Northern Ireland Committee
Inquiry: Promoting the tourism industry in Northern Ireland through the tax system
British Hospitality Association — Written evidence

This response is submitted on behalf of the British Hospitality Association ("BHA") which is the representative body for the UK hospitality and tourism industry, speaking on behalf of 40,000 hospitality and tourism establishments, including hotels, restaurants, catering and facilities management companies, attractions and apart-hotels in the UK. Working together with industry and government we aim to achieve three goals:

- Competitive advantage for our country
- Sustainable growth for our industry
- Valuable new jobs for our people

The BHA is the leading member of the Cut Tourism VAT campaign, working closely with partners such as the Northern Ireland Hotels Federation and Hospitality Ulster to advocate a reduction in VAT for accommodation and attractions.

The BHA notes and fully supports the separate submission of evidence by the Cut Tourism VAT campaign. The BHA does not intend to repeat the comprehensive economic analysis covered in the Cut Tourism VAT submission, but we do wish to highlight further points of relevance for the consideration of the committee.

The Northern Ireland economy is suffering from an unfair playing field on Tourism VAT

Ours is a highly price sensitive, competitive international business. Domestic and foreign visitors have significant choice across the world, as do business/corporate travel and events organisers. A lack of international competitiveness means that our industry has underperformed.

The hospitality and tourism industry in Northern Ireland suffers from a serious competitive disadvantage due to a significantly higher VAT rate on tourism compared to European rivals, particularly on visitor accommodation and attractions.

This disadvantage is shared by all UK tourism businesses, though the case of Northern Ireland is most acute as it shares a land border with a much more competitive tourism regime in the Republic of Ireland where tourism VAT is 9 per cent.

The UK is one of only three countries in the EU with no reduced rate of VAT on tourism; the others are Slovakia and Denmark. The extensive evidence from hospitality and tourism reductions elsewhere in the European Union, most notably in the Republic of Ireland, has shown repeatedly that they have a beneficial impact for the sector and the wider economy in terms of jobs and investment. The experience of the Republic of Ireland is summarised in a case study the end of this document.

Economic Impact

A reduced rate of tourism VAT for accommodation and attractions will boost the UK's earnings from tourism, create new jobs and generate additional tax revenues. Any initial impact of a loss of VAT yields would be offset by lower prices, stimulating greater demand for accommodation and attractions. This in turn would have the following impacts:

- Higher levels of expenditure and employment in tourism and related services
  Increased employment will generate additional income tax receipts and savings in social security payments
- Higher expenditure will increase VAT and corporation tax payments by sector operators
- Higher tourism turnover will feed through to higher expenditure in other sectors of the economy, which in turn will generate further tax receipts
- More tax will be raised by the Exchequer – £3.9 billion over 10 years according to Nevin Associates

Other benefits from a VAT reduction would include:

- A reduction in the UK's balance of trade deficit. A VAT reduction for the tourism industry would provide a significant boost to the UK export market. Analysis by Nevin Associates indicates that over a ten-year period the total improvement in the UK's Balance of Trade would be £20.1 billion.
- Encouraging business investment - The UK tourism industry is populated by a large number of small firms that may currently choose not to expand or invest in order to keep below the VAT threshold because of the high VAT rate payable above the level.
- Lower and fairer prices for consumers - It will be fairer and cheaper for British consumers holidaying in the UK and help low earners who are disproportionately affected by VAT.

The Cut Tourism VAT campaign will have sent the Committee a detailed submission on the economic evidence. The two separate reports commissioned by the Campaign, by Nevin Associates and Professor Adam Blake, provide the best economic analysis on the impact of a reduction in the United Kingdom. Though the reports use different economic models both find a positive impact for the wider economy due to the benefits circulated through the rest of the economy.

These findings are supported by the results of BHA members in January 2012 which found that:

- Over 95 per cent of over 200 respondents said that if a five per cent VAT rate was achieved some or all of it would be passed on to the customer
- 82 per cent said they would invest more in their product/facilities
- 67 per cent would employ more people
- 57 per cent would invest more in training
- Just under half (48 per cent) would increase staff wages

In addition, many BHA members including some of the UK's largest businesses - Butlins, Merlin Entertainments and Premier Inn - have pledged to pass through the VAT reduction. Competition within the tourism industry will compel other operators to lower prices in line with these industry leaders. This will increase consumer demand, leading to further investment and increased employment.

