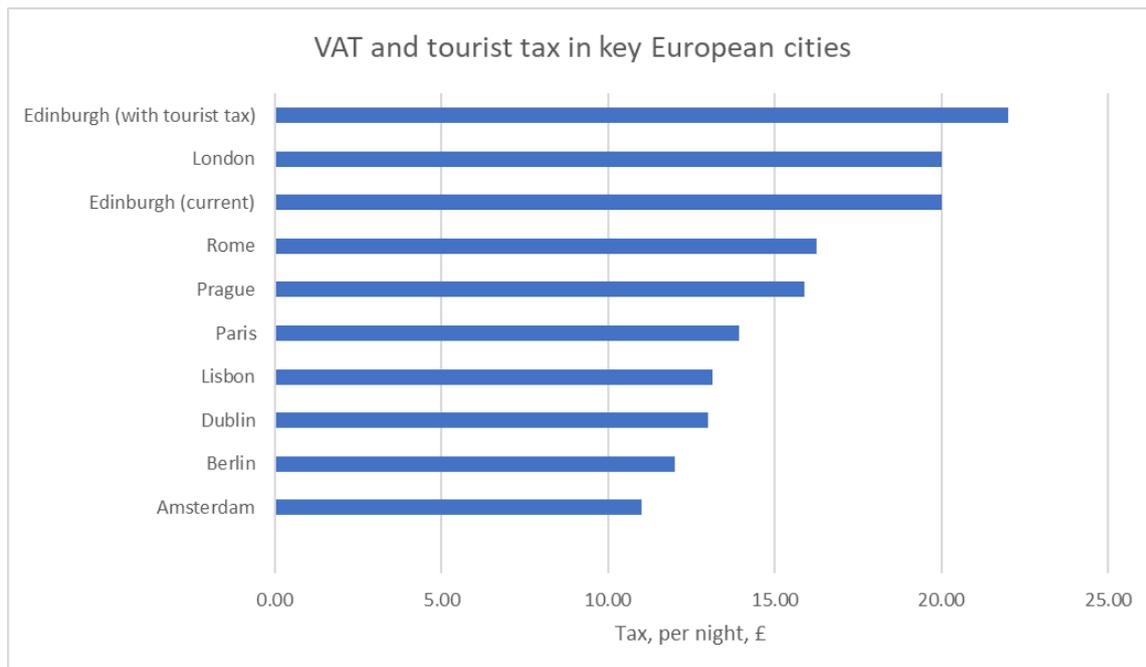
Accommodation businesses contribute to Government funding through national and local taxes, through excise duties levied on alcoholic beverages and through BID contributions which raise an estimated £720million per year. The sector clearly believes that it is pulling its weight in terms of tax burden and there is opposition to what is seen as a tax only on hotels. The contributions that the sector already makes is the crux of the opposition to a new tax.

The 'European Model' is considered by proponents of a tourist tax to be desirable, but opponents will suggest that combined with the current tax burden it would be unfair. The below chart is from the UKHospitality submission to the Scottish Government's consultation document and estimates the cost in tax per night in Edinburgh and other European cities with a tourist tax. The chart does not however contain details about corporation tax which as Edinburgh Council Leader Adam McVey has noted is lower in the UK than in Europe. Corporation tax in the United Kingdom is 19% (and falling to 17% by April 2020) whereas in Germany it is as high as 33%. It should be noted that the UK has the second highest property tax in the OECD.

⁴⁶ Mallinson, H. (2019). Tourists will have to pay EXTRA to stay in Edinburgh under new tax - will it affect you?. [online] Express.co.uk. Available at: <https://www.express.co.uk/travel/articles/1070188/edinburgh-tourist-tax-news-scotland-holidays-2019> [Accessed 15 Apr. 2019].

⁴⁷ Submission by the Cut Tourism VAT campaign to the All Party Parliamentary Group for Hospitality.

