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All Party Parliamentary Group for Hospitality and Tourism

Inquiry into the Retention of the 12.5% Rate of VAT

Contents

Forewords

Kate Nicholls MBE
CEO of UKHospitality (Secretariat to the Hospitality and Tourism APPG)

The hospitality and tourism industry has been the hardest hit by the COVID-19 pandemic. However, with the right support, they can play a crucial role in the country's economic recovery and help rebuild people's wellbeing after they have had to live under social restrictions for the past two years. Hospitality and tourism is a major economic sector because its businesses are community hubs that bring everyone together, across the entire nation. This will remain true as we learn to live with COVID. However, for businesses to provide the best possible service, they need to return to financial strength. We welcome this report from the APPG on Hospitality and Tourism which highlights the importance of keeping VAT at 12.5% to achieve this.

Simon Jupp MP
Member of Parliament for East Devon
(Chair of the Hospitality and Tourism APPG)

Hospitality and tourism is central to the true, 'real' economy – they are the locally run bricks and mortar businesses that bring life to our high streets and particularly to coastal areas, like my own constituency. As a customer-facing enterprise, people get a real sense of an area when they visit a hospitality and tourism business. They get a sense of their values and identity. It is more crucial than ever after the devastation of the pandemic that we are attuned to the needs of the sector to ensure they can continue to be ambassadors for the variety of experience that this country has to offer. This inquiry into the continuation of the 12.5% rate of VAT was launched to explore whether this would be an effective way to support the sector. Having sought views across the industry, I am confident that the reduced rate of VAT will restore hospitality and tourism to strength and allow it to show the best of the UK.

Alison Thewliss MP
Member of Parliament for Glasgow
(Vice Chair of the Hospitality and Tourism APPG)

I'm extremely lucky to represent a city with a vibrant hospitality and tourism sector. Glasgow is home to world class live music venues, tourist attractions, restaurants, bars and hotels. You don't have to look far to see how vital this industry is in sustaining our jobs and enriching our culture. Hospitality and tourism are key growth sectors in Scotland's economy. Sustained effort to protect this industry is vital in increasing productivity and contributing to economic growth following the pandemic. This report has been helpful in consolidating the evidence around what industry leaders have been telling us for some time – that a move away from the 12.5% VAT would put the brakes on investment and growth. Without continuation of this rate, many businesses and cultural institutions will be put at risk at what is already a perilous time for recovery. The UK Government must pay attention to the thorough research provided by this report and take the steps needed to protect the industry.

Introduction

VAT is currently reduced to 12.5% as part of the *Plan for Jobs* to ensure the viability of hospitality and tourism businesses and provide them with the capacity necessary to retain their staff. The Government's stated ambition for the policy was to:

> ***"boost cash flow and viability of businesses in the hotel, hospitality and tourism sectors. Where businesses opt to pass some or all of the saving on to customers this may result in increased spending in these sectors. This is expected to have a negative impact on inflation in the period for which the measure applies and a positive impact in the following year (compared against a return to the standard VAT rate)"***
>
> "Introduction of a new reduced rate of VAT", HMRC

This policy was warmly welcomed by the industry. The reduction provided businesses two options: to lower their prices, passing the savings onto their customers, and stimulating spending or they could keep prices the same and use the money that would have been taken as taxation to support their businesses. Most chose a mixture of the two.

The policy was originally introduced after the onset of the COVID-19 pandemic to support the revenue making potential of businesses when social restrictions limited their ability to trade. Initially, when the policy was announced on 8 July 2020, it allowed VAT registered businesses to apply a temporary 5% reduced rate of VAT to certain supplies relating to hospitality, accommodation and admissions to certain attractions. This temporary 5% rate lasted until 30 September 2021. **In October 2021, a new rate on hospitality and tourism services of 12.5% was introduced. This 12.5% rate is currently due to end on 31 March 2022.**

This inquiry examined the case for maintaining the current 12.5% rate of VAT beyond 31 March 2022 as we learn to 'live with COVID'. This investigation was prompted by businesses making representations to the APPG on Hospitality and Tourism and its secretariat, UKHospitality (the national trade association for hospitality businesses). For instance, a UKHospitality member survey showed that 9 in 10 businesses felt the retention of the reduced rate of VAT was crucial to their recovery (Member Survey, UKHospitality). In their representations, businesses said that the current 12.5% rate of VAT would provide benefits in the following areas:

Proposed Benefit	Explanation of Proposed Benefit
Support the viability of businesses	The current 12.5% rate of VAT would help businesses financially recover after being the hardest hit sector by the pandemic and allow them to operate on a more secure footing.
Improve the rate of employment	Maintaining the current 12.5% rate of VAT would allow them to employ more people and make vacancies more attractive (e.g. higher wages).
Positive impact on Treasury revenue	The 12.5% rate would have a positive impact on Treasury revenue as the tax cut would stimulate further economic activity.
Support regional growth	Businesses said that the extended 12.5% rate could lead to regional investment across and within the UK's home nations.
Improve international competitiveness	Businesses said the reduced rate of VAT makes the UK a more attractive holidaying location for domestic and international visitors through reduced prices and reinvestment in business offerings.
Ease the pressure on the cost of living	It was suggested that maintaining the current rate of VAT could be a way to reduce the cost of living and limit inflation through lower prices and avoiding price increases.
Improve social wellbeing	Businesses would be able to contribute more to their communities through the 12.5% rate by reinvesting in their offerings and engaging in social responsibility action (e.g. becoming more sustainable).

