

Tourist Taxes in Scotland

Messages from the National Discussion

March 2019

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1. Overview of the National Discussion

Introduction

1. In recent months, the Scottish Government has engaged with a range of partners and stakeholders from the tourism industry, Local Authorities and the wider business community in Scotland to take forward a national discussion on transient visitor taxes (also known as tourist taxes). The national discussion ran between 23rd November 2018 and 25th January 2019.
2. During the national discussion, the Scottish Government convened a series of roundtable events across Scotland, involving a number of representatives of national and regional stakeholder organisations, Local Authorities and individual businesses. A number of stakeholders and business owners also made written submissions to the national discussion. The Scottish Government wishes to thank all those who participated in the national discussion for their engagement and contributions.
3. As part of the national discussion, the Scottish Government committed to publishing readouts of the roundtable sessions, and any written contributions received, subject to permission being granted from the group or individual submitting the contribution. This paper provides a high-level summary of the messages that emerged from the national discussion. The paper also includes anonymised summaries from each roundtable discussion, which are attached as Annexes A – F.
4. A document containing written contributions to the national discussion will also be published separately, containing the full set of written submissions where contributors have given permission for their publication. Over 130 individual written contributions were received from a range of stakeholders, including business representative organisations, individual business owners, local authorities, and interested third parties. These submissions are a substantial evidence base, and this document has aimed to reflect broad, high-level messages emerging from them. The written submissions will help inform the development of the Scottish Government's formal consultation proposition.

Background to the National Discussion

5. Tourism is a key sector of the Scottish economy, and is a significant provider of economic opportunities across Scotland. The Scottish Government is committed to working with the tourism industry and other partners to support the continued success and sustainable growth of this key sector.
6. In recent years, several Local Authorities in Scotland, along with the Convention of Scottish Local Authorities (CoSLA), have called for the Scottish Government to grant the powers to allow them to levy a tourist tax in their areas, should local circumstances be supportive. However, there has been significant opposition to these proposals from representatives of Scotland's tourism industry, who have highlighted pressures on competitiveness from existing taxes, particularly the rate of VAT applied to accommodation compared against that of other countries,

along with increases in wider business costs, and economic uncertainty arising from the UK leaving the EU.

7. The Scottish Government believes that the issue of tourist taxes requires careful consideration involving all interested parties, particularly in light of the economic uncertainty created by the UK leaving the EU. There is also a significant national element to such considerations, given tourism's status as a key sector of Scotland's economy, and because new powers for Local Authorities would require legislation by the Scottish Parliament.
8. In response to these issues, the Scottish Government worked with partners, particularly the Scottish Tourism Alliance (STA) and CoSLA, to take forward a national discussion on transient visitor (tourist) taxes in Scotland. This discussion took place between 23rd November 2018 and 25th January 2019.

Aims and Objectives of the National Discussion

9. During the national discussion, the Scottish Government did not table or test a formal policy proposition on a tourist tax.
10. The national discussion sought to bring partners together to ensure a full range of voices were heard and able to participate in discussions on this complex national issue. It aimed to build a common and shared understanding among our partners of the issues, opportunities and challenges in this area, in the context of supporting the tourism sector's continued contribution to delivering sustainable and inclusive economic growth in Scotland.
11. The main objectives of the national discussion were to:
 - Seek views on the need for, and purpose of, a tourist tax in Scotland, in the context of current challenges and future opportunities for supporting sustainable and inclusive growth;
 - Encourage debate on available options for addressing underlying challenges and opportunities within Scotland's tourism sector;
 - Encourage partners and stakeholders to provide and share evidence of potential impacts of tourist taxes on the tourism sector, visitor economy and local government; and,
 - Encourage partners and stakeholders to articulate challenges and issues that would need to be addressed were devolution of a tourist tax power to the local authority level to be considered or taken forward.

The National Discussion Approach

12. In order to take forward the national discussion, the Scottish Government undertook a number of actions.
13. On 23rd November 2018, the Scottish Government published a discussion document, 'Transient Visitor Taxes in Scotland: Supporting a National

Discussion'¹, to coincide with the first roundtable discussion. In keeping with the national discussion, this document did not set out a policy proposition, or make a case for or against a tourist tax, either at Scotland, regional or Local Authority level. Instead the document provided data on the importance of tourism in and across Scotland; evidence on taxes paid by accommodation providers, including comparisons of VAT rates faced by accommodation providers across the European Union; evidence of international experience of tourist taxes; and discussions of potentially relevant issues for the national discussion, based on international experience. The discussion document also set out several broad themes and questions, to help support the national discussion as it went forward.

14. Working with partners, the Scottish Government held six roundtable discussion events across Scotland. Events took place in Perth, Glasgow, Edinburgh, Newton St Boswells, Aberdeen and Inverness, to ensure that stakeholders from across Scotland had the opportunity to contribute, and to help reflect the diverse range of opinions and regional circumstances across Scotland.
15. Each roundtable event was chaired by a Scottish Minister, and featured a range of attendees from the tourism industry, Local Authorities, business representative organisations and other organisations. Both national and local stakeholder representative organisations participated in the round table sessions; individual Local Authorities were represented by officials, while Elected Members from several Local Authorities also participated in the events in Newton St Boswells, Aberdeen and Inverness.
16. The roundtables were guided by the themes and questions presented in the discussion document, and high level, anonymised readouts from each of these sessions are included as **Annexes A – F** in this document.
17. Following the roundtable discussions, partners and stakeholders were also invited to contribute evidence and views in writing to the Scottish Government. In total, 135 written contributions were received from individuals, tourism sector representatives, business organisations, Local Authorities, and others. Where correspondents have given their consent for their contributions to be published, the written contributions to the national discussion are published alongside, but separate to, this document.
18. The remainder of this document is structured as follows. **Section 2** summarises high level messages arising from the national discussion and written evidence on tourist taxes across the broad themes suggested by the national discussion document. **Section 3** summarises the document, and **Annexes A – F** contain anonymised readouts for each of the national discussion roundtable events.

¹ <https://www.gov.scot/publications/transient-visitor-taxes-scotland-supporting-national-discussion/>

2. High-Level Messages from the National Discussion

19. The roundtable discussions were loosely structured around the broad themes and questions raised in the discussion document, though the issues raised and considered varied across the sessions. The broad themes suggested in the discussion document were:
 - What Would the Reasons Be for Introducing a Transient Visitor Tax?
 - What Would a Well-Designed and Operated Transient Visitor Tax Look Like?
 - What Positive and Negative Impacts Could a Transient Visitor Tax Have?
 - How Could a Transient Visitor Tax Be Used, and How Can Revenues Be Distributed Fairly?
20. This section sets out high-level messages arising from the national discussion relating to these broad themes. These are drawn from the roundtable discussion sessions, and a high-level overview of the written contributions to the national discussion. This document does not repeat the evidence presented in the discussion document; these documents should therefore be read in conjunction with one another, the readouts from the roundtable events, and the written contributions.

What Would the Reasons Be for Introducing a Transient Visitor Tax?

21. In general, there was a shared appreciation among participants in the national discussion of the importance of tourism as a key sector of the economy, both for Scotland as a whole and across the country. There was also a general recognition of the importance of tourism for economic growth and opportunity, particularly in areas outside of Scotland's main cities, and of the importance of supporting and investing in tourism infrastructure and facilities to ensure that Scotland remains an attractive tourism destination.
22. Within this context, several participants in the national discussion highlighted importance of meeting and maintaining the facilities standards that are expected by visitors. These included physical infrastructure such as roads, public toilets, transport links and internet availability, particularly in rural areas experiencing growth in tourist numbers.
23. During the national discussion, the priorities for tourism investment raised by participants varied across different areas of Scotland depending on their local economic context, the importance of tourism locally and the nature of the tourism offer in that area, and other issues such as geography and rurality. In some, particularly rural areas, the emphasis was on improving attractiveness and visibility of destinations through supporting marketing activities, and developing and supporting attractions, with a view to encouraging a sustainable tourism growth.
24. In other areas, priorities included investing in facilities to respond positively to increased visitor numbers, to maintain and improve standards in line with visitor expectations. Some contributors highlighted the importance of providing additional services at peak times, such as street cleaning, and maintenance of

facilities in popular areas. The challenge of providing and maintaining services and facilities in larger rural areas like the Highlands was highlighted, as was the difficulty in charging for facilities like viewing points. In the case of Edinburgh, some stakeholders highlighted the importance of maintaining and improving the competitiveness of the city's broader offer, particularly compared to other cities across the UK and Europe.

25. Several Local Authority participants articulated financial challenges around pressures of providing support for tourism investment, or providing core infrastructure and facilities. This was particularly in relation to challenges relating to funding discretionary activities, such as tourism support, when combined with funding statutory services within their areas, alongside limited discretionary options to raise revenue in response to local needs. Within this context, CoSLA and Local Authorities like Edinburgh and Aberdeen City had expressed support for the principle of devolution of powers to levy a tourist tax to Local Authorities, to allow for revenues to be raised to support individual areas' tourism priorities, should local circumstances be supportive.
26. Local Authorities such as Edinburgh and Aberdeen viewed the ability to levy a tourist tax as a potentially helpful tool for generating sustainable funding streams to provide infrastructure or services that could support tourism development in their areas, such as destination marketing and cultural events or attractions. They also highlighted potential to support provision of public goods in their areas used by both tourists and residents, such as parks, walkways and public spaces, where the costs of provision were often borne by local taxpayers. Similar arguments were also advanced around supporting services like street cleaning in peak tourist seasons, where costs were currently borne by local taxpayers. City of Edinburgh Council advised that their survey evidence had indicated that local residents were in favour of a tourist tax, and suggested that within their area, a tourist tax could be a means of maintaining local support for a successful tourist sector.
27. Individual Local Authorities expressed differing degrees of enthusiasm for a tourist tax during the national discussion. Several Local Authorities had yet to take a view, while Local Authorities such as Scottish Borders expressed concerns that a tax could hinder their ability to develop a sustainable tourism sector in their areas.
28. Some contributors to the national discussion highlighted the importance, for tax policy purposes, of a clear understanding and articulation of the aims, objectives and rationale for a new tax. Some attendees also suggested considering this issue in the context of wider national taxation policy.
29. During the national discussion, those representing the tourism sector, in particular accommodation providers' representatives, and individual accommodation providers, tended to be strongly opposed to tourist taxes. There was also opposition to the idea of tourist taxes from organisations representing the supply chain and wider tourism sector, while most business representative organisations also expressed opposition to tourist taxes.

