

# Visitor Levy (Scotland) Bill

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## Financial Memorandum

### Introduction

1. As required under Rule 9.3.2 of the Parliament's Standing Orders, this Financial Memorandum is published to accompany the Visitor Levy (Scotland) Bill, introduced in the Scottish Parliament on 24 May 2023.
2. The following other accompanying documents are published separately:
  - Explanatory Notes (SP Bill 28–EN);
  - a Policy Memorandum (SP Bill 28–PM);
  - a Delegated Powers Memorandum (SP Bill 28–DPM);
  - statements on legislative competence by the Presiding Officer and the Scottish Government (SP Bill 28–LC).
3. This Financial Memorandum has been prepared by the Scottish Government to set out the costs associated with the measures introduced by the Bill. It does not form part of the Bill and has not been endorsed by the Parliament.

### Background

4. During 2018, the Convention of Scottish Local Authorities (COSLA), and a number of individual local authorities, called on the Scottish Government to grant the powers to allow a local authority to place a levy on visitors (sometimes referred to as a 'tourist tax'), in their area, if they chose to do so. COSLA's 'Transient Visitor Tax' paper set out this ask, arguing that a discretionary visitor tax would strengthen local democracy and local choice, and generate revenue which could contribute to the cost of maintaining public services that support tourism and enhancing the tourist experience.
5. As part of the agreement of the Budget 2019-20, the Scottish Government committed to "consult on the principles of a local determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy, if they consider it appropriate for local circumstances". This commitment was part of a package of measures focussing on local tax reforms and local fiscal empowerment,

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helping further empower communities and local councils across Scotland, between now and the end of Parliament.

6. A formal public consultation “Consultation on the Principles of a Local Discretionary Transient Visitor Levy or Tourist Tax” was therefore held from 9 September 2019 to 2 December 2019. An analysis of consultation responses was published on 27 March 2020. Work on a visitor levy was paused in March 2020 in light of the pandemic. Budget 2022/23 announced the Scottish Government’s intention to recommence this work, following which renewed stakeholder engagement was carried out. This culminated in the Bill being included as part of the Programme for Government announced on 6 September 2022.

## Overview

7. The provisions of the Bill are as follows:

- **Power to impose a levy:** The Bill will devolve more power to a local level by providing local authorities with a discretionary power to enable them to charge a visitor levy on purchases of overnight stays in all or part of their areas.
- **Basis and calculation of levy (inc. Rate):** A visitor levy will be a percentage of overnight accommodation, excluding additional services, applied to all commercially let accommodation. A visitor levy will not apply where it is a person’s only or usual place of residence (temp or otherwise). The percentage rate is to be set locally.
- **Liability to pay:** Liability to collect and remit the levy will lie with the accommodation provider. This would not prevent an accommodation provider entering into an arrangement for a third party to collect and remit the levy on their behalf. It is likely that the levy charge will be passed on to the person or party who is staying in the accommodation.
- **Introduction and Administration of Levy:** The Bill provides prior consultation requirements for a local authority. These include:
  - Prepare and publicise outline of the proposed visitor levy scheme, including a statement of objectives
  - Consult representatives of communities, business engaged in tourism, and tourist organisations
  - Report on outcome of consultation and the decision a local authority intends to take on a visitor levy
  - Notify Scottish Ministers of decision to introduce a visitor levy scheme
  - Publicise its decision to introduce a visitor levy scheme, including the date on which the visitor levy will commence

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- **Reporting and Review:** The Bill provides that local authorities must keep a separate account for each visitor levy scheme in operation; report annually on the amount of money collected, the use of net proceeds, and performance against objectives; and review the levy every 3 years and publish its report on any review.
- **Use of net proceeds:** Local authorities must use the net proceeds of a visitor levy scheme to facilitate achievement of objectives that relate to developing, supporting or sustaining facilities or services which are substantially for or used by those visiting the scheme area for leisure purposes. Local authorities must consult on the proposed use of revenues from a visitor levy.
- **Collection:** Liable persons must submit a return every quarter for levy received during this period or any other period of payment as specified by the local authority. Liable persons must retain records for 5 years (or any such period specified by a local authority), including details of any chargeable transactions.
- **Enforcement:** Local authorities will be given powers to:
  - Obtain information and documents from liable persons;
  - Obtain information and documents from third parties;
  - Powers to enter and inspect the premises of liable persons or third parties;
  - Powers to copy and remove documents;
  - Impose a penalty in situations where no return/levy payment is made; failure to keep appropriate records; failure to comply with request for information; providing inaccurate information; obstruction of an inspection; concealing/destroying relevant documents;
  - Reduce, suspend or waive penalties.
- **Appeals:** The Bill provides regulation making powers for appeals against local authority decisions.

