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Options for a tourism levy for London
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Executive summary

In 2013, the London Finance Commission identified the potential for a tourism levy in London as part of its recommendations for greater fiscal devolution to the capital. This paper considers in further detail some of the issues around the design of such a levy, different potential systems for its implementation (drawing on examples from abroad), and provides estimates of the revenue that could be generated.

The tourism sector makes an important contribution to London's economy as expenditure by foreign tourists provides an injection of income into the economy, and this in turn creates jobs and economic output. The variety of cultural and leisure attractions that make up London's tourist 'offer' also give it an international profile which helps to attract global businesses and their workers. Many of London's cultural attractions offer free entry to the public, receiving a grant from central government to support their operations because of the wider benefits they are deemed to bring to society. One of the arguments made in support of a tourism levy is that foreign tourists are able to 'free ride' - enjoying these cultural attractions without bearing the same costs as UK and London taxpayers. A second argument is that tourists enjoy the benefits of many public goods in London such as parks, policing or elements of the transport network for which they also do not bear the full social costs. Thirdly, it may be argued that tourists impose costs on society such as pollution and congestion from use of the transport network, which affect London residents and other tourists.

For these and other reasons, many European and global cities impose tourism taxes or levies, most of which are devolved to the relevant municipal authorities. For example, Paris imposes a tax per person per night of between €0.65 to €4.40 depending on the class of accommodation. Berlin charges 5 per cent of the accommodation cost. Lisbon charges a flat €1 per person per night. However, these taxes are offset to varying degrees by lower rates of VAT on hotel accommodation, charged at between 6-10 per cent in many European countries. VAT on hotel accommodation in the UK is charged at the standard rate of 20 per cent and as such, parts of the hotel industry have lobbied the Government to level the playing field by reducing VAT, claiming that the current system makes them uncompetitive.

When introducing a tax or levy of any form, due consideration needs to be given to the potential effects on behaviour that may follow as a result. At the margin, a tourism levy on hotel accommodation would be expected to increase prices and reduce demand. It is important to consider therefore how sensitive hotel demand, and visitor demand more generally, is to price changes. This is an area which is generally under-researched in a London context. At a UK level, the evidence is mixed with some research suggesting that particular markets are more sensitive than others – business visitors are for example thought to be less price sensitive than holiday makers. The rate at which the levy is set will inevitably therefore be an important consideration.

This paper provides a range of estimates of the revenue that could be generated from a levy in London under different systems, drawing on examples from abroad. In doing so, a number of simplifying assumptions are made including that of wholly inelastic demand (i.e. no fall in demand as a consequence of the levy) and a 5 per cent reduction in revenue to allow for exemptions, the exact nature of which would need to be agreed. Exemptions vary in European cities with children and those requiring emergency accommodation generally exempt and in some cases, business visitors and temporary workers.

According to the analysis in this paper, a tourism levy similar to that of Paris based on hotel star ratings could generate in the region of £140 million if applied in London. A Berlin-style tax of 5 per cent of the room rate per night could generate £240 million. A tax similar to Barcelona's, which falls predominantly on four and five star hotels with a nominal rate for all others, could generate approximately £77 million.

These revenues could be used to support the sector in a number of ways. In most global cities, tourism levies are hypothecated for activities that support the sector, but a wide range of organisations could lay claim to the additional funding. These include, but are not limited to: cultural attractions offering free entry, borough councils maintaining the public realm, London government which promotes the tourism offer via London & Partners; or the industry itself for education and training purposes. The governance arrangements for managing the income stream would therefore need careful consideration, with transparent arrangements in place to manage the disbursement of funds.

1. Introduction

GLA Economics is producing a series of research papers examining options for greater fiscal devolution in London to inform the second London Finance Commission (LFC2). The research series examines a number of areas including stamp duty, council tax and other taxes. One of the so-called smaller taxes identified in the first London Finance Commission[1] was a tourism tax, or levy[2], sometimes also referred to as a hotel bedroom tax. The Commission stated:

> *"A tourism tax would seem to have particular potential in London because of the size and particular needs of the leisure and tourism industry. If the city's cultural, tourist and entertainment industry are to flourish, there is a powerful argument for a levy that could then be reinvested in marketing and urban realm improvements…We support the maximum discretion for the GLA and London boroughs in the use of such levies."*

The potential for a tourism levy in London is taken up in this paper. Tourism levies operate in a number of European cities including Paris, Berlin and Rome as well as global cities like New York, albeit in the context of varying systems of general taxation. The basic principle of the levy, which is broadly accepted, is that it provides a means to generate additional funding for the tourism industry (e.g. museums and galleries) and/or funding for public services used by tourists. By extending London's fiscal base, it could also potentially support a reduction in other taxes.

However, there are various ways in which it could be introduced and a number of questions that would need to be answered, initially by Parliament, and then by the Mayor of London and stakeholders. These questions include *inter alia*:

- How would a tourism levy be charged and at what rate?
- How would it be collected and administered?
- What exemptions would apply?
- How much revenue could be raised?
- How would it be spent and under what governance arrangements?

The following paper provides initial research and analysis to shed some light on these questions, presenting a range of different options for a tourism levy. The paper is structured as follows: Chapter 2 examines the context for a tourism levy in London including the policy context and some headline statistics about London's tourism industry; Chapter 3 discusses the arguments for and against a tourism levy and options for its design; Chapter 4 sets out how tourism taxes and levies operate in other major cities; Chapter 5 considers the potential revenue that could be generated by the levy under a range of scenarios; and Chapter 6 provides some concluding remarks.

[1] London Finance Commission (May 2013), 'Raising the capital'.
[2] The terms 'tourism tax' and 'tourism levy' are used interchangeably within the document.

2. Context

The following sets out some of the context for a potential tourism levy in London, including: i) the importance of the tourism sector to London's economy; ii) the policy context – including recommendations from the Lyons Inquiry and London Finance Commission; iii) alternatives to a tourism levy; and iv) how VAT applies to the tourism industry.

The tourism sector in London

The tourism sector makes an important contribution to London's economy. Total Gross Value Added (GVA) of the tourism sector in London was estimated to be at least £11.5 billion in 2015 (based on GVA per workforce job estimates by GLA Economics). Visitor spend from overnight and day visitors was estimated to be £26.6 billion in 2015 of which international visitor spend was estimated to be £11.9 billion.

Visits and nights

- London was the second most visited city in the world in 2014 after Hong Kong[3].
- There were 18.6 million international visitors to London in 2015 according to the International Passenger Service (IPS).
- 49.6 per cent of international visitors' trips to London in 2015 stated their primary purposes for travel was a holiday; 23.4 per cent were visiting friends and relatives; 20 per cent were on business; and 7.1 per cent were visiting for other reasons, including study.
- There were 12.9 million domestic visitors to London in 2015.
- International visitors stayed a total of 108 million nights in London in 2015, and domestic visitors stayed a total of 29 million nights.
- The average number of nights per visit for international visitors was 5.83.
- In 2015, 66 per cent of international visitors were from Europe, 13.7 per cent were from North America and 11.5 per cent from Asia.
- The USA is the largest market in terms of the number of international visitors by country of origin, accounting for 2.14 million visitors in 2015. France, Germany, Italy and Spain comprise the rest of the top five markets for London.

Attractions

- London is home to four UNESCO world heritage sites, 349 live music venues and 857 art galleries.
- The top five most popular attractions by visitor numbers in 2015 were: 1) the British Museum; 2) National Gallery; 3) Natural History Museum; 4) Southbank Centre; and 5) Tate Modern.
- Nine out of ten of London's most popular cultural attractions offer free entry.

The Hotel sector

- There were an estimated 2,070 hotels in London in 2015 offering 145,737 rooms.
    - 4.3 per cent were 5*
    - 24.5 per cent were 4*
    - 13.3 per cent were 3*
    - 18.2 per cent were 2*
    - 10.2 per cent were 'budget'

[3] See Appendix 1 for further information and sources.

  - 3.1 per cent were hostels
  - 24.4 per cent were B&Bs
- According to data from Hotels.com, the average cost of a hotel room in London in 2015 was:
  - 2* = £68
  - 3* = £94
  - 4* = £132
  - 5* = £233
- According to AirBnB, there were 24,100 non-serviced rooms available to rent via the AirBnB website in 2015.
- The average cost of an AirBnB room in London was £89 (for a weekend night in September 2016).

Further information about London's tourism industry can be found in the Appendix to this paper, in the 'Economic Evidence Base for London' (GLA Economics, 2016) and the 'London Tourism Report 2014-15' (London & Partners, 2015)[4].

Policy context

The potential for a tourism tax in the United Kingdom was raised in the 2007 Lyons Inquiry[5] into Local Government. Lyons set out the rationale for introducing a tourism tax as follows:

> *"The impact of tourism on local communities can include tourist use of local transport networks; community safety; the local environment; local arts, sport and culture; and redevelopment activity. The societal costs imposed by tourists include pollution (for example increased CO2 emissions), degradation of place, land use and use of public utilities (additional use of water, electricity and sewage). (p.315 Lyons Inquiry)*

However, Lyons went on to note that the evidence base to assess the economic impact of a tourism tax is under-developed:

> *"…in particular there is currently insufficient data to assess the impact of a proposed local scheme at the level of individual authority areas' local economies. It is also important to remember that tax revenues are already raised from tourist activity – VAT from spending, and the business rates and other taxes from businesses which rely on tourists – and government grant to local authorities does take some account of the costs imposed by visitors."*

Lyons recommended that while a blanket tourism tax for the UK was not appropriate, the Government should consider legislating to allow some local authorities to introduce a tourism tax where appropriate:

> *"I have concluded that no single mechanism or economic instrument is likely to fit the needs of circumstances of all local authorities. I do not recommend a generally applicable 'bed tax'. However, in some areas there may be a case for a tourist related tax, developed in partnership with local businesses and residents – possibly through an annual bed*

[4] London & Partners (2015), 'The London Tourism Report'.
[5] Lyons, M. (2007) 'The Lyons Inquiry into Local Government'.

licencing scheme levied on operators, or alternatively by directly levying the tax on overnight visitors.

In my view, a local accommodation tax is only likely to be acceptable if a local authority can demonstrate that:

- *there is a robust evidence base that the local economy could support the introduction of the tax, including the likely start-up, collection and enforcement costs;*
- *existing alternatives, such as Business Improvement Districts, have been fully considered;*
- *there is local support for the tax; and*
- *the scheme has been developed in partnership with local businesses and residents, who should continue to have a voice in the evolution and review of the scheme."*

Both the then Labour government and opposition parties made it clear that they would not be taking the Lyons recommendation any further at that point. However, Lyons' observations remain a useful set of criteria against which to assess the merits of a tourism tax in London.

In 2013, the London Finance Commission (LFC)[6] recommended that the Mayor of London and other civic authorities should have the power to decide whether to set a tourism tax. On the subject of a potential tourism tax, the Commission stated:

"A tourism tax would seem to have particular potential in London because of the size and particular needs of the leisure and tourism industry. If the city's cultural, tourist and entertainment industry are to flourish, there is a powerful argument for a levy that could then be reinvested in marketing and urban realm improvements…We support the maximum discretion for the GLA and London boroughs in the use of such levies."[7]

In the written evidence submitted by stakeholders to the Commission, few chose to comment on the tourism tax proposal, perhaps as considering it to be of less significance in the wider context of the Commission's remit. One of the stakeholders in favour was Camden Council:

"We would be in favour of a greater use of business rate supplements set locally, freedom to set planning application fees, a new tourist tax set locally…"

Indeed, in January 2015 it was reported that Camden Council was considering a £1 a night 'bed tax' mainly to spend on street cleaning in popular tourist areas such as Camden Lock[8]. Elsewhere in the UK, Birmingham, Brighton, Edinburgh and Cornwall councils have all discussed the possibility of introducing a tourist tax but none have gone ahead.

The City of London Corporation was less enthusiastic in their submission to the LFC:

"…a 'tourist tax' on hotel rooms has been mooted as an attractive source of revenue; and such a measure has apparently operated satisfactorily elsewhere, for example in New York City. However, given the high value (and value-added) of London's visitor economy, and the fact that such a tax would inevitably affect business visitors as well as leisure tourists,

[6] London Finance Commission (2013) 'Raising the capital', p.71
[7] Ibid, p.71
[8] :The Guardian, 7th January 2015, 'London tourists could face £1 a night bed tax'

> *any such measure would have to be formulated with great care. It would be important to avoid sending adverse messages about tourism's current and prospective contribution to the UK economy or about London's openness to global business."*[9]

As both the Lyons Inquiry and the London Finance Commission noted, a tourism tax would require new primary legislation in Parliament before it could be implemented and to date this has not been forthcoming.