Ultimately, this inquiry was launched to explore whether the reduced rate of VAT could go beyond being a response to the acute crisis of the COVID-19 and instead become a tool for hospitality and tourism businesses to play a key role in the country's economic recovery. Moreover, it considered whether it would support businesses to be more socially responsible and actively engage with the Government's wider raft of objectives, including its Net Zero agenda and Levelling Up. The inquiry found that the continuation of the 12.5% rate of VAT would have widespread benefits in all the areas it surveyed with the weight of the case explained in this report.

Methodology

The inquiry has drawn on three key information sources to reach its conclusions:

- **Business sentiment**: insight from industry surveys on forecast trade, input costs and operational issues.
- **Testimony from businesses and topic experts:** the APPG conducted an evidence session where the two chairs heard testimony from businesses and industry experts about their views on maintaining the current rate of VAT. This provided a detailed look into the viability of businesses, their views on the policy, why they take these views and what benefits they are focused on promoting if VAT remains at 12.5%.

Executive Summary

The hospitality and tourism sector has been the hardest hit by the pandemic according to ONS figures and, whilst social restrictions have now been removed, these businesses continue to face substantial trading pressures. From labour shortages to soaring costs, the hospitality and tourism sector is yet to secure its recovery.

This inquiry set out to examine whether the retention of the 12.5% rate of VAT would support businesses to return to financial health and able to play its key role in the country's economic recovery. The inquiry also explored what other benefits the 12.5% rate of VAT could bring, such as improved international competitiveness and improving social wellbeing.

This investigation was prompted after businesses made representations to the APPG on Hospitality and Tourism and its secretariat, UKHospitality. For instance, one sectoral survey found that 9 in 10 businesses said the continuation of the 12.5% rate was crucial to their recovery and 7 in 10 said they would use the reduced rate to reinvest (Member Survey, UKHospitality).

The inquiry considered a range of industry perspectives and economic data to assess the case for the 12.5% rate of VAT on hospitality and tourism services continuing beyond March 2022. Based on this evidence, the inquiry found that the 12.5% rate would be an effective method to restore the sector and allow it to provide a range of benefits.

The inquiry recommends that the 12.5% rate of VAT be retained beyond March 2022 to:

- **Support the viability of businesses**
- **Create jobs and ease the acute staffing crisis stifling the sector's recovery**
- **Generate further Treasury revenue**
- **Support regional growth**
- **Improve international competitiveness**
- **Ease the pressure on the cost of living**
- **Improve social wellbeing through improved offerings and greater social activity**

The business and employment case

This section of the inquiry's report looks at the case for maintaining the current 12.5% rate of VAT in terms of what it will mean for the businesses that pay the reduced rate. This section is divided into two subsections – viability of business and employment.

The inquiry looked at whether the 12.5% rate of VAT helped the viability of businesses either through stimulating more spending from consumers through lower prices or it would support their viability through allowing them to retain more of their profit compared to a return to a 20% rate of VAT. It also investigated whether the current rate of VAT would boost the rate of employment in the sector as the policy initially intended in the *Plan for Jobs*. It was argued by businesses that the retained lower rate would provide them with the positive cash flow necessary to expand their workforce and increase wages to make vacancies more attractive to prospective employees.

The evidence submitted to the inquiry shows that the reduced rate of VAT is an effective policy to safeguard the viability of businesses and allow them to reinvest. One way in which businesses repeatedly communicated they would reinvest is in their workforce. This is of great importance because the hospitality and tourism industry is currently suffering from severe labour shortages that are severely limiting their ability to trade.

Viability of businesses

The inquiry found that businesses are still facing considerable trading pressures that are putting their viability at risk and that maintaining the current rate of VAT would be a lifeline to many businesses. Businesses may no longer be shut down, but their viability is still under pressure and businesses require ongoing support to ensure their viability.

This risk to viability is being posed by a rise in costs and a fall in revenue.. It is estimated that inflation in hospitality services is currently at 11% (Member Survey, UKHospitality) and it is also known that the sector continues to fall behind its pre-pandemic performance (Sectoral Survey, CGA). Whilst the UK has removed most social distancing measures, the sector is still fragile and facing rising costs whilst it is unable to generate the revenue it did pre-pandemic.

The importance of retaining the reduced rate of VAT on the outlook of businesses was also relayed by the expert panel of witnesses that spoke at the inquiry's evidence session.

