

Visitor Levy (Scotland) Bill: Business and Regulatory Impact Assessment (BRIA)

May 2023

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1. Title of Proposal

1.1 Visitor Levy (Scotland) Bill

1.1.1. This Business and Regulatory Impact Assessment (BRIA) accompanies the Visitor Levy (Scotland) Bill 2023 ('the Bill') and is a development of a partial BRIA published in September 2019¹. This document is written subject to the best available information at the time, based on evidence gathered from engagement with relevant stakeholders.

1.1.2. This BRIA is structured into the following sections:

- [Section 2](#) covers the purpose and intended effect of the Bill as well as background to the legislation
- [Section 3](#) provides details of the consultation within government, with the public and with businesses
- [Section 4](#) provides an assessment of the options considered to deliver the intent of the legislation, and the cost and benefits to different identified groups
- [Section 5](#) provides details of regulatory impacts and EU alignment
- [Section 6](#) provides an assessment of the impact of the legislation on Scottish firms, the competition assessment and consumer assessment
- [Section 7](#) provides the Summary and Recommendation
- [Section 8](#) contains the Declaration and Publication statement

1.1.3. Additional supporting analysis is contained in accompanying annexes and is referred to throughout this BRIA.

2. Purpose and Intended Effect

2.1 Background to the proposal for a Visitor Levy (Scotland) Bill

2.1.1 In 2018, a number of our local authorities, as well as the Convention of Scottish Local Authorities (COSLA), called on the Scottish Government to create powers to allow them to apply a 'tourist tax' or 'visitor levy', should it be appropriate for local circumstances. This reflected not just the local pressures associated with sustained high numbers of visitors, but also the wider policy context of promoting greater local decision-making together with a recognition of the prevalence of such taxes in other jurisdictions outside the UK.

2.1.2 In response to this call, in 2019 the Scottish Government engaged with a range of partners and stakeholders from the tourism industry, local authorities and the wider business community in Scotland in a National Discussion on the principles of a visitor levy. The National Discussion provided an initial evidence base, illustrating potential opportunities and challenges associated with tourist taxes and drawing out a number of important issues and concerns.

2.1.3 Following the conclusion of the National Discussion and as part of the agreement of the Scottish Budget 2019-20, the Scottish Government committed to consult on the principles of a locally determined 'tourist tax' or visitor levy and introduce legislation to permit local authorities to introduce such a visitor levy if they considered it appropriate. This commitment was part of a package of measures focusing on local tax reforms and local fiscal empowerment. A public consultation was held from September to December 2019, with a consultation analysis report published in March 2020.

2.1.4 Work was then paused during the Covid-19 pandemic, until the Scottish Budget 2022-23 committed the Scottish Government to resuming work on the visitor levy proposal. This culminated in the announcement that a Bill would be part of the 2022-23 Programme for Government².

2.1.5 Based on the findings of the consultation, further engagement with stakeholders and additional research and analysis, the Scottish Government developed formal proposals, and drafted the legislation that if passed would put them into effect. A Bill was therefore developed and introduced to parliament on 24th May 2023.

2.2 Background to the visitor economy in Scotland and taxes on tourism in an international context

2.2.1 The proposal for a visitor levy will mean that the visitor economy in particular parts of Scotland where local authorities choose to introduce the visitor levy will be affected by the provisions of the Bill.

2.2.2 Businesses and other organisations³ providing commercial accommodation to visitors as well as visitors purchasing accommodation from these businesses in these areas will face some additional costs (these are explored in more detail in [section 4](#)). There will be potentially higher accommodation prices for visitors and some new compliance costs for accommodation businesses. Local authorities will benefit from a new source of revenue which will be separately accounted for and required to be invested back into improving the local visitor economy, bringing benefits for visitors and residents.

2.2.3 Background data and statistics covering the visitor economy in Scotland are provided in more detail in Annex D.

2.2.4 The accommodation sector is a very important part of Scotland's economy and society. The accommodation sector is a key element of Scotland's visitor economy, as well as providing a service to support wider business activity in the economy. The scope and diversity of the accommodation sector is wide-ranging,

encompassing Hotels, Bed and Breakfast accommodation, Self-Catering accommodation, Caravan and Campsites, as well as Hostels that provide visitor accommodation. It is estimated that the accommodation sector alone in Scotland comprises of 2,925 registered enterprises in 2022 (1.7 per cent of Scotland's total), employing 44,000 people in 2021 (1.7 per cent of Scotland's total employment).⁴ As set out in Annex D, the accommodation sector also includes a large number of small enterprises that are not registered for VAT or PAYE and are therefore not included in the statistics above.

2.2.5 Beyond the accommodation sector, the 'Sustainable Tourism Growth'⁵ sector as a whole employed 209,000 individuals across Scotland in 2021. This represented around 8 per cent of total employment in Scotland. The sector is also a particularly important source of employment in rural areas of Scotland such as Argyll and Bute, the Highlands, and Stirling.

2.2.6 In large part, it is the spending of visitors in these areas (rather than residents) that supports the accommodation and wider tourism sector across Scotland. Before the Covid-19 pandemic, there were around 17.5 million overnight visitors to Scotland in 2019, spending an estimated £5.9 billion, and around 134 million day visitors, spending £5.8 billion. It should be recognised that the definition of a visitor is broad in this context and will include visitors travelling for non-leisure purposes.

2.2.7 As the visitor levy could be introduced at a local authority level, it is important to recognise the size of the visitor economy varies in significance across different regions of Scotland. Table 1 shows the average number of nights stayed and total spending of visitors using overnight accommodation in different parts of Scotland between 2017 and 2019. It provides an indication of the number of visitors using commercial accommodation that could be required to pay a visitor levy in future. Table 1 shows that 37% of total visitor spend, and a third of visitor nights in commercial accommodation, were in the Edinburgh and Lothians region over the period. The Highlands and Islands also attracted a large proportion of total overnight visitors, accounting for a fifth of both total overnight visitors and of visitor spend. Further analysis of these estimates is provided in Table D10 in Annex D.

Table 1: Visits and expenditure of overnight visitors to Scotland staying in commercial accommodation, by origin and by VisitScotland region, average between 2017 - 2019

Area	Visits (000s)			Spend (£m)		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Aberdeen and Grampian	671	225	896	147	103	250
Angus and Dundee	244	46*	290*	55	22*	78*
Argyll, the Isles, Loch Lomond, Stirling & Trossachs	1,042	131	1,173	266	94	360
Ayrshire and Arran	472	53	525	115	36	151
Dumfries and Galloway	533	22*	556*	111	11*	123*
Edinburgh and Lothians	1,952	1,926	3,878	641	1,018	1,659
Greater Glasgow and Clyde Valley	1,295	675	1,970	329	305	634
Highlands and Islands	1,745	602	2,347	525	252	777
Kingdom of Fife	364	104	468	90	78	168
Perthshire	573	114	688	140	46	185
Scottish Borders	212	16*	228*	51	5*	56
Not specified	69*	40	109*	15*	37	53*
Total	8,696	2,956	11,652	2,486	2,008	4,494

Source: Domestic: VisitBritain, GBTS, average between 2017, 2018 and 2019

Overseas: ONS, IPS, average between 2017, 2018 and 2019

Notes:

1. The coverage of commercial accommodation within the overseas estimates (IPS) includes overnight visits by overseas visitors in: Hotels; Guest Houses; Bed & Breakfasts; Rented House/Flat; Hostel/University/School; Camping/Caravan; Holiday Village and 'Other'. It does not include overnight visitors staying as a free or paying guest with friends or family or in own homes.
2. The domestic estimates (GBTS) include overnight stays by Great British residents in commercial accommodation in: Hotels; Motels; Guest Houses; Bed & Breakfasts; Hostels; Camping and Caravan; Holiday camps; Paying guest and 'Other rented accommodation'. It does not include visitors staying overnight in second homes, owned static caravans or homes of friends / relatives.
3. *Estimates are based on a relatively small sample size. This may result in less precise estimates, which should be used with caution.
4. Unshaded estimates are based on a larger sample size. This is likely to result in estimates of higher precision, although they will still be subject to some sampling variability.

2.2.8 It is in part the size of the visitor economies demonstrated by these statistics which has underpinned specific calls by Edinburgh and Highland councils in recent years for powers to introduce a visitor levy to raise additional revenues to manage and sustain this activity in the future, with both local authorities having conducted local consultations on proposals in recent years⁶.

2.2.9 These local authorities and others, as well as the COSLA, have looked to other cities and municipalities in parts of Europe and internationally as examples of how visitor levies have been used to raise additional revenues. Further detail of these taxes and some specific case studies are provided in Annex B of this BRIA.

2.2.10 Taxes on visitors staying overnight in paid-for accommodation are common across Europe and in other locations across the world. The rationale for these taxes varies. Some cities and regions use a levy as a way to increase general revenues to fund the provision of public goods and general services used by residents and visitors. Other cities and regions ring-fence all or a portion of the net revenues arising from these taxes to fund specific projects that support the visitor economy. These include managing any negative impacts of tourism such as specific environmental degradation, increased promotion and marketing of a destination, or the provision of specific benefits to visitors such as free local transport or discounts on attractions.

2.2.11 Taxes raised in other parts of the world have some common features. Whilst the enabling powers for local taxation are often set out in national legislation, in the vast majority of cases local jurisdictions will have autonomy in the decision to implement the tax, the setting of the tax rate, the administration of the tax and the use of revenues within any national parameters that may be set. The basis of charge for these taxes is generally either a small, fixed charge per person per night or an additional percentage charge added to the cost of accommodation.

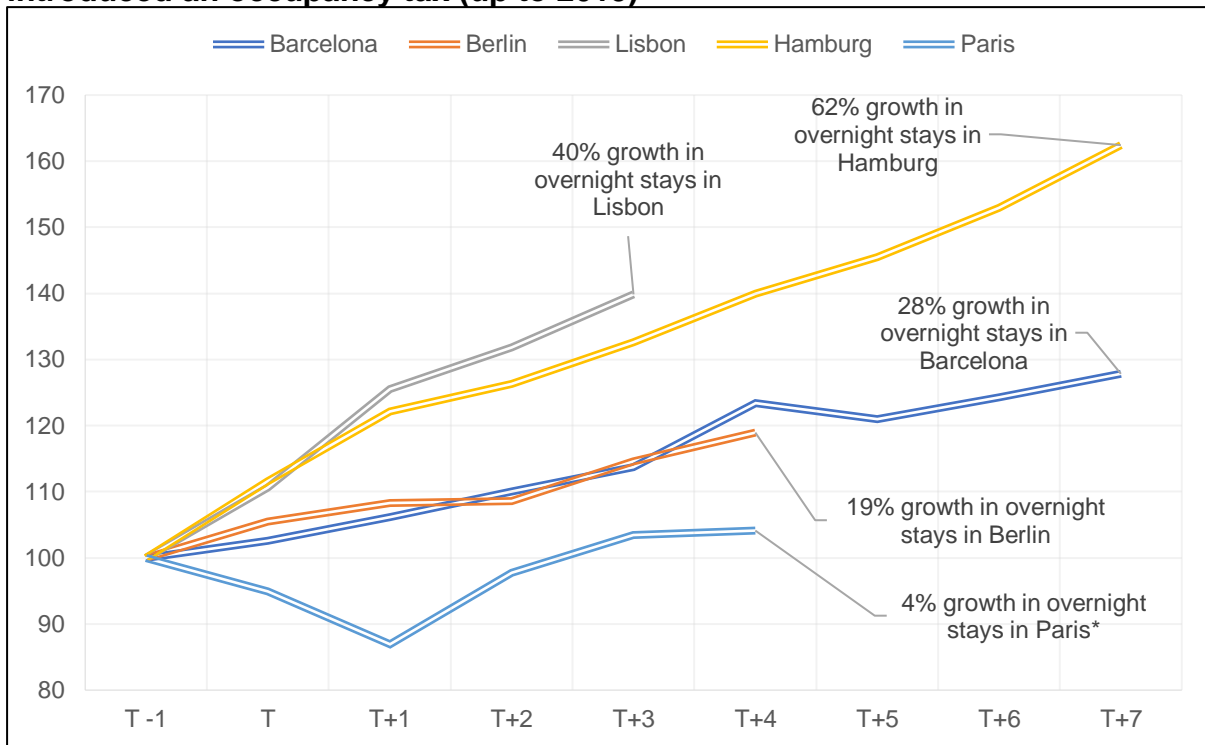
2.2.12 There are a variety of different exemptions applied to these taxes. Either specific visitors (for example business travellers, people who are temporarily homeless, temporary or seasonal workers or children under a certain age) or specific types of accommodation (such as youth hostels or accommodation sold below a certain price floor) could be exempt for the purposes of the tax or levy. The tax rate may also apply only at specific times of year (with lower rates or no rates charged during the low season) and may be capped at a certain level for visitors staying in an area for a longer period of time.

2.2.13 Whilst it is recognised that accommodation providers and visitors already pay a variety of taxes here and in other contexts internationally such as corporation tax, VAT, taxes on commercial property and employer social insurance contributions, the relative additional burden of visitor levies and similar taxes is generally small.

2.2.14 Evidence from cities that have introduced these types of taxes recently show that generally growth in visitor numbers has continued after the introduction of these taxes. Figure 1 shows the relative change in overnight visitors for selected cities in Europe that have either introduced or increased existing taxes on visitors in the past 10 years including Barcelona, Lisbon, Berlin, Hamburg and Paris. In most cases

there continued to be strong growth in overnight visitor numbers and no area saw a fall in visitor numbers⁷ prior to 2020. Further detail is provided in Annex B.

Figure 1: Changes in overnight visitor numbers in selected cities that have introduced an occupancy tax (up to 2019)



*T' is the year a tax on overnight visitors was introduced or increased in each city. T-1' is the year prior to the introduction of the tax. More details are provided in Annex B. The decline in visitor numbers to Paris in 2016 has been linked the impact of terror attacks.

2.2.15 Despite this evidence in Figure 1, it is acknowledged in this BRIA that there is a risk of negative economic impacts arising from the introduction of additional taxes on the visitor economy in local areas. This is discussed in more detail in Annex C, which sets out the elements to consider when assessing the economic impact of the Visitor Levy Bill on the Scottish economy. As part of the requirements set out in the Bill, local authorities must assess the impacts of introducing a visitor levy within in their own areas, before deciding to introduce a levy.

2.2.16 A recent review of tourist taxes internationally produced set of good practice recommendations with respect to the introduction of taxes similar to a visitor levy⁸. The Scottish Government plans to work in consultation with COSLA, the accommodation sector and other relevant stakeholders to develop guidance for local authorities regarding key issues such as the implementation, administration and monitoring of visitor levy policies

2.3 Objectives and rationale for government intervention

2.3.1 The aim of the Bill is to introduce a discretionary power enabling local authorities in Scotland to apply a visitor levy on overnight stays in commercially let accommodation. A successfully implemented Bill will meet the following objectives:

- Strengthen local democracy through increased local decision making and more empowered communities.
- Support the sustainable growth of the tourism sector across Scotland, particularly in cities and regions which have experienced high visitor numbers in recent years.
- Create a new local tax power which is consistent with the Government's overall approach to taxation.

2.3.2 These specific objectives are aligned with the following national outcomes:

- Economic: We have a globally competitive, entrepreneurial, inclusive and sustainable economy.
- Fair Work and Business: We have thriving and innovative businesses, with quality jobs and fair work for everyone.
- Communities: We live in communities that are inclusive, empowered, resilient and safe.
- Environment: We value, enjoy, protect and enhance our environment.

2.3.3 The rationale and objectives underpinning the Bill emerged from on-going engagement with stakeholders on the principle, aims and objectives of taxation on visitors. The Scottish Government engaged with a range of partners and stakeholders from the tourism industry, local authorities and the wider business community in Scotland in a National Discussion on a Transient Visitor Tax (referred to as 'the National Discussion')⁹ between November 2018 and January 2019.

2.3.4 As highlighted in the National Discussion there was a shared appreciation among participants of the importance of tourism as a key sector of the economy and accommodation providers as a key part of the overall tourism sector. It was also recognised that future growth in the sector depended on supporting and investing in tourism facilities and services to ensure that Scotland remains an attractive tourism destination.

2.3.5 Local authorities in Scotland (and elsewhere in the UK¹⁰) do not currently have the power to introduce a visitor levy to raise revenues to sustain tourism activity or local visitor economies. Through the National Discussion, COSLA and local authorities like Edinburgh and Highland expressed support for the principle of a new power that would enable local authorities to introduce a visitor levy, to allow for revenues to be raised to support individual areas' tourism priorities, should local circumstances be supportive.

2.3.6 COSLA's 2022-27 plan¹¹ set out six priorities for local government over the next 5 years including an objective to 'strengthen local democracy' and to 'secure sustainable funding'. It is recognised by COSLA that the proposals set out in the Visitor Levy Bill are part of meeting these dual objectives of local government, within the context of developing a wider comprehensive fiscal framework between the Scottish Government and Scotland's local authorities.

2.3.7 The National Discussion also highlighted that pressures linked to visitor numbers are not experienced equally across Scotland, and that its introduction across all local authorities may not be appropriate for some areas looking to increase visitor numbers, recognising the potential risk that higher prices of accommodation could discourage visitors to some areas more than others (see Annex C).