Alternatives to a tourism levy

A voluntary scheme

In mid-2015, the Visitors' Art Foundation (a charity) proposed a voluntary 'cultural donation' in London for which they sought Mayoral and industry support. Two pilot schemes began operating at the St. Martin's Lane and the Sanderson hotels to establish the technical viability of the scheme. Guests are asked to donate £2.50 per room per night towards a fund to support artists and cultural organisations offering free entry to visitors. The proposal has received support from Tate Modern, the British Library, V&A, Design Museum and Arts Council England.

One of the pilot hotels asks visitors to 'opt-in' while the other automatically charges guests unless they explicitly 'opt out'. The latter has enjoyed greater success in terms of revenue generation. However, the Visitors' Art Foundation has identified a legal ambiguity which needs to be resolved in relation to the opt-out scheme. The 2013 Consumer Contracts Regulations state that additional costs cannot be charged to consumers at the point of payment - regulation which was introduced to counter some trades adding 'surprise' charges at the point of payment. The regulation could potentially apply to philanthropic donations of the type proposed by the voluntary scheme. This aside, the Visitors' Art Foundation report that they have received a warm reception to their proposals from a number of hotels at the upper end of the market who recognise the value of London's free cultural attractions[10].

In July 2014, Hackney Council introduced a £1 per night voluntary donation added to the bills of hotel guests in the borough. The Council stated that the funds generated by the scheme *"would be used to support a range of community projects including:*

- *Training and Employment schemes: funding a series of training schemes to help develop a range of skills in the hospitality and other sectors supported by the Council's Ways into Work Programme*
- *Supporting cultural events for visitors and members of the local community that celebrate the innovative and creative character of the borough*
- *New improvements to public spaces in the borough to encourage community events and activities"*.

Elsewhere in the UK, a voluntary scheme operates in the Lake District as noted in the Tourism and Conservation Partnership's submission to the Lyons Inquiry:

> *"For over a decade the Tourism and Conservation Partnership has operated a very successful and entirely voluntary visitor payback scheme in the Lake District and more recently the wider county of Cumbria… for example, Heart of the Lakes accommodation*

[9] City of London Corporation, letter from Mark Boleat to the London Finance Commission, 5 November 2012
[10] Visitors' Art Foundation Briefing Note (25th July 2016)

> *company automatically adds £2 to every invoice they raise. Guests are given the option of opting out of paying this, but rarely do… Many guests make a voluntary contribution in excess of the requested £2."*[11]

A voluntary London-wide scheme could have appeal in that it would not require primary legislation and would allow operators or customers unhappy with the tax to opt out. However, without widespread adoption, there would seem few incentives for hoteliers to join the scheme if others are able to free ride. The revenue raised by a voluntary scheme would therefore almost certainly fall well short of a mandatory levy.

Tourism BIDs

Another alternative to a tourism levy would be a Tourism BID[12]. Over the last decade a number of Business Improvement Districts (BIDs) have been implemented in London where a majority of local businesses have voted in support of them. BIDs raise a modest levy on local business rates to spend on initiatives to improve the business environment of a local area such as public realm improvements or promotional campaigns.

Tourist BIDs, or T-BIDs as they are known in the US, are a version of standard BID. Rather than being geographically specific they cover a larger 'visitor economy' across a whole town, city or region, and are devoted to promoting the area to visitors. T-BIDs were first piloted in West Hollywood in 1992 and there are now more than 60 in California alone.

In 2014, the UK's first T-BID was established when six Highland Council wards voted to establish the Loch Ness and Inverness Tourism BID. In July 2016, the proposal to establish a T-BID in Torbay was approved after a majority of eligible tourism businesses voted in favour of its creation[13]. Consultation on the creation of a T-BID in Birmingham is also underway[14] .

There remains a risk that a T-BID would be opposed by segments of the industry who could view it as a tourism levy by 'stealth'. Moreover, its coverage may be more partial than that of a tax or levy as it could be difficult to apply to smaller non-serviced accommodation providers.

An annual bed licensing scheme

The suggestion of annual bed licensing scheme was made in the Lyons Inquiry but no further detail was provided. It is presumed that hotels would need to apply for a license to operate via the relevant authority for which a charge would apply. According to the gov.uk Licence finder, a license is not currently required to provide tourist services such as accommodation.

The design of the license fee would be the key issue and would involve similar considerations to those discussed here in relation to the hotel bed tax. For example, should higher grade hotels pay a higher licensing fee? While the number of beds provided by the hotel would be a consideration, the occupancy rate (i.e. the actual number of guests) would also be relevant. Would hotels be required to pay the same license fee regardless of occupancy levels or should the fee reflect the number of guests in a year? The latter would seem a fairer approach and may

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[11] Lyons, M. (2007) 'The Lyons Inquiry into Local Government'.
[12] See Centre for London, 'An alternative to a tourism tax'– A T-BID. Blog by Ben Rogers, 4th June 2013,
[13] English Riviera Tourism BID (ERTBID)
[14] Marketing Birmingham, 'Birmingham and Solihull tourism industry to be put in 'driving seat' in efforts to boost growth'. [accessed 14/9/16].

therefore need to be calculated retrospectively at the end of year when visitor numbers were known.

In this respect, a licensing fee would seem more difficult to implement on a practical level and to pass on to the consumer at the point of transaction. A levy per person per night or as a percentage of the room rate, would seem more transparent to the consumer unless there was a way in which their contribution to the hotel's licensing fee could be easily calculated at the point of transaction.

VAT on tourism

The proposal for a tourism levy in London needs to be framed in the context of VAT rates on tourism and especially hotel accommodation in the UK. All businesses in the UK must register for VAT if their turnover of taxable goods and/or services is above a given threshold, currently £81,000. The tourism industry in the UK, including hotel operators, is charged VAT at the standard rate of 20 per cent but this contrasts with a number of other EU countries, including France, Germany, Italy and Ireland, where there is a reduced VAT rate on hotel accommodation (see Table 2).

European VAT law limits the discretion of Member States to set lower VAT rates on individual goods and services[15]. However, Member States have the option to introduce a reduced rate of VAT on certain specified supplies as set out in Annex III of the principal EC VAT directive (2006/112/EC)[16]:

- *Item 7: admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.*
- *Item 12: accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites.*
- *Item 12a: restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages.*

European Union legislation means that wholly not-for-profit cultural attractions are not subject to VAT and this applies across all Member States. VAT is therefore exempt on entrance fees to cultural attractions managed by public bodies or not-for-profit organizations; including museums, galleries, art exhibitions, zoos and theatrical or musical performances. However, attractions and amusement parks in the UK operated on a for-profit basis are still subject to the full rate of VAT.

The rationale for allowing reduced VAT rates in the tourism sector given by the European Commission would appear to be on equity grounds. The EC VAT Directive states:

"(33) In order to tackle the problem of unemployment, those Member States wishing to do so should be allowed to experiment with the operation and impact, in terms of job creation, of a reduction in the VAT rate applied to labour-intensive services. That reduction is also likely to reduce the incentive for the businesses concerned to join or remain in the black economy.

[15] House of Commons Library (March 2015), 'VAT on tourism'.
[16] See the European Commission's website for EU VAT legislation.

(34) However, such a reduction in the VAT rate is not without risk for the smooth functioning of the internal market and for tax neutrality."

Lower rates of VAT on tourism activities in European countries have fuelled a long running campaign by the hospitality sector for the introduction of a reduced VAT rate in the UK[17]. The British Hospitality Association argues that Britain's high rate of VAT makes it uncompetitive as a tourism destination. While non-EU residents can apply for a VAT refund on some goods (mainly retail) they are not eligible for a refund on services like hotel accommodation[18].

However, successive governments have indicated that the evidence to support a VAT reduction is not sufficiently robust to warrant introduction. At the most recent Commons debate, David Gauke, Exchequer Secretary to the Treasury, stated that the Government had yet to find causal evidence between VAT rates and tourism activity:

> *"The conclusion that we reached, therefore…. is that a VAT cut would not produce sufficient economic growth to outweigh the revenue shortfall."*

Moreover, the Government has argued that the UK has VAT relief on some cultural attractions and public transport that benefit tourists and that the VAT registration threshold is the highest in the EU so many tourist attractions do not have to charge VAT to their customers.

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[17] See the British Hospitality Association website 'Cut Tourism VAT' campaign.
[18] Gov.uk website 'Tax on shopping and services' [accessed 9/9/16]

3. Arguments for and against a tourism levy and design considerations

Arguments for a tourism levy

The main economic arguments for a tourism levy are based around internalising the externalities of tourism[19]. This externality argument has two main aspects. The first relates to the observation that tourists impose costs on the host society (and on other tourists), which are not accounted for in the private costs of the tourist. Examples include congestion and pollution generated by consumption of services like transport. Crowding, queues at popular attractions and untidy environments affect residents and businesses of the host nation as well as other tourists and can discourage visitors to a particular destination[20]. Therefore, the argument is there should be appropriate policies to internalise these externalities which optimise the volume of tourism. In theoretical terms, a tax or levy equivalent to the marginal external cost should be introduced, the revenue from which could be used to compensate residents or to mitigate the externality.

The second aspect of the externality argument relates to the provision of public goods to visitors. Tourists consume un-priced natural amenities and public goods, which in turn gives rise to the free rider problem[21]. Public goods have two features: they are non-rival and non-exclusive. A good is non-rival if for any given level of production, the marginal cost of producing it to an additional consumer is zero. A good is non-exclusive if people cannot be excluded from its consumption.

Tourists consume a range of non-exclusive public goods while visiting their destination. These might include the water and sewerage systems, utilities, waste disposal facilities, parks and recreation areas, health care facilities, police and public safety services. Local residents make a significant contribution to the provision and maintenance of public goods through direct taxes such as income taxes and property taxes like council tax. International visitors are argued to make little contribution to national or local funding for these types of public goods. Tourism taxes and levies appeal to policymakers because the levy when applied to international tourists is 'exportable', i.e. the burden does not fall on residents. Of course, this argument would apply to a lesser extent to domestic visitors to London.

In the case of London, cultural attractions that are free or heavily subsidised might also come under this heading although they would not meet the technical definition of a pure public good since charging for entry is eminently possible. Nevertheless, the same free rider argument tends to be raised; that the UK government provides free entry to cultural attractions for the benefits to UK society but these are enjoyed by visitors from overseas who make little contribution to their upkeep by way of taxes.

There are other more general arguments for taxing tourism. Governments across the world spend a significant amount of money promoting tourism and the UK is no exception. London's tourism offer is promoted by London & Partners. It is argued that since governments spend considerable sums promoting tourism, there is a case for those who gain (the tourism sector) to bear the cost of promotion.

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[19] Ihalanayake (2007) also argues that rent extraction and Government Revenue Generation are economic arguments for taking tourism.
[20] Gooroochurn, N. and Sinclair, M.T. (2003)
[21] Ibid.

Arguments against a tourism levy

There is generally strong opposition to the idea of hotel bed taxes within the hotel industry although not necessarily the wider tourism sector. As Lyons (2007) noted:

> *"I received a great deal of correspondence on the possible introduction of a blanket tax on tourism. Over 500 individual businesses sent proformas to my Inquiry opposing this and 'Caterer and Hotelkeeper' organised a 'say no to bed tax' petition with 4,028 signatures. I also received correspondence from larger organisations such as Butlins, Travelodge and Pontins as well as tourism representative bodies".*

When the introduction of a £1 hotel bedroom tax was raised by Camden council, the Deputy CEO of the British Hospitality Association said:

> *"Any additional tax on top of the existing 20% VAT, which is almost the highest in Europe, would directly discourage international tourists from visiting London... A tourist tax could also be costly to collect and almost impossible to collect from the flats and houses let illegally through online companies like Airbnb."*[22]

As alluded to in these statements, there are several arguments put forward against hotel accommodation taxes, which are similar to those made in campaigns to reduce VAT on hotel accommodation. Industry representatives argue that hotel taxes reduce the competitiveness of the sector relative to competitor destinations. They argue that tourism is highly price sensitive because of the many close substitutes so an increase in price due to the tax would lead to a large decrease in demand[23]. The tax is therefore seen as counter-productive as the revenue generated would be outweighed by the benefits foregone in tourism expenditure which generates jobs and income. Related to this, if tourists have a fixed budget for their trip then they may simply subtract the levy from their total holiday expenditure.