30. Concerns from tourism industry representatives were based around the impact of additional taxation on their competitive position, in light of increases in labour costs such as the National Living Wage; increasing input costs, such as food, drink and energy; and existing taxes such as Non-Domestic Rates and VAT. Tourism industry contributions emphasised the scale of the sector's existing tax contributions, and also contributions made in different areas of Scotland to voluntary initiatives, and to funding vehicles such as Destination Management Organisations (DMOs).
31. The impact of VAT on the competitive position of accommodation providers compared to competitors in other countries was raised on several occasions by a range of industry stakeholders during the national discussion. As the UK applies its standard rate of VAT (20 per cent) to accommodation, the rate of VAT applied to accommodation is among the highest in the EU, as most EU member states apply rates of between 5 per cent and 10 per cent, with only Denmark applying a higher rate to accommodation (25 per cent). Accommodation providers also highlighted that EU Member states that operated tourist taxes applied lower rates of VAT on accommodation to the UK.
32. Industry representatives were also concerned about the introduction of a new tax in the context of maintaining the sector's competitiveness, in light of the UK leaving the European Union. Industry representatives highlighted the sector's reliance on EU nationals within its workforce, the resulting exposure to risks around recruitment and retention of staff, and the potential for additional labour costs should it become more difficult to recruit and retain labour. Industry representatives highlighted that the majority of overnight visitors to Scotland were from domestic (Scottish and RUK) markets, and the sector's resulting exposure to possible reductions in domestic demand following Brexit. Industry representatives also raised concerns about the potential for negative messages to visitors at a national level from taxes introduced at Local Authority level, with risks that new taxes could inadvertently signal that tourists are unwelcome in Scotland.
33. During the national discussion, accommodation provider representatives expressed concerns regarding the alignment between the rationale for a tourist tax, the potential sources of pressure from visitors, and the segment of the visitor economy who would be liable for a new tax. In particular, it was highlighted that numbers of day visitors significantly exceeded overnight visitors, both at a Scotland level, and in individual areas such as Edinburgh. This had the implication that a tax on overnight accommodation may not directly address sources of pressure, or those making use of public goods.

What Would a Well-Designed and Operated Transient Visitor Tax Look Like?

34. During the discussions, a range of points around how a tourist tax could be designed and operated were raised. An important theme related to the extent to which these were national or local issues.
35. A number of industry representatives and contributions emphasised that the issue required a significant level of national consistency in terms of design and

operation, in order to reduce complexity and to minimise costs of compliance. They also argued that consistency was important for tourists themselves, as different arrangements across Scotland could be viewed negatively by those moving between different areas of Scotland. Some contributors to the national discussion also indicated there was a risk that devolution to Local Authorities could create complexities and inefficiencies in the tax system.

36. Areas where industry representatives highlighted the importance of national consistency included types of accommodation covered by a tax; who would be liable to pay a tax; rates and bands employed, and who would set them; whether rates should vary across the year or by season; and exemptions made for different types of accommodation or types of visitor.
37. Some contributors to the national discussion argued that greater local variation in these areas could bring additional complexity to the administration of the tax. A number of participants in the national discussion also argued that a national approach could assist with simplicity in design and operation, and be more easily understood by visitors.
38. Some individual Local Authorities were also sympathetic to a national framework; however, others were more sympathetic to approaches that could vary according to local circumstances. Illustrations of these included whether campsites, mobile homes and cruise ships should be included within types of accommodation that were liable for tax.
39. Some participants highlighted issues to be considered from other countries' experiences in this regard. These included national decision-making on whether to devolve the power to tax, and local discretion over the decision of whether to introduce a tax. This also included discretion to not introduce a tax, should it not be viewed as appropriate for local circumstances. Participants also emphasised the importance of consultation, particularly with the tourism industry, prior to a decision to introduce a tax in individual areas.
40. As indicated above, different Local Authorities expressed varying degrees of enthusiasm for a tourist tax. Among those Local Authorities in favour of a tax, proposed approaches differed. For instance, Edinburgh Council had considered a tax on a room basis, whereas Aberdeen City Council had considered tax on a per person, per night basis. Different approaches to tourist taxes had potentially different equity impacts on visitors and accommodation providers.
41. Some Local Authorities offered initial views on the arrangements required for implementation, administration, collection and enforcement. They emphasised the need for efficient collection approaches, but suggested that the tax should be collected by accommodation providers, who would be required to: register with the relevant Local Authority; maintain records, including of rooms occupied; and collect and remit revenues to the relevant Local Authority on a regular basis, within agreed timescales. Local Authorities would be required to validate returns, audit accommodation providers' returns, and undertake revenue forecasting. Participants in the national discussion tended to recognise that

more consideration of specific design and operational matters would be needed and experience of tourist taxation in other places should be drawn upon.

42. A number of issues around operation were highlighted by industry representatives during the national discussion. In particular, industry representatives highlighted that it was likely that introduction and operation of a tourist tax could create additional costs for both Local Authorities and accommodation providers, in both the implementation and operation phases of a tax. Accommodation providers advised that they would likely need to change or adapt existing IT and booking systems, and train staff to comply with a new tax. They also highlighted that there could potentially be ongoing costs associated with administering and remitting taxes.
43. Accommodation providers also highlighted that costs and complexities could be greater for accommodation providers who operated across several Local Authorities, should different systems be in operation in different Local Authority areas.
44. During the national discussion, participants suggested there was potential for additional costs to Local Authorities from creation of a new tax, owing to requirements to collect, administer, monitor and enforce a new tax. There was discussion over whether Local Authorities' existing collection systems would be suitable in the context of a tourist tax. However, some operators such as Airbnb have existing systems that collect versions of Tourism Tax and remit revenues to municipal authorities in other countries.
45. Some participants highlighted important messages on good practice from other countries' experiences. These included:
 - The need of substantial lead-in times for implementation of a tax, and also in terms of notice for the private sector. This included notice for international and long-haul operators, who operate on long planning cycles; and
 - The importance of transparency. This was both in terms of taxes being visible to tourists, to help maintain a destination's reputation, and in terms of demonstrating what taxes were being used to fund to businesses and tourists.
46. The national discussion highlighted several operational issues where greater clarity was required. These included whether tourist taxes would be subject to VAT; whether a registration scheme for accommodation providers would be needed, as the current regime in operation in Scotland is voluntary; whether a tourist tax would be reflected in the upfront price presented to consumers at point of purchase; and whether a tourist tax would be subject to Online Travel Agency (OTA) commission.
47. There were questions of how tourist taxes would align with existing support mechanisms such as Business Improvement Districts (BIDS). There were also questions of how tourist taxes would interact with initiatives involving several Local Authorities in collaboration, such as City Deals, or arrangements for bodies like National Parks, which exist across several Local Authorities' boundaries.

What Positive and Negative Impacts Could a Transient Visitor Tax Have?

48. During the national discussions, a range of views were put forward regarding the potential impacts of tourist taxes. However, the discussions also highlighted a number of areas of uncertainty, or where there was limited evidence available.
49. Several contributors to the national discussion offered suggestions of potential positive impacts. These included the generation of sustainable additional revenue streams for maintaining and increasing investment in areas' tourism offers, including in amenities such as public spaces and toilets, services such as additional street cleaning, and marketing support for destinations.
50. Edinburgh Council also suggested that a tourist tax could offer an important means of securing residents' buy-in to support ongoing tourism development in areas experiencing relatively high volumes of visitors.
51. However, a number of contributors from the tourism sector strongly believed that tourist taxes could have negative impacts on individual accommodation and supply chain businesses, on the wider tourism sector, and potentially on the wider Scottish economy. There were concerns that tourist taxes could add to costs of doing business and impact on business profitability, particularly in more rural areas, and impact on the competitiveness of the sector compared to the rest of the UK, and internationally.
52. There were concerns from tourism industry representatives that introducing a tax could contribute to negative messaging around tourists being unwelcome in Scotland overall, regardless of whether the tax was introduced across the whole of Scotland, or in specific areas. They highlighted this as a national level risk to the sector's competitiveness, particularly in the context of the UK leaving the EU. However, other contributors highlighted that a number of EU Member States also operated tourist taxes. Evidence from international contributors also advised of reputational challenges for both the tourism sector and Scotland were a tax to be introduced without sufficient advance notice to private sector providers.
53. There was limited evidence presented around the extent of any tax increase that would be passed on by accommodation providers to tourists. However, industry representatives suggested it was likely that competitive pressures would require tax increases to be passed through into price increases. If prices were to increase, there could be potential for behavioural change on the part of tourists.
54. Some participants in the national discussion argued that tourist taxes would likely represent a modest charge in prices, and that behavioural responses to the introduction of a tourist tax would be limited. There was limited evidence available on potential behavioural responses in different areas of Scotland, beyond that available from surveys of visitors to Edinburgh².

² Marketing Edinburgh have undertaken separate studies of 561 peak (July-August) and 323 off-peak (October) visitors, while STR's study covered the period from August 2018.

55. The survey evidence available for Edinburgh indicated that, for taxes in the region of £2 per room per night, around 70 per cent to 78 per cent of visitors would not have amended their accommodation or spending decisions. However, their evidence suggested that there could be a degree of behaviour change at the margins, including visitors changing the type of accommodation they stayed in, their wider spending, the number of nights they would stay, and a marginal impact on numbers choosing Edinburgh as a location to visit.
56. Some attendees highlighted there could be unintended cross-border impacts for different Local Authorities if tourist taxes were introduced in a limited number of areas. These included impacts that could be beneficial to other Local Authority areas, such as visitors choosing to stay in accommodation in other Local Authority areas. However, they also included potential negative impacts, such as tourists foregoing trips to other areas outwith where they were staying (e.g. to the Scottish Borders, were they to stay in Edinburgh).
57. There was limited evidence available around potential economic impacts. UK Hospitality estimated gross reductions of visitor spend of around £94 million in Edinburgh from a £1 - £2 per room per night tax. When extrapolated out to Scotland as a whole, UK Hospitality estimated a gross decrease in visitor spend of around £205 million. However, this did not account for potential impacts from uses of revenues raised. There was concern from industry representatives that there was relatively limited empirical evidence on potential impacts, and this was also acknowledged by Local Authorities. Both industry representatives and Local Authorities stressed the importance of addressing these gaps.
58. The discussion highlighted several areas where the evidence base could be developed. These included:
- The tax base and the scale of potential revenue that could be generated;
 - Empirical data on costs to business and local authorities to administer and collect the tax;
 - The wider economic impact of implementing tourist taxes; and,
 - Potential behavioural responses of tourists and businesses, and economic impacts of a change in visitor spend.

How could a transient visitor tax be used, and how can revenues be distributed fairly?

59. During the national discussion, there was some consideration of potential uses of revenues. To some extent, these considerations were reflected in contributions around the reasons for a tourist tax, and potential positive and negative impacts. However, some additional dimensions emerged from contributions, which are set out below.
60. The national discussion surfaced some wider questions related to local government finance, organisation and autonomy. These included arguments from some Local Authority representatives and tourism industry representatives that revenues from tourist taxes should be additional to Local Authority expenditure on tourism, rather than a replacement for them. Some Local

Authority representatives also raised questions of how tourist taxes would interact with existing arrangements around pooling and sharing of revenues.

