SCOTTISH TOURISM ALLIANCE

Your voice in tourism matters

MAKING SCOTLAND AND THE UK A WORLD-LEADING VISITOR DESTINATION

SCOTTISH TOURISM ALLIANCE RECOMMENDATIONS FOR THE UK GOVERNMENT AUTUMN BUDGET 2023

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ABOUT THE SCOTTISH TOURISM ALLIANCE

The STA is the overarching trade body for the tourism and hospitality industry in Scotland. It comprises over 250 trade associations, businesses, destination groups and other organisations with an interest in tourism. Its membership is spread across all regions and destinations in Scotland.

The organisation is governed by a Board with representation from across Scotland's tourism industry and supply sectors, who together with STA's member Council and Destination Forum shape the organisation's policy agenda for government(s) and other key stakeholders.

The STA led and co-ordinated the development and launch of Scotland's tourism strategy, Scotland Outlook 2030, in collaboration with the Scottish Government and its agencies. The STA remains driven by this strategy, growing the value and positively enhancing the benefits of tourism across Scotland by delivering the very best for visitors, businesses, people, communities and environment.

The STA's Chief Executive, Marc Crothall MBE, co-chairs the Tourism and Hospitality Industry Leadership Group, alongside Richard Lochhead, the Scottish Minister for Small Business, Innovation, Tourism and Trade. The group is helping drive recovery and sustainable growth across both tourism and hospitality in the long-term, building on the partnership approach of the Scottish Tourism Emergency Response Group (STERG), which led the industry's response to the COVID-19 pandemic.

In January 2023, the STA published the Local Visitor Levy Manifesto with Recommendations, which was developed with industry to help inform national and local government about the key considerations needing taken into account should the Scottish Government introduce visitor levy legislation and local authorities then elect to implement a scheme. A number of the sector's recommendations were adopted in the Bill.

The STA has since been invited by the Scottish Government to sit alongside other industry organisations and COSLA representatives on a Visitor Levy Expert Group, chaired by VisitScotland, to form guidance and best practice for local authorities that decide to introduce a visitor levy.

KEY RECOMMENDATIONS

1. **An extension of 75% business rates relief in 2024/25 for retail, hospitality and leisure** – to help the tourism and hospitality sector cope with rising cost pressures and grow their businesses
2. **A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions** – to ensure that Scotland and the rest of the UK are supported to be as competitive a tourist destination as possible
3. **Reintroduction of tax-free shopping for all international visitors** – introducing a digital version of the scheme to benefit all of the UK
4. **Target ongoing levelling up funding** – to ensure no one is inadvertently left behind
5. **Support to reduce the burden on businesses collecting a visitor levy** – either by making a visitor levy charge not liable for VAT, or raising VAT thresholds to address the unintended consequences facing accommodation providers

SUMMARY

After a challenging few years for businesses across the UK, there has never been a more crucial time to ensure that the tourism and hospitality sector is supported to thrive and develop through having the right fiscal and regulatory environment in place.

We currently welcome visitors with one of the highest rates of VAT in the world and wave them goodbye with the highest level of Air Passenger Duty in Europe.

Our domestic and international visitors are taxed at every point in their journey and experiences during their stay, while in other destinations these visitors are encouraged to spend more and stay longer.

The Scottish Tourism Alliance's pre-Budget submission sets out five key policies we believe would help Scotland and the rest of the UK to be as attractive as possible in competing with other visitor destinations.

This includes:

1. Extending 75% business rates relief over the next financial period;
2. A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions;
3. Reintroduction of tax-free shopping for all international visitors through a fully digital scheme;
4. Continued regional investment to target support for areas to level up and grow their visitor offer; and
5. Removing VAT from any visitor levy charge, or raising VAT thresholds for small accommodation businesses pushed over the line.

We believe adopting these policies will ensure that Scotland and the UK rise up the list of desirable destinations to visit in terms of price competitiveness and global appeal.

