BHA Scotland

Evidence on Tourist Taxes
A Submission to the Commission on Local Tax Reform

Introduction

Over a decade or more there has been debate in Scotland (primarily in Edinburgh but more recently in the Highlands and Aberdeen) and elsewhere in the UK about the imposition of some form of tourist tax or levy. There has been no specific information on the rates of tax proposed, but this has been suggested at 5% on hotel bills (Westminster) and £1 per visitor per hotel night (Cornwall, Camden, Highlands). The British Hospitality Association (BHA) view is that any such a tax would simply make tourism in the UK and Scotland even less price-competitive than it presently is. A recent report by the World Economic Forum ranks the UK as the fifth most competitive tourism destination in the world; however, the UK ranks second to last (140th out of 141 countries) in terms of price – competitiveness.

Background

The 2007 Lyons Inquiry into Local Government (in England) recommended further examination of a tourist levy. This proposal was quashed by the UK Government.

Between 2006-2008 a number of research reports[1] were published in relation to a proposal for the introduction of a tourist tax in Edinburgh These examined various options for funding tourism development, marketing, and events and looked at examples from other regions and countries – it is questionable how valid these studies must now be some 8-9 years on. These are, very briefly, paraphrased later in this submission.

In 2011-2012 BHA in Scotland strongly resisted a formal proposal by the City of Edinburgh Council for a tourist tax or Transient Visitor Levy (TVL). At that time, the Council considered an internal report which recommended that consideration be given to identifying a suitable, voluntary funding mechanism to support tourism (a sectoral Business Improvement District - BID - scheme was suggested). More recently, the matter has been discussed at meetings of the Scottish Parliament's Economy, Energy & Tourism Committee, Local Government & Regeneration Committee and by the Commission on Strengthening Local Democracy and in other forums.

In ministerial speeches, at meetings and in answers to Parliamentary Questions, the Scottish Government (SG) has expressed a consistent line on tourist taxes – that local authorities do not have the legal power to impose such taxes and that SG is not inclined to grant such power. Statements to this effect have been made on a number of occasions by John Swinney MSP, Deputy First Minister and Cabinet Secretary for Finance, Constitution & Economy and Fergus Ewing MSP, Minister for Business, Energy & Tourism. Nevertheless, the issue continues to arise from time to time and in different parts of the country with calls for a tourist tax to underwrite investment in tourism infrastructure, marketing or events, to compensate councils for costs claimed to be attributable to visitor impacts or simply to raise revenue or balance council books.

[1] *Transient Visitor Tax Investigation – Deloitte, 2006 for Scottish Enterprise, City of Edinburgh Council and ETAG; Voluntary Tourism Payback Initiatives – Stevens Associates, 2007; Economic Impact of Example Visitor Levy Funded Projects – SQW Consulting, 2007 for Scottish Enterprise; Innovative Tourism Funding, The Communications Group, 2008 for ETAG; Funding for Sport in Scotland: Opportunities for Collaboration – Tourism Research and Marketing, 2008 for The Winning Scotland Foundation.*

Earlier Research Related to Edinburgh / Scotland

Between them, a number of the reports identified in the footnote:

- Provided examples of statutory visitor levies in locations as diverse as Vancouver, Vienna, Paris and San Diego:
- Confirmed that schemes were abandoned in Rotterdam in 2006 (because business support was lost as the city council diverted revenues raised to non-tourism activities) and in the Balearics in 2004 (where an 'eco-tax' was regarded as too expensive for visitors and there had been insufficient consultation prior to its introduction);
- Identified that:
    - revenues from tourist levies should be reinvested to support tourism growth;
    - there needs to be involvement by the tourism industry in how monies are spent;
    - the levy must be set at an appropriate amount;
    - funds raised should be used to increase a destination's international competitiveness;
- Examined the option of a tourism BID;
- Looked at a number of North American cities where some form of tourism / convention / sports facility development tax was in place and noted that:
    - 86% of US destination management organisations (DMOs) received income from bed / tourist taxes. In 2007, the average bed tax was 7.4% with the **total tax burden reaching 12.2% including hotel room and sales taxes;**
    - In Miami-Dade County a total of 6% is levied on 'transient rentals'. This comprises 3% convention development tax, 2% tourist development tax and 1% sports franchise tax;
    - Phoenix raised revenue through a 17.5% car rental tax and 12% bed tax;
    - In another 8 US cities the average bed tax charged was around 7.5%;
- Reported that there is a high degree of industry control over the expenditure of income collected, such as promoting tourism and developing new infrastructure and facilities;
- Identified, among other examples, the introduction of a 10% bed tax in Sydney to help pay for the Olympics; Hong Kong which reduced airport departure and hotel taxes to stimulate tourism; New York which reduced hotel taxes from 6% to 5% to improve hotel competitiveness; Alberta which reduced hotel tax from 5% to a 4% levy which went directly to tourism marketing; Warsaw where there is a voluntary hotel levy which is directed at marketing the city;
- Presented information on wider tourism tax regimes - bed taxes, VAT and other tourism related taxes including a form of APD in Copenhagen, tourism taxes in Paris, Amsterdam (5% bed tax), abolition of 5.5% hotel tax in Rotterdam, San Diego, Vancouver, Warsaw, Barcelona which have tourist taxes and Dublin (where there are no specific tourism taxes).