A second argument is that the tourism sector in the UK is already heavily taxed. The World Economic Forum (2015) 'Travel and Tourism Competitiveness Index' found that the strength of the UK tourism sector was weighed down by its heavy ticket taxes and airport charges. As discussed above, VAT is charged at the standard 20 per cent on hotel accommodation in the UK, however, a number of other European countries offer a reduced rate of VAT on hotel accommodation. Other taxes and charges impacting on the tourism sector include (among others): Air Passenger Duty, visa/entrance fees, Licenses to serve alcohol and other more general taxes like business rates and/or PAYE.

A third argument against tourism taxes and levies is that they only apply to a segment of the wider tourism industry i.e. commercial accommodation. Many of the arguments to tax tourism could equally apply to other service providers such as restauranteurs, entertainment venues, or visitor attractions. Moreover, tourists staying in commercial accommodation as opposed to those staying with friends or relatives are arguably unfairly penalised.

Finally, the administrative burden of collecting tourism levies falls on businesses rather than the tourist, adding to their cost base. Some commentators have argued that operators should be able to offset these costs against the tax they pay.

[22] The Guardian, 7th January 2015, 'London tourists could face £1-a-night 'bed tax'
[23] See below for a discussion of the impact of price changes on demand for UK tourism.

Finally, there is also a concern that competition could be distorted if the levy were not to apply (or could easily be avoided) by less regulated parts of the sector such as non-serviced accommodation provided through websites like AirBnB (discussed further below).

Design considerations

If the decision to proceed with a tourism levy were taken then a number of questions would need to be answered in relation to its design and implementation. Any national framework would need to allow for local needs and London government would wish to be involved in the design of the levy early on in the process. However, the preferred option would be for the levy to be devolved. In either circumstance, some of the key questions are as follows:

Who should set the levy?

There would appear to be three main options here. Either the levy could be set by national government, most probably for specific areas like London; it could be devolved to the regional level, with the power to develop proposals suitable for their own region; and/or it could be devolved to local authorities, giving them the power to develop proposals suitable for their own area. As per the Lyons Inquiry, the involvement of industry in helping to set the levy would also need to be considered.

How should it be charged and at what rate?

There are a number of different ways in which the levy could be charged. Three main systems operate in Europe and in other global cities (see following section):

- A flat rate per night – this system operates in Lisbon and whilst its simplicity is a positive, it is regressive because those paying for low cost accommodation are charged the same amount as those staying in luxury accommodation. A threshold might therefore need to be introduced to exempt those staying in low cost accommodation like hostels.

- Percentage per hotel stay costs – this system operates in cities such as Berlin and Amsterdam and means the levy is proportional to the hotel stay costs. It tends to be charged on the total accommodation cost rather than on a per person basis. It could therefore be argued that single occupancies are more heavily penalised.

- Flat rates set in bands – this is the most common system in Europe and is the system which operates in Paris as well as Rome. The rate is set as a flat amount per person, per night depending on the hotel star rating/accommodation grade. An issue here is the grading system used. VisitBritain provide a National Quality Assessment Scheme claimed to be the largest official star rating scheme in the UK, but others also operate such as the AA.

Other systems operate in some countries (as set out in the following chapter), but these three are the most common. The potential revenue that could be generated in London by each is modelled in the final chapter of this paper. In terms of the rate at which the levy is set, a key consideration is the impact on demand, which is discussed further below. A further consideration here is whether the tourism levy itself would be subject to VAT.

Who would benefit from the levy?

Most countries hypothecate tourism taxes and levies for development of the tourism sector or to fund public services used by tourists. This principle has generally been accepted in previous debates about tourism taxes in London and the UK. However, the definition of both these purposes, and the organisations that stand to benefit, is potentially wide ranging. Some of the candidates to benefit from revenue raised from the levy include (but are not limited to):

- cultural attractions (especially those publicly funded free or subsidised entry);
- London & Partners (for promotion),
- public bodies providing public services used by tourists for which they currently receive no contribution (e.g. local authorities, TfL etc).
- hotel employees and owners (or industry bodies) for activities to support the sector such as education and training.

According to the modelled estimates provided later in this paper, the levy could generate sufficient revenue to fund a range of activities. For example, it could cover the £11.219m of grant awarded by the GLA to L&P for 2016/17[24] whilst also making a contribution to other publicly funded activities and attractions. For context, the grant-in-aid from the Department for Culture, Media and Sport (DCMS), for the following attractions in 2014-15 was:

- The British Museum - £43.2 million[25]
- The Natural History Museum – £43.4 million[26]
- The Tate Gallery - £32.1 million[27]
- The National Gallery - £25.9 million[28]

These figures do not represent the full running costs of these organisations as they have other forms of income such as exhibition ticket sales, lottery grants, endowments, private donations, sponsorship deals, etc. Some of these income streams might be subject to review by the respective donor organisations were a tourism levy introduced.

Some consideration also needs to be given to which authority tier would receive the funds. The levy will have distributional consequences as most revenue is likely to be raised in central London boroughs (and possibly boroughs near Heathrow) where there are more hotels. This begs the question whether the proceeds of the levy should remain local to where they were raised or be redistributed across London as a whole.

The hotel industry has previously expressed concern that a tourism tax or levy could simply be used to relieve pressure on local authority budgets and it has therefore requested the involvement of industry stakeholders in spending decisions and also in the design of the system[29]. The governance arrangements would therefore require careful consideration. One option would be for the revenues collected to be placed in a fund, overseen by a trust of some

[24] MD1493 'London & Partners Business Plan 2015/16'
[25] British Museum, 'Report and Accounts for the Year Ended 31 March 2015'
[26] Natural History Museum 'Annual Report and Accounts 2015-2016'
[27] The Board of Trustees of the Tate Gallery 'Annual Accounts 2014-2015'
[28] The National Gallery 'Annual Report and Accounts for the year ended 31 March 2015'
[29] See for example, British Hospitality Association Scotland 'Evidence on Tourist Taxes'.

form. Another would be for a certain proportion of the revenue to go to the relevant organisations.

How would accommodation providers pay the levy?

Many European countries have municipal or regional tax authorities that collect a range of devolved taxes including tourism taxes. Municipal tax authorities of this type do not exist in the UK, but local authorities collect business rates and council tax. The levy could be raised as an addition to the business rate payment system and paid to the relevant authority. However, further research would be needed to assess how many accommodation providers pay business rates and the additional administration that would be involved.

Business rates generally apply to hotels and bed and breakfast establishments unless the business offers short-stay accommodation to less than six people simultaneously[30]. Small business rate relief may also apply for premises with rateable values less than £12,000. Business rates do not apply to those occupying part of the property as their main home and letting out the rooms as subsidiary to the use of the rest of the house. Business rates apply to self-catering establishments unless they offer short-term lets for fewer than 140 days a year. Only the part of the property used for business purposes is subject to business rates.

Alternatively, the levy could be charged via the VAT system with HMRC repatriating the revenue to the relevant devolved authority or trust. Again, smaller providers are unlikely to currently pay VAT if they are below the VAT threshold of £81,000. Collecting the levy from non-serviced providers may require declaration via income tax self-assessment forms and subsequent repatriation. The merits of these different collection methods would require further investigation.

What exemptions should apply?

Most European countries operate some exemptions on equity grounds. Typically, children are exempt although the age limit varies. For example, in Rome, children aged up to 10 are exempt whereas in Barcelona, children up to 16 are exempt. The exemption may not apply if the levy is proportional to the room rate and the child stays with a parent or guardian. Approximately five per cent of overseas visitors to London are aged 0-15 according to the International Passenger Survey.

Those taking up temporary accommodation for emergency reasons such as homelessness, personal safety or for health reasons may also be exempt. Local housing authorities in England have a duty to secure accommodation for unintentionally homeless households in priority need under Part 7 of the Housing Act 1996 (as amended). Households might be placed in temporary accommodation pending the completion of inquiries into an application, or they might spend time waiting in temporary accommodation after an application is accepted until suitable secure accommodation becomes available (House of Commons, 2016). Authorities use a range of types of temporary accommodation, including bed and breakfast (B&B) accommodation.

In 2015-16, there were 51,940 households in temporary accommodation in London, 2,990 of which were housed in bed and breakfasts[31]. It is not known how many nights these households spent in B&Bs over the course of the year, but in 2002 the Government made a commitment to

[30] Visit Britain 'Business Rates: Key Facts'
[31] DCLG Live Tables on homelessness: Table 775.

ensure it should be no more than six weeks. If it were assumed that on average each household spent two weeks occupying one room in a B&B then it would account for around 42,000 nights – approximately 3 per cent of the nights estimated to be spent in London B&Bs each year.

Some cities like Rome also exempt local residents, the argument being that they already contribute to the costs of tourism by way of income taxes, property taxes and other levies. Rome also has exemptions for people accompanying patients for health reasons. Other cities like Hamburg exempt business travellers who need to stay overnight for essential professional or business-related reasons. Business travellers must show proof from their employer that the accommodation is required for business purposes. Clearly, the more exemptions there are the more complex the administration of the levy becomes.

Should the levy apply all year round at the same rate?

Some European cities such as Venice choose to set different rates of tax for high and low seasons. While this could have benefits in terms of ensuring smoothing the impact on demand, it would make the levy more complex to administer.

How would the levy apply to non-serviced accommodation? (e.g. AirBnB properties)

The non-serviced accommodation sector is essentially people renting out property such as spare rooms in their homes on short lets. It is a relatively new phenomenon that has been facilitated by new technologies and is associated with the rise of the 'sharing economy'[32]. This raises the question whether the tourism levy should apply to these types of accommodation, how it would be levied and at what rate as there is no official grading system. Many of the individuals letting out their properties are likely to be below the VAT threshold and so would be more likely to declare the income through income tax self-assessment. As of April 2016, the 'rent a room' tax relief scheme means they receive tax relief on the first £7,500 earned each year. If a tourism tax did not apply to non-serviced accommodation in the same way as traditional hotels, then the market could become distorted in favour of these types of properties.

The rise of private properties available for short lets has generated calls for tighter regulation of the sector in a number of cities. For this reason, cities such as Amsterdam have entered into an agreement with AirBnB to work together to provide hosts with clear and accessible information on the rules for home sharing. Airbnb has also agreed with Amsterdam authorities to simplify the payment of the tourist tax by collecting and remitting these taxes on behalf of hosts[33]. An agreement with AirBnB (as one of the largest marketplaces) to collect and remit a levy in London would seem desirable.

In December 2015, it was reported that Camden Council was investigating whether it could charge a levy on residents letting out their homes to tourists through websites such as Airbnb. In the south of Camden, where large fees can be commanded and more than 1,000 homes can be available to book on Airbnb at a time. It has been suggested that AirBnB adversely affects the private rental market as landlords can secure greater income from tourists. Camden Council research suggests property owners can earn 300 per cent extra in rent if they switch from regular long-term lettings to holiday bookings through sites such as Airbnb[34]. Tourism taxes in

[32] The Economist, March 9th 2013, 'The rise of the sharing economy'.
[33] See http://www.iamsterdam.com/en/media-centre/city-hall/press-releases/2014-press-room/amsterdam-airbnb-agreement
[34] Camden New Journal, 3rd December 2015, 'Camden explores local levy on AirBNB users'

this sector may therefore need to be considered in the context of wider regulatory reform of this sector.

The impact on demand

International tourism demand is influenced by a range of different factors including: population, income, prices in the host country, substitute prices in competing destinations, tastes and habits, marketing, and one-off events (Blake and Cortes-Jiminez, 2007). At its simplest, a tourism levy would be expected to increase the price of visitor accommodation and therefore at the margin reduce demand, other things being equal. The sensitivity of demand to changes in price, commonly referred to as the price elasticity of demand, is therefore a key factor in the decision to introduce a tourism levy.

Price elasticities depend on a number of factors, one of the most important being the existence of close substitutes. Whether or not London could be deemed to have close substitutes is subjective and could vary according to individual preferences or perceptions. For example, a visitor from Europe might consider London's tourism offer – its architecture, history and culture etc. - to be unique, whereas an international visitor from outside Europe less familiar with the continent might consider the major European cities to be close substitutes.

There is little available evidence on London-specific price elasticities of demand for tourism[35]. Fluctuations in the exchange rate can be considered a proxy for price changes. For example, at the time of writing, the recent depreciation of the pound against the dollar and euro should have made London more attractive to European and American visitors. London & Partners (L&P)[36] looked at the relationship between exchange rates and visitor volumes and spend in London. Looking at tourism spending and arrivals between 2003-2014 from the US, France and Germany, L&P found "no evidence of a clear link with the exchange rate". L&P suggested other factors such as changes in income of the source country may be a more influential factor. L&P concluded that exchange rate fluctuations did not have a significant impact on visitor numbers to London.