2.3.8 In recognition of these issues, the visitor levy that can be introduced under the Visitor Levy Bill is discretionary and local authorities can choose to introduce one or not in their area, depending on their local circumstances. The framework for these local taxes is set out in the Bill which will ensure a degree of consistency in the approach should the tax be adopted by multiple local authorities.

2.3.9 Submissions by some local authorities to the National Discussion also highlighted specific challenges related to tourism activity in their areas and suggested that a visitor levy would potentially offer an appropriate response to these. These included the provision of services to help address tourism pressures, such as additional street cleaning in peak tourist seasons. They also included the provision and maintenance of public goods such as parks, walkways, public toilets, public spaces, and cultural amenities, where the costs of provision were often borne by local residents.

2.3.10 In giving a local authority the power to introduce a visitor levy, the Bill will therefore also be giving local authorities a tool they can use to develop, support and sustain facilities and services which are substantially for, or used by, those visiting a local authority's area for leisure purposes. This may be particularly relevant in the context of pressures on such facilities and services that may arise or be exacerbated by high numbers of visitors, because currently these visitors will generally not directly contribute to the revenues of local authorities. The future of tourism demand and

visitor numbers to Scotland (and different areas within Scotland) in the post-pandemic period is inherently unknown, however the discretionary nature of the power will equip local authorities with a new fiscal power to raise revenues to support local visitor economies should particular pressures arise in the future.

3. Consultation

3.1 Within Government

3.1.1 A range of Directorates across the Scottish Government have fed into the general policy development for the visitor levy. The BRIA has been developed with input and feedback from the following divisions within the Scottish Government: Local Government and Analytical Services Division, Tourism and Hospitality Division, the Economic Strategy Division of the Office of the Chief Economic Adviser and the Income Tax and Reserved Taxes Unit.

3.2 Public Consultation

3.2.1 Recognising that a discretionary visitor levy required careful consideration, between November 2018 and January 2019 the Scottish Government facilitated a National Discussion on a Transient Visitor Tax in Scotland to seek views and build a common and shared understanding of the issues, opportunities and challenges.

3.2.2 A discussion document - 'Transient Visitor Taxes in Scotland' - was published to inform this and six roundtable events held across Scotland. These events illustrated potential opportunities and challenges associated with tourist taxes, complexities around design and operation and also opposition to these proposals from representatives of Scotland's tourism industry. A summary of messages from the National Discussion was published in March 2019, along with the written evidence received¹². In particular, it drew out areas of difference between stakeholders, including with regard to views on the degree of national consistency and local discretion that would be desirable in a Scottish context.

3.2.3 The evidence from the National Discussion informed the development of the Scottish Government's proposals around a discretionary visitor levy which were then subject to a separate formal consultation.

3.2.4 A Consultation on the Principles of a Local Discretionary Transient Visitor Levy¹³ was published on 9 September 2019 to develop an understanding of the technical issues around the scope and form of a future visitor levy in Scotland and inform the development of legislation. The consultation ran for a 12-week period until 2 December 2019. During the consultation period, 14 information sessions were held across the country. These provided attendees with the opportunity to find out further information about the consultation from officials, and to discuss some of the issues raised in the consultation. Officials encouraged attendees to submit a formal consultation response. These events were held in Edinburgh, Glasgow, Aberdeen, Inverness, Skye, Dumfries, Mull and Shetland.

3.2.5 The consultation document posed 33 questions which invited views on a range of issues around enabling local authorities to apply a visitor levy, including: the

balance between local autonomy and national consistency; the activities that a visitor levy will apply to; the basis of charge; the rate of charge; exemptions; and administration and compliance.

3.2.6 A total of 1,701 responses were received to the consultation exercise. Of these, 1,202 were based on a Living Rent-related campaign and did not address any of the questions set out within the consultation directly. Of the 499 substantive responses, 224 were from groups or organisations and 275 responses were from individuals. The two largest groups of organisational respondents were accommodation providers, with 49 responses from hotels and 67 responses from other accommodation providers (including B&Bs, guest houses, caravan parks and campsites).

3.2.7 The consultation process was valuable, and the Scottish Government is grateful to all who contributed their time, input and assistance to the process. The majority of respondents gave permission for their response to be published and these can be accessed through the Scottish Government Consultation Hub. An independent analysis of all the consultation responses was undertaken by Craigforth, and their report is available on the Scottish Government's website¹⁴.

3.2.8 The following gives a brief summary of the key findings from the consultation which informed the content of the Visitor Levy Bill.

- A visitor levy set out mostly at the local level with some overarching national principles was supported by 42% of respondents to the consultation. Only 36% supported a wholly national framework and 22% supporting a hybrid option. A common theme raised by respondents was that any approach needed to offer enough flexibility for the differing requirements of each local authority area to be considered.
- A levy based on a percentage of the total accommodation charge was preferred by the largest proportion of those responding to this question in the consultation as opposed to a flat fee model (per room per night or per person per night). The reasons given most frequently in support of a percentage basis of charge were that the percentage charge was fair or progressive given it is related to the ability of visitors to pay and those choosing to use more expensive accommodation would also pay more tax.
- A percentage charge was also suggested to be well understood, and to be a method of calculation that is widely used elsewhere. Other points made in favour of a percentage charge included that it would reflect seasonal and geographical variations in accommodation prices and therefore be less distortive.
- The majority of respondents felt the tax rate for a visitor levy should be set out in a national framework. It was further emphasised that decisions of local authorities should be based on robust evidence, potentially backed by independent economic impact assessments to inform the decision on an appropriate rate.
- The consultation paper suggested that there are some groups for whom it would be unacceptable to impose a visitor levy under any circumstances. 78% of those

answering the relevant question thought that all exemptions should be the same across Scotland.

- The need for any remittance system to be set up in consultation with the industry and for this to involve accommodation providers of all types was suggested by respondents irrespective of their view on whether providers should be ultimately responsible for collection and remittance of a levy
- A majority of respondents, 73% of those answering the relevant question, thought revenues from a visitor levy should be allocated to priorities articulated through local tourism strategies, where they exist.

3.3 Business

3.3.1 A number of businesses and business representative organisations participated in and contributed to the Scottish Government's National Discussion in 2018, both by attending round table discussions and providing written contributions. The evidence gathered and issues raised during the National Discussion process have informed the development of this BRIA.

3.3.2 This BRIA is also informed by business responses to the public consultation. Business responses to the consultation included 116 accommodation providers, 7 business organisations, 12 heritage and cultural organisations and 10 tourism and hospitality industry representative organisations.

3.3.3 In keeping with the specific requirements of the BRIA guidance, Scottish Government researchers also conducted 20 face-to-face interviews in 2019 with individual businesses from the overnight accommodation sector. These businesses were identified through engagement with the Association of Scottish Self Caterers, the Federation of Small Businesses, and UK Hospitality. We have also interviewed representatives of other sectors potentially affected by a visitor levy including Hostelling Scotland, and the Caravan and Motorhome Club. These discussions were focussed on improving the Scottish Government's understanding of the business compliance challenges which a visitor levy will present accommodation providers with, as well as other related concerns.

3.3.4 Following the pause in the legislation being brought forward due to the pandemic, a follow-up survey was issued to these businesses with a particular focus on understanding the compliance challenges associated with the specific proposals in the Visitor Levy Bill and to provide an evidence base to make reasonable assumptions to quantify the likely impacts on a range of different accommodation businesses of a visitor levy. More detail of the engagement is provided in [section 6](#) of this BRIA.

4. Options

4.1 Sectors and groups affected by a Visitor Levy

4.1.1 Based on evidence gathered during the National Discussion, the consultation in 2019, and engagement with stakeholders, the following groups and sectors have

been identified in this BRIA as key groups which will face additional benefits and costs as a result of a local authority exercising a new power to introduce a visitor levy¹⁵:

- Local authorities that choose to introduce a visitor levy
- Accommodation providers¹⁶ (including hotels, B&Bs, guest houses, hostels, campsites, non-term-time student accommodation and self-catering accommodation including short-term lets that made available through collaborative sharing platforms) who would be liable for collecting and remitting a visitor levy unless an exemption is applied by the local authority
- The wider business community (beyond accommodation providers)
- Visitors (both domestic and international)
- Residents of local authorities
- The Scottish Government

4.1.2 In accordance with Scottish Government guidance, this BRIA assesses several options for implementing a visitor levy in relation to the potential costs and benefits arising to each of the identified groups.

4.2 Quantification of benefits and costs

4.2.1 Annex D of this BRIA sets out various background statistics on tourism activity in Scotland, including visitor numbers across different areas in Scotland, and data on the accommodation sector.

4.2.2 Evidence on costs and benefits are based on information drawn from discussions and surveys of accommodation providers and discussions with local authority partners and officials in jurisdictions in cities and regions that apply similar taxes. This BRIA provides a high-level assessment of the potential set-up and ongoing costs to local authorities associated with operating a visitor levy, as well as a range of compliance costs that may also be incurred by different accommodation providers (see Annex E for more detail on the assumptions used in these costings). The BRIA also sets out high level estimates of the potential revenues that could be raised across Scotland (see Annex A for more detail on the methodology applied).

4.2.3 As part of the partial BRIA published in 2019, the Scottish Government also committed to seeking “to develop its understanding of the overall economic impact of a visitor levy” in the final BRIA, while recognising that challenges existed in presenting a reliable aggregate impact for Scotland given the discretionary nature of the power and the range of outcomes that were possible as a result of the Bill becoming law and the decision of local authorities.

4.2.4 Annex C sets out, in some detail, a qualitative exploration of factors that will influence the size of any wider secondary economic impacts arising from the decisions of local authorities to introduce a visitor levy. Briefly, we find that visitors’ behavioural responses would likely be influenced by the basis and overall size of a visitor levy, particularly relative to their overall accommodation bill and total planned visitor spending, and could also be influenced by availability and price of alternative accommodation (e.g., hotel rooms in adjacent local authorities if these were not

implementing a levy). Behavioural responses may also vary across visitors to different parts of Scotland, and at different times of the year; they may also affect duration of visit, accommodation choice, or decisions on ancillary spending. However, whilst recognising it's not possible to isolate the impact of the tax amongst other factors that determine the overall level of visitor numbers, evidence from cities that have introduced these types of taxes recently show that generally growth in visitor numbers has continued after the introduction of these taxes.

4.3 Interaction with UK reserved taxes

4.3.1 VAT is chargeable on holiday accommodation at the standard rate in the UK (20%), except for traders with a turnover below the £85,000 VAT registration threshold. HMRC have taken the view that under current UK VAT rules a visitor levy would form part of the total cost of accommodation and be subject to VAT (i.e., VAT would be payable on the base price plus the levy amount) similar to the manner in which duties on alcohol and fuel also attract VAT. As the Bill is passed through Parliament, Scottish Government officials will continue to liaise with their UK Government counterparts to discuss the VAT treatment of the visitor levy.

4.3.2 Should the visitor levy charge be required by HMRC to be included in the assessment of taxable income for accommodation providers, then this may result in some small businesses 'tipping over' into trading with a turnover above the VAT registration threshold of £85,000 (or the threshold at the time of introduction) as a result of the visitor levy being implemented by a local authority. Should this be the case, some accommodation providers may choose to reduce the number of nights they make available for visitors, so in order to remain below the VAT registration threshold. For a small number of businesses who elect to register for VAT as a consequence of these circumstances, VAT would then need to be charged and added to the cost of their accommodation (which would also include the Visitor Levy). These effects would, respectively, have an impact on the quantity of accommodation available and the price of accommodation offered by affected businesses.

4.3.3 As policy on VAT remains a reserved matter, this is not a matter Scottish Ministers can decide. The UK Government's final position on the application of VAT will not be confirmed until completion of the Bill's passage through Parliament. Should the visitor levy form part of the total cost of accommodation and be subject to VAT then there will be some impacts for businesses in these circumstances. The scale of any impact will vary depending on the turnover, operations and behavioural responses of accommodation providers. Due to this uncertainty, we have not provided costs on the impact of VAT but note this is an area where accommodation providers may incur additional compliance costs and a need to increase prices in the competition assessment in [section 6](#) of this BRIA.

4.3.4 Should there be no VAT exemption, a visitor levy could also result in a marginal increase in UK VAT revenue by increasing the price on which VAT is paid, representing a benefit to the UK Exchequer that could be viewed as a spillover effect for the purposes of the Fiscal Framework. On the other hand, if reductions in economic activity occur as a result of the introduction of a visitor levy (e.g., due to reduced visitor nights spent in commercial accommodation or reduced visitor spend

on accommodation) a spillover effect may arise in the other direction by reducing UK VAT revenues collected by UK Government.

4.3.5 The fiscal consequences of the interaction with VAT will primarily depend on decisions by the UK Government, but also on the number of local authorities that introduce a visitor levy, on the rate(s) at which visitor levies are set and the behavioural response of visitors and businesses.

4.4 Taxation of cruise ship passengers, day visitors and campervans

4.4.1 As part of the consultation and engagement with stakeholders on the proposals for a Visitor Levy Bill, it has also been highlighted that visitors who are responsible for potential sources of pressure on local areas, and the types of visitors who would be liable for a new tax (overnight visitors) may not necessarily be well aligned.

4.4.2 In particular, it was highlighted that a tax on stays in overnight accommodation may not capture day visitors or those staying in 'mobile accommodation' such as campervans or cruise ships. Although the Scottish Government considered how a visitor levy could be applied to these visitors, there are a number of practical barriers identified to implementing a tax on these types of visitors, which are outlined below.

Cruise ship passengers

4.4.3 The Visitor Levy Bill does not make provision for any type of taxation of cruise ship passengers. Cruise ship passenger levies exist in many forms across Europe and are in force in places such as Barcelona, Amsterdam, and Croatia, establishing a precedent for these types of taxes internationally. It is also the case that, prior to the disruption of the Covid-19 pandemic, cruise ship visits to Scottish ports and passenger numbers were increasing year on year. Despite recent improvements in offsetting its carbon impact, cruise travel continues to be considered one of the least sustainable forms of travel¹⁷. More details can be found in Annex D.

4.4.4 Cruise ship passengers may not stay overnight within the local authority area(s) they visit in Scotland and in some cases, their expenditure and contribution to the local economy may be relatively limited. However, the potential for cruise ships to disembark large numbers of passengers within relatively confined areas in a short time period may result in congestion, and an impact on local infrastructure over time.

4.4.5 However, a locally administered cruise disembarkation levy carries a risk of inviting behavioural change from the cruise industry. For example, where one local authority chooses to apply a levy, cruise operators may choose to call instead at a neighbouring local authority to avoid paying the levy, with passengers travelling overland to the same intended destination. Alternatively, cruise ship companies may choose to visit other destinations in parts of Scotland that do not levy a charge or to other parts of the UK, or other ports in Northern Europe. This risk does not materialise to the same extent with a tax on overnight accommodation which is fixed geographically (at least in the short to medium run). There is a particular example of

behavioural change linked to the introduction of a cruise ship tax in Amsterdam (see Annex B for details).

4.4.6 In preparing the Visitor Levy Bill it was also found that there were a number of practical barriers to the application of a disembarkation levy which, whilst not insurmountable, would require to be addressed before the Scottish Government would consider bringing forward legislation.

- The levy would need administered across the various types of port infrastructure in Scotland (public port authorities, trusts, and private ports);
- The need for a legal definition of 'cruise ship' and consideration of the type of vessels included and excluded from such a definition;
- The need for a legal definition of 'cruise ship passenger' as opposed to 'cruise ship staff/crew' and consideration of how that would be administered;
- Treatment of ships that anchor outwith port infrastructure and use tender boats to transport passengers;
- The potential limits to the operation and extent of a cruise ship levy arising from areas of maritime policy which fall outwith devolved competence.

Day visitors

4.4.7 Day visitors also have an impact on local environments and use many services and amenities which are also used by overnight visitors. Under the proposals in the Visitor Levy Bill, day visitors will not be liable to pay a levy.

4.4.8 Whilst there are strong arguments in favour of taxing day visitors should a local authority introduce a levy on overnight visitors, it is difficult to envisage how such a levy could actually be applied and collected in a practical manner and in a way that distinguished between local residents and visitors. The taxable event for the visitor levy is the sale of commercial accommodation which excludes most local residents (except in circumstances where a local resident uses accommodation in their own area). It is less clear how a taxable event for a day visitor tax could be defined to effectively target visitors alone.

4.4.9 It has been suggested that, in some areas, the taxable event for a levy on day visitors could be entering a particular area via a limited number of entry points, which is likely to be more feasible in some contexts than others. This is done in some other countries for example, payments to enter National Parks. As noted in the accompanying Islands Impact Assessment, it was noted through engagement with island communities that islands have limited points of entry, and it was suggested that it is therefore more possible to identify and charge day visitors arriving on an island (e.g., by taxing ferry passengers). Other alternatives suggested in the National Discussion included applying a tax to goods and services used by day visitors such as restaurants or taxis.

4.4.10 In all such circumstances, the administrative challenge would be to distinguish day visitors from overnight visitors and local residents in a manner that was not overly bureaucratic (i.e., checks of ID and proof of residency requirements for local residents to be exempt from additional charges).