Nick Varney, Merlin Group, said:

"[we had] to take on half a billion of extra debt which has left our balance sheet quite severely fractured now. It's going to take us a few years to pay that back. Clearly, borrowing just to keep the lights on is not a great thing… the VAT cut is hugely important in stimulating demand and performing strongly".

Ranjit Mathrani, MW Eats, said:

"In 2021, we lost 3.5 million pounds which works out to be 4 years of retained earnings…this is a critical issue".

Serena Von Der Heyde, Georgian House Hotel, said:

"We are going to struggle to keep our heads above water… the reduced rate of VAT has been a huge benefit"

There were repeated themes across the testimonies of the businesses that contributed to the inquiry. All the contributors spoke of soaring costs and an ongoing dip in sales. They each said – speaking from the perspective of their individual subsectors within the tourism and hospitality industry – that the retention of the current VAT was a crucial way that the Government could assist the sector to be viable and resilient.

The evidence presented to the inquiry shows that hospitality and tourism businesses continue to be feeling the cost of the pandemic and ongoing pressures, such as reduced footfall and rising costs. Whilst the UK is moving towards 'living with COVID', the sector remains fragile. The sector overwhelmingly supports the continuation of the 12.5% rate of VAT as an effective measure to ensure the viability of businesses.

Rate of employment

The hospitality and tourism sector has the potential to recreate the jobs 'miracle' that the industry drove following the last recession. The sector created one in seven new jobs between March 2009 and March 2020 which amounts to 542,000 jobs (UKHospitality, Budget Submission). To achieve this, the industry needs to be in a financial position to retain its current staff, attract talent to fill its current vacancies and be able to expand its workforce further. The inquiry found that reinvestment in employment is one way in which businesses want to utilise the 12.5% rate of VAT if it is continued beyond March 2022.

As highlighted in the previous subsection, there is considerable strain on the viability of businesses within the hospitality and tourism sector. This inevitably will have an impact on businesses being able to retain and recruit staff as they will struggle to provide attractive employment. The current negative perception of careers in the sector is recognised by the Government's Hospitality Strategy which states:

> ***"…accessibility to entry-level work has fed into the sector's reputation as an employer of "low-skilled" labour. Employees in customer-facing roles in hospitality are less likely to receive training than in other roles and less likely to progress if they stay in the sector. Linked to this, in 2020 the median hourly pay of £8.72 was substantially lower than the UK industry-wide median (£13.65). While it is important to recognise the value of entry-level jobs, particularly for those without formal skills and experience, it is also vital that people are invested in and given an opportunity to progress to higher skilled, better paid work."***
>
> (Hospitality strategy, BEIS)

The investment that is required to change this status quo and publicise the benefits of working in hospitality and tourism is, of course, is going to require businesses to have the financial ability to pay for it. This would have been difficult even before the pandemic. As the Hospitality Strategy also stated:

> ***"Though many hospitality businesses were thriving and expanding before the COVID-19 pandemic, the sector faced some underlying challenges…. Businesses tended to operate on very small margins and with low cash holdings, partly due to a high level of fixed costs."***
>
> *(Hospitality strategy, BEIS)*

However, this has now become an even greater challenge post-pandemic, as hospitality and tourism businesses have been hammered by successive lockdowns, growing costs, falling sales and difficulties in sourcing prospective labour. The size of the challenge is clear when considering how many vacancies currently continue to go unfilled despite the number of jobseekers looking for work. In accommodation and food services alone, there are 178,000 unfilled vacancies at present. This is despite there being 1,374,000 people unemployed (ONS). For the wider hospitality and tourism sector to attract talent into the roles that currently need filling and create more roles, it will require businesses to be able to invest into the necessary means to do so (e.g. improved pay and conditions and better training).

It is vital that businesses can achieve this reinvestment in staff and expand their workforce. **ONS figures show that 37.2% of businesses are experiencing a shortage of workers, and 31.8% said they were unable to meet demand as a result** (Business Insights and Conditions Survey, ONS)**.** Thus, the sector's difficulty in acquiring labour is negatively impacting the ability of businesses to meet the demand of consumers even at a time of depressed sales and, in turn, it is damaging their revenue potential. It can be said that the ability to retain and recruit staff is a necessity for the hospitality and tourism sector.

The retention of the 12.5% rate of VAT would be a powerful measure to provide the industry with the means to recruit and retain staff. As outlined above, the evidence submitted to the inquiry shows that the continuation of the reduced rate of VAT would be effective in making businesses more viable; however, the evidence also shows that a direct benefit of the policy would be that businesses would use this improved liquidity to invest in staff. Moreover, assessments made by the Campaign to Cut Hospitality and Tourism VAT, using the Treasury's own economic model, show that over 5 years 182,400 more jobs would be created by maintaining the current VAT reduction than under a "business as usual" 20% scenario. (The Full Fiscal and Employment Impact of Reduced VAT on UK on Hospitality and Tourism, Campaign to Cut Hospitality and Tourism VAT).

