



HM Treasury

VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence

March 2018



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Chapter 1

Who should respond to this call for evidence?

- 1.1 The government welcomes views from anybody that is interested in this topic, and is particularly interested in responses from businesses and people in Northern Ireland.

Sectors likely to be interested include:

- hospitality sector
- accommodation sector
- visitor attractions providers
- business visitors and events providers
- airlines that operate in Northern Ireland
- airports
- accounting bodies
- related professional bodies and trade associations
- economic research institutions

- 1.2 The deadline for responses to this call for evidence is 5 June 2018.

- 1.3 Representations by email are preferable and should be sent to NIVATAPDTourismCFE@hmtreasury.gsi.gov.uk

- 1.4 Alternatively, hard copies can be sent to:

VAT, APD and tourism in Northern Ireland

VAT & Excise Team

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

- 1.5 If you are also willing to engage in face-to-face working groups arranged by HM Treasury, please contact: NIVATAPDTourismCFE@hmtreasury.gsi.gov.uk

- 1.6 Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from GOV.UK. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

- 1.7 When responding please say if you are a business, consultancy, individual or representative body. Please provide demographics of your organisation; in the case of representative bodies, please provide information on the number and nature of people you represent.
- 1.8 This consultation will inform future policy development but the government has made no firm decisions about the issues set out in this document. The government will set out its intentions once it has considered the responses received.
- 1.9 A confidentiality disclaimer with regard to your response can be found in Annex A.

Chapter 2

Background

- 2.1 Tourism makes a valuable contribution to the economy in both Northern Ireland and the rest of the UK. Taking the UK as a whole, tourism accounts for 3.8% of Gross Value Added, delivering £66.1 billion, and directly supports over 1.6 million jobs.
- 2.2 The government wants to understand the ways that Value Added Tax (VAT) and Air Passenger Duty (APD) impact the tourism industry, and how the industry can be supported to build on its growing success.

Supporting tourism

- 2.3 In 2016 the government published a 'Tourism Action Plan', which focuses on five key priorities for supporting the tourism sector in the UK: strengthening collaboration and co-ordination between partners, improving skill levels and retention, continuously improving the visa offer, examining the scope for deregulation, and making it easier for visitors to explore the UK.
- 2.4 The British Tourism Authority (trading as VisitBritain), in collaboration with national tourism boards, has responsibility for promoting tourism across England, Wales and Scotland to international visitors. VisitEngland, VisitWales and VisitScotland have responsibility for driving domestic tourism.
- 2.5 The tourism sector, under the leadership of VisitBritain is working to explore ways to improve productivity within the industry. This has an emphasis on lengthening the season through business visits and events, improved recruitment and retention and better connectivity.
- 2.6 The Northern Ireland Department for the Economy is responsible for its national tourism policy. Under the Belfast (Good Friday) Agreement, Tourism Ireland is responsible for promoting the Island of Ireland to visitors from 23 countries including Great Britain, reaching 800 million people globally. It is funded by the Government of Ireland and the Northern Ireland Executive and is jointly governed through the North-South Ministerial Council. Tourism Northern Ireland is responsible for the development of tourism product and the marketing of Northern Ireland as a tourist destination to domestic tourists from within Northern Ireland and to visitors from Ireland.
- 2.7 The importance of tourism to Northern Ireland and its potential is embedded within the Northern Ireland Executive's Draft Programme for Government 2016-2021, and tourism was identified as a key sector in the Northern Ireland Industrial Strategy consultation "Economy 2030 – A consultation on an industrial strategy for Northern Ireland".
- 2.8 A tourism strategy underpinning the Programme for Government, covering the period to 2030, is under development. This strategy aims to generate £1 billion of export revenue by 2025, to double the contribution of tourism to

the local economy by 2030, and to establish Northern Ireland as an internationally competitive tourism destination while developing the capacity of tourism businesses to drive export earnings within the Northern Ireland economy, contributing to balanced regional growth and job creation.

