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# Transient Visitor Tax

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## Our Ask:

We want to strengthen local democracy and local choice, starting with the discretion to introduce a Transient Visitor Tax.

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- Local taxation has not changed for decades, it is time to empower local authorities to deliver choice for local communities
  - We need to be innovative about funding for public services
  - This is not a national tax, but a tax that could be introduced locally if the circumstances are right
  - This is not a replacement for existing funding but will provide additionality over and above existing funding streams

Empower public services and create opportunities for Scotland to flourish



COSLA

#stayaalittlepayalittle

# Why a Transient Visitor Tax?

## 2 overarching reasons:



The cost of maintaining the local environment and public services, which draw tourists, falls heavily on the public purse. Sustaining this is at significant risk without new ways to invest.

Whilst recognising the cultural and economic benefits of tourism, the cost of tourism is borne by the local citizen. There is a case for this to be shared more widely.



## A Transient Visitor Tax (TVT) would:



be a tax on visitors and not on businesses



generate revenue which contributes to the cost of:

- maintaining public services vital to tourism
- enhancing the tourist experience

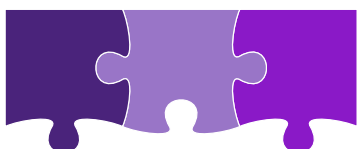


support and enhance local strategies, not work against them. i.e. Local Outcome Improvement Plans, Community Plans, economic strategies and tourist strategies



provide an opportunity to strengthen the ability of both local areas, and Scotland as a whole, to compete in global tourism

## Councils would do this by:



Working with:

**local citizens**  
**local industry**  
**local tourist sector**



No tax would be introduced without **comprehensive local consultation**



Design, implementation and practice will be subject to local democratic accountability

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# What would TVT look like?

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The idea of a levy or tax on visitors is increasingly common across the world, but what could it look like in Scotland?

The answers to questions about the operation of TVT will – rightly – vary depending on local circumstance and be agreed through consultation.

|   |  |
|---|--|
| <b>Q. What is the rate?</b>   | The tax could be collected as percentage of accommodation, or as a flat rate.<br>It could also be progressive depending on the accommodation star rating.<br>It does not need to be limited to accommodation, the tax could be collected as a use of infrastructure but most importantly be pertinent to local circumstances.  |
| <b>Q. How will it be charged?</b>                                     | There are various models which could apply: <ul style="list-style-type: none"><li>• Per person per night (e.g. Lisbon, Prague)</li><li>• Per room per night (e.g. Athens, Belgrade)</li><li>• Proportion of total accommodation fee paid (e.g. Amsterdam, Berlin)</li><li>• Liability per room (e.g. Brussels)</li><li>• One off charge (e.g. Aeolian islands in Sicily)</li></ul> |
| <b>Q. What guarantees can be given that it will be proportionate?</b> | No local authority would progress an option for TVT without extensive consultation and consideration of the impact on local tourism and economic strategies.<br>Price sensitivity will be considered as a key component.   |
| <b>Q. Where does it apply?</b>  | Each local authority will take a decision about what is right for their area and community.<br><br>The tax could apply: across the whole local authority area; zones within a local authority; or not at all.  |
| <b>Q. Will it be applicable all year round?</b>                       | In line with demand and local strategies, the tax could apply on a full year or designated seasonal basis.   |
| <b>Q. Would it apply only to hotels?</b>                              | The tax could apply to all accommodation including hotels, B and B's, AirBnB, campsites or to designated forms of accommodation.<br><br>It does not necessarily need to be limited to accommodation; there are other aspects which local authorities could determine based on local circumstances.<br>Local consultation would take account of the local market.                   |
| <b>Q. Are there exemptions?</b>                                       | A local authority could decide on exemptions which suit their local circumstances – for example seasonal exemptions.   |
| <b>Q. How will the income be used?</b>                                | Could be: <ul style="list-style-type: none"><li>• 100% local services (no ring-fencing)</li><li>• 100% reinvested in tourism related support/infrastructure</li><li>• Could be a hybrid of the above.</li></ul>  |
| <b>Q. How would it be administered?</b>                               | The most efficient method to collect the tax will vary locally, and would be a core subject explored with stakeholders in consultation.  |

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# Benefits

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The financial pressures faced by the public sector over successive years has placed significant pressure on supporting Scotland's infrastructure including tourism.

*A cumulation of diverse factors draw tourists to Scotland and work of local authorities is fundamental to maintaining the standards that underpin them.*

The introduction of a TVT would not compensate completely for any shortfall in funding streams, however, it could offer an opportunity to ensure investment in all that attracts tourists to Scotland as a whole and to local areas.