Campervans

4.4.11 Similar to day visitors, the ‘taxable event’ underpinning the visitor levy is the purchase of commercial accommodation. Visitors that use mobile campervans and wild campers who do not pay for a pitch at a caravan or campsite do not engage in a taxable event for the purposes of the Bill. As in the example of day visitors, another taxable event would have to be defined to capture these types of visitors. It was raised in the consultation that mobile campervans may cause particular issues around congestion and pollution in some areas at peak times. However, it is worth noting that a majority (60%) of respondents to the consultation did not think a levy could be placed on wild or rough camping, including motorhomes and campervans. In terms of visitor management, it should be noted that there are a range of other powers that local authorities already have to deal with inconsiderate parking or camping (such as byelaws for restricting parking and parking fees). These powers may tackle the underlying issues with campervans more effectively than expanding the scope of a visitor levy. Revenue from a visitor levy applied to overnight visitors could fund improved enforcement of these existing restrictions in areas where this has been identified as an issue. Work on assessing and managing the use of campervans is also being undertaken through VisitScotland’s Visitor Management Strategy and its working group on motorhomes.

4.5 Option 1: Do Nothing

4.5.1 Under the ‘Do Nothing’ option, we have identified the following costs and benefits for identified sectors and groups. These costs are described qualitatively.

4.5.2 As no new levy would be in operation, **accommodation providers** would not be incurring any additional compliance costs associated with collecting and remitting a levy to a local authority. Accommodation providers would also not be required to either absorb or pass-on the impact of a visitor levy on accommodation providers, meaning their revenues will not be at risk of being negatively affected by its introduction.

4.5.3 **Visitors** would not have to pay an additional levy to stay overnight in commercial accommodation. There will also be no confusion to visitors who may face a visitor levy in one local authority area and not in another one. Visitors would not benefit from any additional investment by the local authorities in public goods or other projects funded by revenues from a visitor levy which may have otherwise had direct or indirect benefits for visitors. However, there would also be no potential reduction in visitor spending arising from any negative behavioural response to higher accommodation prices.

4.5.4 As there is no risk of a negative response in visitor behaviour due to a new visitor levy, the **wider business community** would be unaffected under this option.

4.5.5 **Local authorities** would not incur costs arising from consultation and engagement on a levy, set-up administrative costs, on-going operating costs, or costs associated with monitoring and compliance (though it should be noted that ongoing costs from administering a visitor levy could be taken from the revenue the levy would raise). However, some local authorities may continue to face challenges to maintain sufficient funding to respond to pressures arising from high numbers of visitors and to provide the infrastructure expected by visitors to their area were no legislation to be put in place. Local authorities would also not benefit from having increased fiscal autonomy in being able to introduce a new tax.

4.5.6 Pressure on provision of funding in some local authorities could lead to challenges in maintaining the quality and provision of public amenities. This is potentially detrimental to **residents** in some parts of local authorities experiencing high numbers of visitors, and to the experience of visitors to these areas.

4.6 Option 2: Non-Regulatory Option (Business Improvement Districts)

4.6.1 If a Visitor Levy Bill is not introduced, it would mean local authorities that would otherwise have sought to introduce a visitor levy, could potentially consider alternative options within existing legislative frameworks to raise additional revenues directly or indirectly from visitors to support the local visitor economy.

4.6.2 As set out in the BRIA guidance, a non-regulatory option has been considered in this assessment. The most appropriate non-regulatory alternative we have identified to using the powers of the Visitor Levy Bill, would be for local authorities to work in partnership with accommodation providers in their area and establish a Tourism or Accommodation focussed Business Improvement District (BID). This section of the BRIA considers the costs and benefits of this BID approach. It is recognised that a number of voluntary options for raising revenues from visitors for specific local projects could also be considered by local authorities and businesses. A number of examples of such schemes are evident, particularly those with a conservation focus, such as the 'Big Tree country scheme' in Perth and Kinross¹⁸.

4.6.3 BIDs came into force in Scotland in 2007 as a result of primary legislation in Part 9 of the Planning etc. (Scotland) Act 2006 and other secondary legislation. A Business Improvement District is a geographically defined area where businesses come together and agree to invest collectively in projects and services that the businesses believe will improve their trading environment. Those improvement projects are funded by revenues collected through an investment levy agreed to be paid by businesses (ratepayers) in the BID area. There are approximately 40 BIDs established across Scotland, some of which have a levy only on ratepayers with a business that is clearly defined as part of the local visitor economy, for example the Visit Moray Speyside BID¹⁹.

4.6.4 One potential model that could be adopted in Scottish local authorities is the model that has been recently adopted in Manchester. In 2022, it was announced that a new specialist BID was to be established in Manchester – the Manchester Accommodation Business Improvement District. This followed a majority of relevant local businesses voting for the creation of the BID. Under the Manchester BID it is proposed that certain city centre hotelier businesses and serviced apartments with a

Rateable Value over £75,000 pay an additional levy from 2023 to 2028 to raise additional revenue to be invested in the local visitor economy.

4.6.5 The proposed formula for determining the levy that each business pays takes into account three variables: the number of rooms/units available per night in each business, the number of nights in each calendar month and the STR²⁰ published 'Manchester Average' Occupancy rate for each month less 5%²¹. This effectively means the levy is tied to the expected (rather than actual) number of visitors per participating accommodation establishment. The proceeds from the levy would be retained by the board of the BID and could be used to support the development of the tourism and hospitality sector. Particular projects and initiatives envisaged by the BID include: high profile, tactical marketing campaigns to attract more national and international business conferences and major sporting events, developing and attracting new consumer events to the city, and improvements the city's welcome such as helping to keep the entry points to the city centre cleaner, providing hosts at railway stations and supporting hotels in ensuring secure environments for guests.

4.6.6 The Local Authority Revenue and Benefits Service of Manchester City Council will be responsible for collecting the levy and enforcement activity. The cost of these activities would be funded from the overall revenues raised from the BID. The net revenues raised from the BID levy are not passed onto the Local Authority, but are controlled by the BID board and ultimately the participating businesses. It should be noted that any new accommodation opening during the period 2023 – 2028 within the geographical boundary of the BID area, which meets the relevant criteria, will also be required to pay the BID levy.

4.6.7 As the BID model is very flexible and could take various forms it is not possible to estimate how much revenue could be raised from such an initiative if adopted in the context of a Scottish local authority. This would be up to local authorities and businesses proposing a BID to determine based on options emerging locally. We have identified costs and benefits of this non-regulatory option which are described qualitatively below.

4.6.8 We have assessed that the **benefits** of this non-regulatory option would be as follows.

4.6.9 **Local authorities** would benefit, to some degree, from the projects supported by BID funding.

4.6.10 **Accommodation providers** would benefit from having direct control - depending on the governance structure of the BID - over how any revenues raised through a BID are invested in the local area. This is likely to mean revenues will be effectively ringfenced to fund activities that benefit these businesses directly, such as marketing of the local area and investments in improvements to the tourism and cultural offer in terms of events.

4.6.11 **The wider business community (excluding accommodation providers)** would also benefit, to a greater or lesser extent, from the initiatives funded by the BID. Depending on the model of the BID, non-accommodation providers could also

'opt-in' and choose to also pay the levy, increasing revenues and providing more funding for projects.

4.6.12 **Visitors (both domestic and international)** to local authorities where a local BID has been implemented could benefit directly from investments made by the BID board to attract and retain visitors in the future. This could be through a variety of activities such as improving visitor access to up-to-date and accurate information about the local area, setting up or increasing the number of local 'tourism ambassadors' to enhance the visitor experience or taking steps to increase the number of organised events, or enhance existing events.

4.6.13 **Residents of local authorities:** would benefit, to some degree, from the projects supported by BID funding. However, it is likely that projects will be geared to improving services and the experiences of visitors with the extent of potential spillover benefits to residents of local authorities unknown. There may be some local job creation for residents as a successful BID is likely to need to hire staff to run its functions, although the overall effect on employment is likely to be negligible.

4.6.14 **Scottish Government:** the principle of Business Improvement Districts has been supported by the Scottish Government since their inception in 2007. It should be noted, unlike Option 3, there is certainty that collection of the BID levy by the local authority also falls outside the scope of VAT as the BID levy would be a statutory levy which is no different to the collection of Non-Domestic Rates²², therefore the issue of interaction of this policy with VAT does not arise.

4.6.15 The **costs** of the non-regulatory option in this context would be as follows.

4.6.16 **Local authorities** would not have a new tax raising power to raise revenues in their areas to invest in the local visitor economy. Any revenues raised through an alternative BID model are effectively fully retained by the BID board. This means there is a limited role for elected councillors to exercise influence over priorities for investment in their local areas (although local authorities may exercise a veto in some circumstances). Therefore, as an option it fails to meet a key objective of the Visitor Levy Bill to strengthen local democracy.

4.6.17 The BID model also has a particular disadvantage from the point of view of a local authority in that it requires to be renewed through a vote of participating members every five years. BIDs therefore have the potential to be discontinued and in responses to the consultation, local authorities have suggested it therefore could not be considered a secure source of revenue.

4.6.18 It should be noted, local authorities would not incur any net administration costs under this option. Any costs arising from administrative activities associated with the collection of the levy and enforcement action would be recovered directly from the BID revenue. Costs are also likely to be lower relative to option 3 due to the BID levy being based on fixed parameters known to the local authority (such as Rateable Value) and therefore would be simpler to collect.

4.6.19 **Accommodation providers** involved in a BID may benefit from funding of additional activities to improve the visitor economy under this option. However, there are additional costs to consider with this option compared to the 'Do Nothing' option.

4.6.20 Accommodation providers would also be contributors to the BID, paying an additional levy which is likely to be based on the rateable value of the property. Accommodation providers would have to choose whether to pass on the additional cost onto visitors in terms of higher prices and, depending on the scale, this could affect future visitor demand (see Annex C). This would be mitigated to a certain extent as the businesses themselves, through the BID board, would be ultimately responsible for setting the levy rate and would be cognisant of the scale of these costs when weighted against the benefits of funding projects locally.

4.6.21 Although it would depend on the specific BID proposal, following the Manchester model set out above, it is not guaranteed that all accommodation providers in an area would contribute to the BID (i.e., those businesses with a very small rateable values). Indeed, even if all non-domestic ratepayers offering accommodation in an area were included in a BID proposal, this would not capture those businesses or individuals/sole traders providing accommodation in properties registered for Council Tax. Properties registered for council tax may include some short-term lets, student accommodation used for visitors outwith term time, and some small Bed and Breakfast operators with less than 6 bedspaces (see Annex D for data on small accommodation providers).

4.6.22 However, it should be noted accommodation providers could ultimately decide not to form a BID through the voting mechanism set out in the legislation and therefore avoid any additional costs implicit in Option 3 to introduce a visitor levy.

4.6.23 We have not identified any direct costs to **the wider business community (excluding accommodation providers)** arising from Option 2. It is possible that if the price of accommodation is higher due to the BID levy being reflected in the price of accommodation, then there may be an indirect impact on consumer and visitor spending as explored in more detail in Annex C.

4.6.24 **Visitors (both domestic and international)** that choose to stay in accommodation in local authorities where a BID is in place, could face new costs as a result of the BID levy increasing the market price for commercial accommodation, should accommodation providers choose to pass on the levy via higher prices. To note, whilst costs of this option may be similar to Option 3 (dependent on the levy rate and level of pass through), these costs will also not necessarily be transparent to visitors under Option 2 because there is no requirement for the levy to appear on bills to visitors. There is also likely to be potential for confusion for visitors if some accommodation signed up to the BID choose to pass on a levy explicitly to bills whilst others do not.

4.6.25 We have not identified any direct costs to **residents of local authorities** arising from Option 2.

4.6.26 **Scottish Government** may suffer reputational costs of not following through on its commitment to local government to introduce a new tax power for local

government. If more areas chose to establish BIDS with a focus on accommodation sector, then there could be a small additional cost to SG associated with the award of seedcorn grants to those businesses looking to put a BID proposal to a ballot in future.

4.7 Option 3: Introduce a power as set out in the Visitor Levy Bill

4.7.1 This option is the preferred policy option as presented in the Bill, which sets out a framework in legislation for the future implementation of a visitor levy in areas that choose to introduce such a levy. We consider the option in detail and assess the benefits and costs to different groups.

4.7.2 Under this option, local authorities will be able to exercise a power which will allow them to introduce a visitor levy to be charged on the cost of overnight accommodation per night, excluding any additional ancillary charges such as meals, mini-bar, spa and gym facilities etc. Under the definition in the Bill, all commercially let overnight accommodation would be covered by a visitor levy if a local authority introduces the levy in their area (or part of their area), including hotels, guest houses, B&Bs, self-catering properties (including properties let on collaborative sharing platforms), and pitches on caravan and campsites. Visitors from other parts of Scotland, other parts of the UK and international visitors will be charged the levy unless a specific exemption is applied.

4.7.3 Under the Bill, a visitor levy will be calculated as a percentage of the charge for overnight accommodation and the rate set will be a decision for the relevant local authority for all or part(s) of its area²³. During the public consultation other bases of charge for a visitor levy were considered, and the results of our consultation found there were advantages and disadvantages to each approach. As a local tax, there is no power in the Bill for Scottish Ministers to limit the percentage rate to be applied, however we would expect local authorities to set rates that would not risk adverse economic impacts locally (see Annex C).

4.7.4 Under the Bill a local authority would introduce a visitor levy scheme, after consultation with local communities and business, and other relevant groups, and an assessment of the impact of its proposal. The visitor levy scheme would set the percentage rate to be charged, the objectives of the scheme, and what purposes the funding raised by the levy (net of administration costs) would be intended to be spent on. No exemptions to the levy are formally set out in the Visitor Levy Bill, as the Scottish Government plans to work with COSLA, industry stakeholders, and other relevant stakeholders to develop guidance for local authorities, including on exemptions.

4.7.5 Any guidance produced would have to be cognisant of minimising potential compliance complications for accommodation providers. The Bill will also give Ministers the power to create national level exemptions to a visitor levy, if necessary. Separate from any guidance, local authorities will also have the ability to create their own exemptions at a local level. Local authorities will also be able to vary the percentage charge to account for any seasonality in the local visitor economy, for example not charging it in the low season.

4.7.6 Under this option, local authorities that introduce a visitor levy will have a number of enforcement powers to assist in the efficient administration of the levy. These powers are partly based on those applying to devolved taxes in general, set out in the Revenue Scotland and Tax Powers Act 2014, and reflect practices used in other taxes such as Non-Domestic Rates. They are important in giving a local authority the powers it needs to enforce remittance of a visitor levy from an accommodation provider.

4.7.7 Under the Bill, local authorities will have discretion as to whether and when they proceed to recovery action, together with the power to remit, reduce, or waive penalties. The key enforcement measures involved are:

- a power to issue Reminder Notices, which set out that a failure to make payment of the amount due within a period of 14 days will trigger a penalty and eventually a recovery process;
- that a visitor levy is recoverable by diligence, potentially being authorised by a summary warrant;
- that for the enforcement of penalties, a penalty should be recoverable as a civil debt due to the local authority;
- a power to require production of documents or other information relevant to the visitor levy.

4.7.8 Under this option, the Bill also includes provisions for an accommodation provider to appeal against specified decisions by a local authority relating to an accommodation provider and a visitor levy (such as whether an accommodation provider has to collect and remit a visitor levy, how much it has to remit, and challenges to enforcement action). The Bill sets out an appeal process by which appeals are first made to an internal review in the local authority, with an onward appeal to the First Tier Tribunal. This reflects practice in other areas (such as the Workplace Parking Levy) and the current creation of a Local Taxation Chamber in the First Tier Tribunal.

4.7.9 The Bill requires a local authority to use the net proceeds of a visitor levy for the purposes of developing, supporting and sustaining facilities and services which are substantially for or used by those visiting the area for leisure purposes. There are a number of different areas that this could relate to and this is discussed in more detail below.

4.8 Benefits of Option 3: Introduce a power as set out in the Visitor Levy Bill

Benefits to local authorities

4.8.1 **Local authorities** that choose to introduce a visitor levy using the powers granted to them by the Bill would benefit from the ability to generate revenue using an additional funding source not currently available to them. The revenues would be used for the purposes of developing, supporting and sustaining facilities and services which are substantially for or used by those visiting the area for leisure purposes.

4.8.2 This would provide an opportunity to improve the visitor economy in a local area, and support delivery of the objectives set by a local authority after consultation with local stakeholders. Local authorities could also see potential reputational benefits from improving the public realm, improving visitor amenities, improving promotion and marketing of an area and/or improving destination management.

4.8.3 There are a number of examples of good practice internationally of how revenues raised from taxes on visitors can be linked to specific projects that will also have benefits for other groups identified in this BRIA. Specific examples are provided in more detail in Annex B. Revenues could potentially be split into different sections to support multiple local tourism priorities, such as initiatives to increase visitor numbers in off-season periods or support local festivals. General improvements in tourist infrastructure or supporting schemes with direct benefits for visitors (such as discounted travel or access to attractions) might also be pursued by local authorities.

4.8.4 As part of the final BRIA, the Scottish Government has assessed the potential revenues that a visitor levy could raise. These are set out in Annex A of this BRIA, with the scale of revenues dependent on the areas where the visitor levy is applied, the rate chosen by local authorities, and the sensitivity of visitor demand to changes in accommodation prices. We expect a visitor levy set at 1-2% could potentially raise between £17 million and £34 million if it was applied across all local authorities, and between £6 million and £12 million if applied in Edinburgh & the Lothians region only (the region with the largest share of visitor spending in Scotland).