Why people visit Northern Ireland

- 2.9 The World Economic Forum (WEF) Travel and Tourism Competitiveness Report 2017 offers in-depth analysis on the travel and tourism competitiveness of 136 economies across the world. The report indexes the 'set of factors and policies that enable the sustainable development of the travel and tourism sector, which in turn, contributes to the development and competitiveness of a country'.
- 2.10 The WEF ranks the UK 5th for overall tourism competitiveness, and attributes this ranking to its 'excellent cultural resources', 'world class infrastructure' and 'strong labour market'.
- 2.11 Recent exchange rate variations may have some impact on decisions to visit the UK. VisitBritain research¹ considered the impact of exchange rates on tourism demand and shows that although knowledge of the GBP exchange rate does not translate to an increased likelihood to travel for all markets, the favourable exchange rate has had a positive impact on intent to travel to Britain amongst those from India, China and the USA.
- 2.12 Looking specifically at Northern Ireland, Tourism NI's 2014 Visitor Attitude Survey found that the most prominent factor influencing a tourist's decision to visit Northern Ireland was to go to a specific attraction.
- 2.13 Northern Ireland has a wealth of attractions that play a significant role in contributing to the continued growth of its tourism industry. For example, Lonely Planet's Best in Travel awards declared Belfast and the Causeway Coast the number one region in the world to visit in 2018, and Titanic Belfast was selected as the World's Leading Tourist Attraction at the World Travel Awards 2016. Other highlights include forthcoming international sporting events such as the 2019 Open Golf Championship and emerging screen tourism opportunities arising from Game of Thrones.
- 2.14 Other notable factors identified by the Visitor Attitude Survey include: wanting to discover or explore somewhere new, visiting friends or relatives, or wanting to take part in a certain activity. In 2016, 40% of overnight trips to Northern Ireland were with the purpose of 'visiting friends or relatives'.

Tourism performance

- 2.15 The tourism industry in Northern Ireland has experienced consistent growth in recent years, and the government wants to ensure that business can build on that success.
- in the first half of 2017 Northern Ireland saw a record two million visitors

¹ Impact of exchange rate on tourism to Britain (2016)

(<https://www.visitbritain.org/new-research-impact-exchange-rate-tourism-britain>)

- in the 12-month period to September 2017, the number of trips to Northern Ireland was up 11% compared with the same period in 2016, whilst tourism expenditure grew by 18% to £951 million
- there were 347,000 international visits, as measured by the International Passenger Survey, in the first nine months of 2017, a 9% increase on the same period in 2016
- passenger numbers at Northern Ireland's three largest airports saw an increase of 17% in the last five years, a little behind the whole of the UK's passenger growth of 22% in the same period
- hotel occupancy rates in Northern Ireland increased to a record high of 77.9% in 2016 whilst the average room rate increased by 4.1% in the same period, to £77.95

2.16 Tourism Ireland aim to build on the 2017 performance shown in Northern Ireland, and have publicly set a goal of increasing overseas tourism revenue by 6% to £623 million in 2018, through more than 2.3 million overseas visitors.

2.17 In the UK as a whole, tourism has seen similar success:

- there were a record number of overseas visits to the UK in 2016, with a total of 37.6 million visitors
- in the Anholt GfK Nation Brand index of fifty nations, the UK was ranked third overall behind France and Germany, and third for tourism
- in the United Nations World Tourism Organisation (UNWTO) tourism highlights 2017, the UK ranks 6th for international tourist arrivals and 7th for international tourism receipts

2.18 The government is aware that there are concerns about the impact that VAT and APD have on tourism in the UK, and particularly in Northern Ireland, and wants to fully explore these issues.

2.19 These concerns are summarised by the House of Commons Northern Ireland Affairs Committee (NIAC) ² as follows:

- Northern Ireland is the only part of the UK to share a land border with another country, and Ireland applies a 9% reduced rate of VAT to a number of tourism related goods and services (Annex B)
- Ireland abolished Air Travel Tax, their equivalent to APD, in April 2014
- the varying exchange rate and the land border allow people around the border areas to take advantage of cheaper prices in Ireland when the Euro is weak, and vice versa when the Euro is strong
- although being promoted overseas by Tourism Ireland has brought substantial growth to the region over the last 14 years, there is a perceived disadvantage to the Northern Irish hotel industry of being

² Promoting the tourism industry in Northern Ireland through the tax system (20 March 2017)

(<https://publications.parliament.uk/pa/cm201617/cmselect/cmniaf/50/50.pdf>)

promoted by Tourism Ireland. The Northern Ireland Hotels Federation (NIHF) told the NIAC 'hotel room prices are promoted by Tourism Ireland inclusive of the VAT rate', which in turn adds 'pressure on Northern Ireland's tourism industry to either compete on price with Ireland or lose out on business'

- the responsiveness of consumers to price is perceived to 'put the Northern Irish tourism sector at a disadvantage' relative to Ireland