## Methodology

### General approach

8. As the Bill introduces a discretionary power to implement a visitor levy on overnight stays in overnight accommodation for which a payment is made, it is likely that only some of Scotland's 32 local authorities will introduce a visitor levy. This is partly because the tax base (visitor spending on commercial accommodation) in a number of local authorities is relatively small, meaning any revenues generated could be low in some areas relative to costs involved introducing a visitor levy.

9. It follows that it would not be appropriate for the purposes of the Financial Memorandum to assume that any additional administrative and compliance costs arising from the Visitor Levy Bill will be incurred by every local authority in Scotland or

by all accommodation providers in Scotland. Similarly, it would be inappropriate for the Financial Memorandum to assume particular decisions by local authorities, both on whether or not to introduce a visitor levy in their area and what percentage rate they would choose to apply.

10. Therefore, the methodological approach to deriving estimates in this Financial Memorandum is to assess possible costs which may arise for individual local authorities, individual accommodation providers and other individuals within sectors, rather than assessing the impact of a visitor levy on these sectors as a whole. It is partly due to this approach and other areas where costs will ultimately depend on local authority decisions in relation to a levy, that estimates of costs are provided as a range. These ranges also reflect the variety of accommodation providers in the sector as this is likely to have an impact on any financial costs borne by any individual local authority or accommodation provider or other individual.

## Costs arising to different sectors

11. Costs to the Scottish Government are expected to be negligible, and there are therefore no quantified costs in the Financial Memorandum for the financial impact on the Scottish Government.

12. Costs to local authorities have been estimated through a joint exercise between Scottish Government and COSLA to identify and establish a range of initial estimates for the likely administrative and compliance costs associated with a visitor levy. Three local authorities, including two that have undertaken local consultations on the principle of a 'tourist tax', provided initial estimates of the set-up and on-going costs associated with administering a future visitor levy. These estimates were based on local authority experience administering other local taxes, including enforcement activity. In addition, Scottish Government officials have engaged with several other municipalities in Europe and North America<sup>1</sup> with direct experience of administering these types of local taxes.

13. Costs to accommodation providers have been established through a number of engagement exercises with the industry. Significant qualitative evidence was gathered as part of a series of interviews with accommodation providers across Scotland which established the potential impacts of a visitor levy. A follow-up survey was issued to these businesses with a particular focus on understanding the compliance challenges associated with the specific proposals in the Bill and to provide an evidence base to make reasonable assumptions to quantify the likely impacts on a range of different accommodation businesses. Further evidence in relation to costs associated with changing property management systems (software), was gathered through a survey of property management system suppliers operating in Scotland. Additional estimates were based on assumptions of time required to complete tax returns and other administrative tasks in relation to a visitor levy.

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<sup>1</sup> The Scottish Government has discussed aspects of visitor levy operation with officials from local government, destination management organisations and other bodies responsible for administering local taxes in Amsterdam, Nice, Berlin, Toronto, Reno Tahoe (Nevada) and Indianapolis.

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14. Costs to other businesses are expected to be negligible and there are therefore no quantified costs on this in the Financial Memorandum.

15. Costs to visitors have been identified through looking at the impact of a potential visitor levy on prices of accommodation for different types of visitors.

16. Costs to other bodies who are expected to be liable parties for a visitor levy have been identified through stakeholder engagement. Costs to bodies who are not liable are expected to be negligible and there are therefore no quantified costs on this in the Financial Memorandum.

## Timing and uncertainty

17. Given that the Bill sets a requirement for local authorities to conduct a consultation and assess impacts before a decision to implement a visitor levy is made, and the requirement for a 18 month notification period for accommodation providers, it is assumed that the earliest a visitor levy could be applied in Scotland would be 2026.

18. It is assumed therefore that in financial years 2024/25 and 2025/26, local authorities and accommodation providers will incur some one-off set-up costs in order to develop required processes and systems to collect and remit a visitor levy. These assumptions are reflected in the presentation of costs throughout the financial memorandum, however, it should be noted that local authorities may choose to introduce a visitor levy at a later point in time.

## Costs on the Scottish Administration

19. The direct financial implications of the Bill on the Scottish Government are minimal. As the decision to introduce a visitor levy is discretionary, the Scottish Government will not provide funding to local authorities to meet any costs associated with designing, implementing or applying any visitor levy scheme.

20. There may be some costs to the Scottish Government associated with developing secondary legislation or national guidance as required.

21. There may be costs associated with appeals against decisions made in respect to a visitor levy to the First-Tier Tribunal. The 2019 National Consultation did not ask respondents for views on appeal fees. The Bill does not contain provisions relating to appeals but confers regulation-making powers to Scottish Ministers to make provision for appeals. As a novel discretionary local tax without equivalence in the UK, there are uncertainties over size and scope of an appeals system needed for this new discretionary power and therefore no comparable financial estimates available. The Scottish Government believes that providing a cost estimate based on an existing nationwide local taxation appeals system (such as for non-domestic rates or Council Tax Reduction) would be misleading given the discretionary nature of the Bill. As such, there is no estimate provided for the costs of appeal processes. Given the level of

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uncertainty we will engage with stakeholders during the development of these regulations to ensure any costs related to appeals are identified.