61. When considering how revenues from a tax could be used, tourism industry representatives and contributors tended to emphasise the desirability of hypothecation of revenues, with revenues being raised from tourism businesses being clearly allocated to tourism uses. Some contributors suggested the importance of revenues raised locally being used in the same locality. Proposed uses included additional support to events and festivals, visitor information, marketing/promotion, cultural experiences, walking tracks, and signage.
62. A related argument advanced by some contributors suggested viewing tourists as stakeholders in the use of tourist tax revenues, and articulating taxes as a means of contributing to the upkeep and quality of destinations.
63. However, some contributors highlighted potential complexities associated with hypothecation of revenues, and potential exposure to revenue risks that could arise from following such an approach. There could also be a need to undertake revenue forecasting.
64. The broad intention amongst Local Authorities who expressed an interest in adopting a tourist tax was that revenues would be targeted at providing sustainable funding streams to support tourism development and investment in areas' tourism offers. However, some Local Authorities also emphasised the need for flexibility over how revenues are spent, to ensure that expenditure was aligned with local needs and responding to local priorities. Some were keen to see revenues used to support sustainable and inclusive tourism including diversification to increase areas' appeal. Others suggestions included using funds for general and tourist specific infrastructure and public service improvements in areas used by tourists.
65. The importance of a partnership approach between Local Authorities and the tourism industry, in making decisions about how and where revenue should be spent was highlighted. There were several approaches put forward, including direct use by Local Authorities, requirements for input or approval into decision-making by tourism businesses or representatives, allocation of funds to arms-length bodies, or management of funds by DMOs. Some highlighted the need for meaningful stakeholder fora to ensure that spending decisions were made fairly and transparently.
66. Industry participants also highlighted the importance of transparency in how revenues were used. The need for trust and transparency between all parties was emphasised not just in relation to this specific issue but also in relation to long term strategic tourism planning and development in general.

3. Summary

67. This paper has set out a high-level overview of messages emerging from the national discussion on tourist taxes in Scotland. The national discussion benefitted from significant participation and contributions from stakeholders across Scotland, representing accommodation providers, the wider tourism industry, Local Authorities and others. The Scottish Government would like to thank all those who give their time to participate in the national discussion, either through attending the roundtable discussions, or through providing a written contribution.
68. The national discussion has emphasised that this subject is a complex one, which provokes strong opinions among those potentially affected. There is both support and opposition across Scotland to the idea of a tourist tax.
69. The national discussion illustrated potential opportunities and challenges associated with tourist taxes. It drew out a number of important issues and complexities that would need to be considered in the design and operation of a tourist tax, several of which may require consideration at national level. It also highlighted uncertainties around potential impacts, the potential for both regional and national impacts, and gaps in the evidence base in this area.
70. The national discussion also drew out a number of important issues and concerns, which the Scottish Government will look to investigate further. The evidence and views provided through the national discussion will help inform the issues considered through the formal consultation being undertaken in 2019, and the development of future legislation on this issue.
71. The national discussion was taken forward on an inclusive basis, where the Scottish Government sought to bring partners together to enable different voices from across Scotland to be heard within the debate. The Scottish Government also engaged with CoSLA and the Scottish Tourism Alliance in the design of the national discussion. The national discussion has emphasised the importance of stakeholder involvement and partnership working in this area, and the Scottish Government will seek to continue to work closely and collaboratively with our partners in Local Government and the tourism industry in the future.

Readouts from the National Discussion Roundtables

Annex A

National Discussion on Tourist Tax First Round Table Discussion, Perth Friday 23rd November 2018

Attendees

Fiona Hyslop MSP, Cabinet Secretary for Culture, Tourism and External Affairs

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government
Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Richard Walsh, Tourism Team, Scottish Government

Sarah Simpson, Tourism Team, Scottish Government

Mhairi Clarke, Comms Director, Scottish Tourism Alliance

Jennifer Carswell, City Development, Dundee City Council

Ben Mardall, Chair, WildScotland

Steve Mills, Service Lead Finance, Angus Council

Alastair Reid, Team Manager Economic Development & Protective Services, Aberdeenshire Council

Alan Graham, Business Development, Perth and Kinross Council

David Groundwater, Development Manager, Federation of Small Businesses Scotland

Moira Henderson MBE, Chair of Fife Tourism Partnership - Chairs Group

Russell Imrie, Dunfermline Hoteliers Group

Stephen Leckie, Chair, Scottish Tourism Alliance

Sandra Montador-Stewart, Service Manager Economy, Tourism and Town Centres, Fife Council

Iain Smith, Head of Corporate Relations, Diageo

David Smythe, Chair, Perthshire Tourism Partnership

Introductory Remarks

1. The Cabinet Secretary welcomed attendees to the discussion event, which would be the first in a series of events across Scotland. The Cabinet Secretary highlighted that tourist taxes are a complex topic, and tourism's role as a national growth sector, and the requirement for legislation should any powers be devolved, necessitated national consideration.
2. Through the national discussion, the Scottish Government was seeking to enable stakeholders to present their views and evidence on the issues around tourist taxes. The national discussion was not seeking to consult on a discrete policy proposal; instead, the process was an opportunity for stakeholders to come together to establish a shared understanding of positions and available evidence on this topic.

3. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.

Scottish Government Tourism Tax Discussion Paper

4. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourist tax.
5. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourist taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.
6. The discussion paper also set out four broad themes, with a number of supporting questions, to guide discussion. These were:
 - What Would the Reasons Be for Introducing a Transient Visitor Tax?
 - What Would a Well-Designed and Operated Transient Visitor Tax Look Like?
 - What Positive and Negative Impacts Could a Transient Visitor Tax Have?
 - How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these themes, with the supporting questions within them acting as prompts for discussion.

7. The Scottish Government indicated that it was considering further research on this issue, but would look for the scope to be informed by the national discussion.

What Would the Reasons Be for Introducing a Transient Visitor Tax?

8. In discussion, the following points were made:
 - Significant investors in tourism attractions, such as the whisky industry, were keen to see a thriving tourism sector in Scotland. New taxes were potentially a risk to this, but impact would depend on how revenues were used and invested, and also ensuring that investment in infrastructure was joined up, and taking a medium and long term view;
 - Tourism industry representatives highlighted that visitors are taxed at each stage on the 'customer journey', and expressed the view that the UK sector is already at a competitive disadvantage when it came to taxation.
 - Industry representatives argued that further rigorous research in this area was essential. Previous UK-level analysis on price elasticity of demand for tourism

was highlighted, indicating that tourists were price-sensitive; current data from STR showing annual reductions in hotel occupancy in Edinburgh and Aberdeen were also referenced, with increased competition from collaborative economy platforms being a contributing factor.

- Industry representatives also highlighted the challenge of negative messaging around tourism, highlighting media stories that ‘Scotland was full’, and the risk of signalling to visitors that they were unwelcome, particularly in the context of negative perceptions created by Brexit.
- Industry representatives highlighted consistent feedback from members about the undesirability of new or additional taxes, but also the differing regional priorities for tourism investment (e.g. marketing in Aberdeen, cleaner streets in Edinburgh);
- Visitor attraction representatives highlighted recent data, indicating constrained visitor expenditure in participating attractions;
- In addition to the Adam Smith principles, Local Authority officers highlighted the importance of taxes not distorting the market. Ensuring and delivering hypothecation of revenues would be a significant issue. Local Authorities highlighted importance of maintaining investor confidence, and encouraging visitors to visit a range of areas across Scotland, to spread the benefits of tourism success more widely.
- The importance of consistency of any scheme across Scotland, for example in processes related to collection was emphasised;
- It was highlighted that several areas operated voluntary schemes for improving facilities (such as the Big Tree Levy), with one uncertainty being how tourist taxes might interact with or influence contributions towards these;
- There were also questions around coverage of potential taxes, with attendees highlighting that tourist taxes may not be an appropriate solution to issues such as wild camping, and querying whether taxes would be applicable to different groups of visitors, such as leisure or business travellers, with different spending profiles and footprints.

What Would a Well-Designed and Operated Transient Visitor Tax Look Like?

9. In discussion, the following points were noted:
 - Industry representatives highlighted that there was uncertainty around the size and scope of the tax base, as it was unclear how many accommodation businesses and premises were currently active;
 - There were concerns that the perception was that tourist taxes would only be levied on overseas visitors, when the majority of overnight visitors in Scotland were from elsewhere in Scotland or the UK;
 - Industry representatives highlighted concerns around the costs of administration and collection on businesses, and that this had not yet been considered within the debate. For instance, implementation of a tax and collection would require alterations to accommodation providers existing systems. Overall prices including tourist taxes would need to be displayed at point of sale, although the interaction between taxes and VAT was unclear at present;
 - It was indicated that current local authority collection systems (e.g. for council tax or non-domestic rates) may not be appropriate for collection of a tourist tax, while use of exemptions (e.g. for children, business travellers) would introduce

complexities into collection and enforcement. Issues relating to powers over non-compliance, and powers to remedy these, would also need consideration.

- Industry representatives highlighted that the collection system should include visitors using digital platform accommodation providers such as Airbnb to ensure fairness and proportionality.

What Positive and Negative Impacts Could a Transient Visitor Tax Have?

10. In discussion, the following points were noted:

- Current uncertainty, particularly around Brexit, meant that introduction of new taxes had to have a longer term view in mind;
- Consumers' price sensitivity was important to understand, and a potential gap in the evidence base;
- Industry representatives indicated that the benefits of a tourist tax were unclear to the industry, that potential uses of funding were unclear, and that the tax was potentially distortionary.
- Industry representatives also highlighted that there was a risk of undermining partnership and trust between local authorities and the tourism sector around support for the sector's broader growth, potentially sending a signal around negative consequences of success and risk-taking;
- Further data and evidence gaps included the understanding of the tourism and accommodation sector's margins and profitability, as well as the broad rationale from local authorities underpinning proposals for a tourism tax.

Closing Remarks

11. The Cabinet Secretary highlighted several themes that had emerged during the discussion. These included the importance of developing shared investment priorities for tourism; evidence gaps and research needs; the importance of understanding the factors influencing profitability of accommodation providers, and the importance of maintaining positive perceptions among visitors of Scotland as a welcoming destination.
12. The Cabinet Secretary thanked attendees for their participation, reiterated that this event was the first of several discussion events, and that participants were invited to provide contributions in writing to the Scottish Government.