The witnesses that spoke at the inquiry's evidence session also relayed that the 12.5% VAT rate would have a positive impact on jobs.

> ***"The last thing you should be doing is charging consumers more which means you cannot pay your team more."*** *Paul Flaum, Bourne Leisure*

> ***"You can only pay [staff] if you can make enough money to do it…we want to do that - especially when you get into small and micro businesses - [staff] are family!"***
> *Colin Neil, Hospitality Ulster*

> ***"We create a variety of jobs that are important for the workforce and the economy and that will suffer [if VAT returns to 20%]."*** *Ranjit Mathrani, MW Eats*

It is important for businesses to have the necessary positive cashflow to be able to invest in recruitment and retention. This is vital for the survival of the sector and businesses have communicated that they want to be able to do this. However, the slim profit margins of tourism and hospitality businesses combined with rising costs and the devastation of the pandemic means they currently do not have the means to. The continuation of the 12.5% rate of VAT would allow businesses to generate the revenue necessary to recruit and retain staff.

Summary of the business case

The inquiry set out to find out if the 12.5% rate of VAT helped the viability of businesses either through stimulating more spending from consumers through lower prices or it would support their viability through allowing them to retain more of their profit compared to a return to a 20% rate of VAT. It also investigated whether the current rate of VAT would boost the rate of employment in the sector. It was suggested that the retained lower rate would provide businesses with the positive cash flow necessary to expand their workforce and increase wages to make vacancies more attractive to prospective employees.

The inquiry concluded, based on the evidence submitted, that the viability of businesses continues to be under immense strain and that the 12.5% rate of VAT would be a lifeline for the industry. Hospitality and tourism is still experiencing lingering effects from the COVID-19 pandemic that is leaving businesses in a financially weak position. These businesses are also suffering from long-term structural issues that are making trade difficult, such as labour shortages.

The continuation of the 12.5% rate of VAT would provide businesses with a mechanism to improve their cashflow – whether through greater revenue retention or stimulating spending through lower prices – to respond to these challenges.

The economic case

This section assesses the economic case for retaining the 12.5% rate of VAT compared to returning to a 20% rate. It also looks at the impact on HM Treasury and on regional growth.

The first subsection considers how the continuation of the 12.5% rate will affect the Treasury's revenue and wider economic impacts. Whilst the reduced rate will mean that the Treasury will take less in taxation per sale, the inquiry examined whether this would be outweighed by other factors, such as more sales being generated due to lower prices and higher rates of employment.

The second subsection on regional growth examines whether the long-term maintenance of the 12.5% rate of VAT will result in growth across the different regions of the UK. The inquiry concluded that the 12.5% rate of VAT would be low cost initially and revenue generating for the Treasury in the long term. It also concluded that the lower rate of VAT would lead to regional growth across the UK, particularly in coastal regions and those that are targeted for levelling up.

Treasury impact

Prior to the outbreak of COVID-19 and the implementation of social restrictions in response, **hospitality employed 3.2 million people, made up 10% of UK employment, 6% of businesses and 5% of GDP** (UKHospitality)**.** Hospitality is a large component of the tourism industry and there is a lot of crossover between the two. **The tourism sector is the second largest service sector after finance and business services** (Rebuilding Britain's Tourism Sector, Tourism Alliance)**.** It comprises 303,000 businesses and generates £157 billion for the UK economy whilst employing 3.4 million people (Rebuilding Britain's Tourism Sector, Tourism Alliance)**.** They are crucial components of the UK's economy.

Unfortunately, hospitality and tourism were the hardest hit by the COVID-19 pandemic. Hospitality sectoral analysis shows that lost sales exceeded £100 billion in the 15 months from April 2020 to June 2021 (Sectoral Survey, UKH/CGA). **Over 600,000 jobs were lost, despite the effectiveness of the furlough safety net, with over 9,000 venues permanently closing** (Sectoral Survey, CGA). **It is also estimated that hospitality businesses have been saddled with £8.5 billion in COVID-related debt**) (Sectoral Survey, CGA). The sector was starting to emerge from the shutdown, but the implementation of Plan B restrictions greatly damaged hospitality's recovery. The wider hospitality sector saw a 40% drop in sales overall for the month of December versus the same period in 2019 – the last 'normal' Christmas before the onset of the Covid-19 pandemic (UKHospitality). These figures represent a £3bn hit to the industry versus 2019 (UKHospitality).

The tourism sector has suffered similarly due to the COVID-19 pandemic. The UK tourism industry comprises three main components: inbound tourism, domestic tourism and outbound tourism. In terms of inbound tourism, VisitBritain has calculated that the combined revenue from inbound tourism for 2020 and 2021 was down 81% (£51bn) compared to pre-pandemic levels. Furthermore, VisitBritain has estimated that revenue generated by the domestic tourism industry over the past two years will be down 66% (£108bn) compared to pre-pandemic levels.

