

Position statement – Bed Tax

Summary of VisitScotland's Position

- Tourism is one of the most competitive industries in the world and although Scotland has a strong reputation and a strong brand we cannot rest on our laurels. We would always welcome additional funding for tourism promotion and development and can clearly demonstrate the economic benefits to be gained from such additional funding.
- However, at a time when we have agreed a shared tourism industry ambition to grow revenues by 50 per cent by 2015, we would caution against the introduction of a tourism tax which could hinder this ambition and damage one of Scotland's most successful areas of economic activity.
- Our research shows that value for money is one of the key factors which consumers consider when making choices about their leisure or business trips and we are concerned that any increase in costs for the Scottish industry that are directly passed to consumers could impact on visitor choice – particularly in the current economic climate.

Top Line

- Recommendations for a tourism tax – almost always imposed as a tax on occupation of guest accommodation - or 'Bed Tax' – were put forward in the Independent Review of Local Government Finance, published on 9 November 2006. Such a tax could be one of the fundraising instruments available to local authorities.
- The Edinburgh Tourism Action Group also commissioned a report into Transient Visitor Taxes (TVT), also known by the term visitor levies, or 'bed taxes', in March 2006.
- Plans to introduce a 2% tax on visitor accommodation in Edinburgh were more recently explored by the Edinburgh Principal Hotels Association (EPHA), which represents the main hotels in the capital. The City of Edinburgh Council and several industry figures supported the introduction of such a tax, claiming it would help raise extra funds for various tourism initiatives. In May 2008, however, EPHA members voted to reject the proposals, due to warnings that its introduction might prove damaging to the city's reputation and damage international efforts to bring visitors to the UK.

- VisitScotland, the British Hospitality Association and the Scottish Tourism Forum have also cautioned against the introduction of such a tax, primarily because of concerns that any increase in costs for consumers could impact on visitor choice and potentially hinder the shared tourism industry ambition to grow tourism revenues by 50% by 2015.
- According to VisitScotland's research, 59% of tourism businesses view the implementation of bed tax unfavourably as a way of raising revenue for tourism (11% *quite unfavourable* and 48% *very unfavourable*). Only 6% view a bed tax favourably – 5% *quite favourable*, 1% *very favourable*.¹

Background

- Chaired by Sir Peter Burt, the Independent Review of Local Government Finance was established in June 2004 and its purpose was 'to identify the pros and cons of implementing any changes to the local taxation system in Scotland, including the practicalities and the implications for the rest of the local government finance system and any wider economic impact, and to make recommendations.'
- One of the recommendations stated that 'consideration should be given to introducing a discretionary power for local authorities to apply a tourism tax'.
- The two-year inquiry argued that councils are not benefiting from their investment in local tourism and that tourism taxes, based on similar taxes in other countries, work successfully.
- Similar tourism tax schemes have been successfully introduced in Vancouver, San Francisco, Vienna and Paris, but none has yet been introduced in the UK. However, opponents point out that tourism taxes have been damaging to tourism industries and have consequently been withdrawn in locations such as New York, Sydney and the Balearic Islands.
- Apart from the tax on passengers on the Great Barrier Reef, we are not currently aware of any tourism tax in any country which is not a tax specifically on accommodation.

Key Arguments Against Tourism Tax

¹ George Street 'Tourism Barometer' research, May 2008

- Unfair to impose a tax only on overnight visitors, when under a third of spending in the UK is on accommodation (source: IPS and UKTS).
- Less than 40 per cent of overnight accommodation stays are in hotels, motels, guesthouses, and B&Bs, so it is inequitable to impose a tax on these and not on the greater number of stays in rented houses, second homes, timeshares, camping sites, caravans and stays with friends.
- A bed tax at the suggested level of 5 percent, presumably on the accommodation price excluding VAT, would add considerably to the effective tax rate already paid on accommodation through VAT.
- The Local Government Association in England and Wales has noted research at Nottingham University that a 1 per cent increase in prices relative to other countries leads to a 1 per cent decrease in international tourism, possibly more for domestic tourists. Research for the British Tourist Authority gave a higher (1:4:1) loss ratio for international tourism.
- Applying the Nottingham University research would suggest that a bed tax applied across Scotland would reduce international tourism revenues by around £14 million² and domestic tourism revenues by around £45 million.³ Therefore, based on 2003 figures, Scottish tourism revenue would be reduced by a minimum of £60 million.
- The imposition of a bed tax would likely be a matter for each local authority, which could lead to possible differences and anomalies between different areas and the lack of a level playing field.
- The imposition of a bed tax also brings forward issues about the cost of collection and bureaucracy. The average hotel has only 10 bedrooms so the paperwork and inspection regime could potentially be costly in relation to the likely return.

VisitScotland Position

- VisitScotland welcomes the debate about funding for tourism promotion and development and the contribution that research such as the Deloitte study into Transient Visitor Tax (TVT) makes to the discussion on bed tax. However, we would caution against the introduction of tourism tax which could be potentially damaging to the shared industry ambition of raising tourism revenues.
- While VisitScotland would always welcome additional funding for tourism promotion and development and can clearly demonstrate the

² Effect of 5 per cent cost increase applied across the one third accommodation element of total expenditure of £839 million. (VisitScotland 2003 figures).

³ Effect of 5 per cent cost increase applied across the one quarter accommodation element of total expenditure of £3.6 billion.

economic benefits to be gained from such additional funding, we believe that a tourism tax in the form of a bed tax is not in the best interests of the tourist or the tourism industry and not the best way of achieving additional funding.

- It is not just hotels and other businesses working directly in tourism that benefit from the visitor economy. A wide range of other businesses – from retail to leisure to transport to restaurants - rely on tourism to boost their income. Tourism does not start and finish at the hotel or guest house door. Tourism really is everyone's business. We are concerned that a bed tax would impact disproportionately on only one part of the tourism industry and would undermine the sharing of the ambition to grow tourism revenues by 50% by 2015.
- Furthermore, tourism is intensely competitive on a global scale so any increase in costs for the Scottish industry that are directly passed to consumers could impact on visitor choice. VisitScotland research shows that value for money is one of the key factors which consumers consider when making choices about their leisure or business trips. Indeed, academic research has also shown that an increased tax on tourism activities will lead to a significant loss in terms of revenue from tourism. This could, in turn, lead to a consequent loss in returns from taxation overall.
- Therefore, an increase in the cost of accommodation could potentially deter visitors and have a detrimental effect on an industry which is crucial to the economy of Scotland. Instead of introducing a bed tax that would impact directly on the consumer, damaging our competitiveness, VisitScotland would prefer to see greater consideration of how the gains made from tourism – including through existing taxes – can be reinvested in strengthening the Scottish tourism offer; helping Scotland compete in a globally competitive market.

Additional information / links

- Information on the Independent Review of Local Government Finance and its report can be found at - <http://www.localgovernmentfinancereview.org/>
- Further information on the ETAG research can be found at – http://www.visitscotland.org/research_and_statistics/scenarios/etag-research.htm
- Background information and research can also be found at the Scottish Tourism Forum – http://www.stforum.co.uk/tourism_in_scotland/tourismlevies.aspx

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