22. If local authorities use the power to introduce a visitor levy, then the Scottish Government and its agencies may have additional costs if they choose to pay the levy on behalf of staff staying in overnight accommodation for official business in areas that apply a visitor levy. The increase to travel and subsistence costs for the Scottish Government will depend on the number of business trips made to areas where a levy is in place and the rate of the visitor levy applied in these areas.

23. Internal management information held by Scottish Government indicates expenditure on hotels in Scotland of around £350,000 in 2021-22, however this is expected to increase as staff travel resumes following the end of working from home guidance during the Covid-19 pandemic.

## Costs on local authorities

### Overview of costs

24. As a discretionary power, only local authorities who choose to introduce a visitor levy scheme within all or part of their area will incur any costs associated with the Bill. The intention of the Bill is that a visitor levy will raise additional revenues for these local authorities. Whilst the up-front set-up and decision-making costs may need to be financed within existing local authority budgets, it should be borne in mind that these costs could be offset against future revenues raised through a visitor levy. Similarly, any on-going administration costs could also be offset against future revenues. Net proceeds from a visitor levy will then be invested by the local authority in, supporting or sustaining facilities or services which are substantially for or used by those visiting the scheme area for leisure purposes.

25. The Bill also creates provisions for local authorities to use civil penalties which would apply to accommodation providers who are found to be non-compliant through late or inaccurate remittance of tax returns, for example. Whilst the purpose of the relevant civil penalties is not revenue-raising, there is potential that proceeds from any such penalties will contribute towards meeting on-going administrative costs.

26. In partnership with COSLA, the Scottish Government has identified three broad areas where local authorities that choose to implement a visitor levy will incur new costs: consultation and decision-making costs (including any costs for establishing a governance model); set-up costs; and on-going administration costs (including costs associated with monitoring and enforcement and communications). The costs to a local authority will mostly consist of additional salary costs, but also costs associated with IT system procurement and maintenance.

## Consultation and decision-making costs

27. The Bill sets out various requirements local authorities must meet before introducing a visitor levy. This includes the requirement to publish an outline of any proposed scheme; a statement about the scheme's objectives, including how the local authority intends to measure and report on those objectives; and an assessment of the impacts. Local authorities will also be required to consult with communities, businesses and other relevant local stakeholders. Following consultation, local authorities must also publish a report which includes a summary of the consultation responses received, any decision made on introducing a levy and the reasons for doing so. Local authorities may also be required to publish any impact assessments required under existing statutory duties to consult and have regard for groups and communities. The Bill also sets out that the visitor levy scheme must be reviewed every three years.

28. The cost of any consultation exercise is likely to vary depending on the format of the consultation, the number of questions asked, the number of responses received, the number of face-to-face engagements undertaken and whether the consultation is undertaken in-house or is contracted out to a third party. Therefore there is some degree of uncertainty over the costs that might arise for a given local authority. The requirement to conduct impact assessments will also add to the decision-making costs for local authorities.

29. Based on the range of estimated costs provided by local authorities for conducting consultations and the additional requirement to also conduct and publish an impact assessment, a reasonable estimate of one-off consultation and decision-making cost is between £10,000 and £20,000 for each local authority that chooses to implement a visitor levy.

30. The cost of reviewing the visitor levy scheme every three years is likely to be negligible. The Bill does not set out specific requirements for the review, but it is expected that any document would include an assessment of revenues collected, costs incurred by the local authority in collecting the tax and how revenues have been used to support the objectives of the levy, as set out in the initial consultation process.

## Set-up costs for a visitor levy scheme

31. The Bill does not prescribe the new activities, processes and systems a local authority is likely to require in order to implement and operate a visitor levy. Local authorities will therefore have a degree of autonomy in the approach and design of such processes and systems, tailoring these to be most appropriate to local circumstances. However, it is recognised that some core features of these new processes and systems will be common across all local authorities that choose to implement a levy. Local authorities have also suggested that should more than one local authority intend to implement a visitor levy, then certain systems and processes could be replicated across different areas and costs associated with designing these systems be shared, where this is feasible and cost effective for those involved.

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32. Local authorities will have to set-up new processes to collect and account for visitor levy payments made by accommodation providers, either through adapting existing processes, such as billing systems for other local taxes, or through procuring new systems. It should be noted that many of these systems are likely to facilitate online payments to minimise costs of collection to be in keeping with how these taxes are administered in other jurisdictions. Local authorities will have to act in line with relevant data protection legislation when setting up these new processes and systems.