Some more detailed research on price elasticities of demand exists at a national level. These estimates are discussed below but should be treated with caution as elasticities in London may differ from those for the UK.

In a report for the CBI, Durbarry and Sinclair (2000)[37] specify an econometric (gravity) model to assess the sensitivity of tourism demand in the UK to changes in prices, exchange rates and expenditure. Considering both the price of tourism and the exchange rate as separate variables, they suggest that an increase in the relative price level or an appreciation of sterling by 1 per cent decreases tourists' expenditure by 0.6 per cent and 0.5 per cent respectively. However, they argue that tourists are more concerned with the effective price of tourism, which takes into account the price level and the purchasing power of the tourist together. Using the effective price variable they find a value of around unity. This implies that holding other variables constant, an increase of 1 per cent in effective prices in the UK relative to the origin country would lead to a decrease in tourism expenditure in the UK of around 1 per cent. This suggests

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[35] GLA Economics has undertaken research to model the effect of different income elasticities on inbound tourism and the demand for hotels, however a tourism tax as proposed in this paper would impact on prices rather than incomes[35].
[36] London and Partners (forthcoming) 'Trends in Exchange Rates and Tourism for London'.
[37] Durbarry and Sinclair (2000) "Tourism taxation in the UK"

that tourism expenditure is sensitive to price changes and results in a significant loss in revenue from tourism.

A study commissioned by the British Tourist Authority (BTA, 2001 now VisitBritain)[38] also found tourism to be significantly price sensitive. They estimated the exchange rate elasticity of tourism in the UK to be -1.3, so for a 1 per cent movement in the exchange rate which increases the cost of staying in Britain, the UK's international tourism earnings decrease by 1.3 per cent. The BTA argued that international tourism to the UK is highly competitive, and highly price sensitive and would appear to have many close substitutes.

In contrast, research by the University of Nottingham (Blake and Cortes-Jimenez, 2007) for DCMS[39] found an average price elasticity of demand of -0.61. This suggests that UK tourism is less sensitive to price changes than implied by these other studies with a 1 per cent increase in price produces only a 0.61 per cent fall in demand. However, they show a wide variation of price elasticities for different markets according to nationality of the tourist and purpose of visit. Holidaymakers with a price elasticity of -1.23 are found to be significantly more price sensitive than business visitors with an elasticity of 0.18. Price elasticities by nationality are found to vary widely. Spain and Ireland were found to be the most price sensitive markets, while Germany and the United States were the least price sensitive. The research also estimated income elasticities – the impact of an increase or decrease in income on demand – and found these to be generally higher.

Table 1: International tourism price and income elasticities

	Price elasticity	Income elasticity
France	-0.53	1.37
Germany	-0.33	1.35
Spain	-1.38	1.43
The Netherlands	-0.61	1.48
Ireland	-1.86	1.72
Italy	0.49	1.37
United States	-0.42	2.01
Holidays	-1.23	1.70
Business	0.18	1.70
VFR	-0.93	1.58
Study	-0.12	1.40
Overall Average	**-0.61**	**1.65**

Source: Blake and Cortes-Jimenez (2007)
Note: weighted average elasticities.

Blake and Cortes-Jimenez (2007) also consider drivers of domestic tourism demand, identifying incomes, (own) prices, substitute prices and climate as some of the key variables. They found that domestic holidays have a higher own-price elasticity than other types of visit and that an increase of 1 per cent in relative prices leads to a decrease of 2.62 per cent in UK domestic holiday spending. Domestic holidays are therefore deemed highly responsive to changes in prices. Again, it should be emphasised that these are national estimates and price sensitivities may differ for London tourism.

[38] British Tourist Authority (BTA) (2001) "The Price Sensitivity of Tourism to Britain"
[39] Blake, A. and Cortes-Jimenez (2007) 'The Drivers of Tourism Demand in the UK' Christel DeHaan Tourism and Travel Research Institute, University of Nottingham for Department for Culture, Media and Sport.

4. Tourism taxes and levies in other European and global cities

Most European cities and a number of global cities have tourism taxes which are levied via the hotel sector. Tourism taxes in these countries are typically a devolved issue so tend to be set and administered locally by the relevant municipal authority. For this reason, hotel taxes can vary by individual city in the same country (as shown below in the examples of Rome and Venice).

Table 2 summarises tourism taxes in some of the major European cities that could be considered competitors to London. In addition, some global cities are also examined including New York, Hong Kong, Singapore and Vancouver. VAT (or equivalent) rates on hotel accommodation are shown in light of the discussion in the previous chapter.

Table 2: Tourism taxes and levies in other European and global cities

City	Tourism tax/levy	VAT rate on hotel accommodation
Paris	Taxe de séjour Price per person per night based on star rating: 'Palace' €4.40 5* €3.30 4* €2.48 3* €1.65 2* €0.99 1* €0.83 Apartment hotels, furnished accommodation €0,83 3*, 4* and 5* campsites, caravan parks €0.60 1* and 2* campsites, caravan parks and marinas €0.22 Includes 10% 'départmentale' tax	10% (Standard VAT rate on goods and services = 20%)
Berlin	City tax 5% of the room rate excluding VAT and extras such as the use of hotel facilities like spas or services not included in the room price. Applies to all accommodation types The collection of the tax is limited to 21 successive days	7% (Standard VAT rate = 19%)
Hamburg	Culture and tourism tax Per person per night based on the net payment for the stay (excluding VAT). €10 = €0 €25 = €0.50 €50 = €1 €100 = €2 €150 = €3 €200 = €4 For every additional 50.00 euros of the net payment or part thereof, the tax increases by one euro each time. This means, for example, for accommodation costing 250.00 euros the tax will be five euros. Extra services such as breakfast are not subject to the tax. Applies to hotels, motels, boarding houses or guest houses Business travellers who have to stay overnight for essential professional or business-related reasons are exempted from the tax.	7% (Standard VAT rate = 19%)
Amsterdam	City tax / Toeristenbelasting 5% of the room rate per night (excluding breakfast and other	6% (Standard VAT rate = 21%)

	extras) payable by non-residents of Amsterdam. Business travellers are liable for the tax.	
Venice	City tax / Imposta di Soggiorno Based on accommodation type, star rating and area of the city. Charged per person, per night, up to a maximum of five consecutive nights. For hotels in the historical centre (1st Feb to 31st Dec) : 5* €5 4* €4.50 3* €3.50 2* €2 1* €1 50% reduction for young people aged 10-16 50% reduction Nov-Mar, excluding Carnival and winter peak times, 40% reduction for accommodation on mainland, 30% for accommodation at Venice Lido, 5 star hotels excluded.	10% (Standard VAT rate = 22%)
Rome	City tax / Imposta di Soggiorno Per person, per night, max 10 nights. 5* = €7 4* = €6 3* = €4 1* and 2* = €3 Farmhouses and residences = €4 Bed and breakfasts. Rented rooms, holiday homes = €3.5 Campsites = €2 (max 5 nights) Hostels excluded, Exemptions for residents in Rome, children aged up to 10, all who accompany patients for health reasons, police and armed forces, one coach driver and one tourist guide for every 23 group members.	10% (Standard VAT rate = 22%)
Barcelona	Tourism tax / Impost de turisme Per person, per night for a maximum of 7 nights. 5* = €2.25 4* = €1.10 Other establishments and facilities (including hotels, apartments, campsites, youth hostels, house for tourist use and mobile accommodation) = €0.65 Children under 16 exempt.	10% (Standard VAT rate = 21%)
Brussels	Tourism tax Proportionate to the number of rooms available in each hotel and by category of hotel as classed by the Commissaire au Tourisme or the Commissariat General Flamand au Tourisme: Tax levied per room, per night Unclassified – €2.15 Category 1 or H1 €2.10 Category 2 or H2 €2.90 Category 3 or H3 €4.50 Category 4 or H4 €7.15 Category 5 or H5 €8.75 Exemptions for housing assigned for social assistance.	6% (Standard VAT rate = 21%)
Vienna	Orstaxe	

	3.2% of accommodation cost	
Lisbon	Municipal Tourist Tax €1 per person per night up to a maximum of seven nights. Exemptions for children under 13 and those whose trip is for medical reasons during the period of hospitalisation plus one additional night (and that of an accompanying party).	6% (Standard rate = 23%)
Hong Kong	Hotel Accommodation Tax = 0% (3% prior to 2008)	No sales tax/VAT
Singapore	None	7% Goods and Services Tax (GST)
Vancouver	Municipal and Regional District tax (MRDT). 3% on the purchase price of the accommodation.	8% Provincial Sales Tax (PST) on accommodation (Standard PST = 7% + Goods and services tax (GST) = 5%)
New York	New York City Hotel Occupancy tax = 5.875% New York City Hotel Unit Fee = $2 per room per night for rooms above $40 a night. New York State Javits Convention Center fund = $1.50 per room per night.	8.875% comprised of: New York State Sales tax 4% New York City sales tax 4.5% MCTD (Metropolitan Commuter Transportation Mobility Tax) 0.375%

Sources: See text below; for VAT rates in European countries from the European Commission.

Paris

Paris is an obvious competitor to London, attracting European, international and many British tourists from similar markets. In 2015, Paris moved from a flat rate tourist tax to a new system based on the grade of accommodation. The tax is levied on a per person, per night basis. Customers must pay the tax, which is added to their bill by the hotel. The amount of tax charged must be displayed by the landlord, hotel or accommodation owner and must appear on the bill provided to the customer.

The main exemptions from the tax are:

- All children under the age of 18
- People with a temporary contract to work in the area
- Those living in emergency housing or temporary rehousing
- People living in premises with rent below an amount determined by the local council.

The tax is charged at the following amounts:

- 'Palace'[40] €4.40
- 5* €3.30
- 4* €2.48
- 3* €1.65
- 2* €0.99
- 1* €0.83

[40] Exceptional hotels are awarded Palace status introduced by the French Minister of Tourism in November 2010 to award official recognition to the finest 5-star hotels.

- Apartment hotels, furnished accommodation €0,83
- 3*, 4* and 5* campsites, caravan parks €0.60
- 1* and 2* campsites, caravan parks and marinas €0.22

These rates include a 10 per cent départmentale[41] tax for subnational government.

France has a reduced rate of VAT for hotel accommodation of 10 per cent compared to the standard rate of 20 per cent.

Further information:

http://pro.parisinfo.com/content/download/126830/12670571/version/2/file/tourist-tax-in-paris.pdf

https://www.service-public.fr/professionnels-entreprises/vosdroits/F743#N100D0

Berlin

Since 2014, tourists in Berlin staying overnight are subject to an accommodation tax. This applies to any type of short-term, paid accommodation, and the tax is due whether or not the hotel guest actually spends the night in the room.

The City Tax is added to the hotel bill and collected by the accommodation providers. The hotel is responsible for collecting the tax and for passing it on to the federal state of Berlin. It is an indirect tax: the accommodation providers transfer the tax and are authorised to claim the same amount of money from their guests in turn. However, it is not obligatory to pass the fee on to guests. Accommodation providers are defined as businesses that provide short-term overnight accommodation, including hotels, guest houses, private landlords, independent hostels, youth hostels and campsites.

Business travellers are exempt from the City Tax provided they can prove the purpose of their trip with an official letter from their employer.

The Occupancy Tax is 5 per cent of the price of the hotel room (without extras, such as meals, items from the minibar, the use of hotel services and facilities not included in the room price, etc.).

Germany has a reduced rate of VAT for hotel accommodation of 7 per cent compared to the standard rate of 19 per cent.

Further information can be found at:
https://www.berlin.de/sen/finanzen/steuern/informationen-fuer-steuerzahler-/steuer-abc/information-berlin-hotel-occupancy-tax-150351.en.php

[41] Départments are effectively the middle tier of subnational government in France, in between regions and the communes. There are 96 departments in metropolitan France and five overseas.

Hamburg

On 1 January 2013, Hamburg introduced a culture and tourism tax. The operators of the accommodation are liable for payment of the tax and may pass it on to the guest. The operator of the accommodation is obliged to declare and transfer the tax to the revenue office on a quarterly basis. All of the revenue is invested in tourist, cultural and sporting projects.

The culture and tourism tax is charged per person, per night based on the net payment for the stay (excluding VAT) at the following rates:

- €10 = €0
- €25 = €0.50
- €50 = €1
- €100 = €2
- €150 = €3
- €200 = €4

For every additional 50.00 euros of the net payment or part thereof, the tax increases by one euro each time. This means, for example, for accommodation costing 250.00 euros the tax will be five euros.

