

Kate Forbes MSP
Minister for Public Finance and Digital Economy
Scottish Government
Regent Road
Edinburgh
EH1 3DG

2 December 2019

Dear Kate,

Consultation on the Principles of a Local Discretionary Tourist Tax

Having engaged at some length in recent years with Scottish Government officials on the question of a tourist tax, the Federation of Small Businesses (FSB) welcomes the opportunity to continue this latest consultation.

As you know, FSB is Scotland's largest direct-member business organisation and our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the vast majority of all enterprises in Scotland (98%), employ around one million people and contribute over £100bn to the economy.

As you are aware, FSB has consistently opposed the introduction of a tourist tax since it was first proposed by local authorities – a position formerly shared by the Scottish Government until the Budget deal agreed earlier this year.

Our opposition stems from the fact that repeated survey work shows the majority of smaller businesses, both within and outside the tourism sector, are against a new tax on visitors.

FSB's research from spring of 2018 continues to provide the most comprehensive polling to date on small businesses' views in the local authority areas that have been pressing for such a tax – namely, Aberdeen City and Aberdeenshire, the City of Edinburgh and Highland. As such, it is worth reiterating the results:

- 77% opposed the introduction of such a tax, with opposition considerably higher in Aberdeen and Aberdeenshire (84%);
- 70% concluded that it would have a negative impact on their business, with concern highest amongst tourism businesses in the North East (73%); and
- 78% believed that it would have a negative impact on the wider economy, with concern highest yet again in the North East business community.

In recent conversations that have taken place with FSB members for consultation events organised by the government, as well as to provide input for a number of local tourist tax consultations,¹ it is clear that opposition has not waned. Rather, given the uncertainty caused by Brexit and the potential for a no-deal, no transition exit, it is arguable that views have hardened against the introduction of the tax in a sector that latterly has experienced a reduction in total visitor trips and in total overnight spend.²

¹ See FSB's views on The Highland Council's plans: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-scotland---highland-tourism-tax---letter.pdf?sfvrsn=a3f35e21_0

² See: <https://www.visitscotland.org/binaries/content/assets/dot-org/pdf/research-papers-2/2019-q2-national-tourism-stats-update.pdf>

Notwithstanding the strong opposition within the small business community to the introduction of a tourist tax in itself, we have provided some suggestions below regarding how to minimise the potential impact on small tourism businesses.

In essence, FSB believes that the support of the Scottish Government will be critical to minimise the negative impact that the introduction of a tourist tax will have on the micro and small operators in the sector. For instance, our analysis of the City of Edinburgh's proposal highlights that, were a tax of £2 per room per night introduced, it could represent a drop in annual spend of between £42m per year and £308m per year pro rata.³

As such, it is our belief that a nationally consistent approach is required to minimise the disruption that will be caused by numerous local-authority-specific tourist tax schemes. Crucially, this will mean that Scottish Ministers retain a strong interest in the development and ongoing operation of new local taxation systems via a robust national statutory framework – one that provides local discretion as appropriate.

In practice, this would require that forthcoming legislation grants Ministers the powers to:

1. Approve or reject all proposed tourist tax schemes.
2. Set national rules for their operation (e.g. the basis of the charge) to ensure there are robust economic checks and balances, while facilitating local design and implementation (e.g. enabling the inclusion of visitor activities, such as cruise ships, in areas which experience large numbers of passengers).
3. Enable local authorities to set rates for the levy within a range detailed in a national framework.
4. Facilitate the development of a modern, national digital taxation system to reduce the administrative burden typically associated with analogue local taxation systems. In our view, it would be counterproductive to enable the development of a paper-based taxation system(s) given the obvious efficiencies delivered by digital technologies.
5. Direct surpluses generated by local tourist taxes towards joint council-industry investment plans to ensure that local authorities cannot profit from tourist tax income.
6. Require local authorities to demonstrate that they have consulted with industry prior to submitting their plans to Ministers.
7. Provide lead-in times of up to four years to give businesses time to prepare their systems and processes.
8. Minimise the administrative burden on accommodation providers and likely compliance costs by ensuring that any tax system has the ability to accept payments in respect of particular premises / transactions directly from third party booking sites, or indeed from a provider's own booking system.

³ See: <https://edinburgh.org/about-marketing-edinburgh/news/edinburgh-residents-and-visitors-open-to-a-tourist-tax/>

I hope these comments are helpful. As always, please do not hesitate to get in touch if you would like to discuss these points in more detail.

Yours sincerely,



Andrew McRae

Chair, Scotland Policy Unit, Federation of Small Businesses (FSB)