33. Following the decision to implement a visitor levy, local authorities are likely to wish to establish a record of accommodation providers within their area that would be liable to remit payments under a visitor levy scheme. Local authorities have noted that most of this information could be extracted from existing sources such as the valuation roll, existing local commercial needs studies, and information from the short term lets licensing regime.

34. Once accommodation providers have been identified, local authorities would then need to notify, in a timely manner, each accommodation provider of specific requirements related to the new visitor levy. These may include those related to collection and remittance, the operation of exemptions (if these are adopted as part of a local scheme) and record keeping for audit and monitoring purposes. They would also have to set out clearly the potential for penalties to be applied for non-compliance and the process through which accommodation providers would be able to ask for a review of, or formally appeal, decisions in relation to a visitor levy. There would also be some activity involved in raising awareness amongst visitors and potential visitors of the introduction of a visitor levy.

35. Before a visitor levy is implemented, local authorities may have to hire additional operational staff or re-train existing staff. These costs are likely to vary according to the size of the local authority and the number of accommodation providers in the area required to remit a visitor levy. Finally, for planning purposes, local authorities may need to estimate the potential revenue that they could raise from a visitor levy. This could be more accurately achieved through requesting details of room sales from each accommodation provider in years prior to implementation, and consideration of new accommodation supply locally.

36. The most significant set-up cost for a local authority choosing to implement a visitor levy will consist of expenses related to purchasing and developing appropriate software and other processes needed to collect a visitor levy. Initial estimates provided by local authorities were made on the basis of previous quotes received by software suppliers to adapt existing billing software. The actual costs will depend on a number of factors and the time of implementation. The City of Edinburgh Council also noted that they would likely have to take on some additional staff in order to implement a visitor levy, including project management staff for a governance model and communications and stakeholder management.



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37. Based on estimates provided by local authorities, and making appropriate adjustments,<sup>2</sup> a reasonable estimate of the total set-up costs associated with a visitor levy is approximately £100,000 - £460,000 per local authority. The Scottish Government understands these set-up costs would include procurement for an IT system (or the upgrading of an existing one); recruitment and training; and costs for an awareness-raising campaign.

38. Other set-up costs around identifying accommodation providers operating in a local authority, and informing accommodation providers of their requirements under a visitor levy scheme, were also estimated by councils but were generally on a much smaller scale.

## On-going administration costs

39. Local authorities that choose to implement a visitor levy are likely to incur ongoing recurring costs each year associated with the operation of a visitor levy. The majority of these costs are likely to be associated with core operational staff who will undertake a number of activities such as collating tax returns, undertaking monitoring and enforcement duties such as debt recovery and audit procedures, issuing penalties, handling complaints and disposing of appeals. These costs may also include costs associated with oversight of the operation of the visitor levy scheme, including the need to report revenues and their use locally. There will also be costs associated with on-going maintenance of new IT systems for a visitor levy scheme and costs associated with regular communication with stakeholders, accommodation providers and visitors.

40. Local authorities with many accommodation providers in the area(s) where the visitor levy applies are likely to have higher administrative costs associated with collecting, monitoring and enforcing a visitor levy. Costs may also depend on the nature of accommodation providers in a given local authority, with higher costs associated with tax returns submitted by businesses using paper based tax returns compared to those businesses that may use an online portal.

41. In discussions with officials involved in administering these taxes from Nice, Amsterdam and Toronto, it was suggested that core staffing requirements ranged from 3 to 5 full time equivalent members of administrative staff. Assuming the average cost to a local authority of a staff member was £35,000, this would mean in a Scottish local authority context, staff costs associated with administrative activities of around £105,000 to £185,000. With other non-staff costs adding around 25% (according to evidence from the OECD), this could mean overall administrative costs of £145,000 to £240,000, with a mid-point of £190,000. Edinburgh Council's own assessment was that on-going costs associated with the visitor levy would be around £500,000 per year, and therefore that is taken as an upper boundary in our assessment of costs due to the

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<sup>2</sup> In line with UK Treasury Green Book practice, the initial set-up cost range has been inflated by 200% to account for optimism bias in estimates provided by local authorities. This is the upper bias adjustment suggested for equipment and development projects. The Green Book is available here: <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

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Council having a higher number of accommodation providers with more frequent tax returns. Just over half of Edinburgh's figure was estimated to cover core operational activities, with other items of expenditure on project management in relation to governance, operations and reporting, as well as IT maintenance and a provision for additional communications. It was also noted that some efficiencies could be made in some areas of programme management and administration costs if the levy could be administered with existing IT systems.

42. It should be noted that one of the main complexities that could add to the on-going costs of the scheme would be the inclusion of exemptions on individuals or accommodation types. The Bill does not include any exemptions at a national level, but leaves open the flexibility for local authorities to introduce their own local exemptions taking account of any national guidance. Local authorities will have to carefully consider the cost-effectiveness of any processes used to handle exemptions.