RECOMMENDATIONS IN DETAIL

POLICY RECOMMENDATION 1: An extension of 75% business rates relief over 2024/25 for retail, hospitality and leisure – to help the tourism and hospitality sector cope with rising cost pressures and grow their businesses

Policy rationale: Tourism and hospitality businesses continue to face rising cost pressures, which are preventing them from reinvesting and growing their businesses, and in some cases are leading to them having to shut permanently.

Following the withdrawal of almost all energy bill support and with many businesses now tied to expensive energy supply contracts, continuing to pass on 75% relief from non-domestic rates will be key in supporting the tourism, leisure, hospitality and retail sectors over the next financial year.

The Federation of Small Businesses (FSB) has suggested that 13% of small businesses renegotiated energy contracts when the market was at its peak last year, with a significant proportion of these businesses from the accommodation and food sector (28%).[1] The FSB has said these contracts could force over 90,000 companies to close, downsize or radically restructure their businesses.

Recently, the energy consultancy Cornwall Insight has forecast that energy prices will rise once again at the start of 2024, due to the volatility caused by the recent Australian LNG production strikes.[2] It has reportedly predicted that energy prices will not return to pre-COVID levels before the end of the decade.[3]

We urge the UK Government to ensure that there will be no inflationary increase to overall business rates, and that it continues to provide business rates relief.

The Scottish Government has not passed on the 75% Retail, Hospitality and Leisure (RHL) rates relief, which businesses in Wales and England have had access to in 2023/24, and we and others in the Scottish business community continue to push them on this issue.

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[1] https://www.fsb.org.uk/resources-page/urgent-call-to-energy-suppliers-renegotiate-fixed-contracts-for-small-businesses-on-market-peak-tariffs.html
[2] https://www.cornwall-insight.com/press/cornwall-insight-release-price-cap-forecasts-for-2024/
[3] https://www.bbc.co.uk/news/business-58090533

If there are to be Barnett Consequentials from the continuation of RHL relief from the UK Government beyond 2024, then we strongly believe that the same relief should be applied in Scotland.

Costs: The RHL Rates Relief Scheme was estimated to be worth around £2.1 billion in 2023/24, which has made a sizable difference to businesses in England and Wales during this turbulent financial time.

Benefits:

- Support businesses to weather the storm of rising costs and another difficult winter, due to uncertainty in the wholesale energy market and businesses being tied to expensive energy contracts from last year.
- Continued support for recovery of tourism and hospitality businesses, supporting them to invest and grow their businesses, and therefore improving their visitor offer and attractiveness of their destination.
- Help businesses not to pass on rising costs to consumers.
- Improve the rate of employment – enabling businesses to employ more people and create new employment opportunities.

Deliverability: Continuation of current relief scheme in place.

POLICY RECOMMENDATION 2: A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions – to ensure that Scotland and the rest of the UK are supported to be as competitive a tourist destination as possible

Policy rationale: The STA backs the campaign led by UKHospitality that the UK Government reduce VAT to at least 10% on supplies relating to hospitality, accommodation and admission to certain attractions.

Until recently our nearest competitor Ireland was charging just 9% VAT on certain goods and services, mainly in the tourism and hospitality sector, increasing this to 13.5% from 1 September 2023 – still significantly lower than the VAT rate charged in the UK.

The tourism and hospitality sector has a pivotal role in generating employment and contributing to tax revenues that support government to deliver high quality public services. By reducing VAT to at least 10% on supplies relating to hospitality, accommodation and admission to certain attractions, this would create a much-needed bottom line boost for tourism and hospitality businesses, delivering benefits across the UK economy.

It would help the tourism and hospitality sector to keep its costs down and encourage business growth, making Scotland and the UK a more attractive and competitive visitor destination and encouraging more visitors from emerging international markets.

In 2022, there were 31.2 million inbound visits to the UK, which was still 24% down compared to 2019. VisitBritain forecasts that there will be 37.5 million visits in 2023, but this still 8% less than 2019.[4]

The tourism and hospitality sector continues to be in a fragile state, with a significant number of our members saying that they are in a worse financial situation than during the COVID-19 pandemic.