In various instances, the foregoing reports cite examples: a) of growth in tourism which may be related to investment, utilising funds generated by a tourist levy of some form, which has stimulated tourism to the destination, b) a reduction or abolition of a tourism tax to make the destination more competitive. Without specific, empirical research BHA suggests that it is difficult to isolate cause and effect in terms of tourism growth and destination competitiveness. It must also be remembered that the research quoted above must now be regarded as out of date and, since the last of these reports was produced, tourism, alongside other industries, has experienced global recession which may have had an impact on visitor volumes and spending, marketing strategies, investment and tax regimes.

Based on a review of the foregoing reports, BHA sets out, in the table below, arguments for and against tourist taxes.

Tourist Taxes – Pros and Cons	
Pros: • Mechanism for promoting economic development; • Imposes a tax on visitors rather than local residents; • Generation of funds for tourism marketing; • Virtuous cycle of more marketing → more tourists → more tourism revenues; • Stakeholder influence on how revenue is spent; • Little impact on levels of business / tourist expenditure.	**Cons:** • Higher taxes reduce tourism levels – ie reduced competitiveness; • Tourists already heavily taxed; • Tourists pay for facilities they don't use; • Burden, and cost, of collection falls on businesses; • Tourist taxes apply to only part of the tourism industry ie levied on hotels / accommodation only; • Problems of collection; • Risk that revenues generated are not directed to tourism purposes.

HOTREC

Hotrec is the European representative body for the hospitality industry. It has published a paper which opposes the introduction, mainly at local level, within EU member states of taxes on tourists, especially bed taxes which, it argues, penalise tourists and may damage local economies. Hotrec also argues that bed or similar taxes:

- Impose a burden on the hospitality / tourism industry;
- Are used in most cases to reduce local budget deficits;
- Penalise tourists who stay in commercial accommodation, stay longer and spend more in a destination (compared to those who stay with friends and relatives … and, in more recent times, use unregulated forms of accommodation such as Airbnb);
- Add to the existing tax take from visitors;
- Increase visitor costs and distort competition;
- Should not be connected to hotel classification or quality grading.

Further, Hotrec advocates the abolition of, and is opposed to the introduction of new, tourist taxes. Where such taxes are introduced:

- They should be applied equitably across *all enterprises* which benefit from tourism including retail, entertainment venues, visitor attractions restaurants and not just visitor accommodation;
- Tourism stakeholders must be actively involved in decisions on how revenues raised should be used in support of tourism development;
- Revenues gathered should be 'additional' and not simply used to reduce existing local expenditure on supporting tourism.

ETOA

In 2011, the European Tour Operators Association (ETOA) published research on tourist taxes. It notes that central government budget constraints across Europe have increasingly caused local authorities to examine potential additional revenue streams, leading to the introduction of accommodation or tourist taxes, often at short notice with little regard for business planning cycles. ETOA believes that tourism taxes are damaging to the industry and will continue to campaign against their introduction.

The following table summarises the position on tourist taxes in the European countries where these applied in 2011 and also shows the standard rate of VAT and the reduced rate applicable to hotel accommodation services. Interestingly, only one country where tourist taxes apply (Slovakia) does not apply a reduced rate of VAT on hotel accommodation.