A study by Copenhagen Economics analysed six case studies where a VAT rate reduction had occurred. The report concluded that: *'…there is little doubt that permanently lowering the VAT rate on particular goods (or services) sooner or later will lead to a reduction in the price of the goods more or less corresponding to the monetary equivalent of the lower VAT rate … In economics jargon, there will be a strong tendency towards full pass-through.'*

Similarly, there is little doubt, according to Copenhagen Economics, that the price cuts that result from a permanent lowering of VAT rate will lead to increased consumption and consequently to increased production and employment. Such increases will occur more rapidly and be more significant in sectors with high price elasticity, strong competition and labour-intensive sectors. Tourism displays all three of these characteristics. It can typically take two to three years for this full effect to be realised.

Scope of a Tourism VAT reduction

The British Hospitality Association supports the reduction in VAT for visitor accommodation and attractions as this is where the economic argument is strongest and disparity with reduced rates in the rest of the EU is greatest. The cost of visitor accommodation is one of the main factors in the choice of destination for potential visitors.

In letters to BHA members HM Treasury have estimated that the cost of a VAT reduction which included restaurants and catering would cost the Exchequer between £9 and £10 billion each year. In light of economic and political realities the BHA cannot see a reduction in those sectors in the short, medium term. However, the achievement of lower VAT rate for accommodation and attractions could help strengthen the case for a wider reduction.

Case study: Republic of Ireland

In the Republic of Ireland, the rate of VAT applied to Tourism services reached a peak of 23% in the mid-1980s, the second highest in Europe at that time. In 1986, the VAT rate on hotels was reduced from 18% to 10% and on restaurant meals from 23% to 10%. The cut in VAT stimulated a period of strong growth in the Irish Tourism industry after a period of stagnation. The rate was raised to 12.5% in 1990 and to 13.5% in 2004.

Facing a deficit far worse than that encountered by the UK in the recent economic crisis, the Republic of Ireland increased the standard VAT rate from 21% to 23% but further reduced Tourism VAT from 13.5% to 9% in May 2011. The further reduction in Tourism VAT was due to revert back at the end of 2013. However in its Budget in October 2013 the Irish Government confirmed that the rate would be maintained at 9%. The rate in the Republic of Ireland has remained at 9%.

Three recent reports confirm the benefits of the reduction to 9% to the Irish economy:

- A report in August 2014 by Deloitte found that:
    - employment in the targeted sectors increased by approximately 30,000 with direct tourism employment up by more than 20,000;
    - Price pass through of the rate reduction to consumers is evident across nearly every category;
    - Renewed and sustained growth in overseas tourism numbers and earnings;
    - Increased activity levels apparent across the industry; and
    - Improved value for money perception across all visitors.

The report noted that the Irish government significantly overestimated the fall in VAT receipts caused by the reduction to 9%. Actual VAT receipts in the 9% categories fell by €107 million in the first 12 months, and have been broadly flat since then. This compares favourably with the government's estimates that the rate reduction would cost €120 million in the final 6 months of 2011 and €350 million in a full year.

- A second report, by the Nevin Economic Research Institute, looked at the distributional effects of indirect taxes, principally VAT and excise duties. The institute's paper examined the introduction of 9% VAT for restaurants, catering services, hotels, holiday accommodation and certain entertainment. This move is believed to have assisted the tourism recovery, while also boosting the restaurant business. The report author gave the initiative the thumbs-up, describing it as *"notably progressive, impacting positively on lower-income households".*

- The third report, by Professor Ahearne in February 2015, concluded that the reduced rate of VAT on tourism since July 2011 has provided crucial support to Ireland's tourism industry as a highly competitive, price-sensitive sector was brought in line with the VAT rate of European rivals.

The report found the measure has resulted in lower prices and enhanced competitiveness, and thereby has contributed to increased tourism demand and significant growth in employment in the sector. The benefits of the VAT reduction in terms of job retention and creation have exceeded expectations, while the cost to the Irish Exchequer has been markedly lower than initially expected.

Case study: Isle of Man

The Isle of Man also saw the benefits of a reduced rate of VAT on accommodation in terms of growing visitor numbers and increased investment following a reduction to 5% in 1994:

In February 2014, Angela Byrne, Head of Tourism, Department of Economic Development, Isle of Man Government commented:

> *"[In the early 1990s] our visitor's numbers were declining partly due to the recession but also due to cheap foreign holiday opportunities as well as the loss of tourist accommodation businesses at this time. This [accommodation VAT] reduction has proved to be of benefit to the Island and we are showing growth in visitor numbers but just as importantly the standard and quality of our accommodation stock has been the greatest benefactor."*

The BHA firmly believes that Northern Ireland would see similar benefits from a reduced rate of VAT on accommodation and attractions, ensuring greater competitiveness in the international tourism market.

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