



TOURISM & VAT: MAKING BRITAIN COMPETITIVE

BHA Update, December 2011

Introduction

Earlier this year, the BHA merged its campaign for a reduced rate of VAT with that of Bourne Leisure Group and Merlin Entertainments Group. Members of the merged campaign include British Association of Leisure Parks, Piers and Amusements, the Federation of Small Business and the Tourism Alliance. The campaign is led by BHA. Graham Wason, a former Deloitte hospitality and tourism consulting partner who has been involved in the campaign since 1993, is the chairman.

The campaign argues that jobs will be created if the UK government were to apply a reduced rate of VAT to tourism services, as do most other EU countries.

History and research

The campaign for a reduced rate of VAT on tourism services in the UK began in 1993 when the then British Tourist Authority set up a VAT Working Group. A report undertaken by Deloitte and first published in 1995 indicated that reducing VAT on tourism would stimulate growth and jobs, leading in a few years to a reversal in Britain's declining balance of tourism payments. Since then a number of further studies have been undertaken, including a detailed analysis by BALPPA in 2008. The latest reports are as follows:

- A report commissioned by Bourne Leisure and Merlin Entertainments, undertaken by Deloitte and Tourism Respect and completed in February 2011, indicates that a reduction in VAT on visitor accommodation and attractions would generate 78,000 jobs and set off a virtuous cycle of growth. Although there would be an initial loss of VAT revenue in the first few years, over ten years the Treasury would achieve a financial gain of £2.6 billion at net present value.
- A report commissioned by BHA, undertaken by Tourism Respect and completed in June 2011, indicates that a reduction in VAT on out-of-home meals would generate 223,000 jobs and that there would be a net loss to the Treasury of £2.9 billion over 10 years at net present value.

A two-stage strategy

The BHA campaign has adopted a two-stage lobbying approach:

Stage 1: A reduced rate of VAT for visitor accommodation and attractions

Stage 2: A reduced rate of VAT for out-of-home meals

The BHA is committed to achieving a reduced rate of VAT on all sectors of UK tourism and hospitality. However, this staged approach recognises the fact that in the present economic climate the cost to the Treasury of applying a reduced VAT on out-of-home meals is likely to be politically unacceptable, notwithstanding the greater potential for the creation of jobs.

Improving competitiveness

The UK is one of only three countries of the 27 in the EU which does not have a reduced rate of VAT on visitor accommodation (the others are Denmark, which has no reduced rates, and Slovakia, which increased its rate under pressure from the IMF).

This puts the UK at a competitive disadvantage. The World Economic Forum measures tourism price competitiveness. In its 2011 survey, the UK ranked 135th out of 139 countries in the world. This was a slight improvement on the 2009 position when the UK was ranked 133rd out of 133 countries, but this improvement came about mainly as a result of the weakening of the pound. Largely as a result of the high rate of VAT, the UK's tourism balance of payments has been declining steadily for 30 years.

A reduction in VAT would lead to lower prices, encouraging British residents to holiday at home and increasing foreign visitors. Some of the reduction would be used for investment, or for training and increased wages, thereby improving quality standards. All of this will lead to a virtuous cycle of increased demand, quality and employment.

Notwithstanding fiscal deficits far worse than that of the UK, Ireland and Greece have recently announced reductions in the rate of VAT on tourism to stimulate growth. Other countries that have reduced VAT on tourism and hospitality services have seen beneficial effects. In the two years since VAT on restaurant meals was reduced in France on 1st July 2009, employment in the restaurant sector has grown by 62,700 jobs; over the same period, jobs in the rest of the French economy declined by 8,800.

Discussions with HM Treasury

On 30th September, the authors of the latest Deloitte/Tourism Respect report met a team of officials from the Treasury to go through the report and its assumptions in detail. This is the first time this has happened in the 18 years since the campaign started.

HMT officials could see merit in the proposal but say that in the present economic circumstances, the Government is unwilling to consider a tax change unless it is fiscally neutral from day one – effectively an impossible ask. However, they are open to further discussions, with two areas of particular focus:

1. It has been suggested that we adapt a version of a Treasury computable general equilibrium model to demonstrate the impact of a reduction in VAT using the Treasury's own modelling approach. We are commissioning a professor of economics who advises the Treasury to assist in this.
2. We propose to explore a range of commitments that industry leaders might make so as to lessen the initial impact of the VAT reduction on the Treasury.

The lobbying campaign

Following discussions with a number of PR companies, Portland Communications have been appointed to work with the Campaign. Portland recommends a grassroots campaign aimed at influencing MPs in turn to influence the Government, supported by a media campaign. Planning of these initiatives is underway.

What you can do

From January 2012 the BHA's VAT campaign will accelerate its programme to include a coordinated media and public affairs campaign involving local, regional and national advocates. The refocused VAT campaign aims to target key decision makers and opinion formers across Westminster and Whitehall via political engagement and briefings with third party supporter and grassroots organisers. The campaign will be building on the work we have already undertaken including the recently-launched 'Adopt an MP' campaign, political meetings, commissioned reports and research.

Throughout our campaign the BHA will provide you with regular news and updates of local and national events which are taking place.

In addition we will be undertaking further research and surveys and we are eager for you to take part and input your thoughts. These will happen throughout the year and we look forward to hearing all your comments. If you would like to register your support for the campaign, please e-mail vatcampaign@bha.org.uk.

Questions and answers

We will be holding a webinar on Wednesday, 14 December at 10.30am with the participation of the campaign chairman, Graham Wason, to whom you may put questions, ideas and suggestions about the campaign.

To take part in the webinar, contact Frances Sturt at BHA (frances.sturt@bha.org.uk) – 020 7404 7744 - or check on the BHA website.

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