The tax applies to hotels, motels, boarding houses or guest houses. Extra services such as breakfast are not subject to the tax.

Business travellers who have to stay overnight for essential professional or business-related reasons are exempt from the tax.

Germany has a reduced rate of VAT for hotel accommodation of 7 per cent compared to the standard rate of 19 per cent.

Further information can be found at:
https://static1.hamburgtourism.de/live_fileadmin/redaktion/Pressemitteilungen/Information_on_Hamburg_s_culture_and_tourism_tax.pdf

Amsterdam

Amsterdam's tourist tax is charged on overnight stays in hotels, guesthouses, apartments, holiday homes, holiday accommodation, camping mobile shelters, moorings for boats and non-professional leased premises on land or on water.

The tax is 5 per cent of the room rate per night (excluding breakfast and other extras) payable only by non-residents of Amsterdam. Business travellers are however liable for the tax.

People who sublet their homes are required to collect and pay the tourist tax to the City of Amsterdam. The City of Amsterdam and third-party apartment rental website Airbnb collaborate to make it easier for Amsterdam residents to follow these regulations. As part of this collaboration, Airbnb collects and remits the tourist tax on behalf of the rental hosts. Residents subletting their home are required to register this information with the City of Amsterdam and collect the appropriate taxes from their guests.

VAT on hotel accommodation in the Netherlands is charged at 6 per cent compared to the national standard rate of 21 per cent.

More information:
https://www.amsterdam.nl/belasting-heffingen/ondernemers/toeristenbelasting/

Venice

Venice's city tax varies according to where the accommodation is located in the city and according to the type and grade of accommodation, as well as the time of year. The following amounts are charged per person, per night, up to a maximum of five consecutive nights in the historical centre during the period 1st Feb to 31st Dec:

- 5* = €5
- 4* = €4.50
- 3* = €3.50
- 2* = €2
- 1* = €1

There is a 50 per cent reduction for young people aged 10-16. A 40 per cent reduction exists for accommodation on the mainland, and a 30 per cent reduction for accommodation at Venice Lido. Five star hotels do not receive a reduction.

For more information see:
http://www.comune.venezia.it/archivio/57877

Rome

The tourist accommodation tax in Rome is one of the most expensive in Europe. It applies to guests of hotels, holiday homes, rented rooms, bed & breakfasts and camping grounds in Rome (but not hostels). The tax is paid on a per person per night basis.

Rates are as follows:

- 5* = €7
- 4* = €6
- 3* = €4
- 1* and 2* = €3
- Bed and breakfasts, rented rooms, holiday homes and holiday apartments = €3.50
- Farmhouse accommodation and residences = €4
- Open air facilities, camping grounds and areas equipped for temporary stops = €2

The tax is applicable up to a maximum of ten consecutive nights within one year for hotels and a maximum of five nights for campsites.

There are exemptions for:

- Persons who are residents of Rome, children up to age 10
- All who accompany patients for health reasons
- Members of the State police force and the other armed forces, and
- One coach driver and one tour leader/tourist guide for every 23 group members.

For more information see:
http://www.turismoroma.it/news/contributo-di-soggiorno?lang=en

Barcelona
The tourism tax for Barcelona applies to the Catalan region with revenue devoted to a tourism development fund, created to support policies aimed at the promotion, conservation and development of Catalan tourism infrastructure and activities.

The tax is on a per person, per night basis levied at the following rates for a maximum of seven nights:

- 5* = €2.25
- 4* = €1.10
- Other establishments and facilities (including hotels, apartments, campsites, youth hostels, house for tourist use and mobile accommodation) = €0.65

VAT on hotel accommodation in Italy is charged at 10 per cent compared to the national rate of 21 per cent.

For more information see:
http://empresa.gencat.cat/web/.content/20_-_turisme/documents/arxius/dipticimpostgb.pdf

Brussels
The tourism tax in Brussels is proportionate to the number of rooms available in each hotel and by category of hotel as classed by the Commissaire au Tourisme or the Commissariat General Flamand au Tourisme.

The taxes are levied per room, per night at the following rates:

- Unclassified – €2.15
- Category 1 or H1 €2.10
- Category 2 or H2 €2.90
- Category 3 or H3 €4.50
- Category 4 or H4 €7.15
- Category 5 or H5 €8.75

There are exemptions for housing assigned for social assistance.

VAT on hotel accommodation in Belgium is charged at 6 per cent compared to the standard rate of 21 per cent.

Further information:

http://www.brussels.be/dwnld/72358095/Taxe%20%C3%A9tablissements%20h%C3%B4teliers2015.pdf

Vienna
Vienna's tourism tax is charged by the City of Vienna on all types of accommodation including hotels, B&Bs and private homes for let.

The tax is set at 3.2 per cent of the accommodation fee (excluding VAT, breakfast and extras) The following exemptions are in place:

- Minors who are staying to attend school or vocational training or in hostels

- Students at Vienna university or technical schools
- People who take more than three months continuously stay in a private home

For more information see:
https://www.wien.gv.at/amtshelfer/finanzielles/rechnungswesen/abgaben/ortstaxe.html

Lisbon

€1 per person, per night up to a maximum of seven nights. Exemptions for children under 13 and those whose trip is for medical reasons during the period of hospitalisation and one additional night (and that of an accompanying party).

The revenue is put into a Tourism Development Fund "…to keep Lisbon a competitive and high quality destination, to strengthen tourism development in Lisbon and to promote investment in tourism."

More information:
https://aplledotorg1.files.wordpress.com/2016/01/lisbon-municipal-tourist-tax.pdf

Hong Kong

Prior to 2008, Hong Kong had a Hotel Accommodation Tax of 3 per cent but it was abolished in July 2008. There is also no sales tax in Hong Kong.

For more information see:
http://www.ird.gov.hk/eng/tax/hat.htm

Singapore

Singapore has no tourism tax. Goods and service tax (equivalent to VAT) is charged at 7 per cent.

More information:
https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/etaxguide_GST_GST%20Guide%20for%20Hotel%20Industry.pdf

Vancouver

Vancouver has a Municipal and Regional District Tax (MRDT) charged on the purchase price of accommodation, including any additional charges for extra beds, cots, cribs, linens and pets. Up to 3 per cent Municipal and Regional District Tax applies on behalf of municipalities, regional districts and eligible entities to sales of short-term accommodation provided in participating areas of British Columbia (BC). Currently, all participating areas of BC charge MRDT of 2 per cent, except for the City of Vancouver which charges 3 per cent. The MRDT is charged in participating areas to raise revenue primarily for tourism marketing, programs and projects.

Provincial Sales Tax (PST) is 8 per cent on accommodation.

For more information see:
http://www.sbr.gov.bc.ca/documents_library/bulletins/pst_120.pdf

New York

New York City and New York State impose multiple taxes that apply to 'transient occupancy or tourist use'.

- New York City hotel room occupancy tax = 5.875 per cent of the room rate.
- New York City hotel Unit Fee = $2 per room per night for rooms above $40 a night.
- New York State Javits Convention Center fund = $1.50 per room per night.

Sales taxes on accommodation also apply at 8.875 per cent comprised of:

- New York State Sales tax 4 per cent
- New York City sales tax 4.5 per cent
- MCTD (Metropolitan Commuter Transportation Mobility Tax) 0.375 per cent

More information:
https://www.tax.ny.gov/pdf/publications/sales/pub848.pdf

European Union countries that do not apply a tourism tax

The following EU states do not apply a tourism tax:

- Ireland
- Greece (although tourism taxes are under consideration as part of wider reforms)
- Cyprus
- Turkey
- Denmark
- Finland
- Norway
- Sweden
- Estonia
- Poland
- Latvia
- Luxembourg

A tourism tax in Rotterdam was abandoned in 2006 due to the loss of business support because the city council were deemed to have diverted revenues to non-tourism activities. An eco-tax introduced in the Balearics in 2004 was also abandoned as it was viewed as too expensive and introduced without sufficient consultation; however, it was reintroduced in July 2016.

5. Potential revenue from a tourism levy in London

The following section sets out some basic estimates of the revenue that could be generated by a tourism levy in London. The five possible scenarios that are modelled here are based mainly on the more popular regimes operating in Europe, and the voluntary system operated by the Visitors' Art Foundation. They are as follows:

- Scenario 1: Flat rate per person, per night (as operated in Lisbon and formerly Paris).
- Scenario 2: Flat rate per room, per night (current pilot voluntary scheme in London)
- Scenario 3: Percentage of the total room rate (as in Berlin and Amsterdam)
- Scenario 4: Stepped percentage of room rate by star rating (modelled for comparison)
- Scenario 5: Flat rate per person, per night based by accommodation type/star rating (currently used in Paris, Rome and others)

Limitations and assumptions

Before setting out the modelled revenue estimates, the following simplifying assumptions and limitations should be noted:

Inelastic demand

In the models that follow, no attempt has been made to account for the impact of a price rise on demand or the quantity of provision. Demand is therefore assumed to be wholly inelastic to changes in price generated by the levy. Provided the price increases generated by the tourism levy were relatively modest, this impact on demand would be limited. With more evidence on price elasticities, it would be possible to model the impact on demand more comprehensively. However, a complex array of other factors would also need to be accounted for such as fluctuations in the exchange rate, price changes in competitor locations, the impact of government spending from the revenue raised, etc. The models below are therefore a simplified estimate of the revenue that could be generated.

The number of nights stayed in commercial accommodation

Scenarios 1 and 5 require an estimate of the number of nights stayed in commercial accommodation in London. For international visitors, the ONS International Passenger Survey provides data on the number of nights stayed annually in London and the main reason for the visit. Similarly, the Visit England Great Britain Survey provides figures on domestic visitors and nights spent in London.

The difficulty is determining how many of the nights people stay in London are in commercial accommodation. For the purposes of this exercise, the following assumptions are made:

- 100 per cent of business visitor nights are stayed in commercial accommodation.
- 100 per cent of holiday visitor nights are stayed in commercial accommodation
- 25 per cent of nights 'visiting friends and relatives' are stayed in commercial accommodation.
- All 'other' nights are stayed in commercial accommodation.

While it is possible that some business visitors and holidaymakers could stay with friends, relatives or in other free accommodation, it is likely to be a relatively small proportion. In the absence of evidence on this proportion, it is assumed that all nights are spent in commercial accommodation. Of the people giving 'visiting friends and relatives' as their primary reason for travel, it seems likely that a significant proportion would not pay for their accommodation. The evidence is limited but studies from Australia (Backer, 2010) suggest that around 25 per cent of people visiting friends and relatives stay in commercial accommodation. In the absence of UK or London-specific evidence, this assumption is used.

Table 3: Estimated number of nights in commercial accommodation, 2015

	Holiday	Business	VFR	Other	Totals
Domestic	9,932,000	6,141,000	3,219,500	-	19,292,500
International	44,956,287	16,543,860	8,456,873	6,889,994	76,847,015
Total	54,888,287	22,684,860	11,676,373	6,889,994	96,139,515

Source: GLA Economics calculations/International Passenger Survey and Visit England Great Britain Survey data.

Scenario 5 requires an estimate of how these nights are distributed by type of accommodation. The number of nights stayed in non-serviced accommodation is calculated first using data from AirBnB. AirBnB is one of the largest online marketplaces for providers of non-serviced accommodation. It is acknowledged that not all providers of non-serviced accommodation will advertise through AirBnB but it is the market leader and should capture a significant proportion of the available properties. However, there is also a risk of double counting as some commercial serviced providers (e.g. bed and breakfasts) may advertise through multiple channels including AirBnB and more traditional directories.

AirBnB state that between November 2014 and November 2015, 24,100 hosts in London welcomed 983,000 guests into their homes using the service[42]. The length of stay per visit was estimated at 4.8 nights per guest. From this information it is estimated that 4.72 million nights were spent in AirBnB accommodation in 2014-15 (983,000 guests x 4.8 nights).

The rest of the nights stayed in London are assumed to be spent in proportion to the number of rooms available for each accommodation type (see Table 4). For this, the AM:PM database is used; the database provides a valuable source of information on the hotel sector in the capital, listing all the hotels that are known in London including their star rating/type and the number of rooms. In distributing the nights by accommodation type in this way, by implication, the vacancy rate is assumed to be the same across the different classes of serviced accommodation.

[42] AirBnB (2016) 'Discover Greater London: the Impact of Sharing an Authentic London'.