43. In order to ensure compliance, local authorities will incur some costs relating to monitoring and enforcement activities, such as costs associated with issuing reminder notices, penalties and recovery action in extreme cases. As a novel tax in the UK, the level of enforcement needed for a levy is unknown and therefore there are no estimates for enforcement activities, though some local authorities listed enforcement duties as part of their estimates for core operational activities. The most comparable local tax is the Workplace Parking Levy, which has yet to be implemented by a local authority and therefore no data exists on the size and scale of enforcement operations. Local authorities implementing a visitor levy may need to inspect accommodation occupancy records, accounts and other data held by accommodation providers to determine eligibility or for enforcement purposes. The use of these enforcement powers may increase ongoing administration costs for local authorities.

## Summary of costs to local authorities

44. Given the broad estimates provided by local authorities and the assumed timing of cost impacts, as referred to in the methodology section, Table 1 summarises the estimated costs to a local authority if it chose to implement a visitor levy. Clearly there is a high degree of uncertainty around these costs given the diverse nature of local authorities across Scotland. For example, local authorities with more accommodation providers may face higher administration costs, due to the requirement to process more remittances, compared to those with fewer accommodation providers.

**Table 1: Summary table of expected costs to a local authority associated with a visitor levy<sup>3</sup>**

	Year T-2	Year T-1	Year T	Year T+1	Year T+2
Consultation and Decision-making	£10,000 - £20,000	£0	£0	£0	<£1,000
Set-up costs*	£50,000 - £230,000	£50,000 - £230,000	£0	£0	£0
Administration Costs	£0	£0	£190,000 - £500,000	£190,000 - £500,000	£190,000 - £500,000
<b>Total</b>	<b>£60,000 - £250,000</b>	<b>£50,000 - £230,000</b>	<b>£190,000</b> - <b>£500,000</b>	<b>£190,000</b> - <b>£500,000</b>	<b>£190,000</b> - <b>£500,000</b>

\* Set-up costs are assumed to be incurred over the years T-2 and T-1 prior to the implementation of visitor levy. No inflation rate has been applied – this is due to a number of uncertainties around estimates (we do not know the introduction date of a visitor levy, which is at the discretion of the local authority, and therefore the corresponding inflation rate), therefore applying an inflation rate could be misleading. In addition, any adjustment to inflation would result in a wider range of estimates, losing precision from the current range with little benefit in return. It should therefore be noted that costs are likely to reflect inflation pressures in reality.

45. Revenue raised by local authorities through a visitor levy will be dependent on a number of factors, notably the rate at which the levy is set. Cities and states operating existing occupancy taxes charged on the basis of a percentage of the accommodation price have been found to charge rates of between 1% and 7%. Given local authorities can choose to set the rate of a visitor levy in their area, we estimate a range of costs based on a similar range of potential rates of between 1% and 7%. Based on the latest overnight visitor data, the regions most likely to benefit from a visitor levy are Edinburgh & the Lothians (£6 million to £41 million, depending on tax rate), Highland & Islands (£3 million to £21 million) and Greater Glasgow & Clyde Valley (£2 million to £16 million). However, due to the approximation of the share of overall tourist spend that is channelled towards accommodation costs and the impact of inflation on accommodation costs, these estimates should be treated with caution.

## Costs on Businesses – Accommodation providers

### Overview of costs

46. Accommodation providers have been identified as a distinct sector – separate from businesses in general - as the Scottish Government recognise this sector will incur some additional costs should the local authorities in which they operate choose to introduce a visitor levy.

<sup>3</sup> Note Year 'T' is the year in which a local authority implements a visitor levy.

47. Accommodation providers will be required to calculate and collect the visitor levy payable by visitors staying on their premises, and remit all levies collected to the relevant local authority. To comply with these requirements, accommodation providers could potentially incur costs in several broad areas, which can be broadly split into initial setup costs and ongoing administration costs.

**Table 2: Broad costs for accommodation providers required to collect and remit a visitor levy**

<b>Initial set-up costs</b>	<b>On-going administration costs</b>
<ul style="list-style-type: none"> <li>Costs associated with undertaking or commissioning necessary updates or changes to existing property management systems in order to collect, record and remit visitor levy revenue accurately in accordance with local authority requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Costs associated with preparing regular remittance tax returns to the local authority (assuming one return per quarter).</li> </ul>
<ul style="list-style-type: none"> <li>Costs associated with training existing staff on new systems or changes that have been made to existing systems.</li> </ul>	<ul style="list-style-type: none"> <li>Costs associated with performing reconciliation exercises associated with tax returns and due diligence checks to ensure, for example, the correct visitor levy rate is applied to invoices.</li> </ul>
<ul style="list-style-type: none"> <li>Costs associated with testing or piloting any new systems before a visitor levy is required to be collected.</li> </ul>	<ul style="list-style-type: none"> <li>Costs associated with engaging in additional record keeping for the purposes of evidencing where a local exemption to the visitor levy was applied.</li> </ul>
<ul style="list-style-type: none"> <li>Costs associated with renegotiating existing contracts with third parties (such as third-party booking platforms or online travel agents) where a commission is based on the price of accommodation sales to exclude the cost of a visitor levy.</li> </ul>	<ul style="list-style-type: none"> <li>Costs associated with explaining to customers why a visitor levy has been added to their accommodation bill.</li> </ul>

48. The magnitude of the costs identified in Table 2 are likely to vary by size and type of accommodation provider. For example, the collection of new data and new record keeping may be a more significant burden to smaller hotels, self-caterers or B&Bs that may not currently be required to collect and remit other taxes currently (such as VAT).