4.8.5 The Bill requires local authorities to make their own assessment of the impact of a visitor levy scheme locally, and we would encourage that forecasts of revenues from a visitor levy scheme be made before implementation. Actual revenues will depend on a number of factors that are unique to each local authority, of which the behavioural response of visitors is a significant factor, as is the extent to which historic visitor spending data and demand is truly representative of the reality in the year in which a visitor levy is implemented. Any assessment would also have to take into account any exemptions to the visitor levy that may apply to a scheme, and how material these exemptions would be to potential revenues.

4.8.6 The implementation of a visitor levy will also give local authorities valuable real-time data on trends in visitor movements and spend on accommodation in their area. If supplemented by further surveys, it could improve local authority understanding of their visitor economies and the motivations of visitors to travel to their area, which would form part of ongoing monitoring and evaluation of the impact of a visitor levy.

Benefits to Visitors

4.8.7 **Visitors** to local authorities where a visitor levy has been implemented could benefit directly or indirectly from local authority investment in the maintenance and improvements to the public realm in the areas they are visiting, investment in broader tourism related projects or other direct benefits such as entitlements to free travel, discounts when visiting the area or enjoying festivals or local events which could be fully or part funded through the revenues raised by the visitor levy. It is

ultimately at the discretion of the local authority as to whether they choose to provide visitors with direct or indirect benefits, but a direct benefit could go some-way to demonstrate the purposes of the visitor levy.

4.8.8 It should also be noted that visitors may also be more willing to pay a visitor levy if it is linked to making particular improvements to the local communities they choose to visit. As part of Booking.com's 2022 sustainable travel report, it was found that 59% of international travellers surveyed want to leave the places they visit better than when they arrived, and 25% of travellers would be willing to pay more for travel activities to ensure they are giving back to local communities²⁴. Rising levels of interest in 'voluntourism' also support this idea.

Benefits to Accommodation providers, the wider business community and residents

4.8.9 Although it should be recognised that there would be new compliance costs arising for **accommodation providers** in areas where a visitor levy is introduced, the sector may also indirectly benefit from the decisions of local authorities to invest in the public realm and amenities and in investments in improving the visitor economy. The wider business community, in particular businesses that rely to a large degree on visitor spending, such as leisure and recreation businesses, tour operators, bars and restaurants may also indirectly benefit from these investments.

4.8.10 We would expect accommodation providers to be consulted by local authorities in terms of setting priorities for projects or initiatives that could be funded from revenues that would have a tangible benefit for these businesses. The Scottish Tourism Alliance²⁵ have suggested that revenues directed at the following priorities would yield benefits for the industry:

- Supporting the drive for net zero carbon emissions from tourism and events businesses;
- Investment in marketing and promotion of the destination;
- Supporting cities and regions to collaborate on tourism and the visitor economy;
- Creating a better, seamless visitor experience, such as supporting businesses to increase their digital presence and improve online booking;
- Investing in local tourism and hospitality skills, recruitment and retention initiatives;
- Funding of strategic destination management organisations;
- Investing in cultural or event capacity, such as local museums and galleries;
- Improving visitor attractions and landmarks;
- Improving safety and security of tourists, such as late-night transport provision for visitors and hospitality staff;

- Supporting collection of visitor data; and
- Encouraging visitor activity outside of city centres to benefit surrounding suburbs and rural communities, including better walking and cycling routes.

4.8.11 **Residents in local authority areas** would benefit, to some degree, from the revenues that are invested in improving local visitor economies, especially when these benefits are for goods and services used frequently by both visitors and residents. It should also be recognised that residents may derive some benefit from knowing that visitors to their area would be directly contributing revenues towards services and improvements that are funded by local authorities, which might avoid instances of community backlash against real or perceived over-tourism in certain areas.

4.9 **Costs of Option 3: Introduce a power as set out in the Visitor Levy Bill**

4.9.1 No costs directly arise from the Visitor Levy Bill per se as it simply creates a new discretionary power to be exercised if a local authority chooses to do so. Actual costs will only arise in cases where the power is used. In this BRIA, we have assessed the likely **costs** associated with a levy to different groups should a local authority introduce a visitor levy.

Costs to Local authorities

4.9.2 **Local authorities** that chose to introduce a visitor levy will incur a combination of consultation and decision making costs, set-up costs and ongoing administrative costs associated with the operation of a visitor levy. We expect most of these costs will be a combination on staff salary costs and IT costs, with some additional operational budget for necessary administrative functions. We expect these costs could be fully covered by the revenues generated in local authority areas that introduce a visitor levy.

4.9.3 Before making the decision to introduce a visitor levy, we expect local authorities to incur some one-off costs related to conducting a consultation on specific proposals. We would also expect one-off costs from a local authority engaging in technical level discussions on implementation with accommodation providers and other stakeholders, to establish an approach to the collection of the levy that minimises compliance costs for businesses and administrative burdens for local authorities, including in regards to the operation of any exemptions. Whilst local operability and accountability are key principles, local authorities might be able to achieve economies of scale in these costs by working collaboratively with other local authorities, for example on systems and processes. Following consultation, local authorities must also prepare and publicise a report which includes a summary of the consultation responses received and any decision made on introducing a levy and the reasons for doing so. This work may have some associated costs.

4.9.4 The intention of the Bill is that local authorities will also be required to prepare and publicise an outline of any proposed scheme; a statement about the scheme's objectives, including how the local authority intends to measure and report on those objectives; and an assessment of the impacts of their proposal in that local authority

area. Local authorities may also be required to publish any impact assessments required under existing statutory duties to consult and have regard to the impact on specific groups and communities. The Bill also sets out that a local visitor levy scheme must be reviewed every three years.

4.9.5 Based on returns from local authorities, the principle decision-making costs will take the form of a public consultation which may cost the local authority between £10,000 - £20,000. It should be noted that the cost of any consultation exercise is likely to vary depending on the format of the consultation, the number of questions asked, the number of responses received, the number of face-to-face engagements undertaken and whether the consultation is undertaken in-house or is contracted out to a third party.

4.9.6 Local authorities choosing to introduce a levy will also need to establish and maintain an effective visitor levy tax registration system to identify accommodation providers that are liable to pay the visitor levy. This register we expect will be initially compiled using existing data that local authorities hold from the Non-Domestic Rates valuation roll and licensing registers of short-term let accommodation (which will be in place by the time a visitor levy could be introduced²⁶), however new processes to continually update such a register would have to be put in place.

4.9.7 Local authorities choosing to introduce a levy would need to establish new systems and processes or adapt existing systems to facilitate ongoing collation and monitoring of tax returns from accommodation providers. This will include validation and enforcement activities associated with inaccurate, late or non-returns from accommodation providers and other core operations, such as regular collection and dissemination of management information, financial reporting, handling of queries from accommodation providers and other administrative tasks.

4.9.8 In order to ensure compliance, local authorities will incur some operational costs relating to monitoring and enforcement activities, such as costs associated with issuing reminder notices, penalties and recovery action in extreme cases. Where enforcement action is needed, local authorities implementing a visitor levy may need to inspect accommodation occupancy records, accounts and other data held by accommodation providers. There will also be costs associated with the establishment and operation of review and appeal processes, and the pursuit of non-payment of liabilities should this be required. Some of these administrative costs may be offset by any income arising from penalties issued.

4.9.9 Each local authority would also have to consider the governance model for the operation of a visitor levy including the decision-making processes for how revenue raised would be used, the mechanism by which stakeholders (including accommodation providers and the wider tourism related businesses) will be consulted and to decide how the scheme is monitored and evaluated in future, including assessing any impact of the levy on visitor demand locally. Communications with visitors, accommodation providers, residents and other stakeholders would also have to be considered as part of a new on-going function for the local authority, in relation to activities such as issuing guidance on completing returns, communicating changes in requirements for accommodation providers and

providing information for visitors and the general public on how revenue raised has been used.

4.9.10 Most of the costs involved with these new activities for local authorities are likely to be additional staff salary costs. A 2022 OECD report noted that, on average, staff costs accounted for around 73% of the overall cost associated with the administration of taxes across OECD countries. On average, 30% of tax administration staff worked in areas of registration, returns and payment processing services, 30% of staff worked in areas of audit, investigation and other verification activities, 10% of staff worked in debt collection activity and 30% of staff worked to deliver other functions²⁷. These figures are illustrative of the likely division of staff time between various functions, however the actual mix of new staff resource on various functions for a visitor levy will vary and depend on operational decisions of the local authority choosing to introduce a visitor levy.

4.9.11 Finally, in addition to staff costs, the other significant item of costs for local authorities is likely to be costs associated with the maintenance of any IT systems to administer the levy, the costs of which will in part depend on the degree to which existing local authority IT systems can be used. Other operational budget costs associated with all visitor levy administration activities will also likely be required to cover other expenses such as mail costs and travel expenses (for instance if staff are carrying out any inspections of business properties needed for enforcement).

4.9.12 Given the lack of practical experience within local authorities in the UK of operating similar taxes it has been challenging to accurately assess and quantify the potential scale of these new administrative costs to local authorities at the point of Bill introduction, given the dependence of such costs on the technical details of a specific scheme and the future operational decisions of local authorities.

4.9.13 Scottish Government officials have discussed these matters with officials from other jurisdictions in Europe and Canada who have shared practical examples of the resources required to collect visitor levy type taxes in other contexts. There is also some limited published evidence from the operation of a new local tax (the workplace parking levy in Nottingham) which could offer insight to the likely scale of costs associated with operating a visitor levy, given the potential similarity in some of the administrative processes to that of a visitor levy. As part of our discussions with COSLA, Edinburgh Council has also provided indicative estimates of the potential costs associated with introducing the levy in Edinburgh. The bullets below summarise available cost information in relation to a visitor levy:

- Nottingham City council introduced a workplace parking levy in 2012. Whilst, of course, a different tax from the proposed visitor levy, it has some potential similarities in terms of aspects of administrative activities. In the four years prior to the Covid-19 pandemic, the council reported that the administrative cost of the scheme was on average £400,000 per year. This was set against revenues in 2019-20 of just under £10m per year.
- In discussions with officials involved in administering tourist taxes from Nice, Amsterdam, and Toronto, it was suggested that core staffing requirements ranged from 3 to 5 full-time equivalent members of administrative staff (further

costs were not shared due to sensitivity). Assuming the average cost to a local authority of a staff member was £35,000, this would mean in a Scottish local authority context, staff costs associated with administrative activities of around £105,000 to £185,000. With other non-staff costs adding around 25% (according to evidence from the OECD), this could mean overall administrative costs of £145,000 to £240,000, with a mid-point of £190,000.

- Edinburgh City Council officials have shared with the Scottish Government initial estimates of administrative costs associated with a visitor levy of around £500,000 per year. Just over half of this was estimated to be on core operational activities, with other items of expenditure on project management in relation to governance, operations and reporting, as well as IT maintenance and a provision for additional communications. It was also noted that some efficiencies could be made in some areas of programme management and administration costs if the levy could be administered with existing IT systems.

4.9.14 We expect that some elements of set-up and on-going costs will be fixed for each local authority choosing to implement a levy (costs of consultation, procurement and maintenance of IT systems, communications costs, etc.). Other elements of administration costs are likely to be variable and depend on the size of visitor economy in each local authority, the number of accommodation providers expected to be liable to remit a tax return, and the frequency at which returns are made to the local authority (monthly, quarterly, or annually).

4.9.15 Therefore, a smaller local authority with fewer accommodation providers requiring fewer tax returns would likely have lower on-going administrative costs compared to a larger local authority with a higher number of accommodation providers with more frequent tax returns. Edinburgh is an area of Scotland that fits this later categorisation and, on that basis, we assume that the £500,000 estimate provided by Edinburgh Council is likely to be at the upper end of on-going administration costs associated with a visitor levy and may therefore not be representative of on-going administrative costs in other areas.

4.9.16 On that basis we assume that the true range of costs for a particular local authority could be between £190,000 and £500,000 per year (not adjusting for inflation). Some elements of these costs will be borne in the year(s) prior to the implementation of the levy as, for example, systems and processes are developed to allow a levy to be collected and other activities such as governance arrangements are put in place, whilst others will be on-going costs. Local authorities have estimated that set-up costs may be in the order of £60,000 to £250,000 (including consultation costs), spread over two years prior to the introduction of the levy. For the purposes of the financial memorandum and BRIA, these are adjusted by a factor of 200% to reflect potential optimism bias in these estimates, given the large element of IT investment required²⁸.

4.9.17 It should be noted that administrative costs of the scheme will be an important consideration for local authorities as to whether in practice they use the powers within the Bill to introduce a levy in their area. We would expect local authorities to assess the cost-effectiveness of tax collection versus expected revenues, just as we

would expect local authorities to assess the potential for a visitor levy to negatively impact visitor demand.

Table 2: Summary table of expected costs to a local authority associated with a visitor levy²⁹

	Year T-2	Year T-1	Year T	Year T+1	Year T+2
Consultation and Decision-making	£10,000 - £20,000				<£1,000
Set-up cost	£50,000 - £230,000	£50,000 - £230,000			
Administration Costs			£190,000 - £500,000	£190,000 - £500,000	£190,000 - £500,000
Total	£60,000 - £250,000	£50,000 - £230,000	£190,000 - £500,000	£190,000 - £500,000	£190,000 - £500,000

* Set-up costs are assumed to be incurred over the years T-2 and T-1 prior to the implementation of a visitor levy. Due to the uncertainty around estimates, no inflation rate has been applied, but it should be noted that costs are likely to reflect inflation pressures in reality.

Costs to Accommodation Providers

4.9.18 Businesses and other organisations that provide accommodation on a commercial basis (accommodation providers) located in areas where a visitor levy is introduced are likely to face three main sources of additional costs. The first source of costs will be any initial set-up costs required to comply with a new visitor levy, and the second will be ongoing administrative and compliance costs, including making visitors aware of levy requirements. Both of these are covered explicitly in this BRIA and in more detail in Annex E. The third source of potential costs is related to potential changes in visitor behaviour which may negatively impact profitability and competitiveness. This is explored in more detail in Annex C and the Scottish Firms Impact Assessment ([section 6.1](#)).

4.9.19 It is worth stating that the actual compliance costs that could arise for a particular business will depend on a combination of factors that will be potentially unique to each business. Set-up and on-going compliance costs for accommodation providers may also be influenced by the decisions of local authorities in the implementation of the visitor levy locally, such as policy decisions around exemptions.

4.9.20 To assess and attempt to quantify the compliance costs to accommodation providers associated with the Visitor Levy Bill, Scottish Government analysts engaged with a number of accommodation providers ahead of the introduction of the Bill and identified the activities listed below as significant new burdens of a visitor levy.

4.9.21 For initial set-up costs, prior to the introduction of the visitor levy, the following costs were identified:

1. Costs associated with undertaking or commissioning necessary updates or changes to existing property management systems (PMS) in order to collect, record and remit visitor levy revenue accurately in accordance with local authority requirements.
2. Costs associated with training existing staff on new systems or changes that have been made to existing systems.
3. Costs associated with testing or piloting any new systems before a visitor levy is required to be collected.
4. Costs associated with renegotiating existing contracts with third parties (such as third-party booking platforms or online travel agents) where a commission is based on the price of accommodation in order to exclude the cost of a visitor levy.

4.9.22 For on-going compliance activities, the following activities were identified:

1. Costs associated with preparing regular remittance tax returns to the local authority.
2. Costs associated with performing reconciliation exercises associated with tax returns and due diligence checks to ensure, for example, the correct visitor levy rate is applied to invoices.
3. Costs associated with engaging in additional record keeping for the purposes of evidencing where a local exemption to the visitor levy was applied.
4. Costs associated with explaining to customers why a visitor levy has been added to their accommodation bill.
5. Costs associated with any increase in fees charged by property management system providers that supply technical solutions to businesses in order to correctly calculate the amount of visitor levy due from accommodation sales.

4.9.23 Given the degree of variation in potential costs across different businesses within the accommodation sector and the uncertainty with regard to which local authority areas might ultimately introduce a visitor levy, it is not possible to provide definitive estimates of the overall compliance costs faced by businesses in Scotland arising from the exercise of powers within the Bill.

4.9.24 The approach taken in this BRIA is therefore to devise indicative and hypothetical scenarios for the time and cost involved for a typical accommodation provider in terms of both set-up and ongoing compliance costs associated with a visitor levy. The cost ranges provided are based on assumptions drawn from synthesising information made available by accommodation providers, but it should be recognised that the costs stated are not necessarily representative of all businesses with those characteristics, and actual costs for a particular business may lie outside these bounds for a range of reasons.

4.9.25 Scenarios A and B below are designed to reflect two possible extremes in terms of the type of accommodation provider that may need to comply with a visitor levy. More detail on the methodology used is provided in Annex E.

4.9.26 Scenario A is a small to medium-sized hotel with an annual turnover of £1m - £5m per year, that employs around 50 employees in a variety of roles.

4.9.27 Based on engagement with stakeholders whose business structure broadly matched the description above, we assume that activities identified as set-up costs could absorb between 10 and 30 working days of time for various people employed by the business. After calculating the average salary of the staff which stakeholders indicated would be involved in these activities, we estimate the average set-up costs for this hypothetical business would be between £2,000 and £7,000.

