Campaign for Reduced Tourism VAT
c/o British Hospitality Association
Queens House
55/56 Lincoln's Inn Fields
London WC2A 3BH
Tel: 020 7404 7744
Fax: 020 7404 7799
Email: info@cuttourismvat.co.uk
www.cuttourismvat.co.uk

VAT on Tourism Westminster Hall Debate on 10 February 2014
Eve of Debate: Supplementary Briefing

- In tourism, the UK is in competition with Germany, France and all other EU countries. A VAT rate of 7% on hotels in Germany and 10% in France on hotels, restaurants and attractions encourages UK residents to holiday in those countries rather than Britain; and encourages all other EU residents to holiday in other countries rather than Britain.

- A Treasury adviser, Professor Adam Blake, has used the Government's own Computable General Equilibrium model to analyse the VAT cut and concluded that: "in summary, based on reasonable and plausible assumptions, the modelling exercise seems to support a general case that a reduction of VAT on tourism services would be fairly close to fiscal neutrality." These are the results of the Government's model, not the Campaign's model.

- Professor Blake used the Government's CGE model to compare the tourism VAT Cut results with other measures, such as: a 2p reduction in the standard rate of corporation tax; a 20% reduction in rates for employers' national insurance contributions; and a 1p reduction in the standard VAT rate. The tourism VAT cut was clearly the most efficient measure. Professor Blake concluded that reduced VAT on tourism services represents "one of the most efficient, if not the most efficient, means of generating GDP gains at low cost to the Exchequer that I have seen with the CGE model".

- Even if the Government does not believe its own model and its own adviser, the industry is open to exploring with Government how to make the VAT cut fiscally neutral and to ensure its success. This can be done through making commitments about how the VAT cut will be used, i.e. at least half would be passed through in lower prices, the rest will be used for increased staff wages, training and employment and increased investment – along the lines of the "contrat d'avenir" between the French Government and the restaurant sector.

- There will be increased investment even before Government spends or loses a penny. As soon as the VAT cut is announced and before it is implemented, there will be increased spending on investment and employment. If the announcement were made in the April Budget or even the Autumn Statement, the Government would see some of the benefits before the General Election.

- It would give an immediate and significant boost to tourism in seaside and rural areas, including those in the South-West that have been affected by adverse weather and flooding.

- The tourism VAT Cut would give a significant boost to the UK's exports and the balance of payments.

- Hotels in the Isle of Man have been subject to VAT at 5% since 1994. This concession to the Isle of Man Government shows that successive UK governments have recognised the advantage of applying a 5% VAT rate on hotels to increase competitiveness.

- 44% of people employed in the hospitality sector are under 30. With over 1 million young people out of work – one of the hardest hit groups during the recessionary times. Over half of all school leavers would positively consider hospitality as a career

- The UK market share of global tourism is in decline. Analysis of Visit Britain's report, "Delivering a Golden Legacy" reveals that between 2006 and 2011 the UK lost market share in 28 out of its top 33 markets by visitor volume. This year the World Economic Forum rated the UK 138th out of 140 countries on price competitiveness for tourism and travel.

CASE STUDY: The Shannon-Erne Waterway

The 1998 Deloitte report contained a detailed analysis of the Shannon-Erne waterway. Built in 1840, this waterway connects two inland canal/river systems, the Erne in Northern Ireland and the Shannon in the Republic of Ireland. The waterway had fallen into disrepair but was repaired and opened with EU funding in 1994. The waterway now enables holidays to be taken that span two different tax regimes.

There are two companies operating each from a number of boat bases on the newly integrated system. One of the companies opened a base in Northern Ireland with assistance from the Northern Ireland Tourism Board. This base adds VAT to the price of its boat trips at the UK rate of 17.5 per cent, compared to a competing base 15 miles away in the Republic that applied VAT at 12.5 per cent at the time of the previous Deloitte report (now at 13.5 per cent). This is despite the fact that holiday-makers can hire a boat at the base in the Republic at the lower rate of VAT and spend the whole of their holiday in Northern Ireland.

As most holidays on the waterway system are sold through tour operators based in the UK, Germany, Switzerland, Holland and Belgium, prices are highly competitive. As a result, the base in Northern Ireland was forced to sell at prices comparable to those in the Republic. Consequently, with higher VAT payable, the base in Northern Ireland was less profitable than those in the Republic.

A follow-up call to Carrick Cruises in 2008 indicated that they were continuing to operate within the distorted VAT regime that exists on the border between Northern Ireland and the Republic. The VAT differential is now four per cent, with the Republic applying a reduced rate of 13.5 per cent currently, so the price disadvantage suffered by Carrick Cruises is slightly less than it was a decade ago.