Our last industry survey, at the start of the summer (May-June 2023), found that over half of tourism and hospitality businesses that responded (52%) were still in 'survival mode' or 'consolidation', demonstrating the continued fragility of the sector following the pandemic and the ongoing financial crisis. The survey also found that 16% of respondents had no cash reserves, while just over a third (34%) had only 1-3 months of reserves.[5]

[4] https://www.visitbritain.org/2023-tourism-forecast
[5] The Scottish Tourism Alliance, The Scottish Tourism Alliance Industry Survey (May – June 2023), June 2023 https://scottishtourismalliance.co.uk/wp-content/uploads/2023/06/STA-Industry-Survey-Key-Findings-May-June-2023.pdf

Looking towards October to December 2023, over half of businesses (51%) reported that they felt 'fairly' or 'very pessimistic' about the outlook for their business. Worryingly, many tourism and hospitality businesses remain on a knife-edge and are at risk of closing their doors permanently if they face another difficult winter.

A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions would make a significant difference to these businesses as they continue to recover and are facing the current challenge of rising costs, which they are struggling to avoid passing on to consumers.

We saw the demonstrable impact of stimulating demand and generating revenue when a lower rate of VAT was introduced during the pandemic. Lowering VAT once again would support the sector to weather the current economic storm, invest in developing their businesses, and subsequently growing the UK economy.

Costs: The Campaign for Cutting Hospitality and Tourism VAT's economic modelling – based on the Treasury's own forecasting model, international comparators and industry survey data – previously suggested that the policy would impact positively on consumer spending and how much businesses would reinvest.

This would come at a minimal cost to the Treasury in the short-term before becoming revenue-generating and recouping a net loss of £194 million through other taxation due to improved business performance (e.g. corporation tax), increased employment, lower prices, greater consumer spending, and as a result increased income tax contributions.[6]

A joint study, previously published by UKHospitality, the Tourism Alliance in England, the British Beer & Pub Association, and the Association of Leading Visitor Attractions, reported that a permanent rate of 12.5% could create 286,850 jobs over 10 years, generating potentially £7.7 billion of additional turnover and £4.6 billion in net present value of fiscal gains to HM Treasury over the same period.[7]

[6] All Party Parliamentary Group for Hospitality and Tourism, Inquiry into the Retention of the 12.5% Rate of VAT, March 2022 https://cdn.ymaws.com/www.ukhospitality.org.uk/resource/resmgr/2022/documents/appg/reports/VAT_Inquiry_Report_v5.pdf

[7] https://www.thecaterer.com/news/vat-freeze-hospitality-tourism-jobs-level-up

Benefits: The All-Party Parliamentary Group for Hospitality and Tourism's 'Inquiry into the Retention of the 12.5% Rate of VAT' highlighted the following benefits of reducing the VAT level. These benefits would still very much apply following the ongoing financial pressures and rising costs that face tourism and hospitality businesses across the country, as the industry is set to enter another challenging winter period:

- Support the viability of businesses – helping 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 – enabling businesses to employ more people and make vacancies more attractive (e.g. by being able to pay higher wages).
- Positive impact on Treasury revenue – stimulating further economic activity.
- Support regional growth – leading to regional investment across and within the UK's home nations.
- Improve international competitiveness – making the UK a more attractive visitor destination for both domestic and international visitors through reduced prices and reinvestment in business offerings.
- Ease the pressure on the cost of living – reducing the cost of living and limiting inflation through lower prices and avoiding price increases.
- Improve social wellbeing – businesses will be able to contribute more to their communities by reinvesting in their offerings and engaging in social responsibility action, including the net zero agenda.

Deliverability: We recommend implementing the same financial and legal mechanisms as used to previously reduce the VAT rate during the COVID-19 pandemic.