4.9.28 It was also recognised that subscription fees to a property management system (PMS) supplier may rise, or a one-off payment may be charged to cover additional development costs. We assume that a one-off fee is charged by a PMS supplier that may be between £1,000 and £3,000, based on a previous costs reportedly charged for VAT changes.

4.9.29 In the longer-term, based on the time taken to complete VAT returns, we estimate annual on-going compliance costs associated with a visitor levy return for a typical business would be around £300 - £400 per year. Table 3 summarises these costs, with 'Year T' being the first year in which a local authority implements a visitor levy.

Table 3: Hypothetical compliance costs for a typical small to medium-sized accommodation provider

A small hotel with a turnover between £1m and £5m and around 50 employees	Year T-1	Year T	Year T+1	Year T+2
Set-up costs (excluding one off increase in PMS fee)	(£2,000 to £7,000)			
Set-up cost (one off charge for PMS development)	(£1000 to £3,000)			
On-going costs		(£300 to £400)	(£300 to £400)	(£300 to £400)
Total compliance cost to a typical small to medium size hotel	(£3,000 to £10,000)	(£300 to £400)	(£300 to £400)	(£300 to £400)

*Note 'Year T' is the year in which a local authority implements a visitor levy, costs are based on the assumptions set out above and are not necessarily representative of actual costs given variations in cost structures and contractual arrangements between individual businesses and third parties. Cost estimates are not adjusted for inflation and are rounded to the nearest £50.

4.9.30 The second scenario is based on a self-employed person that operates a small self-catering or B&B accommodation business. We assume that the business does not generate a sufficient turnover to pay VAT (i.e., turnover is less than

£85,000 per year). Based on published information about small operators in the sector, we assume these businesses would typically generate profits of between £12,000 and £50,000 per year³⁰.

4.9.31 Based on engagement with stakeholders whose business structure broadly matched the description above, we assume that set-up costs could absorb between 2 and 5 working days of time of the business owner ahead of the introduction of a visitor levy on various tasks as described above.

4.9.32 In addition to lost working days, we assume that there are likely to be some additional charges related to necessary changes to property management systems used by these businesses. In our engagement with stakeholders, typical annual subscription fees of between £500 and £2,000 per year were reported and we assume that there could be an uplift in these charges of 15%-25% to cover the costs of any development required by these companies to facilitate collection of a visitor levy. Ultimately it will be a commercial decision for PMS companies to reflect any development costs in subscription fees charged to accommodation providers.

4.9.33 In the longer-term, based on the average time reportedly taken to complete a VAT return per year (13.5 hours in total assuming 4 returns per year), we estimate annual on-going compliance costs associated with a visitor levy return for a typical business would be around £100 - £350 per year.

Table 4: Hypothetical compliance costs for a typical micro business in the accommodation sector

A micro business with a turnover of less than £85,000	Year T-1	Year T	Year T+1	Year T+2
Set-up costs	(£150 to £1,100)			
On-going costs (excluding a recurring increase in PMS fees)		(£100 to £350)	(£100 to £350)	(£100 to £350)
On-going costs (recurring increase in PMS fees)		(£100 to £500)	(£100 to £500)	(£100 to £500)
Total compliance cost to a typical micro accommodation business	(£150 to £1,100)	(£200 to £850)	(£200 to £850)	(£200 to £850)

*Note 'Year T' is the year in which a local authority implements a visitor levy, costs are based on the assumptions set out above and are not necessarily representative of actual costs given variations in cost structures and contractual arrangements between individual businesses and third parties. Costs are not adjusted for inflation and are rounded to the nearest £50.

Visitors, residents, and the wider business community

4.9.34 Under Option 3 **visitors** paying for overnight accommodation in local authorities where a levy is implemented could face new costs as a result of a visitor levy increasing the price paid for commercial accommodation, should accommodation providers choose to pass on the levy. It is not necessarily the case that accommodation providers will choose to pass on this cost directly to visitors (see discussion in Annex C), although it is more likely that the extent of any change in

prices will also be influenced by the decisions of local authorities in setting the visitor levy rate.

4.9.35 Higher prices for visitors could lead to changes in visitor behaviour, such as less visitor spending in the local economy, reductions in the number of nights visitors choose to stay in the local authority and, in extreme cases, a sufficiently high rate of visitor levy could lead to visitors choosing alternative destinations to visit. This will also have impacts for businesses that rely on tourism and for residents employed in tourism related industries.

4.9.36 A 2018 survey of visitors to Edinburgh conducted by STR³¹ found that, when asked what effect a £1-£2 visitor levy would have on their overnight stays, the vast majority (75%) of visitors to Edinburgh said that the tax would have no effect on their stay. This finding is in line with evidence from other cities which suggests that visitor numbers to destinations that have introduced a visitor levy did not see decreases in visitor activity (see Annex B). However, 15% of respondents to the survey did claim they would change their behaviour by either spending less on accommodation or spending less elsewhere on their trip. Only 2% of travellers said they would not travel to Edinburgh at all if the tax was applied.

4.9.37 The wider business community therefore may also face costs due to potential behavioural change from visitors reacting to higher prices. The wider business community could be negatively affected through reduced levels of turnover, should the visitor levy result in reduced ancillary spending by visitors, reduced duration of holidays and other trips or reduced visitor numbers generally. Residents, especially in areas with a high dependence on tourism for employment could also be negatively affected if falls in visitor spend fed through to less employment locally.

4.9.38 It should be noted that, at a Scotland level, some of these potential impacts may in part be displacement if for example visitors chose to spend money in other areas of Scotland where a visitor levy is not introduced. In addition, revenues from a visitor levy will also be used to develop, support and sustain facilities and services which are substantially for or used by those visiting the area for leisure purposes. There is some potential that this will offset any negative effects on visitor behaviour (see Annex C for a discussion of this).

4.9.39 It is important to note that stated preference surveys are imperfect measures of how visitors may behave in reality to an increase in prices. There is a lack of revealed preference evidence in relation to visitor behavioural changes to increases in prices of accommodation. The particular survey conducted by STR was also based on a presumption of a flat £1-£2 tax, not a percentage model as set out in the Bill. We might expect that those visitors that are particularly price sensitive will choose to stay in cheaper accommodation, and therefore under a percentage model, the implied increase in prices for these visitors will be necessarily moderated. Some evidence suggests that one group of travellers that are particularly price sensitive are single young people aged under 35, which was a finding also confirmed in the STR study. More information on the assessed impact of the Visitor Levy Bill on children and young people can be found in the Child Rights and Wellbeing Impact Assessment.

4.9.40 Table 5 sets out the comparative tax paid per person per night for different groups of travellers which could have different behavioural responses to price increases. Families using low-cost accommodation (such as a caravan site) could pay as little as 10 pence per person per night with a 1% visitor levy, whilst a couple visiting Edinburgh at peak season staying in a hotel may pay up to £2 per person per night. This reflects both advantages in progressivity, and that a percentage charge approach means a visitor levy is potentially less distorting to behaviour compared to a flat tax where each visitor would pay the same amount in visitor levy.

Table 5: Hypothetical examples of overnight stays and visitor levy payable across different accommodation types

Scenario	Description	Price	Total taxable cost	Total Visitor Levy Payable (1%)
A	A couple stay in Edinburgh for a long weekend (3 nights) in August and stay in an average priced hotel	£220 per room per night	£660	£6.60
B	A single person stays 2 nights in a hotel in an average priced hotel in Aberdeen in November	£80 per room per night	£160	£1.60
C	Two couples visit Edinburgh for a short-break (4 nights) using an Airbnb rental (entire home)	£170 per property per night	£680	£6.80
D	A group of 4 backpackers travel to the Highlands for a long-weekend (3 nights) and use hostel accommodation on their trip	£30 per bedspace per person	£360	£3.60
E	A family of five (2 adults and 3 children) for a 1 week holiday in April in self-catering accommodation in Argyll & Bute	£775 for a one week booking	£775	£7.75
F	A family of four (2 adults and 2 children) for a 1 week summer holiday at a caravan site	£40 per pitch per night	£280	£2.80

4.9.41 Under Option 3 residents of the local authority choosing to introduce a visitor levy are unlikely to experience any direct costs if the price of local accommodation increases unless they were staying in commercially let accommodation rather than their own home. It may be the case that residents who choose to purchase accommodation in a local authority area in which they are also resident would pay a higher price for that accommodation due to the introduction of a visitor levy in their area. This could arise in instances where residents cannot live in their current home because of damage (flooding or fire damage for instance). It is up

to the local authority to determine whether cases like this may be subject to a local exemption, and how such an exemption would operate.

4.9.42 The direct financial implications of the Bill on the **Scottish Government** are minimal. As the decision to introduce a visitor levy is discretionary, the Scottish Government will not provide funding to local authorities to meet any costs associated with designing, implementing or applying any visitor levy scheme. There may be some costs to the Scottish Government and its agencies – for example depending on how VisitScotland might be involved - associated with developing secondary legislation or national guidance as required but these can be expected to fall within the scope of business as usual costs.

4.9.43 There may be costs associated with appeals against decisions made in respect to a visitor levy to the First-Tier Tribunal. The 2019 public consultation did not ask respondents for views on appeal fees. The Bill creates a two stage process where a local authority internal review is followed by the ability to appeal to the First-Tier Tribunal. The Bill confers regulation-making powers to Scottish Ministers to make further provision on the detailed arrangements around appeals.

4.9.44 If local authorities use the power to introduce a visitor levy, then the Scottish Government and its agencies may have additional costs if they choose to pay the levy on behalf of staff staying in overnight accommodation for official business in areas that apply a visitor levy. The increase to travel and subsistence costs for the Scottish Government will depend on the number of business trips made to areas where a levy is in place and the rate of the visitor levy applied in these areas.

5. Regulatory and EU Alignment Impacts

5.1 Intra-UK trade: Is this measure likely to impact intra-UK trade?

5.1.1 Part 1 of the United Kingdom Internal Market Act 2020 sets out market access principles of mutual recognition and non-discrimination for the treatment of goods traded across the UK. Part 2 of the [United Kingdom Internal Market Act 2020](#) sets out market access principles of mutual recognition of authorisation requirements and discrimination in the regulation of services.

5.1.2 Under Part 2 of the Act, the mutual recognition principle provides that a person authorised to perform a service in one part of the UK may not need a separate authorisation to perform that service in another part. An authorisation requirement is a legislative requirement (a requirement imposed by, or by virtue of, legislation) that a service provider must have the permission of a regulator to provide services.

5.1.3 The potential requirement for some accommodation providers operating in specific local authorities in Scotland to charge, collect and remit a visitor levy will be a new requirement for these businesses that will not exist in other parts of the UK. If an accommodation provider operating in an area where a visitor levy is imposed does not comply, they may be subject to enforcement action which would not be the case elsewhere in the UK.

5.1.4 Although this does create different charges and possible impacts, Schedule 2 of the Act lists taxation as an authorisation requirement to which mutual recognition does not apply.

5.1.5 Similarly, the principle of non-discrimination provides that a regulatory requirement will be of no effect in relation to an incoming service provider where it discriminates against that provider directly or indirectly. As the visitor levy will be applicable to all accommodation providers offering commercial accommodation in a defined area, the treatment of existing and incoming businesses will be similar. Regardless, Schedule 2 of the Act also lists taxation as an authorisation requirement to which non-discrimination does not apply.

5.1.6 Although we recognise that the powers within the Bill will, if used by local authorities, potentially introduce some additional requirements for accommodation providers that do not exist elsewhere in the UK, we do not anticipate any impact on intra-UK trade or that the Bill will be in conflict with the principles set out in the Internal Market Act given the specific exemptions for authorisations linked to taxation.

5.2 International trade: Does this measure have the potential to affect imports or exports of a specific good or service, or groups of goods or services?

5.2.1 Accommodation services provided to visitors can be thought of as an example of a non-tradeable good/service, as the demander (the visitor) and producer (the accommodation provider) must be located in the same location. As the provision of commercial services in a particular place cannot be traded internationally, we do not consider the Bill will have an effect on any imports or exports of goods or services.

5.3 EU alignment: Is this measure likely to impact on the Scottish Government's policy to maintain alignment with the EU?

5.3.1 As stated elsewhere in the BRIA, the existence of local taxes on visitors using commercial accommodation are common across the European Union. Therefore, we do not anticipate that the bill will have any impact on the Scottish Government's policy to maintain alignment with the EU.

6. Other Impact Assessments

6.1 Scottish firms impact test

6.1.1 As discussed in the analysis of the options, the introduction of a visitor levy is likely to have various impacts on Scottish firms providing commercial accommodation in local authority areas that choose to introduce a visitor levy. Other non-accommodation businesses may also be affected in these areas, and these are considered in the Scottish firms' impact test.

6.1.2 The Scottish firms' impact test sets out:

- details of Scottish Government engagement with accommodation providers that underpins the compliance costs assumptions as set out in paragraphs 4.9.25 to 4.9.33 above;
- considers the impact a visitor levy could have on the competitiveness of Scottish businesses within the UK and elsewhere in Europe and;
- how many accommodation providers may be affected in different parts of Scotland should local authorities choose to introduce a visitor levy.

Summary of key messages from engagement with accommodation providers

Background

6.1.3 The Scottish firms impact test is informed by engagement with accommodation providers from late 2018 to late 2022. This engagement was necessarily paused during the Covid-19 pandemic. The first phase was a National Discussion with stakeholders within the tourism industry such as accommodation providers or their representatives and local authorities from November 2018 to January 2019 which covered a range of objectives around the impact of a visitor levy.

6.1.4 Following this exercise, a two-part targeted piece of engagement was undertaken for the purposes of informing this BRIA with 20 accommodation providers focusing on specific research questions as listed below. The engagement consisted of semi-structured interviews which took place between July and September 2019 and a follow-up survey which ran between November and December 2022. The research questions below served as a guide for the semi-structured interviews, and these were then supplemented further with focused questions in a follow-up survey.

Research questions

6.1.5 Two main methods were used - a semi-structured interview of 20 respondents, and an online survey completed by 9 of the original 20 respondents. The BRIA guidance states that between 6-12 businesses should be consulted on the impact of any proposed legislation or new regulation. These accommodation providers were identified through engagement with the Association of Scottish Self Caterers, the Federation of Small Businesses, and UK Hospitality. We have also interviewed representatives of other sectors potentially affected by a visitor levy including Hostelling Scotland, and the Caravan and Motorhome Club.

6.1.6 The following research questions were tested with accommodation providers:

1. What are the potential new costs to the accommodation sector associated with the visitor levy in terms of collection and remittance? And what are the principal sources of such costs?
2. What is the impact of the potential new costs to the accommodation sector?

3. To what extent do these costs vary by both accommodation provider type and design of a visitor levy? What approach to the basis of the charge would be most appropriate and minimise costs of collection for accommodation providers? Should the decision on the basis of charge and the rate be determined nationally or locally?
4. What approach to collecting a visitor levy would be most appropriate and minimise costs of collection for the accommodation provider?
5. How will local authorities use revenues from a visitor levy to support local tourism? What items of local authority spending should be supported by the revenue generated by a visitor levy?

6.1.7 Characteristics of accommodation providers surveyed

6.1.8 On the 20 semi-structured interviews, five different types of accommodation providers were contacted across Scotland: hotel (12); self-catering (5); inn (1); hostel (1); caravan/ motorhomes/ campsites (1). Respondents' businesses were located across the following areas: Edinburgh city and Fife (6); Highland (4); Perth and Kinross (3); Moray (1); Aberdeen city (1); Glasgow (1); Argyll and Bute (1); Scottish Borders (1); and others, across Scotland (2). The interviews lasted approximately 60 minutes per session.

6.1.9 The online survey saw nine self-administration submissions out of 20 invitations (representing a 45% response rate) from hotel (6) and self-catering (3) accommodation providers. Five out of the nine accommodation providers operated from only one location in Scotland, namely, Argyll and Bute, Fife, Highland, Perth and Kinross and Scottish Borders; three operated from between two to nine locations in the city of Edinburgh, East Lothian, and Glasgow city, including some of those previously mentioned; and the remaining one, operated in over 50 locations including some of those already indicated and in Aberdeenshire and Moray.

6.1.10 The annual turnover (in 2021-2022) of the accommodation providers surveyed varied widely. Two businesses had annual turnover of over £10 million, five recorded a turnover of between £1 million to £5 million and two indicated annual turnovers of less than £85,000. In terms of the proportion of annual turnover coming from sales of accommodation (excluding ancillary services), two accommodation providers indicated that less than 50% of their turnover was from sales of accommodation, a further two responded between 50% to 79%, four indicated 80% to 94% and three stated 95% to 100%.

Findings

6.1.11 The findings of the research are summarised below:

1. What are the potential new costs to the accommodation sector associated with the visitor levy in terms of collection and remittance? And what are the principal sources of such costs?

Costs estimates were suggested to be highly speculative and ultimately depended on the complexity of the visitor levy proposed by local authorities.