The UK economy also benefits from outbound tourism. The ONS' Tourism Satellite Accounts show that £32bn per annum of outbound expenditure is retained in the UK economy. With outbound tourism down 80% over the last two years, this equates to a further loss of £51bn in revenue for the UK's outbound tourism industry. **In total, UK tourism business have lost an estimated £210bn in revenue over the last two years due to the COVID-19 outbreak (VisitBritain).**

This loss to the UK economy cannot be recovered, but hospitality and tourism is optimistic about bouncing back and the sector can achieve the Government's goal of returning to pre-pandemic trip volumes a year ahead of independent forecasts commissioned by the Department for Culture, Media and Sport. However, this will not be possible without the support in place to do it. The Campaign for Cutting Hospitality and Tourism VAT's economic modelling – which is structured around the Treasury's own model – shows that maintaining VAT at 12.5% would be an effective way to accomplish this.

The Campaign to Cut Hospitality and Tourism VAT proffered some plausible assumptions into the Treasury's forecasting model. These assumptions include how much the policy would impact consumer spending and how much businesses would reinvest. These assumptions are based on international comparisons and industry survey data. This model shows that continuation of the current 12.5% rate of VAT would support the sector whilst coming at minimal cost to the Treasury in the short term, before becoming revenue generating. The Campaign to Cut Hospitality and Tourism VAT's model suggests that the policy would have the following effect on various Treasury revenue streams initially:

Source of Revenue	Accommod-ation and Attractions	Out of Home Food & Beverages	Total
(1) Net direct loss of VAT receipts	-£944	-£2,410	-£3,354
(2) VAT Yield on increased turnover	£132	£391	£523
(3) VAT Yield on wider base	£4	£9	£13
(4) Income and national insurance derived from new jobs & previously unreported (Shadow Economy) jobs	£65	£190	£255
(5) Income and national insurance derived from higher wages	£21	£54	£76
(6) Savings in social security payments	£130	£467	£597
(7) Corporation tax from higher margins on current turnover including previously unreported (Shadow Economy) turnover	£26	£67	£93
(8) Corporation tax from higher turnover	£55	£164	£219
(9) Income tax paid on dividends	£20	£60	£80
(10) Additional business rates	£15	£43	£58
(11) Multiplier impact	£312	£933	£1,245
Net fiscal impact (undiscounted)	**-£164**	**-£32**	**-£196**

Hence, the combined impact of a 12.5% VAT rate applied across the UK hospitality and tourism sector would be an initial net loss of £194 million but this would be recouped. A key conclusion from the Campaign's model is that the extra tax revenue generated by the positive gains to economic activity and employment by the policy would produce more tax revenue in the long term to make up for the decline in tax revenue.

The Campaign's analysis supports the conclusion that the cut in VAT will be self-financing for the Treasury with the policy generating, over a 10-year period, an additional £4.6 billion of total tax receipts for HM Treasury. This is because the Treasury would be able to collect more through other forms of taxation due to the improved viability of businesses (e.g. corporation tax). It would also lead to changes in consumer behaviour and the sector (e.g. lower prices and increased employment) that would lead to more spending in the economy and more people contributing in income tax.

Graham Wason from the Campaign to Cut Hospitality and Tourism VAT said at the inquiry's evidence session:

> ***"the model demonstrates exactly what the operators [….] have been saying: reduced VAT makes us more competitive, makes their businesses more successful, allows them to expand and grow and employ more staff. All of these things contribute indirectly to Government revenues"***
>
> ***"It is only by making the reduced rate a permanent or long-term measure will that allow businesses to properly reinvest. If you know you have a reduced rate that is going to be taken away in 6 months' time or a year's time, that is not going to encourage you to build an extension to your business or start a new business".***

The Campaign's argument that the tax cut would lead to sectoral behaviour changes that would lead to it being a revenue generating policy across the economy is supported by the testimony of the businesses that spoke at the inquiry's evidence session.

Nick Varney, Merlin Group, said:

> ***"The sooner we can get that recovery the sooner we can start reinvesting… we want to invest in new attractions and accommodation. We want to reinvest in the UK market."***

Paul Flaum, Bourne Leisure, said:

> ***"We are in a business where prices make a big difference on the level of demand and, definitely, VAT at 20% will put prices up. Putting prices up affects demand".***

All the businesses that spoke at the session spoke of similar themes that underly the assumptions that feed into the economic model that shows VAT at 12.5% is a tax revenue generating policy for the Treasury. They said it would influence behaviour in the sector, such as having relatively lower prices and reinvesting, in ways that are expected by the Campaign's economic modelling. The witnesses argued that the sector would behave in a way that would lead to the policy being cash positive for the Treasury, such as lowering prices and employing more staff.

The inquiry's evidence shows that VAT staying at 12.5% would be revenue positive for the Treasury within five years when other forms of taxation and the wider-economic effects are taken into consideration (e.g. the cutting of prices driving increased demand) rather than just the initial reduction in tax income per sale.

