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**Tourism Alliance Submission**

**Online Sales Tax**

**Summary**

* **A strong and healthy tourism industry and strong and healthy high streets are mutually beneficial**
* **The tourism industry generates high street retail sales of over £20bn per annum, which generates over 300,000 FTE positions in the sector**
* **A large percentage of tourism industry sales (estimated at 66%-80%) are online as people buy products and services before they travel to destinations**
* **The application of an Online Sales Tax to the tourism industry would amount to double taxation as accommodation and attractions can only be “bricks and mortar” businesses**
* **Tourism is very price sensitive and, as such, an increase in costs through added taxation will decrease visitor numbers to destinations which will, in turn, decrease high street expenditure**
* **To avoid unintended impacts, proposals for an Online Sales Tax should therefore be narrowly focused on retail businesses that predominately operate online.**

**1 Introduction**

The Tourism Alliance was established in 2001 as the voice of the UK tourism industry. It comprises 65 tourism industry associations that together represent some 200,000 business of all sizes throughout the UK. The Tourism Alliance’s mandate is to work with Government on issues relevant to the growth and development of tourism and its contribution to the economy and is responding to this inquiry in that capacity.

A list of member organisations is included as Appendix A.

The Tourism Alliance welcomes the consultation on assessing an option to help rebalance taxation of the retail sector through the implementation of an online sales tax. The UK tourism industry, both in the large city centres and in small towns and villages relies of the health and vibrancy of high streets to attract visitors to destinations and, indeed, contributes significantly to this as shopping is a core activity undertaken by visitors. However the tourism industry would be extremely concerned if an online sales tax was expanded to include the online sale of services such as accommodation, attractions and restaurants. Such a move would be counterproductive as it would increase the cost of holidays to visitors making then less likely to visit destinations and contribute to the local high street economy.

**2. Tourism’s Contribution To In-Store Retail Expenditure**

Tourism is one of the UK’s largest and most successful industries. In pre-pandemic terms, it is the UK’s third largest employer, providing jobs for 3.4m people and contributing £157bn to the UK economy. In international terms, the UN World Tourism Organisation ranks the UK tourism industry as the fifth largest in the world based on value, contributing £31bn pa in export earnings to the UK economy - making it the UK’s second largest service sector export after Finance and Business Services.

Research undertaken by VisitBritain on overseas visitors’ shopping habits in 2014 found that 64% of all overseas visitors go retail shopping while in the country, making it one of the most popular activities undertaken by people while they are in the UK. Moreover, they found that retail shopping accounts for 25% of all expenditure by overseas visitors. Applying these figures to the last pre-covid tourism figures indicates that over 26m overseas visitors go retail shopping and spend £7.1bn per annum on retail purchases.

Half of overseas visitor retail shopping activity occurs on the High Street, while Department stores, outlet villages and luxury/designer shops account for a further 26% of their retail shopping activity.

Importantly, VisitBritain’s research showed that overseas visitors that go shopping in the UK spend 80% more that visitors that do not undertake shopping.

In terms of domestic tourism people undertaking domestic overnight stays in the UK spend a further £2.9bn per annum on shopping while people undertaking daytrips to destinations spend £10.7bn per annum on retail shopping

Overall, therefore, tourism contributes around £20.7bn per annum to in-store retail spending. In employment terms, this translates to over 300,000 FTE jobs in the UK retail sector.

**3. Tourism Businesses And Business Rates**

Businesses in the tourism industry share many of the same concerns as the instore retail sector with regard to the need to reform the Business Rates system concerning it’s application to physical properties and that business rates is a ‘zero sum game’ in that if businesses closes and goes online, those that are left need to pay more to make up the shortfall.

The combination of these two factors is having an increasingly detrimental impact on the UK tourism industry. While retail businesses are transferring their operations online, it is almost impossible for tourism and hospitality businesses to operate in this way. Hotels, pubs, restaurants, historic houses, leisure and visitor attractions, betting shops, amusement arcades, piers, zoos, holidays parks, self-catering, bed and breakfasts, holiday cottages all require a physical property to operate. This means that there is little they can do to reduce their exposure to business rates. At the same time, those businesses that can reduce their exposure by operating online transfer their business rates burden onto the tourism industry.

UKHospitality has calculated that businesses such as hotels, pubs, restaurants and visitor attractions now pay £2.7bn in business rates. This represents 9% of the total business rates paid in the UK, even though the sector comprises just 4% of business turnover – an overpayment of £1.8bn per annum.