2.20 The NIAC make several recommendations for the UK government and Northern Ireland Executive that are intended to drive even greater success for the tourism industry in Northern Ireland, including:

- that the government should look constructively at a different rate of VAT on tourism in Northern Ireland, working with industry
- that further analysis from the government, the Northern Ireland Executive and industry is required to build greater consensus around the true cost, or benefit, to the Exchequer of reducing VAT on tourism related activities
- the government should re-examine the economic case for abolishing APD on flights to and from Northern Ireland, liaising with the air travel industry

2.21 The government has also received evidence from the Cut Tourism VAT campaign outlining the benefits of applying a reduced rate of VAT to certain tourism related activities in Northern Ireland and the rest of the UK, both in terms of job creation and Exchequer revenue. The government is keen to explore the potential benefits in greater detail, and to understand the effect that similar changes have had elsewhere in the world.

2.22 The government is therefore seeking further evidence that would help it to better understand the concerns about the sector, that demonstrates the significance of any impacts of VAT and/or APD on tourism, or that helps show how VAT and/or APD might be used to support the growing success of tourism in Northern Ireland.

Tax and tourism

2.23 Initiatives for supporting the tourism sector vary from country to country. It is therefore difficult to directly compare overall levels of taxation within the tourism industry, and it is important to recognise that considering a particular tax in isolation will not give a complete picture of a country's tourism landscape.

2.24 For example, although this call for evidence is focused on VAT and APD, UK businesses involved in tourism related activities are required to account for several other taxes such as Corporation Tax and business rates.

2.25 Looking beyond the UK, the tax landscape is more varied. For example, the government is aware that most EU Member States have chosen to apply a reduced rate of VAT to visitor accommodation and/or other tourism related activities. However, many of those countries, including Germany, France, and Italy have also introduced specific 'tourist taxes' or 'hotel taxes' on overnight stays that are not a feature of the UK tax system.

2.26 Further details on the VAT and APD rules relating to the tourism sector are outlined below.

VAT

2.27 VAT is a broad-based tax on consumption and the 20% standard rate of VAT applies to most goods and services. While there are exceptions to the standard rate, these have always been strictly limited by legal constraints and fiscal considerations.

2.28 In the UK, the standard rate of VAT therefore applies to many tourism related activities, such as hotel accommodation and restaurant meals.

2.29 While the government is aware of concerns that applying the standard rate of VAT to these activities may put UK tourism at a disadvantage, the UK VAT system has several features that may benefit the tourism industry, including:

- the highest VAT registration threshold in the EU and the OECD, meaning many small businesses providing goods and services to tourists across the UK do not have to charge VAT at all
- several wide-ranging zero-rates of VAT, including for certain foodstuffs, public transport, books and magazines
- an exemption on admission to cultural attractions managed by public bodies or not-for-profit organisations, this includes museums, galleries, art exhibitions and zoos
- a VAT refund scheme for museums and galleries, allowing national and university museums and galleries to claim back VAT incurred on most goods and services purchased in order to grant free rights of admission to their collections
- the Tour Operators Margin Scheme (TOMS), which simplifies VAT accounting on travel supplies so businesses do not have to register and account for tax in each Member State where the services and goods are enjoyed

2.30 The government wants to understand whether these features of the VAT system significantly benefit tourism in Northern Ireland.

APD

2.31 APD is a tax based on the number of chargeable passengers aboard an aircraft taking off from a UK airport, and is the only tax applied on air travel as the government does not apply VAT to airline tickets or levy a tax on fuel.

2.32 Although the tax is levied on airlines, most operators choose to pass the cost on to passengers.

2.33 The power to set the APD rates on direct long-haul flights departing Northern Ireland was devolved to the Northern Ireland Assembly (NIA) and from 1 January 2013 the rates were set at £0. The government wants to understand the impact this has had on the air travel industry and tourism more generally.