Seven main activities associated with a visitor levy were identified which accommodation providers would have to undertake before a visitor levy could be collected and remitted to a local authority ('set-up costs'). These are listed below:

- a. Familiarising with what is required to comply with local authority guidance for a visitor levy.
- b. Undertaking or commissioning necessary updates or changes to existing Property Management Systems (PMS) in order to collect, record and remit the visitor levy in accordance with local authority requirements.
- c. Training existing staff on new systems or changes that have been made to existing systems.
- d. Renegotiating existing contracts with third parties (such as online travel agents) where a commission is based on accommodation sales.
- e. Altering pricing schedules or dynamic pricing models to account for the visitor levy and deciding whether the business will pass on the cost of the visitor levy to guests.
- f. Testing or piloting any new systems.
- g. Hiring new staff or redeploying existing staff time to implement new systems or change existing systems.

There were differing time allocations for the total staff time required to complete the identified set-up activities listed above, with three accommodation providers stating they were unable to estimate the time associated. Out of the six remaining, time estimations between two to five days were indicated by two accommodation providers and 10 to 14 days by another two providers. However, time estimations as high as 30 days to several months were also indicated.

All surveyed accommodation providers indicated they would be engaged in the following on-going administrative activities.

- a. Preparing regular remittance tax returns to the local authority.
- b. Performing reconciliation exercises associated with tax returns and due diligence checks.
- c. Engaging in additional record keeping for the purposes of evidencing where a local exemption to the visitor levy was applied so this can be evidenced to the local authority if questioned.
- d. Explaining to customers why a visitor levy has been added to their accommodation bill.
- e. Similar to the set-up time estimation, the common assessment of time burden for administrative activities were 3 to 5 days for micro businesses and 10 to 14 days for SMEs, with one large accommodation provider indicating 30 days.

We also asked these businesses to assess the time commitment associated with VAT as a proxy for the time that it may take to complete a visitor levy return. With respect to remittance of VAT, eight out of nine accommodation providers made regular VAT returns to HMRC, and often remittances were paid quarterly. Out of the eight businesses that paid VAT, the common amount of time to compile and quality assure before HMRC submission was four to eight hours (3), followed by

less than an hour (2), with the remaining three each selecting, one to two hours, three to four hours and 16 hours. Excluding the outlier of 16 hours, the average time to complete a VAT return was found to be 3.5 hours per return.

All accommodation providers surveyed used an 'off shelf' PMS from third parties for services such as invoice generation, value-added tax (VAT) calculations and flexible and dynamic pricing strategies. The fee charge ranged from as low as £500 per year (for a small self-catering business) to £500,000 per year (for a large hotel with a turnover of over £10 million), with additional fees of about £2,000 charged for changes such as VAT changes. Most also indicated additional recurring charges for their accounting system supplier and PMS. It was indicated that PMS providers may need 6 to 12 months to develop and test a workable solution for the collection and remittance of a levy. For smaller businesses which do not use a PMS, tax returns are likely to be calculated manually, resulting in additional administrative costs.

2. What is the impact of the potential new costs to the accommodation sector?

Accommodation providers stated that the cost of a visitor levy would be reflected in accommodation prices and that this could potentially lead to reduced visitor spending and/or reduce the number of visitor nights spent in a given location. It was noted that there was a risk that self-caterers and small accommodation providers may choose to leave the market if the increased compliance burdens associated with a visitor levy were significant. Smaller businesses which operate with an annual turnover below the VAT registration threshold could incur higher additional burdens relative to larger operators in the form of additional time burdens rather than direct financial costs.

3. To what extent do these costs vary by both accommodation provider type and design of a visitor levy? What approach to the basis of the charge would be most appropriate and minimise costs of collection for accommodation providers? Should the decision on the basis of charge and the rate be determined nationally or locally?

Costs will vary per the type of accommodation provider and other design attributes such as exemptions.

Different basis of charge models for a visitor levy were tested with accommodation providers. For example, to minimise compliance costs, generally self-caterers, hostels/caravan, and campsite operators preferred a percentage of the accommodation charge because these businesses did not always know how many people stayed in their accommodation per night. Hoteliers indicated a per room per night charge would be most simple to administer.

It was suggested that the operation of exemptions would lead to additional complexity and therefore higher compliance costs for businesses. It was noted that some online bookings required little information on characteristics of the visitor to be inputted, so operating exemptions would require additional relevant information to be collected. Consideration of how this data may be protected in line with data protection legislation was also raised as a concern. It was suggested that a 'reclaim route' could be used to minimise these costs, where a

visitor qualifying for an exemption would pay upfront and apply for a refund directly to the local authority.

It was suggested that a visitor levy should be introduced within a national framework that has defined parameters for consistency. For example, a consistent basis of charge across all local authorities that might introduce a visitor levy was viewed as important for providers operating in multiple locations across the country.

It was further mentioned by some accommodation providers that all authorities should be required to introduce a visitor levy to avoid competition between areas. This is however a significant departure from the proposed discretionary nature of the levy.

A complaints procedure for visitors about the visitor levy was also suggested so that frontline accommodation provider staff do not need to explain the visitor levy policy.

4. What approach to collecting a visitor levy would be most appropriate and minimise costs of collection for the accommodation provider?

The Visitor Levy Bill does not specify how a visitor levy is collected in practice by local authorities and it may be the case that accommodation providers will have flexibility with respect to these practical decisions. Two collection models were proposed in the research: a visitor payment collection model; and an accommodation provider payment model.

The visitor payment model was further divided into two: a visitor levy at point of sale or booking; or a visitor levy at point of arrival or departure. The point of sale or booking model meant collecting visitor levy payments before actual visits are made. This was seen as the most transparent as all upfront payments/charges are made known to avoid an 'unexpected' additional tax/levy at the point of departure which could cause ill-feeling. However, the downside is the processing of refunds for cancelled bookings leading to potential additional complexities and costs.

The point of arrival or departure meant visitors make payment when arriving or departing the accommodation facility. This was seen as compatible with price display regulations and to help communicate that the visitor levy is an additional charge levied by the local authority and not the accommodation provider. However, this was thought to be challenging, especially for some in the self-catering sector, where use of remote check-in was common.

The accommodation provider payment model meant periodic visitor levy payments are made based on actual occupancy or turnover from room sales and remitted to local authorities directly.

5. How will local authorities use revenues from a visitor levy to support local tourism? What items of local authority spending should be supported by the revenues generated by a visitor levy?

It was proposed that visitor levy revenues should be hypothecated or ring-fenced for tourism related services such as: advertising and promotion of local areas and attraction; upkeep of amenities from pressure caused by visitors such as waste collection; maintenance of footpaths, public space and visitor information centres; and supporting training/apprenticeships of young people in hospitality.

It was also highlighted that there were likely to be different priorities for revenues depending on the characteristics of the local authorities involved, particularly in terms of the degree of rurality, and especially in the case of island communities. Further information on our assessment of the Bill on islands can be found in the Island Communities Impact Assessment.

Number of accommodation providers affected by the introduction of a visitor levy

6.1.12 Annex D summarises in detail the available data covering the types of businesses which could be impacted by the introduction of a visitor levy, with a selection of relevant information referenced here in the Scottish firms' impact test.

6.1.13 The latest available data show that the accommodation sector in Scotland comprised 2,925 registered enterprises in 2022, employing 44,000 people in 2021¹²⁸. Registered enterprises are businesses that are registered for VAT and/or PAYE. The data therefore does not capture the very smallest of businesses whose turnover falls under the VAT threshold (£85,000) and who are not PAYE registered.

6.1.14 The majority of registered enterprises and employment in the accommodation sector is in hotels and similar accommodation (56% of enterprises and 84% of employment).

6.1.15 Small businesses (0-49 employees) account for the vast majority (93%) of registered businesses in the accommodation sector with medium businesses (50-249 employees) accounting for just 5% and large businesses (250+ employees) just 2%.

6.1.16 Half of accommodation enterprises are located in just five local authority areas, with a fifth of enterprises in the sector located in Highland (22.2%), 10.4% in Edinburgh, 8.7% in Argyll and Bute, 7.5% in Perth and Kinross, and 6.3% in Dumfries and Galloway.

6.1.17 As the visitor levy will be applied as a percentage charge of accommodation sales, total turnover is a reasonable indicator of the relative impact of a visitor levy on businesses in a particular area and would also be indicative of the potential revenues that could be generated from a levy in each local authority area³².

6.1.18 The accommodation sector was impacted severely by the Covid-19 pandemic. Total turnover in the sector was nearly 50% lower in 2020 (£1.4bn) compared to 2018 (£2.7bn). Business activity in the accommodation sector, in terms of turnover, was largest in Edinburgh, which represented 20% of total turnover in the accommodation sector prior to the Covid pandemic in 2019 (16% in 2020), followed by Glasgow at 11% (8% in 2020), Highland at 10% (12% in 2020), Perth and Kinross

at 8% (8% in 2020) and Fife at 6% (5% in 2020). We would expect these broad regional trends in size of the accommodation sector to persist as the sector recovers from the pandemic.

6.1.19 There are a significant number of unregistered businesses in the accommodation sector, particularly in the short-term let accommodation sector. Businesses with a turnover of less than £85,000 do not have to register for VAT and may not use PAYE either, for example where a business is run by a self-employed person. Therefore, these businesses will not appear in the official statistics on registered businesses in the accommodation sector. Small self-catering businesses are likely to fall into this category.

6.1.20 Alternative data sources can be used to indicate the number of unregistered businesses in the sector. As at January 2023, there were around 18,280 self-catering premises on the non-domestic rates valuation roll and figures from 2021 indicate there were also around 1,490 of premises that were registered for council tax (rather than non-domestic rates) and operating as a small accommodation provider. Local authority breakdowns of this data are available in Annex D. Other evidence suggests that the short-term let sector could be even larger across Scotland, with as many as 32,000 short-term lets in 2019³³. As the visitor levy will be implemented after the requirement for short-term lets in Scotland to hold a licence issued by a local authority, local authorities will have access to more complete data as to the size of this sector in their own areas when a visitor levy is introduced.

6.1.21 It should be noted that the figures referenced in 6.1.19 generally refer to the number of premises operating in the sector (i.e., individual properties registered for non-domestic rates or properties recorded as available to let on online collaborative sharing platforms). This means they are not directly comparable with business statistics from the Inter-Departmental Business Register (as in Table D1 in Annex D), as these count the number of registered business enterprises in the accommodation sector. A single enterprise may operate from more than one premise on the valuation roll or let out multiple properties on a collaborative sharing platform.

Competitiveness of Scottish accommodation providers within the UK and elsewhere in Europe

6.1.22 The impact of a visitor levy on accommodation providers' competitiveness and profitability depends firstly on whether businesses are able to pass on the cost to visitors, and secondly on the behavioural response of visitors to a change in accommodation price. It also depends on the extent to which revenues generated from a visitor levy are successfully deployed to improve other factors that influence overall competitiveness of Scotland as a tourism destination. These factors are assessed and discussed further in Annex C.

6.1.23 In terms of international price competitiveness, evidence from the World Economic Forum's (WEF) Travel & Tourism Competitiveness Index (TTCI)³⁴ suggests that pre-pandemic, the UK scored relatively poorly, ranking last in terms of its price competitiveness. This was influenced by the relative high cost of plane ticket taxes and airport charges, fuel, and the cost of living (measured by purchasing power parity).³⁵ The price competitiveness pillar also includes a measure of hotel

prices, where the UK was ranked 72nd out of 140 countries in 2019.³⁶ Since then, the pandemic had a substantial impact on the sector affecting many areas measured within the index. In 2021, the set of measures in the index was revised to focus on the sustainable development of the sector across a smaller coverage of 117 countries and was renamed the Travel & Tourism Development Index (TTDI). The price competitiveness score for the UK in the updated index remained low, ranking second to last out of 117 countries. UK hotel prices were just below the average, ranking 64th. The revised index included a new measure of short-term rental prices, for which the UK had relatively high prices, ranking 106th.³⁷

6.1.24 However, there are many other non-price factors that impact competitiveness. Based on the extensive research in this field, WEF's Travel & Tourism Development Index (TTDI) suggests other components that impact the competitiveness of a tourism destination include a country's: business environment and productivity; safety and security; labour market; health and hygiene; digital and transport infrastructure; government support; governance structure; tourist services; natural and cultural resources and international openness. In terms of the overall competitiveness of its tourism sector based on the above factors, the UK is highly ranked in 2021 (8th out of 117 countries). In 2019, the UK ranked 6th out of 140 economies, behind only Spain, France, Germany, Japan, and USA.

6.1.25 Research from the European Commission³⁸, World Tourism Organisation³⁹, and the OECD⁴⁰ also found that, while price is an important factor in influencing tourism demand, it is not the only determining factor. These studies highlight many of the same determinants that influence the perceived quality of a country's tourism product considered by the World Economic Forum's TTDI, such as infrastructure, natural and cultural resources, social development and sustainability.

6.1.26 It is important to note that tax plays a role in influencing some of the non-price factors that impact tourism competitiveness as it generates revenue to invest in public goods such as infrastructure, cultural and natural resources, safety and security and labour market improvement policies.

6.1.27 Research conducted by VisitScotland in 2017 suggested that for visitors to Scotland, the price of hotels/accommodation was not an important factor in their motivation to visit Scotland, with only 6% of visitors indicating that this factor persuaded them to visit Scotland. Visitors were primarily drawn in by its natural and cultural resources, with other main motivations cited including: escapism; visiting friends / family; proximity; friendly people; and range of activities available. Location and value were found to be key factors in accommodation choice, but availability of free WiFi was also important, whilst value for money was more important for younger and international visitors.⁴¹ Other research has suggested that the three most important factors for choosing a destination for EU citizens are cultural offerings, price, and the natural environment of a destination.⁴²

6.1.28 According to Scottish Tourism Alliance members, improving infrastructure and transport, avoiding further tax on businesses and tourists, and improving the quality of the visitor experience were the top three things that businesses listed that Scotland needs to do to be a more globally competitive tourist destination, with many

also indicating improved digital infrastructure and consumer value for money as key.⁴³

6.1.29 Beyond pricing, factors that tourism businesses can strategically put in place to improve competitiveness include: technologies and innovation; business performance/efficiency; sustainability practices; marketing; using well-trained staff; and building strategic alliances with complementary firms. These all help to improve service quality and customer satisfaction, and encourage brand loyalty, all of which impact competitiveness in this sector.⁴⁴ External factors can also impact competitiveness such as: the happiness and quality of life of local residents; the spending power of tourists; and supporting industries such as transportation and travel firms.⁴⁵

Impacts on other firms (excluding accommodation providers)

6.1.30 Outwith accommodation providers, the Scottish Government's wider sustainable tourism growth sector includes pubs, bars, restaurants, other tourist attractions and tour operators within its definition. Within these, there are 13,025 registered businesses operating from 15,305 sites in Scotland, with estimated employment of 166,000 people.

6.1.31 Of the 12,750 businesses operating with less than 50 employees, 1,640 (12.9%) were in Edinburgh and 1,855 (14.6%) were in Glasgow.

Table 6: Number of businesses, employment, turnover and GVA in Sustainable Tourism sector (excluding accommodation)

	Registered Businesses	Small Registered Businesses (<49 employees)	Medium-sized registered businesses (50-249 employees)	Large Registered Businesses (250+ employees)	Employment (BRES 2021)	Total Turnover (in £m) (SABS 2020)	GVA (in £m) (SABS 2020)
SIC 56.1: Restaurants and mobile food service activities	8,590	8,445	80	60	104,000	2,224.1	1,201.3
SIC 56.3: Beverage serving activities	2,580	2,540	30	15	29,000	763.2	425.7
SIC 79.12: Tour operator activities	200	190	10	0	700	60.8	18.0
SIC 79.9: Other reservation service and related activities	120	120	0	0	1,500	27.3	7.0
SIC 91.02: Museum activities	100	100	5	0	4,500	21.3	-7.2
SIC 91.03: Operation of historical sites and buildings and similar visitor attractions	60	55	0	5	3,000	36.7	-8.5
SIC 91.04: Botanical and zoological gardens and nature reserve activities	40	30	10	0	2,250	30.4	3.9
SIC 93.11: Operation of sports facilities	455	420	25	15	12,000	226.6	103.0
SIC 93.199: Other sports activities (not including activities of racehorse owners) nec	445	435	5	5	4,000	101.4	43.9
SIC 93.21 Activities of amusement/theme parks	20	15	5	0	700	20.3	10.9
SIC 93.29: Other amusement and recreation activities	410	400	5	5	4,000	128.4	66.5

Sources: ONS, Inter-Departmental Business Register (March 2022), Business Register Employment Survey 2021, Scottish Annual Business Statistics 2020

6.1.32 Businesses in the accommodation sector supply chain will also potentially be affected if a local authority introduces a visitor levy, including retailers and wholesalers of food and drink, service providers to accommodation premises (e.g., laundry services, cleaning services) and other related suppliers in the wider supply chain including outside catering.