The British Beer and Pub Association estimates that following the 2017 revaluation, pubs rates increased on average by nearly 15%, while research by the South West Tourism Alliance shows an increase 43%-71% for professional self-caterers (those with more than 13 beds). These increases are not sustainable and are crippling tourism businesses across the country.

To resolve these issues, we believe that a fundamental review of business rates is required including a look at alternative methods of taxation such as an online sales tax.

However, any Online Sales Tax would have to be sharply focused on businesses that have been able to relocate away from high streets by going online rather than businesses that remain on the high street that undertake sales online.

**4. Tourism Business And Online Sales**

Tourism, in fundamental terms, requires people to purchase products and services in the place that they are intending to travel to before they arrive at the destination. That is, people book their travel, accommodation, tickets for events from home – they do not wait until they get to the airport or coach station to book tickets, they don’t wait until they reach a destination before looking for somewhere to stay and they don’t wait until they get to a theatre or festival to purchase their tickets.

As such, a large percentage of core tourism expenditure occurs remotely and increasingly this is undertaken online.

Research by VisitBritain in 2016 found that two thirds of all domestic holidays in the UK were booked online either through an intermediary website or directly with the business through their own website. For the accommodation sector, it was estimated that over 80% of all bookings were undertaken online.

These figures are likely to have increased further in the six years since this research was undertaken due to the increase in Online Travel Agents (OTAs) as the main “route to market” for many tourism businesses and the rise in sharing economy businesses such as Airbnb.

Any imposition of a online sales tax on tourism businesses would essentially amount to double taxation, with tourism businesses paying both disproportionately high Business Rates and an online sales tax.

A further important reason why the application of online sales tax to tourism related businesses would be counterproductive to supporting high street retail businesses is related to the price elasticity of tourism.

A further piece of research by VisitBritian shows that tourism is very price elastic with a value of -1.3 - meaning that if the cost of a holiday increases by 1%, then tourism revenue decreases by 1.3%

If the addition of an online sales tax is applied to tourism businesses and increases the overall cost of a holiday in the UK by just 1%, this would decrease total tourism expenditure in the UK by over £2bn per annum, thereby reducing the revenue and employment benefits derived by destinations from visitors and putting further pressure on the economic viability of businesses in the highstreets that the tax was aiming to support.

Therefore, to avoid the prospect of an online sales tax having adverse unintended consequences for both the UK tourism and high street retail businesses, we believe that there needs to be a cautious approach to any future development of this proposal. Such an approach would maintain a narrow focus for the implementation of such a tax to just those retail businesses that operate almost exclusively online.

Thank you for the opportunity to comment on this proposal. If there are any aspects of this submission that you would like further clarification or detail regarding, please let me know.



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**Appendix A**

**Tourism Alliance Membership**

ABTA - The Travel Association

Airport Operators Association

AIPO

ALVA

ANTOR

Association of Group Travel Organisers

ASAP

ATHE

BACTA

BIAZA

Bed & Breakfast Association

Betting and Gaming Council

British Beer & Pub Association

British Destinations

British Educational Travel Association

British Holiday & Home Parks Association

British Marine Federation

Business Visits & Events Partnership

Camping & Caravanning Club

Caravan and Motorhome Club

Churches Visitor and Tourism Association

Coach Tourism Association

Confederation of Passenger Transport

Country Land and Business Association

Cumbria Tourism

English UK

European Holiday Home Association

European Tour Operators Association

Experience Oxfordshire

Experience West Sussex

Family Holiday Association

Go New Forest

Group Travel Business Forum

Heritage Railway Association

Heritage Alliance

Historic Houses

Holiday Home Association

Institute of Tourist Guiding

Liverpool City Region LEP

Marketing Cheshire

Marketing Manchester

National Caravan Council

National Coastal Tourism Academy

National Trust

Outdoor Industries Association

Professional Self Caterers Association

Premier Cottages

Resort Development Organisation

Road Haulage Association

South West Tourism Alliance

The Tourism Society

Tourism For All

Tourism Management Institute

Tourism Consultants Network

Tourism South East

UKHospitality

UKinbound

Visit Brighton

Visit Cornwall

Visit Gloustershire

Visit Greenwich

Visit Kent

Visit Northumberland

Visit West

Visit Wiltshire

YHA

Observers

Local Government Association

VisitBritain

VisitEngland