Legal constraints and EU withdrawal

- 2.34 The government is committed to ensuring that withdrawal from the EU is a successful and smooth process for the whole of the UK. The priority is therefore to have a functioning statute book in all parts of the UK.
- 2.35 Currently, EU rules create a consistent approach across the UK in a range of policy areas including state aid and VAT rules. These common rules provide several benefits, including making it simple for businesses from different parts of the UK to trade with each other.
- 2.36 Within EU state aid rules and EU VAT law, the government is limited in what it can do to support specific regions or industries through the tax system. The issue of state aid control in the UK post-EU withdrawal is likely to be subject to negotiations with the EU.
- 2.37 It will be important to ensure that no new barriers to living and doing business within the UK are created on leaving the EU. The government therefore wants to prevent distortions of competition arising within the UK. The EU (Withdrawal) Bill gives powers to establish a state aid regime in the UK after EU withdrawal.
- 2.38 Similarly, the government wants to ensure that VAT rules are not a barrier to trade within the UK.
- 2.39 EU VAT law, with certain strictly limited exceptions, requires Member States to apply VAT in a way which does not distort competition, and which guarantees that within the territory of each Member State similar goods and services bear the same tax burden.
- 2.40 Outside the EU, European Economic Area (EEA) countries are obliged to abide by the substance of EU state aid rules. Although EEA countries are not subject to EU VAT law, they generally maintain VAT systems that are closely aligned with the EU.
- 2.41 Countries outside of the EU and EEA are not bound by EU restrictions, but are still subject to subsidy control rules such as the World Trade Organisation (WTO) Subsidies and Countervailing Measures (SCM).
- 2.42 The government is aware that the EU negotiating mandate explicitly refers to state aid in the context of any future trade agreement between the EU and UK. This future relationship is subject to negotiation.

Chapter 3

The impact of VAT and Air Passenger Duty on tourism demand

- 3.1 As noted in 2.9-2.14, the WEF, VisitBritain, and Tourism NI have identified a range of factors that influence decisions to visit a particular place and the overall performance of the tourism sector.
- 3.2 The WEF ranks the UK 5th for overall tourism competitiveness, attributing that success to 'excellent cultural resources', 'world class infrastructure', an 'enabling business environment' and 'strong labour market'.
- 3.3 However, while the UK places highly across most factors, the WEF ranks the UK 135th for price competitiveness. Ireland ranks 23rd overall, and 121st for price competitiveness.
- 3.4 In 2014, the Northern Ireland Statistics and Research Agency (NISRA) published the report 'Visitors to Ireland and Northern Ireland', looking at the statistical profile of visitors to both countries. NISRA found that the average spend per trip was £230, and that the average spend per night was similar in both Ireland and Northern Ireland, at £50 and £52 respectively.
- 3.5 The government wants to understand the extent to which price affects decisions to visit Northern Ireland, how changes to VAT and/or APD would affect the cost of a holiday in Northern Ireland, and what difference this would make to the overall success of the tourism industry. The government is also interested in how the costs of visiting Northern Ireland and Ireland differ, and the impact any difference has.
- 3.6 As mentioned in 2.3 and 2.8, the government has established a 'Tourism Action Plan', outlining upcoming priorities for supporting the tourism sector in the UK, and a tourism strategy underpinning the Northern Ireland Executive's Programme for Government is in development.
- 3.7 The government is also interested in whether current VAT and APD rules complement these strategies, where they hinder the growth of the industry, and how future VAT or APD changes could help to build on the growing success of the sector.

Question 1: What evidence is there that demonstrates the impact of VAT and APD on the tourism sector?

Question 2: What evidence is there that cost is a significant factor to tourists considering visiting Northern Ireland?

What proportion of the cost of a holiday in Northern Ireland is made up of VAT and APD?

How much does the cost of a holiday in Northern Ireland differ from other parts of the UK, and from other parts of the Island of Ireland?

Question 3: Are there additional challenges, unique to the tourism industry in Northern Ireland, which might be addressed through VAT or APD changes?

- 3.8 As outlined in 2.29, the government maintains certain VAT rules, such as several zero VAT rates, a VAT exemption on admission to cultural attractions managed by public bodies or that are not-for-profit, a VAT refund scheme for museums and galleries, TOMS, and the highest VAT registration threshold in the EU, that may benefit the tourism industry.
- 3.9 The government is interested in the extent to which these features benefit the tourism industry in Northern Ireland, and how they can help build on the success of the industry in the future.
- 3.10 The power to set the APD rates on direct long-haul flights departing Northern Ireland was devolved to the Northern Ireland Assembly and from 1 January 2013 the rates were set at £0. Currently, there are very few long-haul flights departing Northern Ireland. The government is interested to explore why, given a £0 tax rate, airline operators have not invested more long-haul services in Northern Ireland.
- 3.11 NISRA's 'Annual Tourism Statistics 2016' found that 9% of visitors to Northern Ireland went for business purposes. VAT registered business visitors can generally reclaim the VAT they incur on many of their business costs, including accommodation and meals. The government is also interested in the impact that VAT and APD have on business visitors.

