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Lyons Inquiry into Local Government: Interim Report and Consultation Paper

The Cornwall Commercial Tourism Federation is pleased to have the opportunity to respond to the Lyons Inquiry Interim Report. In particular, we are interested in the comments made about a possible tourist tax, a measure that we feel should not be carried forward.

As an introduction, I should explain that the Cornwall Commercial Tourism Federation (CCTF) is a federation of tourism associations and businesses involved in tourism in Cornwall. Between them, the CCTF members directly represent over 1,800 tourism related businesses in Cornwall. In addition, 2,500 self catering units are represented through the Cornwall Association of Holiday Home Agencies (CAHHA), themselves members of the CCTF.

The Cornwall Commercial Tourism Federation objects to the concept of a tourist tax (sections 2.98 to 2.102 of Interim Report – Part 2 – Local Government Funding) on five grounds.

1. It is inherently unfair
2. It will be difficult to collect
3. It will be unpopular with businesses and tourists alike.
4. Some local authorities would not earn sufficient from a tourist tax for it to be worthwhile collecting
5. A local sales tax would be fairer.

1. It is inherently unfair

The tourism industry in Cornwall already contributes greatly to the local economy by bringing over £1.2 billion p.a. to the local economy (South West Tourism Facts 2003), by employing more than 25% of the local workforce (40,000 FTE jobs) and by subsidising many facilities, such as leisure centres, which would not be economically viable without the tourist pound.

The tourist tax, as suggested in the Interim Report, will be applied to “hotels and similar establishments”. This statement does not take into account the realities of present day tourism.

- a. In Cornwall only 26% of the total expenditure by tourists is on accommodation (South West Tourism Facts 2003). The remaining expenditure (74%) is spent in retail premises, tourist attractions, pubs, clubs, restaurants, activity centres and transport.
- b. Of the expenditure on accommodation, only a small proportion is spent in the serviced accommodation sector (i.e. in hotels, guest houses and small bed & breakfast establishments). In fact, fewer than 19% of tourist nights spent in Cornwall are in serviced accommodation establishments. Hotels comprise less than 10% of the accommodation sector (430 establishments), but they are likely to be the businesses that are caught by the tax, owing to their visibility.

Tourism is so embedded in the local economy that it is difficult to draw a line around 'tourism businesses' in order to tax them. If it is decided to use a wider definition of tourism business, there comes the problem of crossover: for example if someone goes into a pub to buy a drink, do you charge the tax if he is a tourist, but not if he is a local?

It would therefore appear to be the case that those who promote the tourist tax as a local government fund-raising measure are prepared to tax only a small proportion of the industry for the perceived gain of 'taxing tourists'. By any standards, this must be a very unfair system.

2. Difficulties in collection

The tourism industry in Cornwall is extremely fragmented. Without a national registration scheme for tourism accommodation providers, it is impossible to know the size of the accommodation sector. It is estimated that there are 4,375 accommodation providers in Cornwall (South West Tourism Intelligence Project). However, it is also known that this figure may be an under-estimate by up to 34% (same source), owing to the difficulties in ascertaining how many guest houses, B&B establishments and self-catering units there are at any time. This is because many of the smaller establishments operate at under the VAT threshold, are only open for a short period of the year or operate in the informal economy.

In addition, many small establishments operate one year and not the next, new businesses enter the sector and leave again, often after a short period, and some tourism businesses are run as adjuncts to other businesses (e.g. farmers diversifying into campsites for the peak season only).

With the cost of collection liable to be high for the above reasons, it is difficult to see how local authorities will be able to justify a tourism tax in these circumstances.

3. Unpopularity

By imposing a tourist tax, local authorities would be suggesting that tourists were a burden to be tolerated, ripped off and sent home again. Tourists would soon sense this and start to vote with their feet. The UK is, in world terms, an expensive destination. By imposing an unnecessary extra tax, authorities will in effect encourage many tourists to travel elsewhere, adding to the balance of payments imbalance in tourism for the UK.

Car parking charges are already perceived as a tax and are unpopular with tourists (who may have to park in a dozen car parks a day during a trip in the county).

As pointed out above, by taxing only a small proportion of the businesses that benefit from tourism income, local authorities would be discriminating unreasonably against a small section of the business community.

Like car parking charges, there is no doubt that any tax obtained by charging a few tourists in this way would not be hypothecated to be spent on tourism related projects or in mitigating any adverse effects that might be caused by tourists. The tax would therefore be extremely unpopular with those businesses that were affected by it. They would be seen as unpaid tax-collectors for the local authority with no benefit to themselves or their industry.

Businesses that were forced to charge the tourist tax would be at a competitive disadvantage compared with businesses that did not. Some tourists would seek out establishments that did not charge the tax, thus distorting the market.

4. Differences between local authorities

Different local authorities would earn greatly different amounts from a tourist tax, depending on the size of the local industry. Those authorities that did not have a substantial tourism industry would therefore have to raise revenue in other ways, perhaps through imposing other taxes, thus complicating local authority finances unnecessarily.

5. Local Sales Tax

National companies such as Tesco and Marks & Spencer probably earn more money from tourists to Cornwall than any of the so called 'tourism businesses'. Certainly, the retail sector generally earns a huge amount from tourism, but would be unaffected by a tourism tax. This would suggest that a local sales tax, which would be applied to all businesses in the local authority (perhaps with a turnover threshold such as applies to VAT) would be a fairer way of raising revenue. Different authorities would of course be free to charge different rates of sales tax.

Conclusion

The Cornwall Commercial Tourism Federation therefore urges the Lyons Inquiry not to see a tourist tax as a way forward. It is inherently unfair, it would be difficult to collect, and it would be unpopular with businesses and tourists alike. In addition, some local authorities would not earn sufficient from a tourist tax for it to be worthwhile collecting and a local sales tax would be much fairer.

Yours faithfully,

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