**Tourism Team
November 2018**

**National Discussion on Tourist Tax
Second Round Table Discussion, Glasgow
Wednesday 28th November 2018**

Attendees

Derek Mackay MSP, Cabinet Secretary for Finance, Economy and Fair Work

Jonathan Pryce, Director for Culture, Tourism and Major Events, Scottish Government

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government

Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Kay Barclay, Principal Research Officer, Scottish Government

Mairi Longmuir, Economic Adviser, Directorate for the Chief Economist, Scottish Government

Jonathan Ferrier, Tourism Team, Scottish Government

Richard Walsh, Tourism Team, Scottish Government

Sarah Simpson, Tourism Team, Scottish Government

Marie Lorimer, Public Policy Director, Airbnb

Craig Wilson, Economic Growth Officer (Tourism), Argyll and Bute Council

Fiona Campbell, Chief Executive, Association of Scottish Self Caterers

Val Russell, Chief Executive, Ayrshire Chamber of Commerce

Jeannette Wilson, Policy Director, British Homes & Holiday Parks Association

Judy Rae, Chair, Business Tourism for Scotland

Chris Young, Chartered Institute of Taxation

Alistair Dobson, COIG Initiative (North Ayrshire)

Malcolm Simpson, COIG Initiative (North Ayrshire)

Mari Tunby, Policy Director, CBI Scotland

Don Peebles, Chief Executive, Chartered Institute of Public Finance and Accountancy

Lauren Bruce, Chief Officer for Local Government Finance, CoSLA

Gillian Fyffe, Policy Manager, CoSLA

Tracey Martin, Economic Development Officer, Falkirk Council

Barry McCullough, Senior Policy Advisor, FSB Scotland

James Withers, Chief Executive, Food and Drink Scotland

Hugh Sheridan, Moffat Centre, Glasgow Caledonian University

Marina Martinolli, Moffat Centre, Glasgow Caledonian University

Stuart Patrick, Chief Executive, Glasgow Chamber of Commerce

Duncan Dornan, Head of Museums and Collections, Glasgow Life

Tom Rice, Head of Marketing Communications, Glasgow Life

Annique Armstrong, Glasgow Tourism and Visitor Plan, Glasgow Life (Conventions)

Janice Fisher, Greater Glasgow Hotels Association

Jamie Stevens, Greater Glasgow Hotels Association

Andy Rodger, Chair, Love Loch Lomond

Karen Yeomans, Executive Director (Economy & Communities), North Ayrshire Council

Peter Duthie, Chief Executive, SEC

Marc Crothall, CEO, Scottish Tourism Alliance
Calum Ross, UK Hospitality Board North
Willie MacLeod, Executive Director Scotland, UK Hospitality
Mark MacVey, Chair, UKInbound
Linda Johnston, Visit Arran Director, Visit Arran
Shelagh Gilmore, Visit Arran Executive Director, Visit Arran

Observers

Malcolm Roughead, Chief Executive, VisitScotland
Anna Miller, Head of Tourism, Highlands & Islands Enterprise
Danny Cusick, Director Food and Drink, Tourism & Textiles, Scottish Enterprise

Introductory Remarks

1. The Cabinet Secretary opened the discussion event, which was the second in a series of events in support of the national discussion. This event was also a national-level event. The Cabinet Secretary highlighted that tourist taxes are a complex topic, and tourism's role as a national growth sector, and the requirement for legislation should any powers be devolved, necessitated national consideration.
2. Through the national discussion, the Scottish Government was not seeking to consult on a discrete policy proposal. The national discussion events were an opportunity to discuss the evidence and views associated with Tourism Tax, marshalled under the four themes from the Scottish Government discussion paper.
3. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.
4. The Cabinet Secretary stressed that the Scottish Government was focused on supporting business in Scotland and on delivering sustainable economic growth. The Scottish Government was already spending significant funds, right across Scotland, on infrastructure (physical and digital) to support broader economic growth, not just within the visitor economy. Financial support to the visitor economy continued to be an important portion of the Scottish Government's expenditure, including the latest commitment to maintain the cap on NDR increases.
5. He invited Kevin Brady to speak briefly to the SG Discussion Paper.

Scottish Government Tourism Tax Discussion Paper

6. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourist tax.

7. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourist taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.
8. The discussion paper also set out four broad themes, with a number of supporting questions, to help guide the discussion. These were:
 - What would the reasons be for introducing a transient visitor tax?
 - What would a well-designed and operated transient visitor tax look like?
 - What positive and negative impacts could a transient visitor tax have?
 - How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these themes, with the supporting questions within them acting as prompts for discussion.

CoSLA Position on a Transient Visitor Tax

9. The Cabinet Secretary asked Lauren Bruce to give an overview of CoSLA's position with regard to tourism taxes.
10. CoSLA's position on a Transient Visitor Tax (TVT) was set out in their discussion paper, which was published in June 2018 and had support from all 32 local authorities, based on support for discretionary tax powers in general.
11. The position articulated in CoSLA's paper is that local authorities should be empowered with the discretion to introduce a TVT if the local circumstances were right and in full consultation with stakeholders within their local area. CoSLA shared recognition of importance of tourism; however, issue was that costs of supporting tourist infrastructure fall on taxpayers. Use of TVT would be in response to local circumstances and needs, and enabling Local Authorities to access levers to support and address pressures that differ across Scotland.
12. There was no shared local authority view around hypothecation of revenues. However, local authorities would see TVT as additional revenue that would be used to address the pressures of tourism and not to subsidise core budgets.

What Would the Reasons Be for Introducing a Transient Visitor Tax?

13. In general discussion, the following points were noted:
 - The discussion events and discussion paper were welcomed, with the discussion paper being viewed as objective and even handed;

- Industry representatives acknowledged that they disagreed with proposals for further tourist taxes, particularly in light of current VAT rates, existing tax take, reliance on the domestic market, and uncertainties around the impact of Brexit. A key concern was around reduced competitiveness as a result of having to increase prices.
- The majority of EU countries who operate tourist taxes have notably lower rates of VAT on accommodation than the UK.
- Industry representatives highlighted that opposition was not limited to the accommodation sector, though non-accommodation businesses views were not uniform. However, member surveys tended to indicate majority opposition to tax proposals.
- Industry representatives highlighted the tourism industry's existing contribution to tax revenues through other forms of taxation, and initial economic impact analysis by UK Hospitality suggesting that a £2 per room per night tourist tax in Edinburgh could result in a £75 million reduction in visitor expenditure.
- Industry representatives also expressed concern that debates on tourist taxes were moving too quickly to consider practicalities of delivery, before a decision on the principle of whether to introduce a tourist tax had been established.
- Attendees commented that it was important to view tax in the round, rather than focus on additional taxes in isolation. There were questions around how tourist taxes might interact with local discretionary fees, and whether local authorities were aware of this.
- Some attendees highlighted a potential risk that operation of tourist taxes in some areas, without broader redistribution, could heighten disparities between established tourist destinations, and those looking to develop their tourism offer. The question of how to distribute and share benefits from increased visitor numbers around Scotland was also raised.
- Attendees highlighted the potential risk of negative messages to visitors arising from a new tax, particularly if Scotland or the UK were perceived as being 'less-welcoming' after Brexit. Attendees suggested it would be desirable if Scotland could counter the more negative stance of the rest of the UK in the Brexit process. Scotland is Now and Scotland the Brand were identified as important initiatives that aim to attract people to Scotland.
- It was raised that a number of smaller businesses would not be aware of the debate and issues around tourist taxes, both for and against.
- Attendees highlighted that the discussion paper had identified that limited evidence was available on the potential impact and benefits of tourist taxes in a Scottish context. There was a need for greater empirical evidence on these, and on the potential revenues that could be raised through this route.
- Industry representatives raised the question of why tourist taxes should be used to fund general infrastructure investment, particularly when industries also using infrastructure such as roads would not be subject to tax. However, other attendees highlighted that such infrastructure can form an important part of visitors perceptions and experiences of different parts of Scotland, which contribute to positive impression of areas, and that funding for these were under pressure.

- Industry representatives raised questions over the focus on raising taxes on overnight visitors, rather than day visitors, and also suggested that introducing a tourist tax could create perceptions of seeking to tax successful performance.

What Would a Well-Designed and Operated Transient Visitor Tax Look Like?

14. In general discussion, the following points were noted:

- In terms of good practice, some attendees emphasised the importance of adopting a collegiate approach in this area, particularly in light of the potentially divisive nature of the issue. Some attendees also highlighted the lessons that could be learned from initiatives such as Business Improvement Districts. The importance of those on whom tax is levied being able to influence decisions around use of funds was raised.
- Some industry representatives raised the importance of taking a holistic view of tourism funding, and of potentially reviewing long-standing business support measures and policy commitments.
- In terms of implementation and delivery, some attendees advised that international experience suggested the importance of definitions of tax, and of clear communication and messaging of taxes to customers. Lisbon and Porto were held up as good examples of international best practice.
- Some industry representatives suggested that introduction of a tax would create potential for competition across local authority boundaries, and between Scotland and other cities in the UK, potentially displacing visitor spend and activity. It was suggested that the current environment for operators was difficult, particularly in terms of recruiting and retaining staff and attracting visitors.
- Some attendees suggested that tourists, particularly from outwith Scotland, would not be aware of local authority boundaries, which emphasised the importance of consistency of messaging around taxation, and the importance of understanding best practice in this regard.
- Industry representatives also raised questions regarding how different categories of accommodation providers would be treated under a tourist tax, emphasising the importance of ensuring a level playing field between accommodation providers. Questions were also raised regarding potential exemptions for different categories of overnight visitors, particularly business travellers, and over tax treatment of different leisure / tourism activities (particularly those catering for overnight and day visitor markets).

Concluding Remarks

15. The Cabinet Secretary invited Malcolm Roughead, Chief Executive of VisitScotland, to offer some observations on the discussion. These included the importance of continuing to stimulate sustainable growth in Scotland's tourism sector; recent successes that were creating benefits, such as establishment of direct flight routes between Edinburgh and Hainan; and the importance of considering decisions in the light of supporting the continued success of the sector.

16. The Cabinet Secretary thanked attendees for their contribution to the discussion, and invited attendees to provide written comments or evidence to the Scottish Government's national discussion should they wish to do so.