POLICY RECOMMENDATION 3: **Reintroduction of tax-free shopping for all international visitors** – introducing a digital version of the scheme to benefit all of the UK

Policy rationale: As the UK competes on the international stage to attract people to visit our country, reintroducing tax-free shopping for overseas visitors, including EU27 visitors, would give the UK a competitive edge in appealing to the lucrative international visitor market.

It is an effective tax incentive to encourage and increase retail purchases from tourists that would otherwise not have happened. A 2021 study by the Australian National University reported that 63 countries across the world, including the 27 EU member states, have a tax-free shopping scheme.[8]

The world stage is competing for attractive overseas visitors to their destinations, at a time when the disposable income of the local population and domestic visitors has been curtailed by the rising cost of living. Tax-free shopping is an important visitor incentive, with current retail spending likely displaced to other countries, particularly concerning luxury brands. Scotland sells a number of high-end luxury goods, such as whisky, salmon, and textiles.

There is also 'halo effect' concerning the visitor spend on luxury hotels, Michelin-starred dining experiences and visitor attractions such as whisky distilleries by high-end tourists. The total spend per day of a high-end tourist is estimated to be eight times greater than an average tourist. This type of tourist is estimated to be worth up to £30 billion to the UK economy.[9]

Modelling by Oxford Economics, on behalf of the Association of International Retail, suggests the reintroduction of tax-free shopping would attract more than 1.6 million extra visitors to the UK in 2025/26 and stimulate an extra £2.8 billion of tourist spending.[10]

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[8] Wang T and Stewart M, The law and policy of VAT tourist tax refund schemes: A comparative analysis (PDF; Working Paper 19/2021), Tax and Transfer Policy Institute, November 2021 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3969488

[9] Bain & Co for the European Cultural & Creative Industries Alliance (ECCIA), High-End Tourism: A Driver For Europe, May 2022 https://www.comitecolbert.com/app/uploads/2022/05/eccia-high-end-tourism-a-strong-driver-for-europe-def.pdf

[10] Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022 https://www.oxfordeconomics.com/resource/the-impact-of-tax-free-shopping-in-the-uk/#:%7E:text=This%20study%20presents%20an%20assessment%20of%20the%20implications,non-EU27%20and%20extending%20the%20scheme%20for%20EU27%20visitors.

The reintroduction of a tax-free shopping should be made a fully digital version of the original scheme, as the UK Government suggested that the paper-based Retail Export Scheme (VAT RES) predominantly benefitted London and the Bicester Village areas and was difficult to administer. Any scheme that would be introduced must benefit all parts of the UK, particularly retail, tourism and hospitality in Scotland.

Costs: Costs would be associated with the initial set-up and ongoing administration of a digital version of the previous VAT RES scheme. Research conducted by economic consultancy Oxford Economics, on behalf of the Association of International Retail, suggests that the re-introduction of the VAT RES scheme in the UK would result in a significant positive impact concerning GDP, tax yield, and job creation.[11]

According to the research carried out, the actual fiscal cost of implementing tax-free shopping in the UK would be over 70% lower than HM Treasury's estimate of £1.3 billion in 2024/25 and £2 billion in 2025/26. The report suggests the Treasury estimates do not take into account the policy's likely impact on visitor behaviour.

Benefits:

- Modelling undertaken by Oxford Research suggests additional international visitor spending would sustain over 78,000 jobs and result in £4.1 billion in GDP.[12]
- More attractive visitor destination to high-end tourists.
- The modelling also suggests the reintroduction of tax-free shopping would attract more than 1.6 million extra visitors to the UK in 2025/26 and stimulate an extra £2.8 billion of tourist spending.
- Stimulates economic activity that would otherwise not have happened.
- Increased revenue at a time that domestic visitors and members of the public have less money to spent on tourism, hospitality and retail.
- Regional impact – benefits for Scottish tourism and hospitality businesses that are based in rural and island communities, who face greater cost pressures due to their remoteness.
- Positive impact on Treasury revenue – stimulating further economic activity and providing economic stability.