Table 4: Estimated number of nights in commercial accommodation by type, 2015

Star rating	Rooms	Percentage of serviced accommodation	Nights
2 star	12,034	8%	7,548,953
3 star	19,877	14%	12,468,882
4 star	50,930	35%	31,948,492
5 star	16,596	11%	10,410,704
Apts	10,467	7%	6,565,970
Budget	28,538	20%	17,901,945
Hostel	2,783	2%	1,745,782
B&B	4,512	3%	2,830,387
Non-serviced (AirBnB only)			4,718,400
Total	**145,737**	**100%**	**96,139,515**

Source: AM:PM Database / GLA Economics calculations

The number of occupied rooms per annum

Scenario 2 which raises a levy on a per room per night basis, and scenarios 3 and 4 which are on a percentage of the room rate, require an estimate of the number of occupied rooms per annum. The AM:PM database is used as above to find the number of rooms by different types of serviced accommodation. An occupancy rate of 80 per cent is assumed based on data for London from Visit Britain England Occupancy Survey[43]. However, it is acknowledged that this is likely to vary by season, popularity of the hotel and other factors. All serviced accommodation providers are assumed to operate 365 days a year.

In the non-serviced sector, AirBnB say there are 24,100 hosts in London and each host averages 50 nights per year. This suggests some AirBnB properties are empty for a significant proportion of the year and it would therefore be unrealistic to apply an 80 per cent occupancy rate assumption in the same way as for serviced accommodation. We do not know how many rooms are offered by each host on average but it is thought to be somewhere between one and two. Many hosts offer a spare bedroom but some offer entire flats for rent. For the purposes of this exercise, a figure of 1.5 is used. On this basis, we estimate the number of occupied rooms per annum in AirBnB accommodation to be 1.8 million (24,100 x 1.5 x 50).

Prices by hotel/accommodation class

Price data by class of accommodation is needed for scenarios 3 and 4. Average prices by accommodation class are used from a variety of sources. In the case of hotels, data has been sourced from Hotels.com which provides a comprehensive annual survey of prices by region. Prices for budget hotels are assumed the same as 2* premises. An average youth hostel price was sourced from the Youth Hostel Association (YHA) - the main hostel provider in London. A random selection of 30 bed & breakfasts were selected from bedandbreakfasts.com and a median price calculated. In September 2016, according to the AirBnB website, the average price per night was £89 for two people sharing (excluding service and cleaning fees) but including extra guest fees.

[43] Occupancy rates ranged between 79 per cent to 82 per cent in London during the period 2007-2015 according to the Visit Britain England Occupancy Survey.

It is recognised that hotel prices can vary significantly even within the same class/star rating. Five star hotel rooms in London can be anywhere in the hundreds to the thousands of pounds. Even within a single hotel, prices are likely to vary by room size, type, facilities, etc. Room prices are also often seasonal with price increases around public holidays for example.

Exemptions

All tourism levies operating abroad include exemptions and it presumed that some would also operate in London. This would be a policy decision made by the relevant authority, but it seems highly likely that children and those needing emergency temporary accommodation would be exempt. Other exemptions might apply for service personnel, public service workers, local residents more generally or possibly visitors on business (as is the case in Hamburg).

For the purposes of this exercise, 5 per cent of the revenue generated across all scenarios is deducted to allow for exemptions. However, the precise figure will ultimately depend on the policy adopted.

The models assume there is no maximum number of days to which the levy can apply. For reference, Barcelona applies its tourism tax up to a maximum of seven nights, Rome for ten nights, Venice five nights, Berlin 21 nights. No allowance has been made for a maximum period of stay in the scenarios below.

Scenarios 3 and 4 assume that the levy applies to the room cost only rather than the total hotel bill including extras like room service. This is consistent with most European cities that have a tourism e of this type.

Estimated Revenue by Scenario

Scenario 1: Flat rate per person per night.

A flat rate per person, per night would be the most regressive form of design. Set at a rate of £1.00 per person per night, it would generate an estimated £91.3 million in revenue based on 2015 visitor numbers.

Table 5: Flat rate per person, per night

Levy (per person per night)	Commercial Nights	Revenue (£)	Revenue less exemptions @ 5%
£0.50	96,139,515	£48,069,757	£45,666,269
£1.00	96,139,515	£96,139,515	£91,332,539
£1.50	96,139,515	£144,209,272	£136,998,808
£2.00	96,139,515	£192,279,029	£182,665,078
£2.50	96,139,515	£240,348,787	£228,331,347
£3.00	96,139,515	£288,418,544	£273,997,617
£3.50	96,139,515	£336,488,302	£319,663,886
£4.00	96,139,515	£384,558,059	£365,330,156
£4.50	96,139,515	£432,627,816	£410,996,425
£5.00	96,139,515	£480,697,574	£456,662,695
£10.00	96,139,515	£961,395,147	£913,325,390

Source: GLA Economics

Scenario 2: Flat rate per room, per night

Instead of charging per person per night, an alternative would be to charge per room per night. The voluntary system currently being piloted by the Visitors' Arts Foundation calculates the contribution in this way. Inevitably, the revenue raised is lower than when applied on a per head basis. A rate of £1.00 per room per night applied to all hotels would raise approximately £42 million.

If applied to all hotels at £2.50 per room per night – the rate currently piloted by the Visitors' Arts Foundation – then it could raise approximately £105 million. If the same tax were to apply to 4* and 5* hotels, which the Foundation suggest as an option, then the revenue raised would be approximately £47 million after an allowance for exemptions of 5 per cent.

Table 6: Flat rate £1.00 per room, per night

Accommodation type	Rooms	Occupied rooms per annum	Levy	Revenue	Revenue less exemptions @ 5%
2 star	12,034	3,513,928	£1.00	£3,513,928	£3,338,232
3 star	19,877	5,804,084	£1.00	£5,804,084	£5,513,880
4 star	50,930	14,871,560	£1.00	£14,871,560	£14,127,982
5 star	16,596	4,846,032	£1.00	£4,846,032	£4,603,730
Apts	10,467	3,056,364	£1.00	£3,056,364	£2,903,546
Budget	28,538	8,333,096	£1.00	£8,333,096	£7,916,441
Hostel	2,783	812,636	£1.00	£812,636	£772,004
B&B	4,512	1,317,504	£1.00	£1,317,504	£1,251,629
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	£1.00	£1,807,500	*£1,717,125*
Totals	**169,837**	**44,362,704**		**£44,362,704**	**£42,144,569**

Source: GLA Economics

Table 7: Flat rate £2.50 per room, per night

Accommodation type	Rooms	Occupied rooms per annum	Levy	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£2.50	£8,784,820	£8,345,579
3 star	19,877	5,804,084	£2.50	£14,510,210	£13,784,700
4 star	50,930	14,871,560	£2.50	£37,178,900	£35,319,955
5 star	16,596	4,846,032	£2.50	£12,115,080	£11,509,326
Apts	10,467	3,056,364	£2.50	£7,640,910	£7,258,865
Budget	28,538	8,333,096	£2.50	£20,832,740	£19,791,103
Hostel	2,783	812,636	£2.50	£2,031,590	£1,930,011
B&B	4,512	1,317,504	£2.50	£3,293,760	£3,129,072
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	£2.50	£4,518,750	*£4,292,813*
Totals	**169,837**	**44,362,704**		**£110,906,760**	**£105,361,422**

Source: GLA Economics

Table 8: Flat rate £2.50 per room, per night – 4* and 5* hotels only

Accommodation type	Rooms	Occupied rooms per annum	Levy	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£0.00	£0	£0
3 star	19,877	5,804,084	£0.00	£0	£0
4 star	50,930	14,871,560	£2.50	£37,178,900	£35,319,955
5 star	16,596	4,846,032	£2.50	£12,115,080	£11,509,326
Apts	10,467	3,056,364	£0.00	£0	£0
Budget	28,538	8,333,096	£0.00	£0	£0
Hostel	2,783	812,636	£0.00	£0	£0
B&B	4,512	1,317,504	£0.00	£0	£0
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£0.00*	£0	£0
Totals	**169,837**	**44,362,704**		**£49,293,980**	**£46,829,281**

Source: GLA Economics

Scenario 3: Percentage of accommodation cost

A 1 per cent tax on the accommodation room rate – as previously proposed by Tessa Jowell - could raise around £47.9 million, based on the assumptions above including an allowance of 5 per cent for exemptions.

Table 9: 1% levy on cost of accommodation

Accommodation type	Rooms	Occupied rooms per annum	Average cost per room	Tax rate	Revenue	Revenue less exemptions @ 5%
2 star	12,034	3,513,928	£68	1%	£2,389,471	£2,269,997
3 star	19,877	5,804,084	£94	1%	£5,455,839	£5,183,047
4 star	50,930	14,871,560	£132	1%	£19,630,459	£18,648,936
5 star	16,596	4,846,032	£233	1%	£11,291,255	£10,726,692
Apts	10,467	3,056,364	£100	1%	£3,056,364	£2,903,546
Budget	28,538	8,333,096	£68	1%	£5,666,505	£5,383,180
Hostel	2,783	812,636	£35	1%	£284,423	£270,201
B&B	4,512	1,317,504	£80	1%	£1,054,003	£1,001,303
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£89*	*1%*	*£1,608,675*	*£1,528,241*
Totals	**169,837**	**44,362,704**	**£100**		**£50,436,994**	**£47,915,144**

Source: GLA Economics

A 3 per cent tax on accommodation – the same rate as applied to hotels in Vancouver – would raise approximately £144 million after exemptions.

Table 10: 3% levy on cost of accommodation

Accommodation type	Rooms	Occupied rooms per annum	Average cost per night	Tax rate	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£68	3%	£7,168,413	£6,809,992
3 star	19,877	5,804,084	£94	3%	£16,367,517	£15,549,141
4 star	50,930	14,871,560	£132	3%	£58,891,378	£55,946,809
5 star	16,596	4,846,032	£233	3%	£33,873,764	£32,180,075
Apts	10,467	3,056,364	£100	3%	£9,169,092	£8,710,637
Budget	28,538	8,333,096	£68	3%	£16,999,516	£16,149,540
Hostel	2,783	812,636	£35	3%	£853,268	£810,604
B&B	4,512	1,317,504	£80	3%	£3,162,010	£3,003,909
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£89*	*3%*	*£4,826,025*	*£4,584,724*
Totals	**169,837**	**44,362,704**	**£100**		**£151,310,982**	**£143,745,432**

Source: GLA Economics

Finally, a Berlin-style 5 per cent tax on the cost of accommodation with the same assumptions could raise £240 million after an allowance for exemptions.

Table 11: 5% levy on cost of accommodation

Accommodation type	Rooms	Occupied rooms per annum	Average cost per night	Tax rate	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£68	5%	£11,947,355	£11,349,987
3 star	19,877	5,804,084	£94	5%	£27,279,195	£25,915,235
4 star	50,930	14,871,560	£132	5%	£98,152,296	£93,244,681
5 star	16,596	4,846,032	£233	5%	£56,456,273	£53,633,459
Apts	10,467	3,056,364	£100	5%	£15,281,820	£14,517,729
Budget	28,538	8,333,096	£68	5%	£28,332,526	£26,915,900
Hostel	2,783	812,636	£35	5%	£1,422,113	£1,351,007
B&B	4,512	1,317,504	£80	5%	£5,270,016	£5,006,515
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£89*	*5%*	*£8,043,375*	*£7,641,206*
Totals	**169,837**	**44,362,704**	**£100**		**£252,184,969**	**£239,575,721**

Source: GLA Economics

Scenario 4: Stepped percentage of accommodation cost

A variation on the above would be to charge an increasing percentage of the room cost according to the type of accommodation. This would mean taxes could be charged at a higher rate for accommodation with a higher star rating.

Two examples are shown below; with charges from 1 per cent for hostels and budget accommodation, up to 5 per cent for 5* hotels. This could raise approximately £160 million in revenue per annum.

Table 12: Stepped percentage of accommodation cost 1

Accommodation type	Rooms	Occupied rooms (80% occupancy rate)	Average cost per room	Tax rate	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£68	2%	£4,778,942	£4,539,995
3 star	19,877	5,804,084	£94	3%	£16,367,517	£15,549,141
4 star	50,930	14,871,560	£132	4%	£78,521,837	£74,595,745
5 star	16,596	4,846,032	£233	5%	£56,456,273	£53,633,459
Apts	10,467	3,056,364	£100	1%	£3,056,364	£2,903,546
Budget	28,538	8,333,096	£68	1%	£5,666,505	£5,383,180
Hostel	2,783	812,636	£35	1%	£284,423	£270,201
B&B	4,512	1,317,504	£80	1%	£1,054,003	£1,001,303
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£89*	*1%*	*£1,608,675*	*£1,528,241*
Totals	**169,837**	**44,362,704**	**£100**		**£167,794,539**	**£159,404,812**

Source: GLA Economics

The second version of this scenario shown below charges higher rates for each band, ranging from 2 per cent for budget accommodation, up to 6 per cent for five star accommodation. The estimated revenue raised from in this scenario is £207 million after a 5 per cent allowance for exemptions.