Regional growth

The reinvestment, job creation and wider spending in the economy that would be generated by the maintained 12.5% rate of VAT would benefit every region of the UK.

Hospitality and tourism businesses can be found in every community across the country. **The tourism industry alone is made up of 303,000 businesses that are spread across the country. All but one region employs more than 650,000 people in hospitality and receives over £3.5bn in tourism expenditure from visitors. Moreover, the tourism sector is effective at redistributing wealth to less affluent regions of the UK. Domestic tourism redistributes £25bn per annum from urban to rural and seaside economies.**

This is the largest form of non-governmental redistribution of wealth in the UK. It would be fair to say that hospitality and tourism are key economic drivers in every region of the country and they play an important role in redistributing wealth across the UK.

The whole nation will benefit from the potential of the reduced VAT rate wherever they are in the country. Research by the Campaign to Cut Hospitality and Tourism VAT supports this:

Impact on regional turnover and jobs of 12.5% VAT on hospitality and tourism

	Turnover £m	Jobs
North East	£200	8,088
North West	£683	27,421
Yorkshire and The Humber	£432	17,395
East Midlands	£332	13,373
West Midlands	£544	21,971
East of England	£565	22,713

London	£1,795	71,983
South East	£995	40,009
South West	£638	25,471

	Turnover £m	Jobs
England	**£6,184**	**248,425**
Wales	£270	10,806
Scotland	£549	21,985
Great Britain	**£7,003**	**281,216**
Northern Ireland	£140	5,633
United Kingdom	**£7,143m**	**286,849**

As the Campaign's data shows, the 12.5% rate of VAT has the potential to provide a massive boost to all regions of the UK and create over a quarter of a million jobs over a 10-year period. The reduced rate of VAT would achieve this because it would lead to the kind of changes that were discussed in the previous section: it would lead to greater reinvestment, it would promote spending and it would lead to greater employment. This view was shared by the businesses and experts that contributed to the inquiry's investigation.

Leon Thompson, UKHospitality Scotland's Executive Director, said:

> ***"Hospitality is one of Scotland's greatest success stories. I think we are only scratching the surface of what can be achieved, and if we can keep the VAT rate down then that potential can start to be unlocked."***

Colin Neill, Hospitality Ulster, said:

> ***"We have a competitive land border with the Republic of Ireland…It is important that this is a UK wide readjustment of VAT."***

The inquiry heard from witnesses with constituent businesses in deprived areas, such as seaside resorts, and sectoral experts from the devolved nations of Scotland and Northern Ireland. They all relayed that the continued 12.5% rate of VAT would boost their revenue, trade and reinvestment. The witnesses were confident that the 12.5% rate of VAT would drive economic activity which would benefit the regions in which they operate.

It is clear from the testimony given by businesses and their trade bodies as well as the economic research that has been conducted, that the 12.5% rate of VAT will lead to regional growth across the UK which is a key component of the Government's levelling-up agenda.

Summary of the economic case

Ultimately, the APPG for Hospitality and Tourism's investigation into the economic case for maintaining the current rate of VAT has found that it is compelling. The testimony from businesses and the inquiry's expert witnesses shows that maintaining VAT at 12.5% will drive economic growth across the UK. It can do this at very little initial cost to the treasury with the analysis showing that it would in fact be a **revenue generating policy** over a 10-year time frame. This is because the policy will lead to reinvestment, more income tax receipts from the creation of more jobs, and it will lead to spending in the wider economy and more.