Revenue generated from TVT could ease pressures across Scotland and enhance the tourist experience. Specifically, a locally designed TVT would prioritise investment to meet local need but could support:



## General infrastructure

Items that include improvements in services that are both used by locals and tourists. Includes such items as:

- roads network
- public transportation
- cleanliness
- congestion
- traffic
- safety and security
- community welfare



## Tourism superstructure

- improving capacity and services such as toilet facilities; additional refuse collection required at peak times arising from increases in visitors
- improvements in signage in foreign languages
- investment; restoration and maintenance of local attractions
- digital infrastructure



## Tourist services

Items that improve the overall experience in the destination could include:

- support to local information services
- additional recreational facilities
- events and festivals
- Wi-Fi services for tourists

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# Benefits

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## Examples in other countries

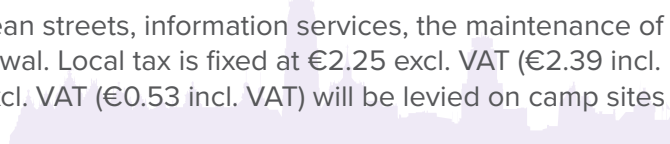
### Barcelona

Barcelona City Council assigns 50% of each transfer received to the Turisme de Barcelona Consortium and reserves the other 50% for municipal management projects. Their tax is progressive depending on accommodation rating:

- €0.75 per person per night for 3 star hotels,
  - €1.25 per person per night for 4 star hotels and
  - €2.5 per person per night for 5 star hotels
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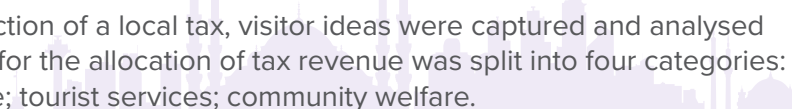
### Antwerp

The City of Antwerp uses generated revenue for clean streets, information services, the maintenance of museums, improved mobility, safety and urban renewal. Local tax is fixed at €2.25 excl. VAT (€2.39 incl. VAT) per person per night. A reduced tax of €0.5 excl. VAT (€0.53 incl. VAT) will be levied on camp sites and sites for campervans.



### Istanbul

As part of the process to explore the introduction of a local tax, visitor ideas were captured and analysed in a study conducted in late 2016. The ideas for the allocation of tax revenue was split into four categories: general infrastructure; tourism superstructure; tourist services; community welfare.



## Potential Revenues

The revenue generated within an individual local authority will vary depending on the model which works best for the local economy, influenced by local consultation.