[11] Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022
[12] Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022

Deliverability: As was previously the case before tax-free shopping ended in 2021, this can happen by either making the product tax-free at the point of purchase, or that the buyer has to obtain a VAT refund. This should be through digital means rather than a paper-based scheme to benefit all parts of the UK.

POLICY RECOMMENDATION 4: **Target ongoing levelling up funding** – to ensure no one is inadvertently left behind

Policy rationale: The STA urges the Scottish and UK to continue to work in partnership to ensure that all parts of Scotland are supported to level up and drive economic growth, particularly the prioritisation of investment in post-industrial parts of Scotland, where the greatest benefit will be felt.

We welcome the generous support that has already been secured by the Levelling Up Fund and Investment Zone, including its most recent announcement that the Scottish towns of Greenock, Irvine, Kilmarnock, Coatbridge, Clydebank, Dumfries and Elgin will receive funding.

The Levelling Up Fund has been a valuable lever in supporting investment in cultural and heritage assets, including a number of projects specifically supporting the visitor economy; upgrading local transport; and in regenerating our town centres and high streets. These are all vital ingredients in ensuring that Scotland and the UK are world-leading in tourism.

Tourism is at the heart of supporting growth, productivity and regeneration, creating local jobs, supporting local economies and the wider economy, improving the local visitor offer and attracting more visitors, and boosting the overall international reputation and brand of the UK.

However, the focus on ensuring all parts of Scotland have support to level up is crucial, or there is a real risk that the gap between some parts of the country will actually deepen.

For example, the city of Dundee now remains the only major Scottish city that has not received support in the form of a freeport, innovation or investment zone. As it celebrates five years since V&A Dundee opened, approaches a decade since it became the UK's first UNESCO City of Design, and with Eden Project Dundee as its latest landmark development, it is still lacking the investment needed to full transform Dundee Waterfront and surrounding parts of the city.

Dundee is a leading example of harnessing the power of culture and tourism to transform a city, but it continues to be at an unfair disadvantage to Scotland and the UK's other cities when it comes to investment and has the potential to be a major economic asset, generating many more jobs and continuing to raise its profile a must-visit destination.

As we recommended in our Spring pre-Budget submission, bids from Airdrie, Coatbridge and Ravenscraig, and Glasgow for levelling-up fund should also be revisited.

As the UK Government continues to deliver the £4.8 billion Levelling Up Fund to invest in infrastructure across the UK until 2025, we urge it to ensure that it continues to invest in developing Scotland's future assets, targeting investment where it will have the biggest impact.

Costs: We recommend ensuring that future funding rounds of the Levelling Up Fund focus on the Scottish areas of greatest need, as well as continuing to provide funding through this route beyond 2024/2025.

Benefits:

- Improve the ambitions and regeneration opportunities for local communities – levelling up funding triggers potential match-funding grants.
- Improve the rate of employment – enabling businesses to employ more people and create new employment opportunities through new developments.
- A more attractive place to live, work, study, visit and do business – levelling up funding acts as a mechanism for improving Scotland's visitor offer, improving the area for local communities, and generating new business opportunities.
- Help to address poverty and inequalities in deprived communities.
- Support the viability of businesses – help current businesses to financially recover by creating new economic opportunities in local areas.
- Positive impact on Treasury revenue – stimulating further economic activity.
- Support regional growth – leading to regional investment across and within the UK's home nations.

Deliverability: Through the current Levelling Up Fund.

POLICY RECOMMENDATION 5: **Support to reduce the burden on businesses collecting a visitor levy** – either by making a visitor levy charge not liable for VAT, or raising VAT thresholds to address the unintended consequences facing accommodation providers.

Policy rationale: In Scotland, the accommodation sector is set to face the added burden of collecting a visitor levy on behalf of local authorities alongside, at least initially, the potential loss of bookings resulting from the introduction of a visitor levy scheme. It is estimated that Scottish local authorities will be able to start collecting a visitor levy from 2026.