49. The magnitude of costs may also be influenced by the implementation timeframe adopted by a local authority, with shorter timeframes potentially presenting greater challenges in particular for costs associated with changes to property management systems. In addition, the magnitude of any costs are likely to depend on the specific arrangements adopted by the local authority in relation to those areas which are not set out in the Bill, such as the range of any local exemptions that are adopted.

50. As noted in the methodology section, to develop a better understanding of costs to accommodation providers, the Scottish Government conducted an exercise with a cross-section of accommodation providers across Scotland to understand the potential costs associated with a visitor levy and to inform the Business and Regulatory Impact Assessment (BRIA). Further to this, the Scottish Government also conducted a survey of property management system providers. The following detail on costs to accommodation providers reflects the key messages and evidence gathered from these exercises, as well as responses to the formal public consultation.

## Set-up costs

51. Accommodation providers in local authorities where a visitor levy is introduced are likely to face some up-front set-up costs. Many accommodation providers use software to manage bookings and generate invoices for guests for example. Most accommodation providers that use these systems will likely need to adapt these systems, potentially paying one-off fees to their suppliers. Any additional fees charged by property management system suppliers to adjust existing systems may vary depending on the type of provider (hotel, B&B, hostel, self-catering sector) and the commercial arrangement each accommodation provider has with their property management system supplier. It is also the case that not all accommodation providers will use a property management system (PMS) and therefore these businesses will not incur these costs, but they would have to adjust their current processes if a local authority introduced a visitor levy.

52. In general terms, software costs may be higher for businesses that make use of multiple booking channels and for smaller businesses with less sophisticated booking systems. Costs may be lower for accommodation providers who use property management systems which are also used in jurisdictions in other countries where a visitor levy is currently collected.

53. Accommodation providers noted that there could be a potential interaction between a visitor levy and commission charged by Online Travel Agents (OTAs) and third parties. For those accommodation providers who have contracts with OTAs, generally a percentage commission is charged on the sale of accommodation which is, in most cases, based on the consumer price and therefore will be inclusive of taxes

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(such as VAT). It is possible that accommodation providers will seek to re-negotiate or review existing contracts and arrangements with OTAs and other third parties to ensure that a visitor levy is excluded from the calculation of commission, to reduce future costs on sales. (Under the Bill a visitor levy itself is calculated after any commission payable to a booking service has been deducted). The magnitude of these costs are likely to vary and be dependent on the nature of the relationship between individual accommodation providers and third parties.

54. Accommodation providers may need to adapt current practices in relation to data collection, record keeping and their accounting procedures in order to comply with local authority requirements for a visitor levy. For example, accommodation providers that offer inclusive rates or package terms, such as an inclusive meal or other services (such as use of spa facilities), may need to ensure that bills are disaggregated, so that the visitor levy can be applied to the appropriate accommodation charge. In addition, record keeping practices may need to change, so that records of revenue coming into the business in each quarter are clearly delineated into accommodation and non-accommodation costs for the purposes of potential local authority monitoring and audit procedures. Accommodation providers may need to collect additional data about guests in cases where a local authority has chosen to introduce certain exemptions, and this is likely to create additional costs to the accommodation provider.

55. Finally, accommodation providers will have to create new processes to manage the collection and remittance of the levy, including payment arrangements with the local authority, familiarising themselves with any particular requirements set out in local authority returns. For larger businesses, there may also be a requirement to train staff to manage these new processes.

## On-going administration costs

56. Accommodation providers will have to calculate the additional cost of a visitor levy and ensure that this amount is collected on each sale of accommodation. For accommodation providers that use property management systems, this is likely to be negligible. However, for those accommodation providers that use paper-based systems, this is likely to impose an additional administrative burden. It may also depend to a large extent on the frequency of room rate price changes in response to changing demand.

57. On-going costs for accommodation providers will be associated with any processing of sales data each quarter to ensure an accurate tax return is made to the local authority, reflecting total revenue from room sales in the previous quarter. Depending on the processes used by a particular accommodation provider and the complexity of their revenue streams, this is likely to take some time to complete. Accommodation providers that use property management systems may be able to streamline this process, reducing the number of manual checks required when making a return. The time required for accommodation providers that do not use these systems to complete a tax return may be longer. For the purposes of the Financial Memorandum, we assume that a typical accommodation provider (or someone employed by them) would need to spend around half a day compiling a tax return each quarter.