Table 13: Stepped percentage of accommodation cost 2

Accommodation type	Rooms	Occupied rooms (80% occupancy rate)	Average cost per night	Tax rate	Revenue	Revenue less exemptions
2 star	12,034	3,513,928	£68	3%	£7,168,413	£6,809,992
3 star	19,877	5,804,084	£94	4%	£21,823,356	£20,732,188
4 star	50,930	14,871,560	£132	5%	£98,152,296	£93,244,681
5 star	16,596	4,846,032	£233	6%	£67,747,527	£64,360,151
Apts	10,467	3,056,364	£100	2%	£6,112,728	£5,807,092
Budget	28,538	8,333,096	£68	2%	£11,333,011	£10,766,360
Hostel	2,783	812,636	£35	2%	£568,845	£540,403
B&B	4,512	1,317,504	£80	2%	£2,108,006	£2,002,606
Non-serviced (AirBnB only)	*24,100*	*1,807,500*	*£89*	*2%*	*£3,217,350*	*£3,056,483*
Totals	**169,837**	**44,362,704**	**£100**		**£218,231,532**	**£207,319,956**

Source: GLA Economics

Scenario 5: Levy per person per night by accommodation type

This system is operated in Paris, Venice, Rome and Barcelona – some of London's main competitors. Four options are presented here based on the equivalent rates charged in these four cities[44].

[44] Conversion to sterling using exchange rate £1 = 0.85euros (31/08/16)

Barcelona has the lowest rates of the four cities, charging the equivalent of 60p per person per night for all accommodation types up to 3* and non-serviced accommodation. The rate increases to 90p per person per night for 4* accommodation and £1.90 for 5* accommodation. The estimated revenue after exemptions would be approximately £77 million.

Table 14: Levy per person per night by accommodation type 'Barcelona'

Accommodation type	Nights	Levy	Revenue	Revenue less exemptions
2 star	7,548,953	£0.60	£4,529,372	£4,302,903
3 star	12,468,882	£0.60	£7,481,329	£7,107,263
4 star	31,948,492	£0.90	£28,753,643	£27,315,961
5 star	10,410,704	£1.90	£19,780,338	£18,791,321
Apts	6,565,970	£0.60	£3,939,582	£3,742,603
Budget	17,901,945	£0.60	£10,741,167	£10,204,109
Hostel	1,745,782	£0.60	£1,047,469	£995,095
B&B	2,830,387	£0.60	£1,698,232	£1,613,320
Non-serviced (AirBnB only)	*4,718,400*	*£0.60*	*£2,831,040*	*£2,689,488*
Totals	**96,139,515**		**£80,802,172**	**£76,762,063**

Source: GLA Economics

If London were to adopt tax rates similar to those charged in Paris, the estimated revenue raised would be £136 million after exemptions of 5 per cent. One issue to note here is the rate charged to non-serviced accommodation, which is a relatively low 70p per person per night.

Table 15: Levy per person per night by accommodation type 'Paris'

Accommodation type	Nights	Levy	Revenue	Revenue less exemptions
2 star	7,548,953	£0.80	£6,039,162	£5,737,204
3 star	12,468,882	£1.40	£17,456,435	£16,583,613
4 star	31,948,492	£2.10	£67,091,833	£63,737,241
5 star	10,410,704	£2.80	£29,149,972	£27,692,474
Apts	6,565,970	£0.70	£4,596,179	£4,366,370
Budget	17,901,945	£0.70	£12,531,362	£11,904,793
Hostel	1,745,782	£0.70	£1,222,047	£1,160,945
B&B	2,830,387	£0.70	£1,981,271	£1,882,207
Non-serviced (AirBnB only)	*4,718,400*	*£0.70*	*£3,302,880*	*£3,137,736*
Totals	**96,139,515**		**£143,371,141**	**£136,202,584**

Source: GLA Economics

Tax rates in Venice vary depending on the part of the city and according to the season. The following rates are based on those charged at high season in the historical centre. Applied to London, the estimated revenue after exemptions is £241 million.

Table 16: Levy per person per night by accommodation type 'Venice'

Accommodation type	Nights	Levy	Revenue	Revenue less exemptions
2 star	7,548,953	£1.70	£12,833,219	£12,191,558
3 star	12,468,882	£3.00	£37,406,647	£37,406,647
4 star	31,948,492	£3.80	£121,404,269	£121,404,269
5 star	10,410,704	£4.30	£44,766,029	£44,766,029
Apts	6,565,970	£0.90	£5,909,373	£886,406
Budget	17,901,945	£0.90	£16,111,751	£16,111,751
Hostel	1,745,782	£0.90	£1,571,203	£1,571,203
B&B	2,830,387	£0.90	£2,547,348	£2,547,348
Non-serviced (AirBnB only)	*4,718,400*	*£0.90*	*£4,246,560*	*£4,246,560*
Totals	**96,139,515**		**£246,796,400**	**£241,131,771**

Source: GLA Economics

Rome charges some of the highest tourism tax rates in Europe, starting at £2.60 per person per night for even a budget hotel going up to £6.00 per person per night for 5* accommodation. A Rome-style system applied to London is estimated to generate approximately £364 million in revenue.

Table 17: Levy per person per night by accommodation type 'Rome'

Accommodation type	Nights	Levy	Revenue	Revenue less exemptions
2 star	7,548,953	£2.60	£19,627,277	£18,645,913
3 star	12,468,882	£3.40	£42,394,200	£40,274,490
4 star	31,948,492	£5.10	£162,937,309	£154,790,444
5 star	10,410,704	£6.00	£62,464,226	£59,341,015
Apts	6,565,970	£3.40	£22,324,299	£21,208,084
Budget	17,901,945	£2.60	£46,545,057	£44,217,804
Hostel	1,745,782	£2.60	£4,539,032	£4,312,080
B&B	2,830,387	£3.00	£8,491,160	£8,066,602
Non-serviced (AirBnB only)	*4,718,400*	*£3.00*	*£14,155,200*	*£13,447,440*
Totals	**96,139,515**		**£383,477,760**	**£364,303,872**

Source: GLA Economics

6. Concluding remarks

This paper has set out a range of options for the design of a potential tourism levy in London. Clearly when deciding whether a tourism levy is appropriate, it is important to weigh the contribution that tourists make to the economy (including additional spending, jobs and other benefits), against the costs imposed on society by their activities. These costs include external costs like pollution and congestion on the transport network as well as additional pressures on some public services. Foreign tourists are also able to 'free ride' on the many free cultural attractions offered in London. Whereas London residents contribute towards many of these costs through domestic taxes like council tax and income tax, proponents of tourism levies argue that international tourists do not and therefore a levy on their stay can be justified. Based on this logic, it would seem fair that the revenue generated by the levy should be hypothecated for spending to enhance London's tourism offer, or for public services used by tourists.

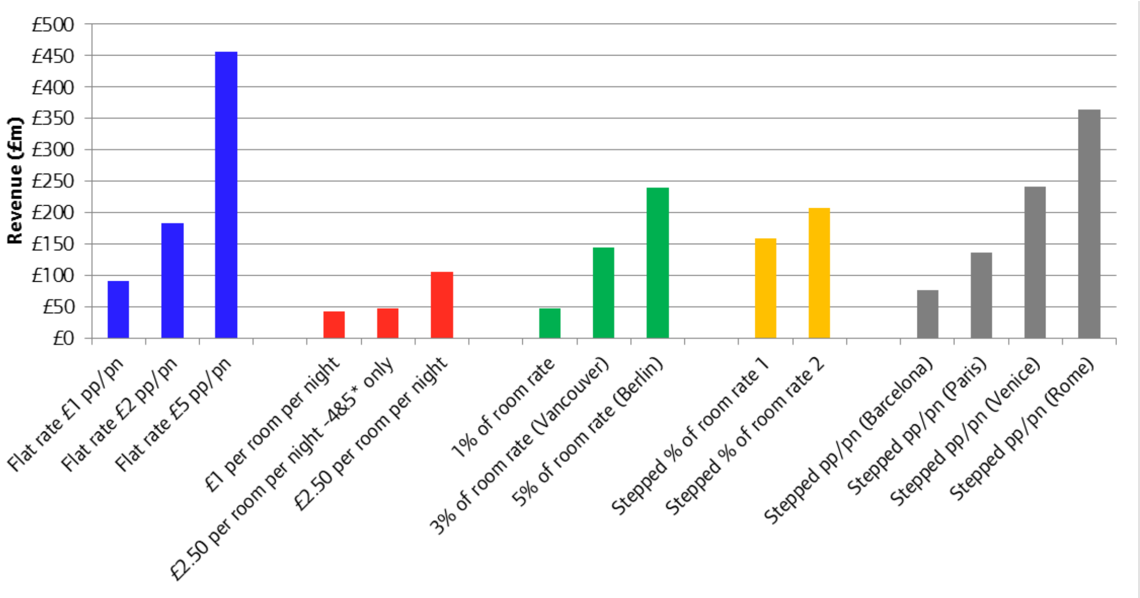
The counter argument is that a tourism levy risks undermining the competitiveness of London's tourism sector. Industry lobbyists point to the lower rates of VAT on hotel accommodation charged in many European countries and Air Passenger Duty charges as evidence that tourism is already taxed heavily in the UK. Moreover, raising a levy on accommodation providers would only be taxing one part of the tourism industry which could be deemed unfair as the arguments made in favour of a tourism levy could equally apply to a wider set of service providers.

At the margin, any increase in price arising from the levy would be expected to decrease demand. The sensitivity of London's tourism sector to changes in price is generally under-researched; the limited evidence available suggests price sensitivity varies by country and reason for visit. Clearly, the impact on demand would depend on the rate at which the levy was set with lower rates likely to be more easily absorbed by consumers and therefore less likely to affect spend and visitor numbers.

In Europe, tourism taxes and levies are generally devolved to city or regional governments and their collection and administration is undertaken through local tax authorities. In London, the levy would either need to be collected and repatriated as part of the VAT system via HMRC or via local authorities as an addition to business rates. The merits of each mechanism would need further exploration. The levy could prove difficult to administer and collect from non-serviced accommodation providers that are typically below the VAT threshold and unlikely to be paying business rates. Some cities have arrangements with AirBnB to collect tourism levies from hosts and a similar arrangement may be desirable in London.

Depending on the system and the rates that are set, the revenue that could be raised by a tourism levy in London could range between £45m to £450m, as summarised in Figure 1.

Figure 1: Summary of revenue estimates



Source: GLA Economics calculations

By way of context, the GLA awarded £11.219m of grant to London & Partners for 2016/17[45]. The grant-in-aid from the Department for Culture, Media and Sport (DCMS), for the following attractions in 2014-15 was:

- The British Museum - £43.2 million
- The Natural History Museum – £43.4 million
- The Tate Gallery - £32.1 million
- The National Gallery - £25.9 million

Clearly, a tourism levy could make a significant contribution towards the funding of these activities and/or support a reduction in other taxes affecting the tourism sector.

[45] MD1493 'London & Partners Business Plan 2015/16'

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Appendix 1: Tourism in London

London's culture, heritage and diversity make it one of the most attractive tourist destinations in the world. The profile of the tourism sector supports London's status as a global city can be an influencing factor for some people when deciding whether to migrate to the capital for work. The following sets out some of the key statistics on London's tourism sector, drawing on GLA Economics' (2016) 'Economic Evidence Base'. Further information can be found on the London & Partners website in publications such as the 'London Tourism Report 2014-15'[46].

London is amongst the most visited cities in the world. According to the Euromonitor Top City Destination Ranking, London was the second most visited city in the world, behind only Hong Kong, with Paris the only other EU country in the top 10.

