Scottish Council for Development and Industry

Scottish Government Discussion Paper

SCDI official response

Transient Visitor Taxes in Scotland: Supporting a National Discussion

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

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Transient Visitor Taxes in Scotland: Supporting a National Discussion

Executive Summary

1. The Scottish Council for Development and Industry (SCDI) welcomes the opportunity to contribute to the Scottish Government's National Discussion on Transient Visitor Taxes in Scotland.

2. SCDI does not propose the introduction of a Transient Visitor Levy. There are concerns that any new levy could undermine Scotland's competitiveness as an attractive destination for visitors, artists, investors, businesses and conferences. In the context of Brexit, it is critical that the Scottish Government, the UK Government, the enterprise agencies and local authorities work in partnership to ensure Scotland remains an open, inclusive and globally-connected economy.

3. Nevertheless, in the spirit of constructive engagement, SCDI has recommended in this submission that should any decision be taken to enable the introduction of Transient Visitor Levies by local authorities it should be:

    a. Subject to extensive consultation with citizens, businesses and stakeholders, particularly with the tourism industry and accommodation providers;

    b. Based on clear evidence and data, with its short-term and long-term fiscal and macroeconomic impact rigorously assessed, in addition to potential unintended consequences;

    c. Set at a level which is not prohibitive and maintains the competitiveness of Scotland as a destination for visitors, artists, investors, businesses and conferences;

    d. Administered by a flexible system of collection designed in partnership with the tourism industry and accommodation providers of all kinds and sizes; and,

    e. Deployed to support inclusive economic growth, with revenue ring-fenced for investment in managing the impact of high levels of tourism on our cities, landscapes and communities and supporting Scotland's tourism industry and its future sustainable growth.

Context

4. The tourism industry is one of the Scottish economy's great strengths. The Scottish Government's Economic Strategy (2015) identifies Sustainable Tourism – which already represents 5% of Scottish GDP and employs 206,000 people across the country, or 8% of the entire workforce – as a key Growth Sector. There are over 3,000 accommodation providers within the

sector across Scotland with 56,000 employees. Tourism not only makes Scotland more prosperous, but it also makes our society and our economy more open, diverse, inclusive and globally-connected.

5. However, a growing tourist footprint combined with a difficult fiscal environment for local government has fuelled a growing debate over whether the Scottish Parliament should legislate to enable local authorities to introduce a Transient Visitor Levy, otherwise known as a tourist tax or occupancy charge, in response. There is evidence that high levels of tourism – particularly when concentrated within small urban areas or fragile natural environments – can create negative externalities (such as congestion, pollution and degradation), escalate pressure on public services and increase demand for public goods, the cost of which are borne by residents and local taxpayers rather than by visiting tourists. Edinburgh and Skye, for example, face these challenges particularly acutely, although they also experience positive externalities (such as increased global connectivity, better amenities and a thriving, diverse cultural scene).

6. These challenges and benefits can increase the need for investment in infrastructure and public services and can damage the capacity of tourism-related businesses to survive, thrive and expand. This is the principal rationale for a Transient Visitor Levy as articulated by its proponents. The proposal by several Scottish local authorities and others has divided public and business opinion and raised substantial concerns. SCDI therefore welcomes the opportunity to contribute to the Scottish Government's National Discussion on Transient Visitor Taxes in Scotland.

Tourist Taxes in the European Union

7. Two-thirds of member states of the European Union levy an occupancy tax focused on tourism accommodation providers, and all but one does so on a local- or city-level, rather than national-level. In many cities, such a levy works well, with revenue investment in promotional activity, local infrastructure or local services. The revenue raised by any new levy could be deployed to support promotional activity, as in Croatia and Barcelona for example, to sell Scotland to new markets; to invest in improved digital connectivity and public transport projects relied upon by tourists and tourism-related businesses; or to support improved public services in key tourist zones, such as refuse collection or public conveniences.

8. The charging mechanism for existing tourist taxes in the EU vary from jurisdiction to jurisdiction. Lisbon, for example, applies a fixed charge per person per night, while Barcelona, Paris, Rome and Venice vary the level of the charge according to the cost and quality rating of the accommodation.

9. However, these jurisdictions also tend to apply lower levels of Value Added Tax (VAT) to tourism-related products and services with lower prices for consumers. The cumulative fiscal burden placed on accommodation providers and consumers should be accounted for in the evidence base for any new levy. Although nowhere in the UK currently applies a Transient Visitor Levy

while many other jurisdictions do, these countries generally have lower taxes on tourism-related businesses. The level of VAT which is applied to accommodation in the UK is significantly higher than most other countries in the European Union at 20%. Scotland's European competitors apply reduced rates of VAT on tourism-related expenditure, including Belgium (6%), France (10%), Germany (7%), Hungary (18%), Ireland (9%), Italy (10%) and the Netherlands (6%). Only Denmark (25%) applies a rate above that of the UK.