## Indicative costings and scenarios

58. As part of the Business and Regulatory Impact Assessment (BRIA) exercise, the majority of accommodation providers could not quantify the costs that they would face as a result of a visitor levy being introduced as this depended on the complexity of the proposed visitor levy, in particular in relation to the operation of exemptions which may be adopted by local authorities. Some accommodation providers indicated the likely amount of time it may take for certain set-up and on-going activities identified above to be completed which were then used to inform a set of reasonable assumptions for compliance costs for typical accommodation providers as reported in tables 3 and 4 below. In addition, some larger accommodation providers did provide indicative cost estimates for set-up costs associated with adapting property management systems. All costs presented should be viewed as illustrative only and may not be representative of the costs to accommodation providers as a whole.

59. One hotelier, which operated four hotels in a single local authority, provided a detailed cost estimate of the set-up and on-going costs they expect could be incurred by their business as a result of requirements to collect and remit a visitor levy. They estimated initial set-up costs of around £5,000 to make changes to their booking platform across their four hotels. Other providers suggested the cost of re-programming their systems would be in the order of £20,000 to £25,000, but it should be noted that these accommodation businesses operated across a number of sites (20+) in different areas of Scotland and therefore had complex requirements.

60. For small to medium sized businesses, we estimate that a one-off fee is charged by a property management system (PMS) supplier that may be between £1,000 and £3,000, based on previous costs reportedly charged for VAT changes, with businesses operating across more sites potentially incurring higher costs. Other set-up activities identified by accommodation providers were assumed to absorb between 10 and 30 working days of time for various staff employed by the business (or external such as accountants, IT specialists) ahead of the introduction of a visitor levy, which, once accounting for average staff costs, we estimate could cost an additional £2,000-£7,000 per accommodation provider. Taken together, for a small to medium sized business we estimate set-up costs may range between £3,000 to £10,000 per business (although the true value for a particular business could lie outside this range).

61. An Edinburgh hotelier also estimated that it would cost around £50 to prepare a visitor levy remittance and send this to a local authority, which equates to around £200 per year to remit a visitor levy which requires quarterly remittance. We assume that the costs of collecting and remitting a visitor levy will vary across providers, so we use a range of between £100 and £400 per year.

62. Micro businesses that operate with a turnover below £85,000 and do not need to register for VAT were assessed separately as they generally have less complex requirements around property management systems, so may face lower set-up costs but have less experience in remitting taxes. Set-up activities were assumed to absorb between 2 – 5 days of a business owners time prior to implementation of a visitor levy. Costs were derived by applying this range to the average profit generated per working

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day of accommodation providers in the sector where turnover is less than £85,000. For micro businesses, based on the average time reportedly taken to complete a VAT return (13.5 hours, assuming 4 returns per year), we estimate annual on-going compliance costs associated with a visitor levy return for a typical business would be around £100-£500 per year.

63. Consideration has been given on the application of VAT on a visitor levy. It is recognised that should a visitor levy be considered liable for VAT, this would increase the total price for the accommodation and potentially incur further costs to accommodation providers. The application of VAT may also have additional financial implications for accommodation providers that operate just below the thresholds for VAT registration or the VAT flat rate scheme. Policy decisions on VAT remain a reserved matter, so this is not a matter Scottish Ministers can decide. Given that the UK Government's final position on the application of VAT will not be confirmed until completion of the Bill's passage through Parliament, and the differential impact on businesses depending on turnover and operations, we have not provided costs on the impact of VAT but note this is an area where accommodation providers may incur additional operating costs.

**Table 3: Summary table of expected costs for a small to medium sized business in the accommodation sector in an area where a visitor levy is implemented**

A small accommodation provider with a turnover between £1m and £5m and less than 50 employees	Year T-1	Year T	Year T+1	Year T+2
Set-up costs (excluding one off PMS fee)	£2,000-£7,000	0	0	0
Set-up costs (one off PMS fee)	£1,000 - £3,000	0	0	0
On-going costs	0	£300-£400	£300-£400	£300-£400
<b>Total</b>	<b>£3,000-£10,000</b>	<b>£300-£400</b>	<b>£300-£400</b>	<b>£300-£400</b>



**Table 4: Summary table of expected costs for a typical micro business in the accommodation sector in an area where a visitor levy is implemented**

A micro business with a turnover of less than £85,000	Year T-1	Year T	Year T+1	Year T+2
Set-up costs	£150 - £1,100	0	0	0
On-going costs (excluding increase in PMS fees)		£100-£500	£100-£500	£100-£500
On-going costs (including increase in annual PMS fee)		£100-£350	£100-£350	£100-£350
<b>Total</b>	<b>£150 - £1,100</b>	<b>£200-£850</b>	<b>£200-£850</b>	<b>£200-£850</b>