6.1.33 In addition to businesses in the supply chain, Scottish businesses may incur increased costs if they choose to meet travel and subsistence costs for staff who may be required to travel and stay overnight in other areas of Scotland where a visitor levy is implemented. Statistics from the Great Britain Tourism Survey (GBTS) indicate that in 2019, across Scotland as a whole, around 1.6 million (12%) of the total 13.8 million domestic visitor nights estimated to take place are accounted for by people staying overnight for business purposes.⁴⁶ For international visitors staying overnight in Scotland, it is estimated that 371,000 (11%) of the total 3.4 million were for business purposes.⁴⁷ There are also strong regional variations across Scotland. In 2019, travel for a business-related reason made up a higher share of international visits in Grampian (29% of international visits, 16% of domestic) than in Edinburgh and Lothians (9% of international visits, 15% of domestic). Greater Glasgow & Clyde saw the highest share of business travel for domestic visitors (21% of domestic visits, compared to 15% of international visits).⁴⁸

Impacts on Small Businesses

6.1.34 Smaller businesses including hotels, B&Bs, guest houses, hostels, commercial campsites and caravan sites, restaurants or pubs with rooms and self-catering accommodation including any properties let via collaborative sharing platforms may be affected disproportionately by additional compliance costs, in particular for those operating below the VAT registration threshold. These businesses are likely to have limited resources (in terms of time and financial resources) to ensure compliance with a visitor levy, particularly if there is complexity around exemptions in any local scheme.

6.1.35 Accommodation providers are largely micro or small businesses, with relatively small numbers of employees. Table 7 sets out registered business units within the accommodation sector in bands by employee size, and Table 8 shows the breakdown by local authority areas. These are business units that are registered to pay either VAT and/or PAYE. Within the accommodation sector, 93% of registered enterprises are small businesses with less than 50 employees. 53% of registered businesses have 0 – 4 employees and 15% have 5 – 9 employees. Argyll and Bute, North Ayrshire, Perth and Kinross, Highland, Scottish Borders and Angus all have above average (69%) shares of registered accommodation businesses with less than 10 employees.

Table 7: Number of Registered Businesses, by Employee Sizeband and Accommodation type⁴⁹

	0-4 employees	5-9 employees	10-14 employees	15-49 employees	50+ employees	Total
Hotels and similar accommodation	545	300	165	450	180	1,645
Holiday centres and villages	90	25	5	10	5	135
Youth Hostels	20	5	0	0	0	25
Other holiday and short-stay accommodation (not including holiday centres and villages or youth hostels)	620	75	15	20	10	40
Camping grounds, recreational vehicle parks and trailer parks	215	5	15	10	10	295
Other Accommodation	65	5	5	5	5	85
Total accommodation	1,560	450	210	495	210	2,925

Source: ONS, Inter-Departmental Business Register (March 2022)

Table 8: Number of Registered Accommodation Businesses, by Employee Sizeband and by local authority

Local Authority	0-4 empl oyees	5-9 emplo yees	10-14 employe es	15-49 employe es	50+ employe es	Total
Aberdeen City	25	5	5	15	30	80
Aberdeenshire	85	20	15	40	15	170
Angus	30	15	5	10	5	65
Argyll and Bute	140	45	15	35	20	255
City of Edinburgh	170	35	10	35	50	305
Clackmannanshire	5	0	0	0	0	10
Dumfries and Galloway	85	35	25	30	10	185
Dundee City	5	0	0	5	10	30
East Ayrshire	10	0	0	5	5	20
East Dunbartonshire	5	0	0	0	0	10
East Lothian	25	5	5	10	10	50
East Renfrewshire	0	0	0	5	5	5
Falkirk	15	0	5	10	5	35
Fife	80	15	10	20	20	150
Glasgow City	55	25	10	35	35	155
Highland	355	100	45	100	50	650
Inverclyde	0	5	0	5	5	10
Midlothian	10	5	0	5	0	25
Moray	40	15	5	20	5	85
Na h-Eileanan Siar	30	5	5	10	0	55
North Ayrshire	40	10	5	10	10	70
North Lanarkshire	10	0	0	5	10	30
Orkney Islands	10	10	0	10	0	30
Perth and Kinross	115	40	15	35	25	220
Renfrewshire	10	5	0	5	10	30
Scottish Borders	65	15	10	15	10	115
Shetland Islands	10	5	0	5	0	25
South Ayrshire	30	10	5	10	20	75
South Lanarkshire	20	5	5	5	15	40
Stirling	65	15	15	15	15	125
West Dunbartonshire	10	0	0	5	5	20
West Lothian	15	5	0	5	5	30
Scotland	1,560	450	210	495	210	2,925

Source: ONS, Inter-Departmental Business Register (March 2022)

Note: Each business is counted once in each area it operates in. The sum of the area business counts does not equal the overall Scotland total because each business is only counted once in the Scotland figures.

6.1.36 Other statistics in Annex D show the distribution of business premises registered for non-domestic rates in the accommodation sector and premises

registered for council tax in the accommodation sector that received covid business support. Given the variation in numbers (particularly with self-catering premises⁵⁰), it is clear that there are a large number of small accommodation providers that are not registered for VAT. Local authorities will hold more complete data on small businesses through information that is being collected through the short-term let licensing regulations. This will allow local authorities to accurately access the number of businesses required to submit a tax return in future, regardless of size.

6.1.37 Recognising this, the Bill will allow an accommodation provider to choose to enter into an arrangement with a third party to allow them to collect the levy, remit it to the local authority, and complete any relevant returns to a local authority on their behalf. The policy intention is that an accommodation provider can choose to make arrangements for a third party to handle these aspects, as is common practice in many jurisdictions where a visitor levy is paid⁵¹. It would remain the case, in these circumstances, that the fulfilment of the requirements and duties in relation to a visitor levy remains the responsibility of the accommodation provider. This allows a local authority, if it is necessary, to take enforcement action against the accommodation provider rather than any third party. Other mitigations for accommodation providers not using platforms that collect and remit the visitor levy on their behalf may be made by the local authority, including for instance, requiring less frequent tax returns (one per year rather than four for example).

6.1.38 In other contexts, as previously highlighted, depending on the treatment of the visitor levy for VAT, some small businesses may need to take action to reduce turnover from sales of accommodation to remain under the VAT registration threshold. This is discussed in the competition assessment below.

6.2 Competition assessment

6.2.1 It is envisaged that a visitor levy would apply to all accommodation providers within a local authority area that introduces the levy, including short-term let visitor accommodation. However, particularly under Option 3, there may be discretion for local authorities to introduce higher or lower levies in certain areas of a local authority, or to exclude certain types of accommodation. This would potentially have an impact on competition between accommodation providers.

6.2.2 The following sets out the Scottish Government's view on the impact of a visitor levy, using the standard questions within the competition assessment.

- Will the measure directly or indirectly limit the number or range of suppliers?

6.2.3 There is potential that some smaller accommodation providers (particularly in the self-catering sector and providers offering accommodation through collaborative sharing platforms) could exit the sector if administration and compliance costs associated with the levy are perceived as significant.

6.2.4 It should be recognised that some businesses that operate on a turnover below the VAT registration threshold (£85,000) may be particularly exposed as, depending the position the UK Government take on a visitor levy and VAT, these businesses may also need to comply with the VAT regime as well as the visitor levy.

There is a high degree of uncertainty associated with estimating the number of accommodation businesses that are unregistered for VAT. The Businesses in Scotland 2022 publication estimates that on average there were around 5,000 unregistered businesses in the accommodation and food service activities sector⁵².

6.2.5 In developing this BRIA, we estimate that approximately 40%-60% of these unregistered businesses will be accommodation providers, meaning that there are potentially around 2,000-3,000 accommodation businesses unregistered for VAT currently across Scotland (with 2,925 being VAT registered). There are likely to be further unregistered providers of accommodation which operate more informally, where income generated from the sale of accommodation is not the main source of income for someone who is self-employed. (Unregistered business statistics would not, for example, include persons that have an income from a short-term let property if this income is not the main source of income for the individual.) As the licensing regime for short-term lets is rolled out across Scotland local authorities will have a clearer understanding of the number of commercial accommodation operators in their areas of all sizes.

6.2.6 Of the potential 2,000-3,000 unregistered accommodation businesses, it is recognised that a proportion of these may be operating close to or at the £85,000 threshold. The addition of a visitor levy to the accommodation sales price may mean some businesses will either need to register for VAT or take some action to reduce their turnover to remain below the £85,000 threshold. Registering for VAT would incur an increased tax liability and lead to some additional compliance costs for such business, whilst reducing their turnover would have a limiting effect on the supply of accommodation. To illustrate the potential impact on an accommodation provider in these specific circumstances we have developed the following worked example.

6.2.7 For instance, a small self-catering business letting two properties at a rate of £125 per night for 340 nights per year would have a turnover of £85,000, the maximum turnover for any businesses unregistered for VAT. If the local authority these properties are located in proceeds to introduce a 2% visitor levy, this would increase the price of accommodation paid by visitors in this case to £127.50 per night. Assuming the accommodation is booked for the same number of nights after the introduction of the visitor levy (340 nights), the total turnover of the business is £86,700, with £1,700 remitted to the local authority as a visitor levy payment.

6.2.8 However, at this level of turnover the business would exceed the VAT turnover threshold if the visitor levy is treated as VATable. This means the business would either have to (a) register for VAT and increase the sale price of accommodation by 20% or (b) reduce the base sale price or take action to reduce the number of nights the properties are let out for over the course of a year, in order to reduce turnover (inclusive of the visitor levy) to £85,000.

6.2.9 In this example, the accommodation provider under option (a) would have to increase the sale price to visitors from £125 per night to £153.15 (a 22.4% increase), reflecting both the visitor levy and VAT due. Assuming that 340 nights were booked at this higher price, the turnover of the business would be £104,040, with £1,700 being remitted as visitor levy income to the local authority and £17,340 being remitted as VAT income to HMRC (although under the flat rate VAT scheme - see 6.2.13 - the business would only remit £9,104). The business would also have to

incur non-trivial compliance costs associated with complying with VAT and the visitor levy. From engagement with stakeholders the average time cost for a business to comply with VAT was found to be around 13.5 hours (assuming 4 returns are made per year), although it is likely that this will vary across businesses in the sector.

6.2.10 Under option (b) the accommodation provider would need to reduce the number of nights the accommodation was booked from 340 to 333. On this basis, the business could still achieve a turnover of £85,000, with around £1,667 of this turnover being remitted to the local authority as visitor levy income. The business would not have to register for VAT and would not incur any additional compliance costs.

6.2.11 A 2017 HMRC/Ipsos Mori study examined behaviours and experiences in relation to VAT registration for small businesses. Around two-thirds (63%) of unregistered small borderline businesses surveyed never expected their business to reach the VAT threshold, and around one in five businesses said they had taken some action to remain under the threshold and outside the VAT system. Academic studies suggest that there is evidence of small businesses changing their behaviour to remain below the VAT registration threshold legitimately - by restricting the scale of its operations – or illegally – by misreporting sales⁵³.

6.2.12 Of the estimated 2,000 - 3,000 accommodation businesses unregistered for VAT, it is not possible to accurately estimate the number of businesses that may change their behaviour in response to the introduction to a visitor levy for the following reasons. However only those that operate at or near the £85,000 threshold are likely to be impacted by the interaction with VAT and risk additional compliance costs, potentially a small minority of the 2,000 - 3,000 businesses identified. Secondly, as discussed throughout this BRIA, we do not know which local authorities in Scotland will introduce a visitor levy and so there is uncertainty about how many accommodation providers would be impacted in practice. Finally, the number of accommodation providers affected by this interaction will also in part depend on the rate of visitor levy adopted by local authorities, with higher rates affecting more businesses than lower rates.

6.2.13 Lastly there exists a simplified VAT scheme (the VAT flat rate scheme), for which accommodation providers in these specific circumstances may be eligible. Under the flat-rate scheme although an accommodation provider must still charge an additional 20% on the sale price to consumers, they only remit to HMRC an amount based on a lower rate which varies depending on the sector (10.5% for hotels or accommodation). A business may be eligible for the scheme if their turnover is less than £150,000, which we assume almost all unregistered accommodation businesses will fall into after accounting for any impacts of a visitor levy. According to estimates shared by HMRC, there were around 200 accommodation providers in Scotland registered with the simplified flat rate scheme currently.

- Will the measure limit the ability of suppliers to compete?

6.2.14 A visitor levy may theoretically impact on competitiveness where the volume and type of overnight accommodation in an area where a visitor levy is being applied is very similar to that within a local authority that has not introduced a visitor levy.

However, as set out in Annex C, if the extra cost is a small percentage of the overall cost of the trip, then such impacts may be negligible in practice.

6.2.15 For example, tour bus operators may choose to use hotels in areas without a visitor levy and travel from there to destinations within a local authority that applies a visitor levy. Whilst we are not aware of any evidence of this in practice with overnight accommodation taxes, there is some evidence of this behaviour occurring in taxation of cruise ship passengers (see Annex B). The extent to which individual visitors, when planning a trip, choose to substitute accommodation in an area applying a visitor levy with accommodation in an area that does not apply a visitor levy is perhaps more limited, as any differential in price would be offset against additional costs of travelling from the area without a visitor levy to one with a visitor levy.

- Will the measure limit suppliers' incentives to compete vigorously?

6.2.16 It is not anticipated that a visitor levy will limit incentives for competition between accommodation providers.

Will the measure limit the choices and information available to consumers?

6.2.17 Provided the advertised price of accommodation in local authorities operating a visitor levy makes clear the requirement to pay a visitor levy, and its value, there will be no material impact on information available to consumers. We have heard from stakeholder feedback that due to the complexity of routes to market in the industry (such as the use of online travel agents and other third parties), there may be complications in ensuring that prices inclusive of a visitor levy are shown across all platforms. To mitigate against this risk, the bill sets out an 18-month period in which accommodation providers can ensure that they are fully ready to comply with the requirements of a visitor levy scheme, including that advertised prices accurately reflect the impact of the visitor levy. There is a potential impact on consumers looking to stay within local authorities that have a visitor levy if some providers choose to exit the sector, or reduce the number of nights made available for booking, due to additional compliance costs or interactions with VAT.

6.3 Consumer assessment

6.3.1 The following sets out the Scottish Government's assessment of the impact of a visitor levy using the standard questions within the consumer assessment:

- Does the policy affect the quality, availability or price of any goods or services in a market?

6.3.2 A visitor levy could increase the price of commercial accommodation within local authorities choosing to introduce a visitor levy, assuming that at least part of the cost of the visitor levy is passed onto visitors (see Annex C for more detail on pass-through). As stated in the competition assessment, availability of accommodation may be reduced at the margins if some accommodation providers withdraw from the market, or reduce the number of nights made available for booking.

6.3.3 It should be noted that revenues raised from a visitor levy in areas that apply the levy will be used to develop, support and sustain facilities and services substantially used by visitors, which may increase the attractiveness of a location.

- Does the policy affect the essential services market, such as energy or water?

6.3.4 There is no expected impact on markets for essential services as a result of the introduction of a visitor levy.

- Does the policy involve storage or increased use of consumer data?

6.3.5 Accommodation providers are likely to be required to collect and store data on consumers (visitors) in order to comply with any record keeping requirements imposed by local authorities introducing a levy. These records may or may not be additional to current practice. There is more likely to be additional information required if particular local exemptions to the visitor levy are applied, which require additional data on visitors to be collected and stored. There are no provisions in the Bill which set out specific exemptions and therefore consideration of additional data required to administer a particular exemption will be considered during the development of guidance. Any changes in data collection would have to comply with relevant data protection legislation. More information is set out in the Data Protection Impact Assessment.

- Does the policy increase opportunities for unscrupulous suppliers to target consumers?

6.3.6 This is unlikely to occur as a consequence of the introduction of a visitor levy.

- Does the policy impact the information available to consumers on either goods or services, or their rights in relation to these?

6.3.7 It is the intention that the advertised price of commercial accommodation in areas where a visitor levy is applied will clearly show any visitor levy, therefore there should be no impact on information available to consumers. There may be occasions where information held by third party booking platforms on the rates of local taxes applicable may not align with current local authority rates. This may lead to some confusion for visitors if visitor levy rates were to change frequently and platforms are not kept up to date. Under a percentage basis of charge, it is less likely that rates will change (for example to keep pace of inflation) compared to other models considered in the public consultation.

- Does the policy affect routes for consumers to seek advice or raise complaints on consumer issues?

6.3.8 There is no expected impact on routes for consumers to seek advice or raise complaints as a result of the introduction of a visitor levy.

6.4 Test-run of business forms

6.4.1 As referred to above, and evidenced through discussions with accommodation providers, there are likely to be new compliance costs on businesses in local authority areas that chose to implement a visitor levy. However, as this is a local levy which will be designed by local authorities, the test run of business forms and collection and remittance processes would be a matter for the relevant local authority, as part of the wider process of engagement with accommodation providers prior to the introduction of a levy.

6.5 Digital impact test

6.5.1 All operational decisions with respect to the administration of a visitor levy will be made by the local authority introducing a levy. We would expect local authorities will make arrangements so that accommodation providers have a choice to make regular tax returns through a digital platform or through more traditional methods, as is the case with the administration of other local taxes such as Non-Domestic Rates. The potential for privacy impacts and GDPR implications associated with the content of the Bill are assessed in the Data Protection Impact Assessment.

6.6 Legal impact test

6.6.1 There may be some limited impact on legal aid as local authorities are granted new powers to impose civil penalties on accommodation providers.

6.6.2 The policy intention is that an accommodation provider should be able to challenge the decisions of a local authority in relation to the decisions it makes in connection with the operation of a visitor levy scheme. This includes in relation to enforcement action and the application of penalties.