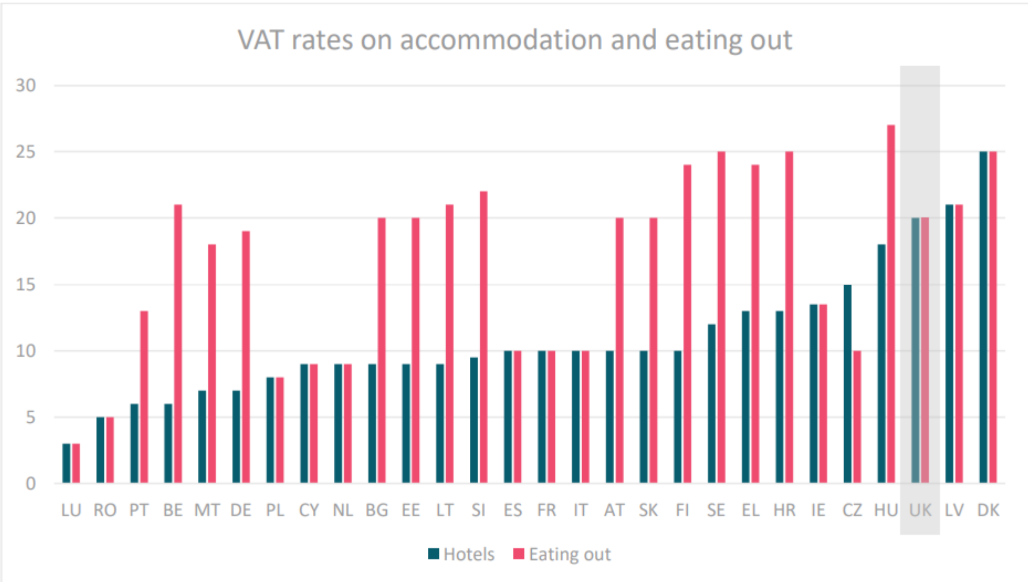
Visitor economy

The inquiry assessed what benefit the current 12.5% rate of VAT will have on the visitor economy. This aspect of the inquiry's investigation largely focused on how the VAT rate impacts the UK's competitiveness as a tourist destination and how this would affect traveller numbers.

It found that the UK has a much higher rate of VAT compared to other European destinations. It was communicated by witnesses that they felt this was negatively impacting their businesses. The inquiry's evidence shows that retaining the 12.5% rate would make the UK an attractive holiday destination for both domestic and inbound visitors. It would do this by being price competitive and business offerings would be made more attractive through reinvestment.

International competitiveness

A 2019 World Economic Forum global survey of international tourism competitiveness shows that the UK is the least competitive country in the world in terms of taxation on tourism products and services (The Travel and Tourism Competitiveness Report 2019, WEF). This lack of competitiveness can be seen when the UK's VAT rate is compared to its closest competitor nations.



Source: European Commission, UKH insight

As can be seen from the EU Commission's compiled data on VAT rates across the EU, the UK has a markedly higher rate of VAT on hospitality and tourism products. **For example, France only charges 10% in VAT on accommodation and Ireland only charges 9% compared to the UK's non-pandemic rate of 20%.** This means that neighbouring EU holiday destinations are more attractive to prospective visitors in terms of price compared to the UK.

The lower VAT rate also provides an opportunity to attract more domestic and foreign visitors to the UK by allowing businesses to reinvest in their offerings. The extra revenue generated by the 12.5% of VAT would lead to businesses improving their services and products which will make them more desirable to consumers. **With 7 in 10 businesses communicating in a sectoral survey that they would use revenue generated by the reduced rate of VAT to reinvest, there is significant potential to make the UK tourism and hospitality industry more competitive in terms of its offering (Member Survey, UKHospitality).**

The theme of the UK being less competitive than other European destinations in terms of taxation and its service offering was repeated by witnesses at the inquiry's evidence session.

Serena Von Der Heyde, The Georgian House Hotel, said:

> ***"Most of our customers are international. I often hear them say why are your prices so high? Why are you so much more expensive than Paris? I find it quite frustrating because if I compare my prices to a Paris hotelier, I see they are taking more home than I am, yet the customer sees it as more expensive. It is putting customers off buying from us"***

Paul Flaum, Bourne Leisure, said:

> ***"The [20%) rate of VAT puts us at a structural disadvantage relative to our European friends… someone living in Bolton deciding whether to holiday in Blackpool or Benidorm – [the 20% VAT rate] definitely puts a competitive advantage in Benidorm".***

The witnesses all agreed that the 12.5% rate of VAT was an effective method of making the UK more price competitive as a tourist destination. It would also allow businesses to improve their offerings through the retained revenue from the lower VAT rate to attract more visitors. The 12.5% rate of VAT would allow businesses to provide quality holidays at lower prices.

Summary of the impact on the visitor economy

The APPG on Hospitality and Tourism's inquiry strongly suggests that the continuation of the 12.5% VAT rate is vital to making the UK a more price competitive holiday destination. It would also provide businesses with a means to reinvest and improve their offerings. This would make the UK more attractive as a holiday destination to consumers who want a quality holiday at the best possible price.

Impact on consumers

This section assesses the impact on consumers of retaining the 12.5% rate of VAT compared to returning to a 20% rate. This section is split into two subsections: the cost of living and social wellbeing.

The inquiry found that the retention of the 12.5% rate would lower the cost of living by absorbing the rising costs that hospitality and tourism businesses will have to face. Businesses overwhelmingly told the inquiry that if the VAT rate were to go back to 20%, they would have to pass this increase onto the consumer and they would be under greater pressure to pass other rising costs onto consumers. In addition, the inquiry found that the 12.5% rate of VAT would have a positive impact on the social wellbeing of consumers by businesses improving their services and, in turn, investing in their local communities.

Cost of living

A return to the 20% rate of VAT would only put businesses under more financial strain. This would translate into higher prices for consumers when sectoral inflation is already estimated to be at 11%.

The increase of VAT from 5% to 12.5% has already led to businesses increasing their prices with 49% increasing their prices in part or fully from October 2021. Clearly, a return to the 20% rate of VAT would increase the cost of living at a time of already significant inflation.