Chart 1: UKH Analysis: Combined VAT and tourist tax payments per night



The submission received by the APPG from the Cut Tourism VAT campaign claimed that the argument for a tourist tax in Edinburgh was ‘fatally flawed’ because of the free entry that was granted to The Scottish National Art Gallery, The Scottish National Picture Gallery and the Scottish National Gallery of Modern Art. With visitor numbers to these destinations in 2017 being 2,564,726, an entry charge of between £2 and £5 would generate revenue between £5,129,452 and £12,823,630.⁴⁸

There have been commitments from Edinburgh council to reinvest revenue raised by a levy into managing, supporting and increasing tourism in the city of Edinburgh. This should ease industry fears that the levy once introduced would be siphoned off to fund any programme at the council’s discretion. Concerns still exist however over who would be in control of setting and reviewing the rates. If these funds are just used to cover existing litter and road repairs budgets there is no net gain to tourism from the tax.

While there is a clear drive from within the local council to introduce a tourist tax it requires national legislation to be introduced. Fiona Hyslop MSP, the Government’s Tourism Secretary has stated that there will be no tourist tax before 2021, the year of the next Scottish Parliamentary Elections.⁴⁹ Edinburgh has become the front line for all tourist tax discussions and has provided a lively debate from both sides of the argument. This debate between proponents and opponents of the tax will likely continue for some time.

⁴⁸ Submission by the Cut Tourism VAT campaign to the All Party Parliamentary Group for Hospitality

⁴⁹ Mail Online. (2019). No tourist tax before 2021, Fiona Hyslop tells industry. [online] Available at: <https://www.dailymail.co.uk/wires/pa/article-6810193/No-tourist-tax-2021-Fiona-Hyslop-tells-industry.html> [Accessed 17 May 2019].

Conclusion and Recommendations

It is likely that the debate on a tourist tax will continue for some time. Local councils are increasingly amenable to the idea of introducing a tourist tax as a means to boost council coffers. The rationale behind this is sound, local authorities have faced significant cuts in recent years and introducing a tourist tax is one of a few options that they have to raise funds.

However, there remain significant concerns from within the industry regarding the implementation of a tourist tax. A number of questions remain, including how a levy would be effectively charged in the absence of a comprehensive register of the supply of accommodation. Ideally if a tourist tax were to be introduced, it would be done with the support of businesses. While proponents of a tax in Edinburgh do have a completed survey that shows some business support however, the amount of industry support is disputed.

Copying the European Model should be done with a full understanding of the burdens that are placed on the hotel industry in the UK. It is true that in 18 of the EU 28 countries there is a levy charged on overnight visitors. However, Governments in Europe also recognise that low taxes on the tourism industry is the best way to boost competitiveness. In the UK, as well as paying 20% VAT, businesses are hit with one of the highest property tax rates in the world. A tourist tax is unlikely to receive much industry support in these circumstances.

There are just over 100 million overnight trips in the United Kingdom each year. Day visitors spend significantly less in comparison to overnight visitors and a further cost on hotel rooms could disincentivise taking overnight trips. This would be bad for the hotel industry and could also see a significant reduction in consumer spend within cities.

From an industry perspective, unless the whole tax burden that they face is examined, there is unlikely to be significant support for the introduction of a new tax. However, if VAT is cut to continental levels alongside the introduction of a tax it is likely that this would mitigate industry opposition.

Tourism is a key part of the United Kingdom's economy and ensuring that it is in good health is essential. Any changes that are made to legislation that impact tourism and the visitor economy be rigorously analysed. This report has looked to build on evidence given to the APPG and present both the cases for and against the tourist tax in a balanced way. On the next page you will see the recommendations on a tourist tax that the APPG has made.

Recommendations

1. It is important that if a 'European Model' is to be followed in the United Kingdom it must include a significant reduction in VAT on hotels to a level that is comparable with other countries on the continent. Cutting VAT significantly would mitigate industry opposition to the introduction of a tourist tax.
2. Local authorities and tourism and hospitality businesses should work collaboratively to promote the local area. It is recognised that councils have faced significant cuts, and this has impacted on their ability to focus resource on championing tourism. Both business and local authorities have a key role to play.
3. To properly inform the debate, both sides of the argument must take a holistic look at the tax burden that is currently present on tourism businesses.
4. Councils should examine all options for funding that may be present and less potentially costly than a tourist tax. This could include a reasonable discussion to ensure that all tourists are charged for visiting a city and not only those who stay overnight and contribute significantly more to the economy.
5. Councils must examine the options to and impacts on consumers, businesses and the economy of a tourist tax before taking any decisions on the principle of introducing one.
6. Further studies need to be commissioned on the economic impact and viability of a tourist tax. This will better inform the decision of councils and devolved administrations who are considering introducing such a levy.