**Tourism Team
December 2018**

**National Discussion on Tourist Tax
Third Round Table Discussion, Edinburgh
Tuesday 4th December 2018**

Attendees

Fiona Hyslop MSP, Cabinet Secretary for Culture, Tourism and External Affairs

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government
Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Duncan Mackay, Tourism Team, Scottish Government

Kay Barclay, Principal Research Officer, Scottish Government

Mairi Longmuir, Economic Adviser, Directorate for the Chief Economist, Scottish Government

Jonathan Ferrier, Tourism Team, Scottish Government

Trudy Morris, Caithness Chamber of Commerce

Laurence Rockey, Head of Strategy and Insight, City of Edinburgh Council

Paula McLeay, Policy and Insight Senior Manager, City of Edinburgh

Lauren Bruce, Chief Officer for Local Government Finance, CoSLA

Iain Gibson, Edinburgh Chamber of Commerce

Martha Walsh, Edinburgh Chamber of Commerce

Tristan Nesbitt, Edinburgh Hoteliers Association

Robbie Worsnop, Chair, Edinburgh Tourism Action Group ETAG

Marshall Dallas, EICC

Julia Amour, Director, Festivals Edinburgh

Marc Crothall, Chief Executive, Scottish Tourism Alliance

Peter Lederer, Glasgow Tourism Leadership Group

Margo Paterson, CEO, Hostelling Scotland

Charlotte Barbour, Director of Taxation, Institute of Chartered Accountants in Scotland

John Donnelly, CEO, Marketing Edinburgh

Alasdair Morrison, Head of Regeneration, Renfrewshire Council

Beatrice Morrice, Head of Engagement (Scotland), Scotch Whisky Association

Paul Togneri, Senior Advisor, Scottish Beer & Pubs Association

Robert Kidd, Chair, Scottish Destination Management Association

Colin Wilkinson, MD, Scottish Licensed Trade Association

Colin Smith, CEO, Scottish Wholesale Association

Willie MacLeod, Executive Director (Scotland), UK Hospitality

Malcolm Roughead, Chief Executive, VisitScotland

Introductory Remarks

1. The Cabinet Secretary opened the discussion event, which was the third in a series of events to support the national discussion. The Cabinet Secretary highlighted that tourist taxes are a complex topic, and tourism's role as a national growth sector, and the requirement for legislation should any powers be devolved, necessitated national consideration.

2. Through the national discussion, the Scottish Government was not seeking to consult on a discrete policy proposal. Instead, the process was an opportunity for stakeholders to come together to establish a shared understanding of positions and available evidence on this topic.
3. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.
4. The Cabinet Secretary invited Kevin Brady, from SG OCEA to speak briefly to the Scottish Government's Discussion Paper, followed by Lauren Bruce, who gave an overview of the position set out in CoSLA's policy paper.

Scottish Government Tourism Tax Discussion Paper

5. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourist tax.
6. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourist taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.
7. The discussion paper also set out four broad themes, with a number of supporting questions, to help guide the discussion. These were:
 - What would the reasons be for introducing a transient visitor tax?
 - What would a well-designed and operated transient visitor tax look like?
 - What positive and negative impacts could a transient visitor tax have?
 - How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these themes, with the supporting questions within them acting as prompts for discussion.

CoSLA Position on a Transient Visitor Tax

8. Lauren Bruce gave an overview of CoSLA's position with regard to tourism taxes.

9. CoSLA's position on a Transient Visitor Tax (TVT) was set out in their discussion paper, which was published in June 2018 and had support from all 32 local authorities, based on support for discretionary tax powers in general.
10. The position articulated in CoSLA's paper is that local authorities should be empowered with the discretion to introduce a TVT if the local circumstances were right and in full consultation with stakeholders within their local area. CoSLA shared recognition of importance of tourism; however, issue was that costs of supporting tourist infrastructure fall on taxpayers. Use of TVT would be in response to local circumstances and needs, and enabling Local Authorities to access levers to support and address pressures that differ across Scotland.
11. There was no shared local authority view around hypothecation of revenues. However, local authorities would see TVT as additional revenue that would be used to address the pressures of tourism and not to subsidise core budgets.

What would the reasons be for introducing a transient visitor tax?

12. In general discussion, the following points were noted:
 - Attendees welcomed the national discussion, and the supporting evidence presented by Scottish Government.
 - Some attendees highlighted that the challenge facing Edinburgh in particular was competition from other cities in the UK and abroad, and emphasised the importance of continued and sustained investment in Edinburgh's offer to maintain competitiveness.
 - Industry representatives highlighted the importance of Scotland and Edinburgh remaining competitive and attractive destinations, and being seen as welcoming and open. They emphasised Scotland's reliance on the domestic (Scottish and UK) visitor market, particularly outside of Edinburgh, along with the perception that Scotland was a relatively expensive destination.
 - Industry representatives questioned whether the relative costs and benefits of tourism were fully appreciated and understood, and argued that this was an important evidence gap in the context of the debate.
 - Local authority representatives recognised the importance of tourism for sustainable inclusive growth, particularly within Edinburgh, but highlighted challenges of sustainably maintaining discretionary expenditure to support and invest in tourism and public realm, particularly in current fiscal environment. Examples of discretionary spend included marketing, grants to cultural organisations, maintenance of parks and public spaces, and street cleaning, particularly during the Edinburgh Festivals.
 - Industry representatives acknowledged local authority funding pressures, but argued that the industry was already contributing substantially through the scale of its tax contribution (estimated at around £720 million across Scotland), existing voluntary contributions, and existing capital investment by tourism and accommodation businesses.
 - Industry representatives articulated concerns regarding whether a rationale for a tourist tax had been fully considered and expressed, and regarding costs of collection. Industry representatives also suggested that it was likely that additional taxes would be passed on to visitors, and It highlighted that other

countries that operated tourist taxes tended to have lower rates of VAT on accommodation than the UK.

- Industry representatives also argued it was important that other approaches to providing funding for supporting sustainable investment in tourism infrastructure be considered. These included options related to day visitors, if this group were felt to be important in generating pressures, and options such as reform of the Small Business Bonus Scheme.
- Some attendees suggested that tourist taxes sat within broader context of destination management, involving businesses, visitors and residents. In this context, it was important that residents' views and concerns were recognised and considered within the debate.
- Attendees also reported key messages from surveys of residents and visitors within Edinburgh undertaken by Marketing Edinburgh in recent months. These included broad resident support for the idea of taxes levied on overnight visitors, and findings from surveys of peak and off-peak visitors that the majority of visitors' decisions to visit Edinburgh, or their spending profile, would not be affected by a potential tourist levy of the magnitude proposed by the City of Edinburgh Council.
- Attendees noted the role of national-level investment (e.g. in attractions like the National Museum and historic environment) in supporting Edinburgh's attractiveness as a destination.
- Industry representatives highlighted existing and potential future pressures on occupancy rates, revenue and profitability within Edinburgh, including from additional hotel supply, increased supply through collaborative economy platforms, and pressures from Brexit. These were occurring despite recent strong visitor numbers and expenditure, and were particularly felt by budget providers (such as hostelling businesses within the city).
- Some attendees expressed concerns about the possibility of funds from potential tourist taxes being used for non-tourism purposes, and for the potential for levies to be misaligned against factors creating pressures (e.g. increased use of motorhomes in rural areas).
- Industry representatives emphasised the importance of discussions around tourist taxes being viewed within a national context. This stemmed from the impact that policy within Edinburgh could have on other areas within Scotland; existing perceptions of Scotland as a high-cost destination; questions about the use of funds from potential tourist taxes, and whether these would be linked with tourism priorities; and the potential for confusion among visitors to Scotland if multiple tax regimes were established across Scotland. Existing pressures on industry margins and rising costs were also highlighted.
- Local Authority representatives highlighted that broader pressures on local government finance, and the requirements of supporting statutory services, were an important factor underpinning local authorities' views on transient visitor taxes, though in areas such as Edinburgh, drivers also included finding additional means to support delivery of tourism ambitions for the city.
- A central question for future discussions would revolve around whether funds were intended for 'defensive' purposes (e.g. mitigating funding pressures) or more proactive purposes, around investment to support ambitions and growth in tourism. Some attendees suggested that decisions on tourist taxes should be strategic decisions, rather than in response to pressures from visitor numbers.

What would a well-designed and operated transient visitor tax look like?

13. In general discussion, the following points were noted:

- Edinburgh City Council representatives set out the broad principles guiding their thinking, including fairness; transparency in operation and use of revenues; and simplicity of administration. Some attendees suggested they would wish to see revenues that were raised being reinvested in Edinburgh's tourism and cultural offer.
- Industry representatives highlighted several issues related to administration. The costs of administration were raised, particularly uncertainties as to whether tourist tax rates would be subject to VAT. It was also highlighted that existing legislation on accommodation pricing would require providers to change their upfront prices to reflect the new price following addition of tourist taxes. Potential interactions with commissions paid to other businesses were raised.
- Some attendees highlighted several broad issues around transient visitor taxes, based on experience of other devolved taxes, such as Land & Buildings Transaction Tax. These included: that greater efficiency would point to a national tax framework, rather than each local authority operating its own framework; questions around how hypothecation of revenues, while important for transparency, would align with efficiency and the broader Adam Smith principles; the importance in general of broadening tax bases; and the interaction of transient visitor taxes with related areas of tax policy, such as Air Departure Tax.
- Some attendees also queried the broad intention in tax policy terms behind transient visitor taxes, with the suggestion that, if taxes were focused on addressing pressures, they would not necessarily raise significant levels of revenue.
- Industry representatives highlighted potential for costs of registration and regulation. In particular, the absence of a compulsory registration of accommodation providers was highlighted as an important gap in the existing data on the sector.
- Local Authority representatives highlighted that Local Authorities currently collected a range of taxes and charges, experience of which could inform collection of new taxes.

What positive and negative impacts could a transient visitor tax have?

14. In general discussion, the following points were noted:

- Local Authority representatives highlighted existing concerns around tourism volumes articulated by residents in areas like Edinburgh, with one potential benefit of a tourist tax being to generate broader buy-in among residents for tourism growth.
- Local Authority representatives also suggested the potential for tourism taxes to form a predictable revenue stream that local authorities could borrow against for strategic investment purposes. Other suggested positive impacts

included support for destination management, including managing visitor numbers across the year, and widening the tax base.

- Industry representatives highlighted potential negative impacts, including on visitors' disposable incomes for the duration of their stay; potential signals around how welcome visitors were, and value for money of Scotland as a destination, particularly when attracting international conference business and visitors; and arising from interactions with other costs of doing business.
- Attendees highlighted the wider risks from the external environment, particularly around Brexit, along with potential complexity created by greater autonomy for Local Authorities in this area.

How could a transient visitor tax be used, and how can revenues be distributed fairly?

15. In general discussion, the following points were noted:

- Attendees emphasised the importance of the use of potential funds being based on tourism needs and strategic priorities for tourism.
- Industry representatives highlighted the importance of building and maintaining trust between industry and local authorities, and on industry having influence over use of funds.
- Local Authority representatives highlighted difficulties inherent in hypothecation of revenues, but also that the intention behind the position set out by CoSLA and individual Local Authorities was not for revenues simply to be included in general funds, but instead to be used for investment in tourism and supporting infrastructure.
- Some attendees emphasised the importance of using revenues from potential transient visitor taxes to support sustainable and inclusive tourism growth, including diversification to broaden areas' appeal, was emphasised.

Concluding Remarks

16. The Cabinet Secretary invited VisitScotland and Scottish Government officials to summarise the discussion. Points noted included:

- The importance of stimulating sustainable economic growth, and dealing with challenges around seasonality and productivity;
- Identification of priority investments to support growth in the sector;
- Challenges around identifying the tax base, particularly given that compulsory registration did not take place at present;
- The importance of supporting the wider supply chain, and considering impacts on it;
- Recognition of pressures on both local authority finances, and on the tourism sector's competitiveness and profitability;
- The importance of developing innovative approaches for responding to pressures from tourism success, and encouraging and supporting further growth;
- Challenges around the evidence base, particularly in terms of impacts and costs.