# Addressing risks and concerns

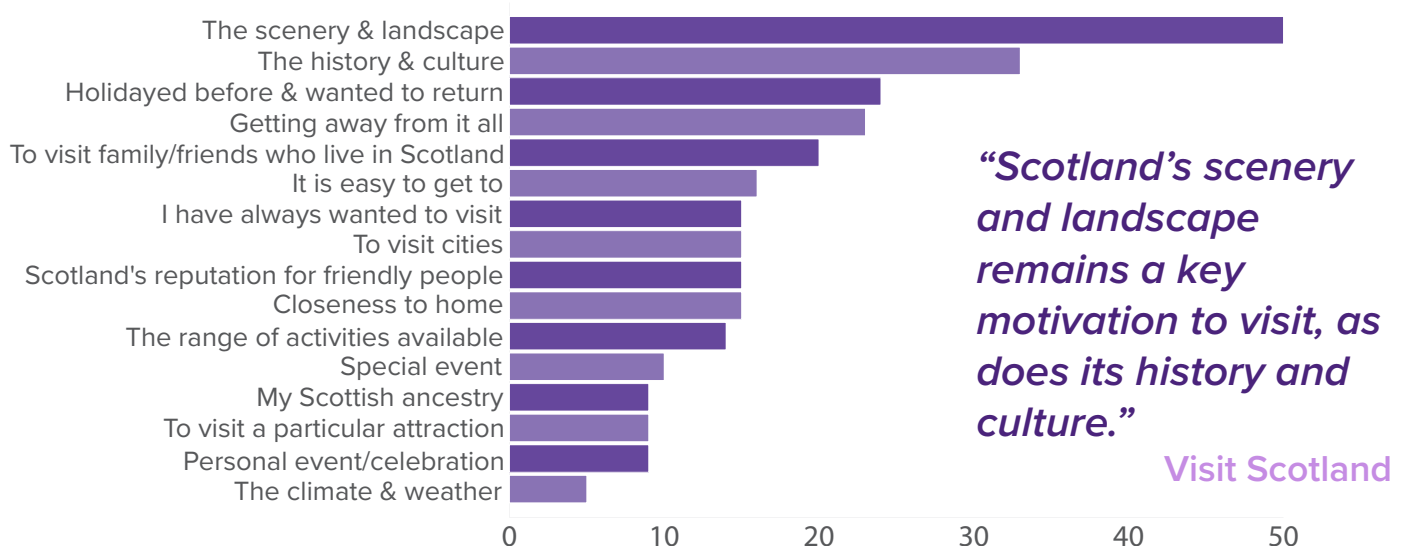


## Concern: The tax could stop tourists coming to Scotland/local authority areas.

- No local authority would progress an option for TVT without extensive consultation and consideration of the impact on local tourism and economic strategies.
- Price sensitivity and elasticity will be a key component of any local cost benefit analysis.
- Review periods could be built in to assess impact.

Tourism to Scotland is growing year on year. The evidence from existing studies on the relationship between price changes and visitor demand suggest that more factors than the cost of accommodation affect the choice of destination.

## What attracts visitors to Scotland?



## Case Study: Rome

A tax was introduced in Rome in 2011. The rate nearly doubled in 2014 following a review, becoming the highest tax levied per night in Europe. Despite this, tourism continued to grow from 6.76m international overnight visitors in 2014, to 7.05m visitors in 2015.



## Concern: It could be difficult/costly for business to administer

Following the COSLA principles of taxation, the tax will be:

- Easy to understand; and
- Easy to administer.

Again, ways in which this will be done will be subject to extensive local consultation.

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# Legislation is required

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Local Government needs the support of the Scottish Parliament to make this happen—local authorities do not currently have the power to introduce anything like this. COSLA has undertaken extensive work to investigate options:

- Byelaws are about the good rule and the prevention of nuisance and so are not an option.
- The ‘power of wellbeing’ the wellbeing power does not permit a council to levy a new tax. Similarly, the wellbeing power does not confer new powers to borrow money or to charge for services it provides in pursuit of well-being objectives.
- Licencing of any kind is not a viable option.
- Voluntary schemes would not ensure adherence to local design.



For TVT to work, it has to be easy to understand, easy to administer and difficult to avoid. Taxation is the only way to achieve this: the only way that a legal requirement to pay is established.

This means that the introduction of TVT cannot happen without legislation.

- The Scotland Act 1998 devolved local taxes to fund local authority expenditure (for example, Council Tax and non-domestic rates). Primary legislation establishes the tax with detail and amendments made by Regulation.
- Primary legislation would therefore be required for the establishment of a Transient Visitor Tax—whether as a Government Bill or a Private Members Bill. This could form part of the legislation which flows from the current Local Governance Review.

Legislation will take time. We cannot wait any longer. We must start the debate now to make meaningful progress.

# Lessons from Europe

Ahead of the introduction of any tax, careful consideration of price sensitivity and the economic impact of the decision is crucial.

There is **live experience to learn from**. International tourism demand is influenced by a range of different factors including: income, currency exchange rates, prices in the host country, substitute prices in competing destinations, marketing, and one-off events.

The potential impact on visitor demand from price increases in Scotland also depends on how Scotland is viewed against other countries. In economic theory, the existence of close substitutes as one of the most important factors that influences the price elasticity of demand for a destination.

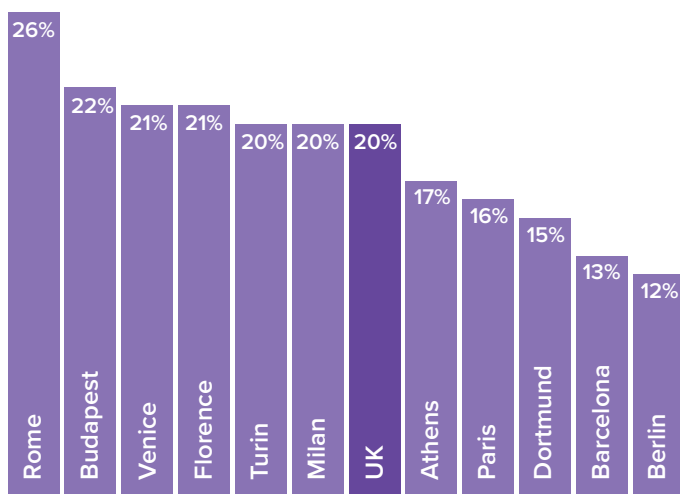
The **normalisation of a tourism tax** is also another important factor. With taxes commonly applied across Europe and the rest of the world, there is an increasing acceptance of tourist tax and with that a minimisation of the impact that learning of an applicable tax will have.