Question 4: What impact do current VAT reliefs, exemptions and refunds have on the tourism industry in Northern Ireland? Are they a significant benefit?

Question 5: What impact do VAT and APD have on people considering visiting Northern Ireland for business purposes?

- 3.12 Ireland temporarily reduced the rate of VAT on several tourism related activities from 13.5% to 9% in May 2011, as part of a package intended to support the tourism industry.
- 3.13 The government has received several representations raising concerns around the impact this has had on tourism in Northern Ireland. The government

recognises that Northern Ireland is in unique position as the only part of the UK to share a land border with another country and is aware of related concerns about the impact on tourism in Northern Ireland.

- 3.14 In 2016, overseas tourist visits to Ireland and overseas tourist spend rose by 9%, while in Northern Ireland overseas tourist visits and overseas visitor spend rose by 12% and 13% respectively.
- 3.15 However, Indecon's 2017 report, 'Impact of the VAT reduction on Irish Tourism and Tourism Employment', found that perceived value for money has significantly improved in Ireland following VAT reductions. In 2016, positive views outnumbered negative by 7:1. This shift towards 'good/very good' value for money was seen by tourists from various locations, including the US, the UK and mainland Europe.
- 3.16 The government is interested in how changes to the VAT rate and the abolition of Air Travel Tax in Ireland have impacted the demand for tourism there and in Northern Ireland. Equally, it is interested in the impact other countries have seen after changing their tax treatment of tourism related activities.

Ireland has reduced the VAT rate applied to certain tourism related activities on several occasions, most recently in May 2011 from 13.5% to 9%.

Question 6: What evidence is there that changes to the VAT rate applied to tourism in other countries has had a significant impact on the demand for tourism in those countries?

What evidence is there to suggest the reduced rate of VAT in Ireland has positively or negatively affected tourism in Northern Ireland?

What was the impact of the Northern Ireland Assembly's 2012 decision to set a £0 APD rate on direct long-haul flights departing Northern Ireland?

Chapter 4

Business considerations

4.1 The tourism industry is unique in that there is no exhaustive definition of a 'tourism related good or service'. It cannot be solely defined by the goods and services it produces, but is instead defined by the characteristics of the consumer, specifically whether they are a visitor or a resident. The Office for National Statistics (ONS) identifies the following activities as notable contributors to the tourism industry.

- accommodation services for visitors
- food and beverage serving activities
- railway passenger transport services
- water passenger transport services
- air passenger transport services
- transport equipment rental services
- travel agencies and other reservation services
- cultural activities
- sport and recreation activities
- exhibition and conferences
- other consumption products, including books and tour guides

The government is interested in the extent to which VAT/APD affects these sectors in different ways.

The government welcomes data on the number and size of Northern Irish businesses involved in the activities outlined in 4.1.

Question 7: What is the composition of the tourism industry in Northern Ireland?

How have the individual tourism related sectors listed in 4.1 performed in recent years?

Question 8: Do VAT and APD impact different tourism related businesses in different ways? For example, do restaurants derive a greater benefit from the UK's high registration threshold than accommodation providers?

- 4.2 The government frequently receives representations advocating changes to the tax system that might support a sector of the economy.
- 4.3 The government is keen to understand whether the impacts of VAT and APD on tourism related businesses differ from the impact of these taxes on other businesses.

Question 9: What evidence is there that the impacts of VAT and APD on tourism differ from the impacts of VAT and APD on other sectors of the economy?

- 4.4 Although the focus of this call for evidence is on tourism in Northern Ireland, the government has also heard from industry, individuals, and Members of Parliament about the impacts of VAT and APD on tourism in the rest of the UK.
- 4.5 The government is aware of the concerns raised that Northern Ireland faces unique challenges, including challenges linked to its geography. Noting the restrictions on the government outlined in 2.34-2.42, the government is interested in the case for, and the potential issues and impacts that would arise from, applying different VAT and APD rules in Northern Ireland.
- 4.6 The government is committed to the simplification of the tax system, and to ensuring that no new barriers to living and doing business are created within the UK.
- 4.7 At Autumn Statement 2016 the government asked the Office of Tax Simplification (OTS) to conduct a wide-ranging review of the VAT system. The Chancellor, in his response to the OTS review, noted that the current rates structure is the root cause of much of the complexity in the current VAT system, imposing administrative burdens on businesses and often confusing customers. The government therefore wants to understand the extent to which regional variations in VAT rules may affect administrative burdens on businesses, particularly those with operations in both Northern Ireland and the rest of the UK.