17. Other attendees also highlighted the importance of going forward in partnership, particularly between government and industry, and the importance of trust and transparency between different parties.
18. The Cabinet Secretary thanked the group for their contribution to the discussion and reminded all that a high level readout of the discussion would be published and the points raised would be considered along with the points from the other engagement sessions. The Cabinet Secretary also reiterated that participants were invited to provide contributions in writing to the Scottish Government.

**Tourism Team
December 2018**

**National Discussion on Tourist Tax
Fourth Round Table Discussion, Newton St Boswells
Wednesday 19th December 2018**

Attendees

Aileen Campbell MSP, Cabinet Secretary for Communities and Local Government

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government
Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Kay Barclay, Principal Research Officer, Scottish Government

Jonathan Ferrier, Tourism Team, Scottish Government

Richard Walsh, Tourism Team, Scottish Government

Sarah Simpson, Tourism Team, Scottish Government

Gillian Cross, Private Secretary, Scottish Government

Cllr. Gordon Edgar, Executive Member for Roads and Infrastructure, Scottish Borders Council

Cllr. Carol Hamilton, Executive Member for Children and Young People, Scottish Borders Council

Cllr. Mark Rowley, Executive Member for Business and Economic Development, Scottish Borders Council

David Gardiner, Business and Enterprise Manager, Dumfries & Galloway Council

Susan Smith, Economic Development, East Lothian Council

Marco Trufelli, MD North East UK, MacDonald Hotels,

Bruce Simpson, Communications Executive, Scottish Borders Chambers of Commerce

Jack Clark, Chair, Scottish Borders Chambers of Commerce

Michael Cook, Corporate Policy Advisor, Scottish Borders Council

Gavin Mowat, Policy Advisor (Rural Communities), Scottish Land and Estates

Marc Crothall, Chief Executive, Scottish Tourism Alliance

Kate Innes, Partner/Proprietor, Tontine Hotel Peebles,

Lady Catherine Maxwell-Stuart, Chair, Tweed Valley Tourism BID

Willie MacLeod, Executive Director Scotland, UK Hospitality

Duncan McConchie, Laggan Outdoors (via SKYPE)

Introductory Remarks

1. The Cabinet Secretary opened the discussion event, which was the fourth of a series of events to support the national discussion. The Cabinet Secretary observed that tourism taxes are a complex topic and tourism's role as a national growth sector, and the requirement for primary legislation should any tourism tax powers be devolved to local authorities, necessitated national consideration.
2. The Scottish Government was not seeking to consult on a discrete policy proposal through the national discussion. The national discussion events were an opportunity to discuss the evidence and views associated with Tourism Tax,

marshalled under the four themes from the Scottish Government discussion paper.

3. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.
4. The Cabinet Secretary also identified the broader context of relevance to discussions around tourist taxes. This included retained issues such as VAT rates, and also areas like the Local Governance Review and broader discussions around greater autonomy for local government in Scotland. Within this context, the Cabinet Secretary noted that CoSLA had published a policy paper on Transient Visitor Levies in June 2018, which advocated greater discretionary powers for local authorities in this regard.
5. The Cabinet Secretary also noted the importance of tourism as a growth sector, both to Scotland overall and to the South of Scotland, and highlighted several areas of Scottish Government support for the sector. The Cabinet Secretary then invited Kevin Brady to provide an overview of the Scottish Government's discussion paper.

Scottish Government Tourism Tax Discussion Paper

6. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourism tax.
7. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourism taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.
8. The discussion paper also set out four broad themes, with a number of supporting questions to help guide the discussion. These were:
 - What would the reasons be for introducing a transient visitor tax?
 - What would a well-designed and operated transient visitor tax look like?
 - What positive and negative impacts could a transient visitor tax have?
 - How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these four themes, with the supporting questions within them acting as prompts for discussion.

General Discussion

9. There then followed a general discussion around the questions raised in the discussion document, and around the broader issue of tourist taxes. During the discussion, the following points were noted:
- Some attendees observed that the Tourism Tax debate appeared to be driven by perceived pressures from visitor numbers in areas such as Edinburgh and the Highlands. In contrast, a key concern of local authorities in the south of Scotland was to drive the growth of sustainable tourism in the region.
 - Tourism industry representatives welcomed the discussion events and the Scottish Government's discussion paper, observing that the paper was even-handed and balanced. Industry representatives expressed concerns that discussions on tourist taxes were moving to discuss design issues too quickly, before agreement on the broader rationale for such taxes.
 - Industry representatives also highlighted the higher rate of VAT on accommodation applied in the UK compared against other EU countries; UK Hospitality's estimates of economic impact of a tourist tax; and existing evidence on price sensitivity of tourists.
 - Industry representatives expressed concerns that there were perceptions that tourist taxes would only apply to overseas visitors, and highlighted the reliance of areas like the South of Scotland on visitors from Scotland and the rest of the UK. Industry representatives also expressed concerns about potentially negative signals from introduction of a tourist tax, the potential for additional costs to business arising from compliance and implementation of a new tax, and concerns about pressures on current profitability within the sector, despite increases in visitor numbers.
 - Industry representatives queried the timing of broader discussions and proposals around tourism taxes, particularly in light of uncertainties and risks arising from Brexit. Concerns were also expressed that the debate was informed by misperceptions of overcrowding in Scotland, arising from localised challenges in areas like Edinburgh, Skye and Orkney, which did not reflect the national picture.
 - Industry representatives suggested that introduction of a tourist tax in areas like Edinburgh would have negative spillover effects on tourism in other areas of Scotland, particularly in light of its role as a gateway to Scotland, and specifically to areas like the Borders and South of Scotland.
 - Industry representatives suggested it would be difficult to introduce a tourist tax in one area of Scotland without a wider signal being sent about Scotland as a destination. The importance of tourism in the Scottish Borders, particularly to the sustainability of the economies of small towns, particularly supply chains, and the difficulties faced by the Scottish Borders in attracting visitors were also highlighted.
 - Accommodation providers set out challenges facing small hotels. These included rising labour and workforce costs, such as the National Living Wage and workplace pensions; rising input costs, such as costs of food and drink;

increased competition from short term lets through platforms like AirBnB; business rates and the application of the Large Business Supplement to hotels; and the current rate of VAT on accommodation, which posed challenges for profitability. Challenges around recruiting staff, particularly in light of uncertainties around Brexit, were also highlighted.

- Local Authority representatives advised that, though related, support for tourism investment and approaches to funding local government were separate issues, with solutions to the latter issue being wider than a tourist tax. However, it was recognised that one of the broader drivers behind debates on tourist taxes were calls from local authorities for greater autonomy. Local Authorities representatives also expressed concerns that the devolution of the power to levy a tourist tax could create expectations that it should be used, regardless of local circumstances.
- Industry representatives highlighted challenges of building sustainable tourism sectors in areas like Dumfries and Galloway, particularly given issues of seasonality and the visibility of the area. While some progress had been made, and initiatives like the South of Scotland Partnership were welcome, there were still significant challenges to overcome.
- Industry representatives recognised the challenges around local government funding, but argued for consideration of alternative methods of funding tourism needs, with suggestions including reform of the Small Business Bonus Scheme, hypothecation of VAT receipts, or hypothecation of business rates to support tourism infrastructure.
- Attendees highlighted the importance of public-private collaboration and partnership working to develop tourism across Scotland, and in the South of Scotland. Attendees also emphasised the importance of marketing the Borders and Dumfries & Galloway more strongly to visitors.
- While Tourism BIDS were highlighted as one route to support additional investment in tourism infrastructure, influenced by the sector, a number of challenges around delivering these in practice were articulated by industry representatives.
- Industry representatives raised concerns about the cumulative impacts of further increases in taxation, and the risks posed by reversal of wider economic conditions that had supported tourism growth in recent years, particularly regarding currency.
- In general, attendees expressed concerns about the appropriateness of tourist taxes in areas like the South of Scotland, in light of priority of attracting greater visitor numbers and spend to the area, the existing challenges associated with doing so, the challenges and uncertainties posed by Brexit, and the desire on both the part of industry and the Local Authorities to build a sustainable tourism sector in the area.

Concluding Remarks

10. The Cabinet Secretary thanked the group for attending the discussion event, and for their contribution to the discussion. Attendees were reminded all that a minute of the discussion would be published and the points raised would be considered along with the points from the other discussion events.

11. The Cabinet Secretary also reiterated that participants were invited to provide contributions in writing to the Scottish Government.

**Tourism Team
December 2018**

**National Discussion on Tourist Tax
Fifth Round Table Discussion, Aberdeen
Friday 11th January 2019**

Attendees

Kate Forbes, Minister for Public Finance and Digital Economy

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government
Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Robin Haynes, Head of Council Tax Reform, Scottish Government

Richard Walsh, Tourism Team, Scottish Government

Sarah Simpson, Tourism Team, Scottish Government

Karen Shaw, Private Secretary, Scottish Government

Cllr Marie Boulton, Aberdeen City Council

Cllr Fergus Hood, Aberdeenshire Council

Cllr David Aitchison, Aberdeenshire Council

Cllr Graham L Sinclair, Orkney Islands Council

Gavin Barr, Executive Director - Development and Infrastructure, Orkney Islands Council

Jamie Coventry, Economic Adviser, Aberdeen City Council

Alistair Reid, Team Manager, Aberdeenshire Council

Richard Sweetnam, Chief Officer – City Growth, Aberdeen City Council

David Groundwater, North East Scotland Development Manager, Federation of Small Businesses

Tim Fairhurst, Director of Policy, European Tourism Association (ETOA)

Shane Taylor, Senior Policy and Government Affairs Executive, Aberdeen & Grampian Chamber of Commerce

Yvonne Cook, Head of Tourism Development, VisitAberdeenshire

Frank Whitaker, Vice Chair of the Aberdeen City & Shire Hotels Association

Willie MacLeod, Executive Director, Scotland, UKHospitality

Marc Crothall, CEO, Scottish Tourism Alliance

Introductory Remarks

1. The Minister opened the discussion event, which was the fifth in a series of events to support the national discussion. The Cabinet Secretary highlighted that tourist taxes are a complex topic and tourism's role as a national growth sector, and the requirement for primary legislation should any tourism tax powers be devolved to local authorities, necessitated national consideration.
2. The Scottish Government was not seeking to consult on a discrete policy proposal through the national discussion. The national discussion events were an opportunity to discuss the evidence and views associated with Tourism Tax, marshalled under the four themes from the Scottish Government discussion paper.