In 2019, the World Economic Forum Travel & Tourism Competitiveness Index ranked the UK as 140th out of 140 countries for tourism price competitiveness based on the costs of accommodation, transport, Air Passenger Duty and taxes.[13]

Domestic and international visitors staying in the UK already pay the second highest level of tax on accommodation of 12 major competitor destinations, according to a recent report from the Tourism Alliance in England.[14]

Since the Visitor Levy (Scotland) Bill was announced, the STA has continued to raise concerns that collecting the visitor levy will place an additional burden on accommodation providers, including the risk of unintended consequences for their businesses.

At the time of the Scottish Government's Business Regulatory Impact Assessment (BRIA) for the Visitor Levy (Scotland) Bill, the potential for there to be an impact on VAT thresholds was acknowledged, although the financial implications of this for accommodation providers were not assessed.

It is our understanding that the Financial Secretary to the Treasury, Victoria Atkins MP, has confirmed that "if an accommodation provider includes an amount equivalent to a visitor levy in the charge for the overnight accommodation, then this will form part of what is paid under a contract for the supply of accommodation."[15]

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[13] World Economic Forum, The Travel & Tourism Competitiveness Report, 2019 https://www3.weforum.org/docs/WEF_TTCR_2019.pdf

[14] Tourism Alliance, Taxing Tourists: The UK Vs Competitor Destinations, September 2023 https://tourismalliance.com/wp-content/uploads/2023/09/Tourism-Alliance-Tourism-Taxation-Report-FINAL-FOR-PUBLICATION.pdf

[15] The Scottish Parliament Information Centre (SPICe), SPICe Briefing on Visitor Levy (Scotland) Bill, September 2023 https://digitalpublications.parliament.scot/ResearchBriefings/Report/2023/9/4/188fd140-9ade-4984-b2ef-812cb51bd118

Applying VAT to the visitor levy element of overnight charges will have significant implications for accommodation providers that operate just below VAT thresholds, alongside potentially lifting others out of the Flat Rate Scheme.

We understand that VAT is charged on the supply of all goods and services made in the course of a business by a taxable person, but strongly believe that the visitor levy element of the accommodation transaction should be exempted from this.

A significant number of accommodation providers are unregistered businesses and currently do not need to register for VAT or use PAYE, particularly micro and small businesses in the short-term let sector. The BRIA estimates that there are around 2,000-3,000 accommodation providers currently unregistered for VAT across Scotland.

Many businesses already work hard to keep themselves below the VAT threshold, especially in rural and island areas where demand fluctuates during the winter period. There is a risk some businesses might choose to close during the off-peak season to keep their thresholds intact or reduce the number of nights they are available to visitors, reducing accommodation availability and choice for visitors coming to Scotland and the UK.

We request that the UK Government exempt the visitor levy charge from the application of VAT, as part of accommodation element of the chargeable transaction for an overnight stay, or strongly consider raising thresholds for accommodation providers who have managed to stay below the £85,000 VAT threshold.

Costs: There is, in theory, a cost associated with reducing upfront tax revenues. However, the likely impact of applying VAT to the visitor levy would be forcing many micro and small businesses to reduce their activity or close during the off-season, or even permanently shut their doors.

This would in turn reduce economic activity and increase unemployment, as well as having a knock-on negative impact on other tourism and hospitality businesses, suppliers and wider communities, particularly in remote and rural areas.

Benefits:

- Lessen the burden already being placed on accommodation providers by the Scottish Government to collect a visitor levy on behalf of local authorities.

- Ensure that micro and small businesses below the VAT threshold do not need to reduce their open hours, close during the off-season or even permanently shut their doors.
- Ensure that Scotland and the UK can continue to offer competitive inbound travel packages, as their cost would be even higher price if VAT was applied to the visitor levy element of overnight accommodation too. This is key in attracting lucrative visitor markets to the country, such as North America, Australia, China, and the Middle East.
- Set a precedent concerning application of the visitor levy across other parts of the UK, including Wales where a visitor levy is also being actively considered.

Deliverability: The visitor levy would need to be added to the existing list of goods and services exempt from VAT.