In contrast, the 12.5% rate of VAT has allowed many businesses to actively lower prices for consumers. The Campaign to Cut Hospitality and Tourism VAT's economic model shows that more businesses would lower their prices over time if VAT was maintained at 12.5%. The inquiry's evidence shows that maintaining the lower rate of VAT would see businesses passing this cost saving onto consumers and, in turn, lower the cost of living.

The view that the current 12.5% rate of VAT helps businesses keep their prices for consumers lower was widely promoted as a benefit by those who provided evidence to the inquiry.

Ranjit Mathrani, MW Eats, said:

> ***"We have rate relief being removed, we have VAT, we have wage inflation, we have got energy price increases…we will have no choice but to rise prices."***

Nick Varney, Merlin Group, said:

> ***"We are going to have to put prices up [if VAT is 20%]"***

The businesses that spoke at the inquiry's evidence sessions relayed that if VAT increased to 20%, they would not be able to absorb the rising costs they face, and businesses said they would have to pass these growing costs onto consumers as a result. The reduced rate of VAT provides a means for businesses to boost their ability to shield consumers from soaring costs.

Social wellbeing

The inquiry explored whether the reduced rate of VAT would broadly improve social wellbeing. It was reported that it would be able to do this through providing employment opportunities and allowing businesses to improve their offering, so they better meet the needs of their customers and communities.

The case previously set out in this report - that the continued lower rate of VAT would mean more economic activity and increased success for businesses - means that businesses will be able to invest in making their offering of a higher quality and more socially active. These social wellbeing improvements could include making the venue more accessible, more environmentally friendly, developing new product lines and making them more visually pleasing. The lower rate of VAT would improve social wellbeing by making businesses more able to better cater to people's needs.

As aforementioned, the reduced rate of VAT would also support businesses in being able to create more jobs with attractive benefits for employees. This would not only benefit the wellbeing of those who would be able to obtain employment through these vacancies and, in turn, be able to meet their needs. It would also benefit the wellbeing of customers through employees being more motivated and engaging because of the improved work benefits that would be possible with the revenue gains from the lower VAT rate.

The witnesses that spoke to the inquiry were clear that improving their venues, so they are more appealing to customers and align with their expectations, was an important way they plan to use a 12.5% VAT rate.

Paul Flaum, Bourne Leisure, said:

> ***"This industry is passionate about doing the right thing for everyone: guests, team members and communities. We generally see a role for us in the social fabric as well as the economic fabric of the UK."***

Alistair Handyside, The Professional Association of Self-Caterers UK, said:

> ***"Everything we receive through every channel from the Government is about Net Zero…we need to be encouraging more domestic holidays to support the green agenda."***

This sentiment was shared by other witnesses, who also spoke about providing social benefits if the VAT rate is kept at 12.5%. They mentioned a range of objectives they would like to achieve in this area. These included upgrading offerings in more deprived areas like seaside towns, which would support the levelling up agenda, and providing fulfilling careers that people can take pride in. They said they could only do this if they did not have to face the further cost of VAT returning to 20%.

Summary of the impact on consumers

The case presented to the inquiry shows that the 12.5% rate of VAT would help lessen the cost of living for consumers. This is because businesses will pass the added cost of a 20% rate of VAT onto consumers. In contrast, keeping VAT at its current rate motivates businesses to maintain lower prices. The inquiry also found that the reduced rate of VAT at 12.5% would improve social wellbeing by allowing businesses to improve their services for consumers and be able to create more employment opportunities.

Conclusion

The evidence submitted to the APPG on Hospitality and Tourism strongly supports the case for retaining the current 12.5% rate of VAT to support the industry in playing a key role in the UK's economic recovery and the Government's wider agenda, such as Net Zero and levelling-up. The inquiry surveyed the impact of the policy in these areas:

- **Viability of businesses**
- **Rate of employment**
- **Treasury revenue**
- **Regional growth**
- **International competitiveness**
- **Cost of living**
- **Social wellbeing**

Across every area, the inquiry found a substantial case for retaining the current 12.5% rate of VAT and, thus, **the APPG recommends this policy remains in place beyond March**. These benefits would be the result of businesses being able to retain more of their revenue and make their products more price competitive to drive sales. This greater liquidity would make businesses more viable, but it would also lead to them reinvesting in areas such as employment and improving their offerings. This reinvestment and ability to keep prices lower would, in turn, lead to greater tax returns for the Treasury after 10 years.

The sector will do this through various means, such as increasing consumer purchasing through relatively lower prices and business growth leading to more being paid in corporation tax. In addition, the policy will deliver tangible benefits to social wellbeing by allowing businesses to reinvest in ways that allow them to better meet people's needs.

As the lower rate of VAT would apply to businesses across the UK, these benefits would be seen across the country. Finally, the lower rate of VAT would allow businesses – through their improved viability and cashflow - to actively engage with the Government's agenda, such as Net Zero and levelling-up through the support it would provide to regional businesses. Ultimately, the retention of the 12.5% rate of VAT would allow hospitality and tourism businesses to secure their role as socially responsible economic drivers.