



Campaign for Reduced Tourism VAT

c/o British Hospitality Association
Queens House
55/56 Lincoln's Inn Fields
London WC2A 3BH

Tel: 020 7404 7744

Fax: 020 7404 7799

Email: info@cuttourismvat.co.uk

www.cuttourismvat.co.uk

**Cut Tourism VAT guidance note for the
Westminster Hall Debate 'VAT and the Tourism Sector'
At 9.30am, Tuesday 11th February 2014**

The Case for a reduced rate for Visitor Accommodation and Attractions

The tourism industry is seeking a reduction in VAT from 20% to 5% for Visitor Accommodation & Attractions.

Responding to objections raised by the Treasury

'If the Government lowers VAT on tourism, every other sector will be queuing up behind.'

No. Tourism is one of only a very limited number of labour-intensive services that the EU permits to have a reduced rate. Hairdressing is also on the list, but reducing VAT on hairdressing would not attract more foreigners to Britain nor encourage more British residents to take holidays and short breaks at home!

'The Government can't afford to take a loss on VAT income'

The direct loss of VAT from a reduction for Visitor Accommodation & Attractions is £1.2 billion. Half of this loss will be made good within the first year from savings in social security benefits and other increased taxes, principally employment related taxes, so the year one deficit will be £645 million. This will be more than made good during the second and third years. By year 3, there will be year-on-year gains for the Treasury.

'The VAT cut would not produce sufficient economic growth to outweigh the revenue shortfall.'

Both the Deloitte study and the Treasury's own model demonstrate that the growth produced by the VAT cut would more than outweigh the revenue shortfall. There might be a very small shortfall of around £650 million in the

The Campaign for Reduced Tourism VAT is led by:



Supported by over 550 major companies, independent operators, national associations and other organisations within UK tourism

first year only but this would quickly be made good in years two and three. The government has conceded that for every other growth measure, it needs to invest, for example the proposed cut in Corporation tax and incentives for North Sea oil exploration.

'No new evidence has been forthcoming to change the view that the government formed in March 2013'

New evidence is emerging all the time. The Treasury in its rejection of the VAT cut proposal quoted from the experience in France following the reduction in VAT for restaurants, quoting a partisan report, and ignoring official government statistics demonstrating the creation of 100,000 jobs. The Treasury also ignored the evidence of 16 other case studies presented to it, including the positive impact of recent cuts in tourism VAT in Germany, France, Ireland, Belgium, Sweden and Finland.

'The VAT cut would have to be funded either by additional borrowing or by raising other taxes.'

The tourism industry has declared its willingness to work with Government to ensure that implementation of this measure proves highly successful. Industry is also exploring an idea that would make the measure fiscally neutral from day one – unlike any other government growth proposal.

'The exchange rate and the weather are likely to be more important factors than the VAT rate.'

The government has no control over the weather but it can take measures to encourage a vibrant tourism industry. Whilst a favourable exchange rate is beneficial to international tourism, a greater proportion of tourism is domestic and for that the exchange rate is irrelevant. However, a vibrant tourism industry adds to the attractiveness of a destination, which is very helpful if exchange rates move adversely.

'Whereas the World Economic Forum ranks the UK 138th out of 140 countries on tourism price competitiveness, it ranks the UK 6th in terms of popularity, suggesting that cultural attractions and shopping opportunities are more important factors than price so a VAT cut will be of limited assistance.'

The quality of the overall tourism product is of great importance, but so is price. If the UK maintains the quality of its visitor experience and reduces price via a VAT cut, the UK's value proposition is enhanced and more international visitors will arrive. The Prime Minister has stated that he would like to see the UK rise to 5th in the World Economic Forum index. This will not be achieved without improving the ranking for price competitiveness, especially as the UK's overall position in the last index benefited from positive international perceptions due to the Olympics and royal wedding during the year that the research was carried out.

'VAT is a less important factor for tourists from outside the EU who can reclaim VAT on their purchases.'

Even if one can reclaim VAT on physical items purchased, one can not reclaim VAT on one's accommodation or one's meals. As visitors often look at hotel rates and reputations of value are related to the cost of eating out, the VAT element is a very significant factor. Furthermore, the great majority of tourists from outside the EU are holiday and leisure visitors who cannot reclaim VAT. Whilst the minority who are business visitors can reclaim VAT, doing so is a hassle and as a consequence many do not do so.