3. The Minister noted that CoSLA had published their Transient Visitor Tax paper in June 2018, which called for greater devolution of financial control to local authorities: amongst these was a suggested power to levy a Transient Visitor Tax.
4. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.
5. The Minister then invited Kevin Brady to provide an overview of the Scottish Government's Discussion Paper.

Scottish Government Tourism Tax Discussion Paper

6. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourism tax.
7. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourism taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.
8. The discussion paper also set out four broad themes, with a number of supporting questions to help guide the discussion. These were:
 - What would the reasons be for introducing a transient visitor tax?
 - What would a well-designed and operated transient visitor tax look like?
 - What positive and negative impacts could a transient visitor tax have?
 - How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these four themes, with the supporting questions within them acting as prompts for discussion.

General Discussion

9. The Minister invited the Elected Members attending the discussion event to give their thoughts on the topic. The following points were noted:

- Circumstances differed across Scotland, with conditions and challenges in areas like Aberdeen, Aberdeenshire and Orkney being different to those faced areas like Edinburgh or Skye.
- There were important questions around links between revenues raised and their use; whether the same model would operate across Scotland, or vary across areas, and what rates would be; who would be responsible for collection; and how visible a tax would be.
- Aberdeen City Council had been exploring the feasibility of a tax on accommodation for several years.
- While recognising the pressures on accommodation providers, strategic challenges facing areas like Aberdeen included supporting diversification of Aberdeen's economy; sustainable provision of tourist and cultural infrastructure; and maintaining an attractive offer to tourists, students and residents. Areas like Orkney also faced pressures around providing essential infrastructure and facilities expected, and required, by visitors.
- Recognition of the importance of a clear link between taxes being collected and their use in this instance.

10. There then followed a general discussion around the questions raised in the discussion document, and around the broader issue of tourist taxes.

What would the reasons be for introducing a transient visitor tax?

11. In discussion, the following points were noted:

- Industry representatives emphasised the importance of focusing on principles of a tax, before considering issues of tax design. Industry representatives indicated that they opposed a tax on grounds of a negative impact on price competitiveness, particularly in light of the higher rate of VAT applied on accommodation in the UK than in other EU member states, although the negative impact of a tax would be felt at the margins of the industry. UK Hospitality analysis suggested a £2 per room per night tax would result in a loss of visitor expenditure of around £200 million.
- Industry representatives raised questions around the alignment between those contributing to pressures, and those bearing the cost of taxation, highlighting the pressures created by day visitors, who would potentially be unaffected by a tax on accommodation providers.
- It was observed that the national discussion process broadly represented good practice internationally, in terms of consideration of principles and practicalities in advance of decision-making.
- Some attendees suggested that the European experience of tourist taxes was that such taxes were generally operated at a local level, based on local circumstances: at national level, decisions related to whether to give permission to local areas to levy taxes. Important national considerations included issues of reciprocity in the use of taxation and cumulative impacts from taxation. The importance of providing a long lead-in time to the introduction of a tax was important for securing buy-in.
- Some attendees indicated that, while they would be supportive of local devolution of taxation in principle, greater detail was needed, and the design

of any taxes would be important. There was also a need to ensure the debate was placed within the context of the total tax burden already experienced by the industry;

- Industry representatives indicated local members were opposed to the principle of a tourist tax, on grounds of impacts on competitiveness and profitability, particularly given challenges and pressures in Aberdeen. The risks that a tax could pose to firms' abilities to invest, and work against wider efforts to support sectoral growth, were raised, along with questions of whether revenues from a tax would be additional to existing local authority spending on tourism, and how a tax would operate in practice with commissions to online travel agencies.
- Industry representatives welcomed the national discussion and Scottish Government discussion paper. They also highlighted the Scottish sector's reliance on the domestic market; the risks posed to this market's spending power posed by Brexit and wider economic conditions; that a tax on accommodation providers would not address pressures created by day visitors; and the need for greater understanding of potential economic impacts from a tax.
- Industry representatives highlighted long-standing opposition among their members to a tourist tax; that requirements for businesses to collect and remit a tax would represent an additional cost for those businesses; that rationales for a tax differed across different areas of Scotland; and that a power devolved to Scotland's 32 individual Local Authorities would create complexity, even if services were shared across Local Authorities. There were also questions around how a tourist tax would interact with arrangements for City Deals, particularly if the local authority partners to a Deal adopted different approaches to a tax.
- Local Authority representatives highlighted that the rationale behind proposals for a tax in Aberdeen related to actions to support and attract tourism, based on a recognition of its value to Aberdeen's economy. Activity had followed on from work by the Scottish Cities Alliance, and concerns about pressures on existing Council funding for tourism and culture: revenues from a tax would be intended for use to maintain and enhance Aberdeen's offer. In areas like Orkney, policy rationales would relate to how to provide supporting infrastructure to meet existing and future expectations from visitors, and help bridge potential gaps between investment needs and available resources. Local Authority representatives highlighted challenges around providing funding for cultural services, given Authorities' statutory obligations in other areas, and on issues around alternative approaches (e.g. equity concerns relating to charging users for access to cultural amenities).
- Local Authority representatives also recognised and emphasised the importance of engaging with industry representatives around a tourist tax, should the power be devolved.
- Industry representatives suggested a need to consider alternative approaches for supporting investment in tourism infrastructure. Suggested examples included reform to the Small Business Bonus Scheme, hypothecation of VAT revenues, or hypothecation of Non-Domestic Rates. Industry representatives also highlighted concerns around whether there was a level playing field across accommodation providers in terms of tax.

What would a well-designed and operated transient visitor tax look like?

- Local Authority representatives suggested that Local Authorities had experience of revenue collection, but emphasised the need for burdens on businesses from collection to be light, and for links to be shown between revenue raised and services funded through it.
- Industry representatives emphasised that administration and remittance of a tax would represent an additional cost to businesses. They also highlighted several areas of complexity, including: the need for new taxes to be reflected in the price presented to consumers, in line with existing legislation; whether tourist taxes would be subject to VAT; whether commission would be chargeable on tourist taxes; and complexities from incorporating tourist taxes into existing booking and IT systems.
- Industry representatives also highlighted the current absence of a consistent picture of the number of accommodation providers across each Local Authority, which was further complicated by providers operating through collaborative economy platforms. Industry representatives highlighted that there was no compulsory registration scheme for accommodation providers currently in operation in Scotland.
- Industry representatives also suggested there may be equity issues related to focusing solely on accommodation providers.
- Some attendees advised of the importance of wider messaging around a tax, and articulating (to both businesses and visitors) the links between revenues raised and benefits generated by them. The risk of reputational damage for destinations that failed to do so was highlighted.
- Local Authority representatives suggested that, given variations in circumstances across Scotland, a uniform tax rate applied across Scotland would not be appropriate.
- Some attendees highlighted variations in rates and models across Scotland would introduce complexity, particularly for businesses that operated in more than one Local Authority. The importance of avoiding taxes that were disproportionately costly to administer and collect was recognised, while issues around collection arrangements, the potential parameters of a tax (e.g. on variation around tax rates), and the scope for complexities through operation of exemptions from taxes were also raised.

What positive and negative impacts could a transient visitor tax have?

- Industry representatives highlighted the potential need to distinguish between different categories of visitor, particularly leisure and business tourists, when considering implications and impacts of tax. Some attendees highlighted the need for additional research into visitors' price sensitivity and potential behavioural responses, along with the need for consideration of the behaviours that a tax would be intended to incentivise.
- Attendees' views differed on potential impacts. Some attendees felt that a tax levied on only some areas of Scotland would have an adverse impact on different destinations' competitiveness, and that a national approach would support a level playing field. However, others suggested that impacts would depend on uses that revenues were put to, which would depend on local circumstances.

- Industry representatives advised that existing survey evidence (e.g. STR's survey of visitors to Edinburgh) indicated the potential for behavioural change at the margin, and visitors being displaced across Local Authority boundaries. Industry representatives also highlighted the risk that a tax based on a hotel's 'star-rating' could be seen as adversely impacting those seeking to improve the quality of their accommodation offer. It was also raised that current star-rating systems in Scotland were voluntary, rather than based on a compulsory rating system.
- Some industry representatives highlighted the potential for Scotland-level reputational impacts from introduction of a tax, regardless of whether implementation was limited to a small number of Local Authorities. Impacts would also vary depending on whether businesses could pass on additional costs from tax: the scope to do so could be limited in cases where accommodation providers were negotiating with large clients.
- Some attendees suggested that price sensitivity could vary across Scotland, with potentially notable differences between urban, rural and island areas.

Concluding Remarks

12. The Minister gave an overview of issues raised within the discussion. These included recognition of different visitor types, their characteristics, and pressures arising from different tourist trips; the potential for behavioural change as a result of a tax; discussions of how funds should be used, and issues around hypothecation of taxation; and evidence gaps around issues such as potential behavioural responses.
13. The Minister thanked attendees for their contribution to the discussion. The Minister reminded attendees that a high level readout of the session would be prepared by officials and published and that they were also invited to provide written contributions should they wish to do so.

**Tourism Team
January 2019**

**National Discussion on Tourist Tax
Sixth Round Table Discussion, Inverness
Monday 14th January 2019**

Attendees

Kate Forbes MSP, Minister for Public Finance and Digital Economy

Bettina Sizeland, Deputy Director, Tourism & Major Events, Scottish Government
Kevin Brady, Senior Economist, Directorate for the Chief Economist, Scottish Government

Robin Haynes, Head of Council Tax Reform, Scottish Government
Richard Walsh, Tourism Team, Scottish Government

Cllr Gordon Adam, Highland Council

Cllr. Maxine Smith. Highland Council

Cllr. Bill Lobban, Convener, Highland Council

Cllr Bill Boyd, Highland Council

Cllr. Adam McVey, Leader, City of Edinburgh Council (via 'phone)

Calum Iain Maciver, Director of Development, Comhairle nan Eilan Siar

Frasier Grieve, Regional Director, HI, SCDI

John Shearer, President, Scottish Licensed Trade Association

Gareth Pashke, Cairn Hotel

John Palmer, Chair, Black Isle Tourism

Anika Schulz, Visit Nairn

Jim Grant, (Planning and Economic Development) Moray Council

Colin Simpson, Principal Tourism and Film Officer, Highland Council

Andrew MacKay, Director, Caithness Chamber of Commerce

Alastair Danter, Project Manager, Skye Connect

Anne Gracie, Director, Skye Connect

Clare Winskill, Director, Skye Connect

Angus Noble

Benjamin Carey, Carey Tourism

Catherine Bunn, Director, Highland Campervans

Emmanuel Moine, Chairperson, Inverness Hotels Association

Craig Ewan, General Manager, Kingsmills Hotels

Willie Macleod, Executive Director Scotland UKHospitality

Calum Ross, UKHospitality Board North

Marc Crothall, CEO, Scottish Tourism Alliance

Grant Moir, CEO Cairngorms National Park Authority

Hamish Fraser, Area Leader, Federation of Small Businesses

David Richardson, H&I Development Manager, Federation of Small Businesses

William Cameron, National Council of Rural Advisers

Graeme Ambrose, CEO, VisitInverness/Loch Ness TBID

Frazer Coupland, CEO, Lochaber Chamber of Commerce

Craig Mills, CEO NC500

Gary Williamson, MD, Williamson Foodstuff

Lara MacKay, Business Support Manager, Moray Chamber of Commerce

Natasha Hutchinson, VisitWesterRoss

Laurie Piper, Tourism Operations Manager, Moray Speyside DMO
Mike Smith, BID Manager, Inverness City Centre BID
Jenny Sime, Business Development Manager, Cairngorms Business Partnership