Scotland's Competitiveness

10. On this basis, some businesses have raised concerns that any new levy, while potentially providing additional funds for investment in the city to support the tourism industry and its future growth, could damage Scotland's global competitiveness in attracting visitors, artists, investors, businesses and conferences. Concerns about any new levy is particularly strong among accommodation providers, although there is some support for a new levy from citizens and from businesses throughout the wider tourism industry and the wider economy.

11. The precise impact of any new levy on the Scottish economy has not yet been rigorously tested. Its potential effect on consumer behaviour is not well understood. The decision to introduce any new levy should be based on clear evidence. SCDI has previously raised concerns over the economic impact and unintended consequences of introducing a tourist tax. The introduction of any new levy should be carefully considered and based on clear evidence. The level of the charge of any new levy should only be set after extensive consultation with the tourism industry and accommodation providers of all kinds and sizes. Reasonable flexibility in the system for small businesses such as B&Bs may be required to reflect their limited capacity.

12. There is a risk that after the introduction of a Transient Visitor Levy, tourists who would otherwise have visited Scotland and contributed to the growth of its economy may visit England, Ireland or Germany instead – or that conferences and events which would otherwise be hosted by Glasgow, Edinburgh or Aberdeen may be lost to Manchester, Liverpool, Birmingham, London or abroad. If the Scottish Parliament legislates to enable local government to introduce such a levy, local authorities would have to find a delicate balance between their own competitiveness and local fiscal and economic circumstances.

Coherent Policy Approach

13. A coherent, consistent and mutually-reinforcing approach to fiscal and economic policy needs to be taken by the Scottish Government and across the public sector, working in partnership and collaboration with the private sector. The rationale articulated to support the abolition of the Air Departure Tax – that reducing or eliminating a taxation burden on consumers will increase spending and Scotland's competitiveness – appears to be inconsistent with the rationale articulated to defend a Transient Visitor Levy –

that increasing the taxation burden on consumers will have no impact on spending or Scotland's competitiveness.

Ring-Fenced Investment

14. Should any new levy be introduced, the revenue which is raised should be ring-fenced for investment in managing the impact of high levels of tourism and supporting the tourism industry and its future sustainable growth. Investment should be targeted at infrastructure and public services improvements which businesses and stakeholders believe will improve the visitor experience. Decisions about how or where the revenue raised should be spent should be made in partnership with the tourism industry and accommodation providers. Dedicated, diverse and meaningful fora would need to be established by local authorities to facilitate this.

15. The case for any new levy will depend on whether it can be leveraged to significantly enhance the capacity of the place in question to manage existing visitor numbers and to sustainably increase future visitor numbers to deliver increased growth, employment and prosperity. Any new levy should not be viewed as a means of plugging any funding gaps in other areas of the local authority's portfolio or as a means of raising further revenue for discretionary non-related spending.

Charging Mechanism

16. A charging mechanism for any new levy based on a flat rate per room per night would have the advantage of both affordability for consumers and simplicity for collectors. It is clear from the projections of the Scottish Government, the Scottish Tourism Alliance and others that any new levy calculated as a percentage of the total room bill would result in significantly higher, and potentially prohibitive, costs for consumers compared to a flat rate per room per night.

17. A charging mechanism based on the cost of accommodation would create additional systemic complexity. A charging mechanism based on the quality rating of the accommodation would be similarly problematic, because Visit Scotland's rating system is voluntary and therefore does not cover all accommodation providers in Scotland.

18. The level of the charge of any new levy should not be prohibitive and should maintain the competitiveness of Scotland's cities, towns and destinations against UK, European and global competitors and maintain affordability for domestic and international visitors. Therefore, a flat rate in the region of £2 per room per night would be the most appropriate approach to minimise any impact on consumer behaviour. A charge set at this level would place any new levy significantly below European competitors such as Berlin and Rome, while also raising meaningful revenue for ring-fenced, targeted investment to support the tourism industry and its future sustainable growth.

19. Whether to introduce a higher flat rate for expensive/luxury accommodation should be carefully considered and based on clear evidence. In some jurisdictions with a tourist tax, the levy is higher for expensive/luxury accommodation, although this is far from the case in all cities. A system with a universal level of charge would have the advantage of simplicity and less bureaucracy. Furthermore, increasing numbers of visitors with significant disposable income are coming to Scotland from China, India and other large developing economies with burgeoning middle classes. Visitor spend and economic benefit from overnight tourists from such countries is higher on average. Maintaining and expanding this market should be a priority for the Scottish tourism industry.

Exemptions

20. Hostels, camping sites and caravans should be considered for exemption from any new levy in recognition of their status as low-budget and out-of-town accommodation providers with reduced environmental impact and fewer negative externalities on high-tourist-density urban areas.

21. It would be reasonable to apply an exemption to any new levy for children below the age of 16 in any party in relevant accommodation. Exemptions for children are common in other jurisdictions where similar levies are already in place. Families with children are a key market for accommodation providers.

22. It would be reasonable to apply a cap on any new levy after seven nights to minimise any potential impact on consumer behaviour and incentivise longer-stay, higher-spend visits.