Country	Position on Tourist Taxes	Rate of Tax (€)[2] *[NB; Tax rates are not all based on a common date. Position re VAT not clear]*	VAT Rate Standard / Hotel (%)[3]
Austria	Applicable in all 9 provinces to overnight accommodation of all types	Ranges from €0.15 - €2.18 per person per night (pppn)	20 /10
Belgium	Local city tax in addition to VAT	Different in different cities eg €2.39 pppn in Antwerp; Ghent €2.50; 1.8% of rooms revenue inc breakfast in Bruges; €400 - 2880 per room per annum by size & hotel class in Brussels – rate to guest €9.28 pppn	21 / 6
Bulgaria	City or resort tax by classification of hotel	5* city hotel €1.50 pppn; resorts €8 ppp stay	20 / 9
Croatia	Accommodation tax on visitors aged >18 by season and class of destination	€0.25 - 1.00 per day	25 / 13
France	Luxury hotel tax on rooms >€200 scrapped in 2011. Tourism tax applies to hospitality industry	Ranges from €0.20 for 1* camping to €1.50 pppn in 5* hotel	20 / 10
Germany	Culture or bed tax applies. Incidence of tourism taxes increased in 2010 following accommodation VAT reduction	Varies, but not applicable in all areas. Depends on room rate, size of hotel, star rating and length of stay. Can be 5% of room rate or between €1-3 pppn. Some areas exempt business travellers	19 / 7
Italy	Tourism tax generally applies per night according to hotel rating. Complex range of local variations	Ranges between €0.60 – 5.00 per night and length of stay	22 / 10
Netherlands	Levy per night in most areas. Charge per night by hotel rating	In some cases 4.5 – 5.0% per night or €0.95-4.76 pppn	21 / 6
Portugal	Lisbon only	€1 tax on all visitors to Lisbon with hotel tax of €1.90 pppn	23 / 6
Romania	Standard rate throughout the country on visitors aged >18	1% pppn for first night only	19 / 9
Slovakia	Limited information available	€0.50-1.65 pppn	20 / 20
Slovenia	Tax on hotels varies by location and hotel rating. Children exempt	€0.60-1.25 pppn	22 / 9.5
Spain	Not applicable throughout Spain. In Barcelona & Cataluña levied by hotel rating for 1-7 nights max. <16 exempt	€0.75 2.50 pppn	21 / 10
Switzerland	Complex arrangement of two-part tourism tax used for tourism marketing and infrastructure. Lucerne also applies hotel tax	Varies across Cantons	8 / 3.8

Based on its analysis of available research and understanding of proposals for tourist taxes in various UK locations, BHA raises a number of issues which need to be addressed by those who advocate such a means of raising revenue for local authorities:

1. At what level would a tourist tax be set and on what basis?
2. If introduced, what mechanism will be introduced to control future increases in tourist taxes? How can it be ensured that the rate would remain 'reasonable' in future?
3. To which businesses and types of visitor would a tourist tax apply?
4. How might a tax apply to visitors staying with friends & relatives or using Airbnb or similar forms of accommodation?

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[2] *Source – European Tour Operators Association 2011*
[3] *Source – CutTourismVAT Campaign 2015*

5. If required to collect a tourist tax, businesses must be allowed to deduct the costs of collection and administration.
6. Will a tourist tax be subject to VAT?
7. What will the revenues collected be used for? If to be used to support tourism investment, the funds must demonstrably be additional to current public sector funds directed at tourism activity.
8. Mechanisms must be put in place to monitor the impact of a tax on tourism volumes and value.
9. What involvement will tourism businesses have in: a) setting the rate of tax, and b) deciding how the revenues raised will be spent?

Summary

What the foregoing analysis shows is that there is no research which compares the overall tax regime which applies to the hotel sector. The ETOA research clearly shows that **the countries which levy tourist taxes also apply a reduced rate of VAT to hotel accommodation. This is not the case in the UK and BHA is in the vanguard of a campaign to reduce VAT on visitor accommodation and admission to visitor attractions from the current rate of 20% to 5%.**
There is no research of which BHA is aware which compares the level of property taxes (business rates in the UK) paid by hotels and cross-refers this to the application of tourism taxes and VAT rates. Such a comparison would be essential in arguing for or against tourism taxes. In other words, there is a strong case for a balanced and holistic view to be taken of the local and national tax regime which applies to hospitality and tourism.

BHA is opposed to the introduction of tourism taxes and, especially, bed taxes which are levied on visitors who stay in hotel accommodation. This opposition is supported by Hotrec and ETOA who agree that such taxes reduce the price-competitiveness of a destination. In terms of providing hard evidence of the impact on tourism of tourist taxes, there is a dearth of up to date, comprehensive, empirical research which shows whether these taxes, if allocated to tourism marketing or infrastructure development, have had the effect of increasing visitor volumes and / or revenues. In fact, there is evidence that some destinations have abandoned or reduced tourism taxes to increase their competitiveness.

Much of the available research into tourism taxes is considerably out of date. The most recent is the ETOA research. BHA suggests that any proposal for the imposition of tourist taxes must first be subject to full consultation with businesses and the commissioning of comprehensive research which addresses the information deficiencies mentioned above. BHA argues that tourist or bed taxes:

- Are an inappropriate way of raising tax revenue for local authorities;
- Add to the burden of tax paid by a sector of the economy which creates jobs, contributes to economic growth and earns foreign currency through invisible exports;
- Should only be considered after a thorough examination of the overall tax regime (including VAT and business rates) applicable to the hospitality and tourism industry;
- Will simply add to the poor price-competitiveness of a sector of the economy which has considerable potential to contribute to the future prosperity of Scotland.