The government is particularly interested in the views of businesses operating in both Northern Ireland and the rest of the UK.

Question 10: How would different VAT rules for tourism related activities in Northern Ireland, and/or a lower rate of APD in Northern Ireland affect the tourism industry in other parts of the UK?

What impact would VAT and/or APD changes have on businesses administrative burdens?

- 4.8 The government welcomes evidence on how a lower rate of APD would affect outbound tourism from Northern Ireland and what impact this would have on demand for domestic tourism.

Question 11: Would a lower rate of APD encourage outbound tourism from Northern Ireland? What effect would this have on the tourism industry there?

Chapter 5

Revenue and the economy

- 5.1 VAT and APD raise a significant amount of revenue and therefore play an important part in funding the government's public spending priorities. The government is interested in the possible impact of VAT and/or APD changes on the Exchequer and seeks evidence on the possible wider economic impacts of any changes on consumers, employment, investment, and growth.
- 5.2 The government has previously received evidence in support of VAT rate reductions for certain tourism related activities, such as hotel stays and restaurant meals, as well as changes to APD rates. However, views on the costs and impacts of any changes are divided.
- 5.3 A 2017 report submitted to Fáilte Ireland by Indecon, 'Impact of the VAT Reduction on Irish Tourism and Tourism Employment', found that there was a net cost to the Irish Exchequer of €187 million following their VAT reduction, but that this was lower than the anticipated cost of €350 million.
- 5.4 The Cut Tourism VAT campaign, in their May 2017 'Cutting Tourism VAT: Financial Highlights', forecast that in year one the direct cost to the Exchequer resulting from a reduction of VAT on visitor accommodation and attractions to 5% would be approximately £1.5 billion.
- 5.5 However, it is argued that the direct loss would be offset by indirect gains from 'higher yields from income and corporation tax, savings in social security payments, a smaller shadow economy and multiplier effects generating additional tax revenues of approximately £1.5 billion in total.'
- 5.6 Her Majesty's Revenue and Customs (HMRC) have previously estimated that a UK-wide reduced rate of VAT rate for accommodation, a wide range of attractions, and restaurant food and beverages would cost in the region of £6 billion to £10 billion per year. Although these figures are not directly comparable, they illustrate the significant potential cost of applying a reduced rate of VAT to a range of tourism related activities.
- 5.7 Short-haul APD currently raises revenues of over £1 billion per year and the government therefore wants to understand the impact that any changes to this rate would have on the Exchequer.

Question 12: What would be the individual and/or collective impact of a change to VAT on: accommodation, leisure activities and restaurants, other tourism related activities and/or a change to APD rates in Northern Ireland on tax revenue and the wider economy?

- 5.8 Views are also divided on the extent to which tax changes are passed through to consumers in the form of lower prices.
- 5.9 For example, modelling in the Cut Tourism VAT campaign's February 2017 report, 'Full fiscal and employment impact of reduced VAT on visitor accommodation and visitor attractions in the UK', assumes a pass-through level of 75%.
- 5.10 Similarly, the 2013 Deloitte report for Fáilte Ireland, 'Analysis of the Impact of the VAT Reduction on Irish Tourism and Employment', found that following the VAT rate reduction from 13.5% to 9% in Ireland in May 2011, pass through to prices was around 50%, and that this was 'readily apparent in all sectors with the exception of the accommodation sector where the evidence is inconclusive.'
- 5.11 Some evidence from international experiences outlined below suggests that the likely pass through level following VAT changes has been more modest. The impact and efficiency of reduced VAT rates aimed at supporting labour-intensive activities has previously been reviewed following changes in Finland, Sweden and France.
- in Finland, 2013 research by the VATT Institute for Economic Research considering the VAT rate reduction for restaurants in 2010 from 22% to 13% was found to have resulted in limited pass-through to prices and to have had no significant impact on restaurants' turnover and wage bill
 - in Sweden, the National Institute of Economic Research found that a cut in 2012 for VAT on restaurants and catering services from 25% to 12% had a modest positive impact on employment in the sector, but the impact on economy-wide employment was estimated to be very small, and the efficiency of the measure was considered questionable given the revenue foregone
 - in France, the Conseil des Prélèvements Obligatoires (Council of Mandatory Contributions) (CPO) evaluated the 2009 cut in VAT on restaurants from 19.6% to 5.5% and estimated that although this had raised employment, the cost per new job was very high when compared with other policy measures. The CPO also noted that the VAT cut had had little effect on prices, and had made the tax system more regressive
- 5.12 The level of pass-through following tax changes directly affects the benefits experienced by consumers. Therefore, the government is interested in further evidence on the likely level of pass-through in Northern Ireland.
- 5.13 The government recognises that businesses may direct some of the benefit of tax changes towards other ends such as investment or recruitment, and therefore seeks evidence on the range of likely business responses.