6.6.3 The first part of the process is that an accommodation provider can seek an internal review by a local authority of a decision it has made in relation to an accommodation provider and the levy. After this stage of an internal review the policy intention is that an accommodation provider can then appeal to the First-tier Tribunal for Scotland. Such appeals would again be against a decision made by a local authority in connection with the operation of a visitor levy scheme; in relation to enforcement action; or the penalties imposed by a local authority in relation to the scheme.

6.6.4 The details of the procedures to be followed, any time limits to be put in place, and the circumstances in which such reviews or appeals may be conducted, are matters to be set out in Regulations.

6.6.5 Such review and appeal mechanisms already exist in relation to local taxes such as council tax and non-domestic rates. It is appropriate that they are put in place in relation to the levy, allowing accommodation providers and local authorities a proportionate and local first stage to address any challenges. The right of appeal to the First-tier Tribunal of Scotland provides an external and judicial oversight of the actions of a local authority in any particular case.

6.7 Enforcement, sanctions and monitoring

6.7.1 The policy intention is that a local authority has the tools it needs to effectively enforce a visitor levy scheme. There is therefore a robust investigation and enforcement regime set out in the Bill. Having effective tools available to a local authority is a critical piece of putting in place a framework within which a local authority can operate a visitor levy scheme, if it chooses to introduce one.

6.7.2 One aspect is for a local authority to have the tools to request and obtain the information necessary to assess the visitor levy liability of an accommodation provider. The Bill therefore enables a local authority to require a liable person, or a relevant third party, to provide information or produce a document that is relevant to their liability to pay the visitor levy. This includes the power to issue an information notice and rules around complying with such an information notice. Certain types of information are exempt, such as journalistic material, information relating to a pending appeal, and privileged communications between legal advisers and their clients.

6.7.3 In some circumstances it may be necessary for a local authority to physically inspect a premises to assess potential liability for a visitor levy, or to inspect business documents that are on the premises. The Bill therefore includes a power for a local authority to do this, with suitable provisions around serving a notice, the powers a local authority officer or a person authorised by an officer has, and other matters related to use of the inspection powers.

6.7.4 The Bill puts in place a number of powers that a local authority can use, if necessary, to enforce a visitor levy scheme. These cover making returns; keeping appropriate records; dealing with failure to comply or obstruction; penalties for inaccurate information or documents; and failure to comply with time limits. The Bill also set out the penalties which can be applied, and the process to be used in enforcing such penalties. More details on each element of the enforcement regime are set out in the Policy Memorandum.

6.8 Implementation and delivery plan

6.8.1 The proposals will be implemented through primary legislation in the Visitor Levy (Scotland) Bill laid before parliament on 24th of May 2023, if the Bill is passed. Following this, local authorities are expected to undertake assessments and conduct appropriate local consultation before a visitor levy can be implemented. Therefore we do not expect a visitor levy will be implemented anywhere in Scotland before early 2026.

6.9 Post-implementation Review

6.9.1 A post implementation review is the responsibility of those local authorities who introduce a visitor levy. The Bill requires local authorities that choose to implement a visitor levy to regularly review the operation of the levy.

7. Summary and Recommendation

7.1.1 The Bill, if passed by the Scottish Parliament, will introduce a discretionary power enabling local authorities in Scotland to apply an additional tax on overnight stays in commercially let accommodation. The revenues raised can be used for the purpose of developing, supporting and sustaining facilities and services which are substantially for, or used by, those visiting a local authority's area for leisure purposes. The visitor levy will be calculated on the basis of a percentage of the accommodation charge and will be added to the bill of any visitor purchasing accommodation in the relevant area.

7.1.2 Under the provisions of the Bill, local authorities will have autonomy over the decision to introduce the levy, the decision as to which areas it will apply to (either the whole local authority area or part(s)) and the decision on the rate at which the levy will be set, including the flexibility to adjust the rate to account for seasonal variations in visitor demand. Local authorities will also have the flexibility to exempt certain groups of visitors (or types of accommodation) from being liable for the visitor levy in their area, taking into account national guidance.

7.1.3 Local authorities will have flexibility in how they choose to administer the levy, and the Bill will create a number of enforcement powers to assist in the efficient administration of the levy. These powers are partly based on those applying to devolved taxes in general, set out in the Revenue Scotland and Tax Powers Act 2014, and reflect practices used in other taxes such as Non-Domestic Rates.

7.1.4 A primary objective of the Bill is to strengthen local democracy in Scotland through providing local authorities with a new tax raising power. The Bill will also support sustainable growth of the tourism sector across Scotland by providing the opportunity for local authorities to raise additional resources to be used to develop, support and sustain facilities and services which are substantially for, or used by, those visiting a local authority's area for leisure purposes.

7.1.5 This BRIA has considered in detail the available evidence on the costs and benefits arising to several groups that may be affected by the introduction of a visitor levy should a local authority exercise the powers conferred on them in the Bill. This includes the benefits and costs to local authorities, accommodation providers, visitors to local authorities, residents of local authorities, the wider businesses community, and the Scottish Government. The table below summarises the findings in this BRIA.

Table 9: Summary of costs and benefits associated with option 2 (Introducing a Visitor Levy Bill)

Groups affected by the introduction of a visitor levy	Option 2 – Visitor Levy Bill (Benefits +, Costs -)
Local Authorities	<p>+ Improved local empowerment via a new discretionary tax power which will enable local authorities to raise revenues in order to develop, support and sustain facilities and services which are substantially for, or used by, those visiting a local authority's area for leisure purposes. Potential revenues for each local authority are dependent on characteristics of local schemes adopted (rates, area covered, exemptions and other factors). High level estimates of potential revenues are set out in Annex A.</p> <p>+ A new source of revenue to be used to develop, support and sustain facilities and services substantially for or used by visitors</p> <p>- New administration costs associated with a levy. Costs related to a consultation and decision-making around governance and use of revenues, as well as communications with stakeholders. Additional set-up costs and on-going administration costs will be met by revenues raised by the levy, however there is uncertainty with regards to the potential scale of costs. Evidence suggests requirements for 3-5 new FTE staff, procurement and maintenance of IT systems and operational budget. Indicative estimates of on-going costs range from £190,000 to £500,000 per year per local authority.</p>
Visitors	<p>+ Indirect benefits from the use of revenues raised to develop, support and sustain facilities and services substantially for or used by visitors, with a potential positive impacts on visitor experiences of destinations within Scotland. Potentially direct benefits if revenue is used to fund programs such as discounted travel for visitors.</p> <p>- Potentially higher accommodation prices in parts of Scotland applying the visitor levy. Visitors that pay more for accommodation are expected to generally see a greater cash increase in prices due to the percentage basis of levy.</p>

<p>Wider businesses community in areas applying a visitor levy</p>	<p>+ Indirect benefit from use of revenues raised to develop, support and sustain facilities and services used by visitors, with a potential positive effect on destination competitiveness.</p> <p>- Increase in price of accommodation may affect future visitor demand potentially leading to lower spending in some areas or displacement of spending to areas of Scotland not applying a visitor levy.</p> <p>- Higher accommodation prices for staff of businesses using accommodation during a business related trip to parts of Scotland applying a visitor levy.</p>
<p>Residents</p>	<p>+ Indirect benefit from use of additional revenues raised to develop, support and sustain facilities and services which are substantially for or used by visitors, with a potential positive effects where local authorities invest in goods and services also used by local residents (local infrastructure, maintenance of public spaces).</p> <p>- It may be the case that residents that choose to use commercial accommodation in a local authority area in which they are also resident would pay a higher price for that accommodation due to the introduction of a visitor levy in their area.</p>
<p>Scottish Government</p>	<p>+ Reputational benefits associated with delivering a key ask of local government in Scotland.</p> <p>- Some resources costs associated with passing the Bill through parliament, and developing guidance for local authorities. Future increase in subsistence costs for staff requiring accommodation as part of official business travel to areas of Scotland applying the levy.</p>

7.1.6 Should a local authority choose to introduce a levy, the Scottish Government would encourage them to carefully consider the governance arrangements around a visitor levy, ensuring transparency in the use of revenues with priorities established after consultation with local stakeholders. Clear communications with visitors and residents as to the use of revenues should be established, as well as a monitoring and evaluation strategy with reporting on impact of a particular scheme every 3 years as set out in the Bill.

7.1.7 Before implementing a levy, we would also encourage local authorities to consider the sensitivity of visitor demand locally when choosing the rate at which the tax is set, given the potential for adverse impacts on visitor demand from large tax driven changes in accommodation prices. Local authorities should also consider the likely administrative costs involved, and seek to minimise compliance costs for accommodation providers.

7.1.8 Whilst there is a careful balance to be struck in the exercising of the powers in the Bill, and it is recognised that not all areas will see the levy as a strategic fit for

their area. International evidence suggests that taxes such as a visitor levy can be a valuable source of revenue for local governments, and any impacts on visitor demand from a well-designed visitor levy appear negligible. Whilst price is an important factor in the decision making of visitors, it is clearly not the only motivation which attracts visitors to Scotland. Investments in the visitor economy in areas that introduce a visitor levy will help advance the aims of the national tourism strategy, and create and develop sustainable visitor locations to advance Scotland's tourism sector in the future.

8. Declaration and Publication

8.1.1 I have read the Business and Regulatory Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs. I am satisfied that business impact has been assessed with the support of businesses in Scotland.

Signed: Tom Arthur MSP

Date: 2 May 2023

Minister: Tom Arthur MSP, Minister for Community Wealth and Public Finance

SG contact point: TBC

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- ¹ Scottish Government, '[Partial Business and Regulatory Impact Assessment on the proposal for a Local Transient Visitor Levy](#)', 2019.
- ² Scottish Government, '[Programme for Government 2022-23](#)', 2022.
- ³ Non business organisations such as charities may offer commercial accommodation to visitors, such as universities letting out student accommodation outwith term-time and bodies such as the National Trust for Scotland. It is possible that non-statutory guidance will define some charities offering accommodation as exempt from a visitor levy.
- ⁴ Based on data sourced from the Inter-departmental Business Register (IDBR) and Business Register Employment Survey (BRES) for SIC 55. Registered enterprises refers to businesses that are registered for VAT and/or PAYE.
- ⁵ The Sustainable Tourism Growth Sector is one of the six sectors identified in 2015 that Scotland had a distinct comparative advantage. For more information, see Growth sector statistics available [here](#).
- ⁶ Highland Council, '[Tourism Levy Consultation](#)' and Edinburgh Council, '[A Consultation on the City of Edinburgh Council proposal for a Transient Visitor Levy/ Tourist Tax within the city](#)'.
- ⁷ Visitor numbers in Paris did fall in 2016, however, this has been linked to cancellations of events and general safety fears following the terror attacks on the city in November 2015. Visitor numbers to Paris recovered and grew in subsequent years (until the Covid-19 pandemic).
- ⁸ Group NAO, '[Tourism Taxes by Design: Destination Funding and the impact of tourism taxes on European cities and urban communities](#)', 2020.
- ⁹ Scottish Government, '[Tourism tax: messages from the national discussion](#)', 2018.
- ¹⁰ Manchester City Council announced in 2022 that it intended to introduce a form of tourist tax, however the model is based on existing powers available to local businesses through the Business Improvement District program. The Manchester model is discussed in more detail in section 4 of this BRIA.
- ¹¹ COSLA, '[COSLA Plan 2022-2027](#)'.
- ¹² Scottish Government, '[Tourism tax: messages from the national discussion](#)', 2019.
- ¹³ Scottish Government, '[Consultation on The Principles of a Local Discretionary Transient Visitor Levy or Tourist Tax](#)', 2019.
- ¹⁴ Scottish Government, '[The Principles of a Local Discretionary Transient Visitor Levy or Tourist Tax](#)', 2020.
- ¹⁵ It should be noted that question 33 of the consultation sought views on any other groups that may have been overlooked in the analysis presented in the partial BRIA.
- ¹⁶ Non business organisations such as charities may offer commercial accommodation to visitors, such as universities letting out student accommodation outwith term-time and bodies such as the National Trust for Scotland. It is possible that non-statutory guidance will define some charities offering accommodation as exempt from a visitor levy.
- ¹⁷ Lloret et al. '[Environmental and human health impacts of cruise tourism: A review](#)', 2021.
- ¹⁸ See [Supporting Perthshire Big Tree Country scheme | Perth and Kinross Countryside Trust \(pkct.org\)](#)
- ¹⁹ See [Visit Moray Speyside](#)
- ²⁰ STR provides data benchmarking, analytics and marketplace insights for the global hospitality industry, for more information see [Data-Driven Solutions Empowering the Hospitality Industry | STR](#)
- ²¹ Manchester City Council, [Report for Resolution: Manchester Accommodation Business Improvement District](#), 2022.
- ²² See [VATGPB6670 - Local government partnership programmes: examples: Business Improvement Districts - HMRC internal manual - GOV.UK \(www.gov.uk\)](#)
- ²³ The consultation considered alternative options for the so-called 'basis of charge' including a flat charge per person per night or per room (or room equivalent) per night, or a charge that varied depending on the quality of the accommodation.
- ²⁴ Booking.com, '[2022 Sustainable Travel Report](#)', 2022.
- ²⁵ Scottish Tourism Alliance, '[Local Visitor Levy Manifesto with Recommendations](#)', 2023.
- ²⁶ Hosts and operators of short-term let accommodation will be required to apply to their local authority for a licence before 1 October 2023.
- ²⁷ OECD, '[Tax Administration 2022: Comparative Information on OCEA and other Advanced and Emerging Economies](#)', 2022.
- ²⁸ Note this adjustment is in line with [HM Treasury guidance](#) on assessing optimism bias in appraisals of projects concerned with the provision of equipment and/or development of software and systems.
- ²⁹ Note 'Year T' is the year in which a local authority implements a visitor levy.

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- ³⁰ Self-Employment Income Support Scheme supplementary statistics: November 2021 (Table 4c) is available at [Self-Employment Income Support Scheme statistics: November 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-november-2021)
- ³¹ STR, '[Tourism Tax: A blessing or a curse](#)'.
- ³² Annex A sets out estimates of potential revenues arising from a visitor levy. It is important to note that turnover statistics will include turnover generated from sales of other goods and services sold by businesses in the sector (food, drink, use of spa and gym facilities etc.) which would not be subject to a visitor levy.
- ³³ Scottish Government, '[The incidence of short-term lets in Scotland – Short-term lets – impact on communities: research](#)'.
- ³⁴ WEF, '[Travel and Tourism Competitiveness Report 2019](#)', 2019.
- ³⁵ WEF [UK profile](#), 2019.
- ³⁶ For first-class branded hotels based on STR data
- ³⁷ WEF, '[Travel & Tourism Development Index 2021: Rebuilding for a Sustainable and Resilient Future](#)', 2022.
- ³⁸ European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, '[The impact of taxes on the competitiveness of European tourism : final report](#)', 2017.
- ³⁹ UNTWO [Competitiveness | UNWTO](#)
- ⁴⁰ Dupeyras, A. and N. MacCallum, '[Indicators for Measuring Competitiveness in Tourism: A Guidance Document](#)', OECD Tourism Papers, 2013.
- ⁴¹ VisitScotland, '[Scotland Visitor survey 2015 & 2016 – motivations to visit extract](#)', 2017.
- ⁴² European Commission, '[EU attitudes to tourism](#)', 2017.
- ⁴³ Scottish Tourism Alliance, 'Recovery of Scotland's tourism sector', 2022.
- ⁴⁴ Kim YR, Liu A, Williams AM. '[Competitiveness in the visitor economy: A systematic literature review](#)'. *Tourism Economics*. 28(3):817-842, 2021.
- ⁴⁵ Henry Tsai, Haiyan Song & Kevin K. F. Wong '[Tourism And Hotel Competitiveness Research. Journal of Travel & Tourism Marketing](#)', 26:5-6, 522-546.
- ⁴⁶ VisitBritain, '[Great British Tourist Report](#)', Jan – Dec 2019.
- ⁴⁷ ONS, Jan - Dec 2019, '[Visits to Scotland by overseas residents, 2009 to 2019 - Office for National Statistics \(ons.gov.uk\) https://www.visitscotland.org/research-insights/about-our-visitors/international/annual-performance-report](#)
- ⁴⁸ Visit Scotland, '[International Tourism Performance in 2021](#)'.
- ⁴⁹ The Inter-Departmental Business Register (IDBR) is maintained by the Office for National Statistics (ONS) and is a database of all registered enterprises operating in the UK i.e. enterprises that are registered for VAT and/or PAYE. It covers 99% of economic activity in the UK. Those excluded are small sole traders or partnerships with no employees and an annual turnover of less than the VAT threshold (£85,000 in 2022).
- ⁵⁰ There were 18,725 self-catering premises on the valuation roll in January 2023, compared with 740 other holiday and short-stay accommodation units registered for VAT or PAYE. This variation will be explained by those businesses that are unregistered, however it should also be noted that the figures are not directly comparable as a single enterprise registered for VAT may operate from multiple premises on the valuation roll.
- ⁵¹ Many cities and municipal governments have arrangements with the large collaborative sharing platforms (such as Airbnb) to collect and remit tax directly to the tax authority on behalf of small accommodation providers.
- ⁵² Estimate is based on data published in the [Business in Scotland 2022](#) publication.
- ⁵³ World Economic Forum, '[How does VAT affect the behaviour of small companies?](#)', 2015.



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