## Tax across Europe

Critics of taxing tourists often raise a concern that levying a rate on top of the UK's rate of VAT would push tax payable by UK tourists beyond other countries and cities. However, it is important to consider the package of taxation which tourists experience in combination.

### Combined tax rate (VAT on hotels plus visitor levy) by city



Many cities although claiming to have very low initial tax rates have adopted local measures to substantially increase their tax base.

Italy charges 10% VAT on hotel rooms, but in cities like Rome, with the addition of the city tax of €6 per person per night, this increases the effective tax charge to 26%. In similar conditions, the effective combined charge would be 20% in Turin, and 22% in Venice and Florence, and 21% in Milan.

Hungary charges 18% VAT on hotel accommodation, but in Budapest with the addition of the 4% city tax increases the effective tax charge is 22%.

Source: EY (2017) The Impact of taxes on the competitiveness of European Tourism; and Booking.com for live visitor levy charges. Note: calculations are based on an average €100 per night for two people in a four-star hotel for up to four nights



# Lessons from Europe

## Occupancy tax rates in the EU-28

The UK is one of only nine countries from the EU-28 that does not charge a tourist tax as of 2018:

|                | Tax Base                                       | Tax Rate                                 | Notes/Special Features   |
|----------------|--|--|--|
| Austria        | Per person, per night                          | €0.15 to €2.18                           | Varies by municipality   |
| Belgium        | Typically, per person                          | €0.53 to €7.50                           | Varies by city. In Brussels, hotels must pay annual fees for each room (which vary by type) this is passed to guests on a per person per night basis.  |
| Bulgaria       | Per person, per night                          | €0.10 to €1.53                           | Varies by municipality. In some locations an €8 tax is applied per person per stay.  |
| Croatia        | Per person, per night                          | €0.27 to €0.94                           | Varies by municipality. Revenues are retained by local tourist boards to fund their activities.  |
| Cyprus         | No occupancy tax                               |  |  |
| Czech Republic | Per person per night                           | Up to €1.00                              | Varies by location   |
| Denmark        | No occupancy tax                               |  |  |
| Estonia        | No occupancy tax                               |  |  |
| Finland        | No occupancy tax                               |  |  |
| France         | Per person, per night                          | €0.22 to €4.40                           | Varies by municipality. Tax can be applied on actual visitor nights, or a flat rate due by the accommodation providers based on capacity. Revenues are hypothecated to be used on activities to encourage tourism. |
| Germany        | Per person per night or based on the room rate | €0.25 to €5.00, or 5% of the room rate   | Varies by city. VAT is applied on top of this tax. In some spa towns this allows access to certain facilities (spas, attractions, transportation)  |
| Greece         | Per room per night                             | Up to €4.00                              | Varies by hotel quality rating   |
| Hungary        | Percentage of room rate                        | 4% of room rate                          | Applies to room rate before VAT is added.  |
| Ireland        | No occupancy tax                               |  |  |
| Italy          | Per person per night, or per stay              | Up to €7.00                              | Varies by city, and by accommodation type.   |
| Latvia         | No occupancy tax                               |  |  |
| Lithuania      | Per room, per night                            | €0.30 to €0.60                           | Varies by city. In Palanga, proceeds are used to fund improvement of the city's infrastructure and marketing of tourism  |
| Luxembourg     | No occupancy tax                               |  |  |
| Malta          | Per person per night                           | €0.50, capped at €5.00                   | No regional variation. Proceeds are used for the maintenance of touristic zones.   |
| Netherlands    | Per person per night, Percentage of room rate  | €0.55 to €5.75 or up to 6% of room rate. | Varies by municipality   |
| Poland         | Per person per night                           | €0.37 to €0.55                           | Varies by city. In Warsaw the Hotel tax is not compulsory, money is to support the Warsaw Destination Alliance.  |
| Portugal       | Per person per night                           | €1.00, capped at €7.00                   | Applies to Lisbon  |
| Romania        | Percentage of room rate                        | 1%                                       | Varies by municipality   |
| Slovakia       | Per person per night                           | €0.5 to €1.65                            | Varies by municipality   |
| Slovenia       | Per person per night                           | €0.60 to €1.25                           | Varies by city.  |
| Spain          | Per person per night                           | €0.45 to €2.25                           | Varies by city and/or region. Up to a maximum of 7 nights.   |
| Sweden         | No occupancy tax                               |  |  |
| UK             | No occupancy tax                               |  |  |

**#stayalittlepayalittle**



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