Question 13: How would businesses in the tourism sector respond to VAT and APD changes and to what extent would those changes would be passed through to consumers in the form of lower prices?

- 5.14 Given the restrictions regarding regional VAT changes outlined in 2.34-2.42, the government is interested in the likely benefits of any UK-wide reduction in the rate of VAT on tourism related activities, and the regional distribution of those benefits.

Question 14: What evidence is there that VAT and/or APD rate changes are a relatively cost-effective means of supporting the tourism industry?

Question 15: How would a UK-wide change to VAT or APD benefit the tourism industry?

How would the industry in Northern Ireland benefit relative to other regions in the UK?

Chapter 6

Summary of questions

Question 1: What evidence is there that demonstrates the impact of VAT and APD on the tourism sector?

Question 2: What evidence is there that cost is a significant factor to tourists considering visiting Northern Ireland?

What proportion of the cost of a holiday in Northern Ireland is made up of VAT and APD?

How much does the cost of a holiday in Northern Ireland differ from other parts of the UK, and from other parts of the Island of Ireland?

Question 3: Are there additional challenges, unique to the tourism industry in Northern Ireland, which might be addressed through VAT or APD changes?

Question 4: What impact do current VAT reliefs, exemptions and refunds have on the tourism industry in Northern Ireland? Are they a significant benefit?

Question 5: What impact do VAT and APD have on people considering visiting Northern Ireland for business purposes?

Question 6: What evidence is there that changes to the VAT rate applied to tourism in other countries has had a significant impact on the demand for tourism in those countries?

What evidence is there to suggest the reduced rate of VAT in Ireland has positively or negatively affected tourism in Northern Ireland?

What was the impact of the Northern Ireland Assembly's 2012 decision to set a £0 APD rate on direct long-haul flights departing Northern Ireland?

Question 7: What is the composition of the tourism industry in Northern Ireland?

How have the individual tourism related sectors listed in 4.1 performed in recent years?

Question 8: Do VAT and APD impact different tourism related businesses in different ways? For example, do restaurants derive a greater benefit from the UK's high registration threshold than accommodation providers?

Question 9: What evidence is there that the impacts of VAT and APD on tourism differ from the impacts of VAT and APD on other sectors of the economy?

Question 10: How would different VAT rules for tourism related activities in Northern Ireland, and/or a lower rate of APD in Northern Ireland affect the tourism industry in other parts of the UK?

What impact would VAT and/or APD changes have on businesses administrative burdens?

Question 11: Would a lower rate of APD encourage outbound tourism from Northern Ireland? What effect would this have on the tourism industry there?

Question 12: What would be the individual and/or collective impact of a change to VAT on: accommodation, leisure activities and restaurants, other tourism related activities and/or a change to APD rates in Northern Ireland on tax revenue and the wider economy?

Question 13: How would businesses in the tourism sector respond to VAT and APD changes and to what extent would those changes would be passed through to consumers in the form of lower prices?

Question 14: What evidence is there that VAT and/or APD rate changes are a relatively cost-effective means of supporting the tourism industry?

Question 15: How would a UK-wide change to VAT or APD benefit the tourism industry?

How would the industry in Northern Ireland benefit relative to other regions in the UK?

Annex A

Confidentiality disclaimer

- A.1 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.
- A.2 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.
- A.3 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Annex B

Ireland reduced tourism VAT rates

- hotel and holiday accommodation
- restaurant and catering services
- admissions to cinemas
- certain live theatrical or musical performances
- museums and art exhibitions and galleries
- fairgrounds or amusement parks
- use of sporting facilities
- hairdressing services
- printed matter such as newspapers, magazines, brochures, maps, leaflets/flyers and catalogues

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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