Table 18: Most visited cities in the world, 2014

Rank	City	Arrivals in 2014 (million)	Growth on previous year
1	Hong Kong	27.77	8.2%
2	London	17.38	3.6%
3	Singapore	17.09	-0.4%
4	Bangkok	16.25	-7.0%
5	Paris	14.98	-1.9%
6	Macau	14.97	7.4%
7	Dubai	13.20	8.4%
8	Shenzhen	13.12	8.0%
9	New York City	12.23	3.2%
10	Istanbul	11.87	13.2%

Source: Euromonitor

More timely data from the International Passenger Survey (ONS) estimated that 18.6 million international visitors came to the capital and 12.9 million overnight visits were made by UK residents. In addition, in 2015, there were a total of 280.0 million tourism domestic day visits to the capital. The largest growth in tourism over the last decade has come from the international market, as shown in the following table:

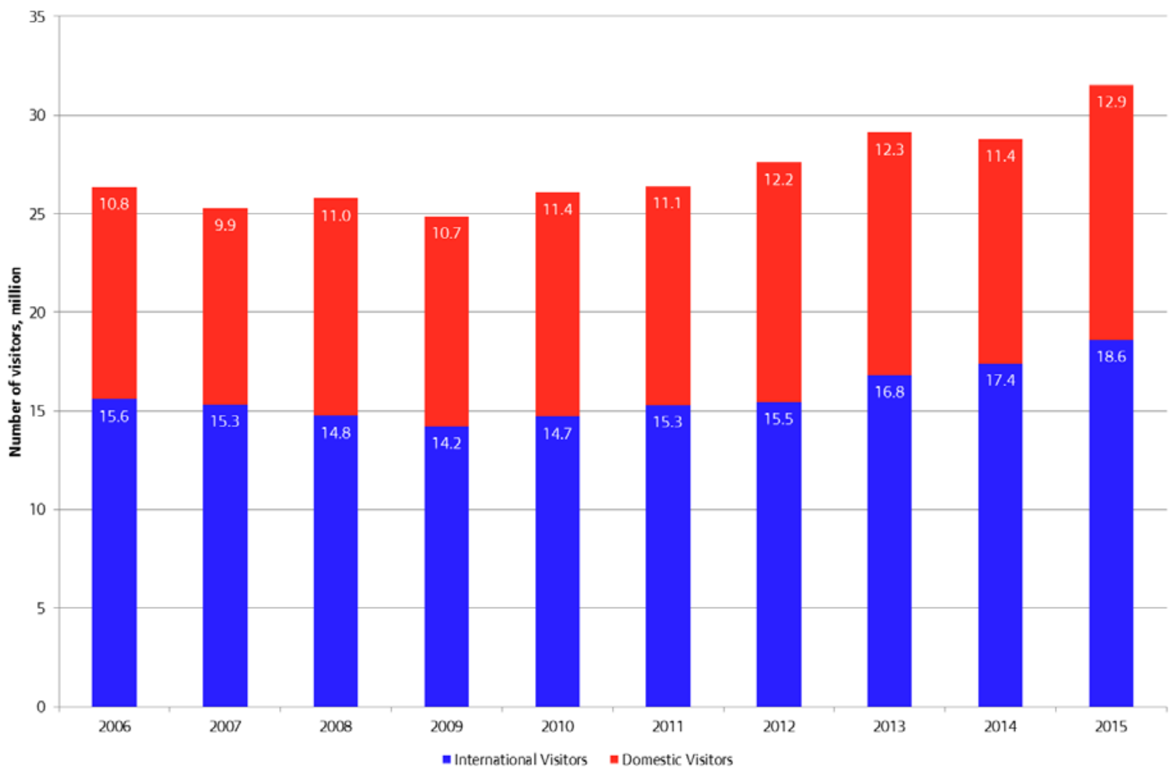
[46] London & Partners (2015), 'The London Tourism Report'.

Table 19: Growth over time of international visitors and expenditures, 2005 – 2015

Year	Total International Visitors (million)	Total International Visitor Spend (£ billion; nominal prices)
2005	13.9	6.9
2006	15.6	7.8
2007	15.3	8.2
2008	14.8	8.1
2009	14.2	8.2
2010	14.7	8.7
2011	15.3	9.4
2012	15.5	10.1
2013	16.8	11.5
2014	17.4	11.8
2015	18.6	11.9

Source: GLA Economics calculations, drawn from International Passenger Survey, ONS

Figure 2: International and domestic overnight tourism to London



Source: Visit Britain/Visit England; GLA Economics calculations

The scale of London's tourism economy is therefore significant, with total estimated visitor spend from overnight and day visitors of £26.6 billion in 2015. Modelling based on GLA Economics' estimation of GVA per workforce job in London estimates that the total GVA of the tourism industry in London was £11.5 billion in 2014, with the sector supporting around 283,000 jobs[47]. Similar modelling from the ONS based upon the Tourism Satellite Account,

[47] GLA Economics (pending) Current Issues Note

estimated that Tourism Direct Gross Value Added for London (which includes the expenditure of UK residents as they leave the UK on international trips) was £15.4 billion in 2013[48].

Trends in international tourism

London has maintained its position as a major international tourism destination, in part due to the cultural and historic offering as well as being a destination for major events and business tourism.

London's main tourism markets have shifted over time. Looking at data over the period 2002-2015, Europe has grown and North America has declined in relative importance, as shown in the table below.

Table 20: Proportion of visits to London by continent, selected years

Continent	2002	2007	2012	2015
Europe	54.7%	62.8%	65.0%	66.0%
North America	24.2%	18.3%	14.7%	13.7%
Asia (inc. Aust/New Zealand)	12.3%	11.4%	11.7%	11.5%
Middle East	3.2%	2.5%	3.1%	3.5%
Central and South America	2.1%	1.9%	3.1%	3.1%
Africa	3.7%	3.0%	2.5%	2.1%

Source: ONS International Passenger Survey

Many individual European countries have seen growth in not only the number of visits, but also the proportion of total visits to London. However, when looking at individual countries, the United States remains the largest single market.

[48] ONS, 2016, 'The regional value of tourism in the UK: 2013'

Table 21: Top 30 markets for international tourism to London, total number of visits (millions), selected years

Rank	Country	2002	2007	2012	2015
1	USA	2.45	2.33	1.86	2.14
2	France	1.10	1.34	1.68	2.07
3	Germany	0.89	1.20	1.20	1.40
4	Italy	0.54	0.84	0.96	1.17
5	Spain	0.44	0.97	0.80	1.15
6	Irish Republic	0.63	0.73	0.60	0.79
7	Netherlands	0.49	0.67	0.64	0.69
8	Australia	0.44	0.60	0.60	0.63
9	Sweden	0.29	0.40	0.50	0.55
10	Poland	0.12	0.43	0.40	0.53
11	Belgium	0.29	0.35	0.47	0.53
12	Switzerland	0.31	0.37	0.43	0.50
13	Norway	0.18	0.31	0.40	0.43
14	Denmark	0.19	0.31	0.33	0.42
15	Canada	0.36	0.48	0.40	0.41
16	Other Eastern Europe	0.08	0.48	0.29	0.31
17	India	0.14	0.22	0.23	0.28
18	Brazil	0.06	0.11	0.22	0.26
19	Romania	0.00	0.00	0.11	0.24
20	Portugal	0.10	0.14	0.15	0.22
21	South Korea	0.07	0.13	0.13	0.18
22	United Arab Emirates	0.06	0.09	0.13	0.18
23	China	0.04	0.08	0.10	0.17
24	Czech Republic	0.06	0.13	0.14	0.17
25	Israel	0.15	0.10	0.11	0.16

Source: ONS International Passenger Survey

Even though the number of visitors to London has grown over the last decade, a noticeable trend has been that the number of nights per visit has fallen. In part this is to be expected, since improvements in connectivity mean that people are able to visit many locations as part of their trip. This has potential implications for London in the future demand and supply of hotel accommodation in the capital, if trends were to continue.

Table 22: Nights per visit by origin market and for all countries (millions), selected years

Country	2002	2007	2012	2015
USA	5.78	5.66	6.03	5.52
France	4.06	4.86	4.24	4.28
Germany	4.45	3.95	4.22	4.30
Italy	6.28	6.00	5.54	5.61
Spain	7.33	5.40	6.19	5.22
TOTAL	**6.50**	**6.25**	**6.10**	**5.83**

Source: International Passenger Survey

Over the last decade, it has been the growth of London as a holiday destination that has driven the growth in total visits to the capital. The proportion of visits to London for holiday purposes increased from 41.9 per cent to 49.6 per cent between 2002 and 2015, as shown in Table 24.

Table 23: Visits to London by purpose, total number (millions), selected years

Purpose	2002	2007	2012	2015
Business	2.79	3.58	3.07	3.71
Holiday	4.86	6.50	7.65	9.21
Miscellaneous	1.07	1.30	1.04	1.13
Study	0.19	0.25	0.18	0.18
VFR	2.70	3.70	3.53	4.35
TOTAL	**11.60**	**15.34**	**15.46**	**18.58**

Source: International Passenger Survey

Table 24: Proportion of total visits to London by purpose, 2002 – 2015

Purpose	2002	2007	2012	2015
Business	24.1%	23.3%	19.8%	20.0%
Holiday	41.9%	42.4%	49.5%	49.6%
Miscellaneous	9.2%	8.5%	6.7%	6.1%
Study	1.6%	1.7%	1.2%	1.0%
VFR	23.2%	24.1%	22.8%	23.4%

Source: International Passenger Survey

One of the key reasons why people visit and live in London is its cultural offering. As well as being a diverse population, London's culture is built upon its history and heritage, as well as its communities. London is home to four UNESCO world heritage sites, 349 live music venues and 857 art galleries; London stages major global festivals and events, such as London Fashion Week as well as sporting and cultural events. Data from the World Cultural Cities Report[49] show that London performs strongly against other major global cities across a number of indicators, as shown in the table below.

Table 25: City comparisons on cultural provision

Main European centres:

	London	Paris	Madrid	Rome	Berlin
Art galleries	857	1151	299	200	421
Festivals and celebrations	271	360	69	--	63
National museums	13	27	7	--	18
Admissions to all theatres	22.0m	5.6m	2.6m	1.5m	2.4m
Live music venues	320	430	92	--	250
Michelin star restaurants	62	105	12	--	14
Theatres	241	353	112	--	56
Museums	215	313	59	32	158
UNESCO World Heritage Sites	4	4	0	4	3

[49] World Cities Culture Forum (2015), 'World Cities Culture Report 2015'

Non-European cities:

	New York	Toronto	Los Angeles	Sydney	Tokyo
Art galleries	613	156	434	207	688
Festivals and celebrations	263	127	257	--	485
National museums	7	0	2	1	8
Admissions to all theatres	13.1m	2.5m	2.1m	6.1m	12.0m
Live music venues	453	149	510	435	385
Michelin star restaurants	76	--	20	--	224
Theatres	420	75	330	73	230
Museums	143	63	231	83	47
UNESCO World Heritage Sites	1	0	0	3	1

Data from the Association of Leading Visitor Attractions (ALVA) shows the importance of the capital for cultural and tourist attractions; all of the top 10 and 15 of the top 20 visitor attractions are in London. Of these 15 attractions, 13 provide free entry. The following table outlines the top ten attractions in the UK based on number of visits.

Table 26: Most visited attractions in the UK, 2015

Rank	Attraction	Free or Pay to Entry	Number of Visitors
1	British Museum	Free	6,820,686
2	The National Gallery	Free	5,908,254
3	Natural History Museum (South Kensington)	Free	5,284,023
4	Southbank Centre	Free	5,102,883
5	Tate Modern	Free	4,712,581
6	Victoria and Albert Museum (South Kensington)	Free	3,432,325
7	Science Museum	Free	3,356,212
8	Somerset House	Free	3,235,104
9	Tower of London	Pay to Entry	2,785,249
10	National Portrait Gallery	Free	2,145,486

Source: Association of Leading Visitor Attractions

According to Visit England's Annual Survey of Visits to Visitor attractions, the total number of visits to visitor attractions in London was 61.2 million in 2015, with the top 20 attractions accounting for 85 per cent of all of these visits. The database covers 94 attractions within London, but there are likely to be many more when festivals and events that take place across the capital throughout the year are considered.

In conclusion, London has a global tourism and cultural offering which attracts millions of domestic and international visitors. This brings significant benefits to the London economy in terms of the expenditure, jobs and GVA that are generated. However, it also imposes costs on London's economy through additional demand on public services such as the public transport network, street cleaning, policing and health services. Tourists make some contribution to these costs by, for example, buying tickets for travel and through additional spending on items liable for VAT (see below).

Many of the museums and galleries in London provide free entry, principally for the cultural benefit of London and UK residents, but they are also enjoyed by many overseas visitors at no cost. These attractions are funded through general taxation, lottery funding and other public and private sources, but most of these do not impact on overseas visitors. Whilst free entry to so many attractions no doubt adds to London's appeal as a tourism destination, it does beg the question whether tourists (as one of the primary beneficiaries) should make a greater contribution to the running costs?

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