Observers:

Anna Miller, HIE

Introductory Remarks

1. The Minister opened the discussion event, which was the sixth and final event in a series to support the national discussion. The Cabinet Secretary highlighted that tourist taxes are a complex topic and tourism's role as a national growth sector, and the requirement for primary legislation should any tourism tax powers be devolved to local authorities, necessitated national consideration.
2. The Scottish Government was not seeking to consult on a discrete policy proposal through the national discussion. The national discussion events were an opportunity to discuss the evidence and views associated with Tourism Tax, marshalled under the four themes from the Scottish Government discussion paper.
3. The Minister noted that CoSLA had published their Transient Visitor Tax paper in June 2018, which called for greater devolution of financial control to local authorities: amongst these was a suggested power to levy a Transient Visitor Tax.
4. As well as the discussion participants, other stakeholders in the discussion would be able to view the discussion paper online and email evidence into a dedicated email address. The Scottish Government would look to publish a high level readout of the national discussion events, along with evidence provided by stakeholders.
5. The Minister then invited Kevin Brady to provide an overview of the Scottish Government's Discussion Paper.

Scottish Government Tourism Tax Discussion Paper

6. Kevin Brady provided an overview of the discussion paper. It was emphasised that the purpose of the discussion paper was to provide evidence to inform the national discussion; it was not intended to present a Scottish Government policy position, or advance a case 'for' or 'against' a tourism tax.
7. The discussion paper set out the Scottish Government's general economic policy context, and the principles influencing Scottish Government thinking on tax (the 'Adam Smith principles'); evidence on tourism in Scotland; discussion around taxes on tourism businesses, and occupancy taxes (aka tourism taxes, or transient visitor taxes) in other countries; and issues raised from international evidence and experience that could be relevant to the discussion. It also highlighted key messages from recent EU work on tourism taxation, which

emphasised the importance of balancing revenue considerations with maintaining industry competitiveness.

8. The discussion paper also set out four broad themes, with a number of supporting questions to help guide the discussion. These were:

- What would the reasons be for introducing a transient visitor tax?
- What would a well-designed and operated transient visitor tax look like?
- What positive and negative impacts could a transient visitor tax have?
- How could a transient visitor tax be used, and how can revenues be distributed fairly?

The discussion event would be broadly structured around these four themes, with the supporting questions within them acting as prompts for discussion.

General Discussion

9. The Minister invited the Elected Members attending the discussion event to give their thoughts on the topic. The following points were noted:

- Members attending were broadly supportive of the idea of a tourist tax, on grounds of their Local Authorities having limited funds available to address infrastructure needs to support tourism development and the continued success of tourism in areas like the Highlands. The importance of this was reflected by emerging messages around visitor ‘hotspots’ and inadequate facilities.
- Specifically hypothecated revenue streams, such as from a tourist tax, could be one route to addressing this gap.
- Members were concerned that existing funding for tourism support and core infrastructure expected by visitors was difficult to sustain, particularly given the need to fund Local Authorities’ statutory obligations.
- Members welcomed existing initiatives, such as the Rural Tourism Infrastructure Fund, but argued that funding needs exceeded those available through RTIF.
- A tourist tax was viewed as a means and opportunity by which Local Authorities could have greater autonomy to address local priorities for investment and growth of tourism, rather than rely solely on funding from central government.
- A tourist tax could also be an important tool for ensuring continued public support for tourism development in areas experiencing high volumes of visitors.

10. There then followed a general discussion around the questions raised in the discussion document, and around the broader issue of tourist taxes.

What would the reasons be for introducing a transient visitor tax?

11. In general discussion, the following points were noted:

- Industry representatives highlighted their opposition to potential introduction of a tax, on grounds of the additional challenge it would create for profitability and competitiveness when combined with existing challenges such as increases in Non-domestic Rates and the National Living Wage.
- Industry representatives recognised Local Authorities' funding challenges, but highlighted that a tourist tax would represent an additional cost to business. Industry representatives raised questions over the rationale underpinning a tax; its alignment with existing policies such as proposed reductions in Air Departure Tax; the UK's high rate of VAT on accommodation in comparison to other EU Member States; potential alternative approaches for supporting investment, such as reform of the Small Business Bonus Scheme; and the potential negative impact on visitor expenditure (estimated at around £200 million by UK Hospitality).
- Industry representatives also questioned the timing of discussions, given challenges and uncertainties associated with Brexit, and potential increases in staffing costs that could arise should it become difficult to recruit staff from EU member states.
- Industry representatives emphasised the different tourism challenges between areas like Edinburgh and the Highlands, and the differences in these areas' tourism sectors. The potential fragility of tourism across the Highlands was raised.
- Industry representatives questioned the extent to which costs of compliance with a tourism tax would be consistent with the Adam Smith principles of taxation, and the need for a level playing field with smaller operators and providers operating through collaborative economy platforms.
- Some attendees highlighted the success of visitor payback schemes, but emphasised that discussions to date around tourist taxes were not consistent with these ideas. The EU experience of successful implementation was highlighted, where revenues were raised, spent and administered locally, with local accountability. Some attendees observed that such initiatives would only operate successfully if local business organisations were able to influence and direct expenditure of revenues, in a manner similar to that of the BID approach. They also observed that Local Authorities currently did not have the systems that would be required to collect revenues and operate initiatives of this sort.
- Industry representatives highlighted the reliance of the Scottish tourism sector on domestic visitors; that a tax on accommodation would not impact on day visitors, who represented an important source of pressure in tourism areas; that a tax would represent an additional cost to business; and a desire to consider alternative approaches for supporting tourism investment. Industry representatives also gave examples of the existing scale of tax revenue contributed by individual accommodation businesses.
- Industry representatives highlighted existing cost pressures facing the industry; and argued that they were experiencing an uneven playing field in terms of regulation with providers operating through collaborative economy platforms. The potential for differences in Local Authorities' approaches to tourist taxes to generate changes in visitor behaviour was raised, along with questions on whether a tax would impact on specific cases, such as motorhomes.

- Some industry representatives argued that the tourism sector in the Highlands was centralised (e.g. in areas like Inverness and Skye) and highlighted the potential fragility of areas outside these. Challenges around staffing costs, taxation and business turnover were raised, with some attendees emphasising the importance of taking a holistic view of business taxation.

What would a well-designed and operated transient visitor tax look like?

- Some Local Authority representatives argued for a discretionary local tax, and suggested that the least complex way to operate such a tax would be for revenues to be transferred to and spent by Local Authorities on strategic investments, with industry stakeholders influencing and advising around decisions on these.
- Some attendees highlighted the approach adopted in BIDs as a potential model for operation of a tourist tax, in terms of revenue collection, enforcement and expenditure decision-making arrangements. However, others argued that revenues raised through BIDs were required to be spent on activities additional to Local Authorities' existing functions and responsibilities.
- Some Local Authority representatives highlighted that tourist taxes could represent a significant revenue source when compared against existing Local Authority capital budgets. They also argued that while there would be challenges around collection approaches, these were not insurmountable. Differences in infrastructure needs across Local Authorities, resulting from their different markets and visitor bases, were also emphasised.
- Some Local Authority representatives also highlighted that the Islands Scotland Act 2018 would have implications for this debate, particularly around Island-proofing policy.
- Some attendees highlighted the different challenges and degree of ease of accessing funds for capital investment, which was observed as being less difficult than securing funding for maintenance of existing capital assets. Attendees also highlighted the importance questions around how to ensure that investment was aligned with local priorities, and how to raise funds for investment sustainably over time.
- Some attendees suggested that a model similar to a BID approach was preferable, where revenues were raised and administered locally, and with clear transparency between what revenues were raised and what they were spent on. However, other attendees advised of difficulties in hypothecating revenues raised by specific taxes for specific purposes.
- Some attendees highlighted alternative options for raising revenue, including locally-based voluntary measures.
- Industry representatives raised questions about who would collect and enforce a tourist tax, and the costs associated with each of these. It was suggested that an additional tax would require additional collection and enforcement mechanisms.
- Some Local Authority representatives advised that issues around administration, collection and enforcement were in early stages of

development, but were supportive in principle of ideas around revenues being raised and spent in local areas (with input from stakeholders).

- Some attendees suggested that successful operation would require a positive message for visitors, identifying the contribution their levy would make to the area. If the policy was perceived as simply a tax on visitors, it could potentially discourage or disillusion visitors.
- Some attendees raised messages from international experience around the importance of transparency around raising tax, and of not 'hiding' it from visitors, in order to increase buy-in and acceptance of a tax.

What positive and negative impacts could a transient visitor tax have?

- Some attendees had differing views about potential behavioural responses to the introduction of a tax, with some expressing concerns, and others expressing scepticism about behavioural responses to the scale of tax being discussed in areas like Edinburgh or the Highlands.
- Some attendees identified international experience of difficulties with tourist taxes for different categories of visitors, with experience of business travellers in Frankfurt cited as an example. It was also suggested that there was already a perception of Scotland being a high cost destination.
- Some Local Authority representatives expressed scepticism that the scale of tax proposed in areas like Edinburgh would affect the fundamentals of well-established areas as tourist destinations, or generate a significant behavioural response on the part of most tourists.
- Industry representatives expressed concern over potential misperceptions around accommodation providers' profitability, highlighting variability in achievable room rates, set against year-round cost bases.
- Industry representatives also highlighted existing evidence from sources such as FSB member surveys, which indicated evidence of strong opposition to a tourist tax among members.

Concluding Remarks

12. The Minister gave an overview of issues raised within the discussion. These included questions around potential behavioural responses among tourists; issues around administration and collection of taxes; issues around VAT rates applied to accommodation, which although reserved to the UK Government, the Scottish Government was aware of whilst also being mindful of the potential future impact on Scottish Government revenues; and questions around additional evidence needs.
13. The Minister thanked attendees for their contribution to the discussion. The Minister reminded attendees that a high level readout of the session would be prepared by officials and published and that they were also invited to provide written contributions should they wish to do so. The Minister also advised attendees that they would be advised of a closing date for the national discussion in the coming days.

**Tourism Team
January 2019**



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