## Accommodation provider competitiveness and profitability

64. A further potential cost for accommodation providers relates to the possible impact of a visitor levy on competitiveness and profitability. The impact of a visitor levy on accommodation providers' competitiveness and profitability depends on a number of factors: firstly on whether accommodation providers pass on the cost to visitors by increasing the price of accommodation; secondly on the behavioural response of visitors to a change in accommodation prices; and thirdly, on how the net proceeds from a visitor levy are used to support and sustain the visitor economy in the local area and improve aspects of a destination that contribute to the overall competitiveness, such as digital and transport infrastructure, tourist services, and natural and cultural resources.

65. Whilst it is expected that accommodation providers will include a visitor levy in full on an invoice to visitors, the degree to which accommodation providers will change their pricing strategies to mitigate the impact of the visitor levy on the price of accommodation for visitors is not known. An accommodation provider's willingness to pass on the levy to consumers and how consumer demand for visitor accommodation responds to any price increase both depend on how sensitive consumer demand for accommodation is to changes in the price of accommodation - this is referred to as the

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price elasticity of demand (PED) in economic theory. The more sensitive consumers (or in this case visitors) are to changes in price the more 'elastic' their demand for accommodation. The PED, in turn, depends on a number of factors which may vary between and within local authorities including:

- the proportion of consumer income that the good/service accounts for, whereby goods/services that account for a higher proportion of income tend to be more elastic;
- the strength of the product/service's reputation/brand, whereby strongly branded goods/services tend to be less elastic;
- whether it has good substitutes, whereby goods/services with more substitutes tend to be more elastic;
- whether the good/service is more of a luxury or a necessity, whereby luxury items tend to (but not always) be more elastic and necessities tend to be more inelastic;
- the time frame, whereby demand tends to be more elastic the longer the time from the price change.

66. Generally, a higher price for accommodation will reduce demand for accommodation by visitors. The degree to which visitors are responsive to a change in the price of accommodation depends on their sensitivity to price changes as described above. It should be noted that accommodation costs make up only a portion of an average visitors spend. Therefore, a 1% increase in accommodation costs would lead to a less than 1% increase in the cost of visiting a destination. The extent to which visitor demand will fall in response to a less than 1% increase in the price of accommodation is unclear.

67. Evidence on the price elasticity of tourist demand in relation to Scotland is limited. In 2021 the Scottish Government therefore commissioned a literature review of tourism elasticities in comparable European destinations. Drawing on the elasticities of the 11 destinations that were found to be most relevant to Scotland, an approximation of tourism elasticities for Scotland was developed. For the 11 destinations that were found to be most similar to Scotland, estimated PED values ranged fairly significantly from -5.10 to +2.18 with an overall median of -1.50 and an overall mean of -1.36, indicating tourism demand in Scotland is likely to be relatively elastic.

68. The literature reviewed also supported the theory that price sensitivity and tourist behaviour differs by a range of factors including the travel purpose (e.g. business, leisure), the source market (where the tourist comes from), the type of tourism product, culture, weather and advertising.

69. Given the range of possible elasticities that may apply to Scotland (and in particular local authorities within Scotland), there is likely to be wide range of possible impacts on visitor demand from a visitor levy and therefore profitability for the accommodation sector and tourism sector as a whole. It is therefore possible that the imposition of a visitor levy will have a negligible impact on visitor behaviour.

70. Many cities across Europe and across the world have occupancy taxes which are levied at the accommodation sector, which are similar in the visitor levy as set out in the Bill. As part of the BRIA, we have looked at 5 places in Europe (Hamburg, Berlin, Barcelona, Paris, Lisbon) where similar taxes have been introduced or increased in recent years and tracked trends in overnight visitor numbers before and after the policy change. In almost all cases, visitor numbers in the years following the introduction of the levy (up to 2019) were higher than in the year prior to the policy change. These statistics present a compelling case that taxes on visitor accommodation do not appear in practice to be linked to noticeable negative impacts on visitor demand for accommodation. However, in their decision-making processes around whether a visitor levy is adopted locally, we would expect local authorities to assess the impact of the tax on visitor demand prior and post implementation.

71. As well as potential impacts on visitor demand, it should be noted that there may be displacement of some economic activity to other parts of Scotland, with some visitors choosing to stay outside of the areas where a visitor levy is introduced, or stay with friends and family.

## Costs on other bodies, individuals and businesses

### Costs on individuals - visitors

72. Should accommodation providers, in the long run, pass on the full cost of a visitor levy to visitors, then those using overnight accommodation in those parts of Scotland where a visitor levy has been introduced will have to pay a higher price for accommodation than previously. This will raise the cost of visiting these particular areas, and therefore may lead to some changes in visitor behaviour as discussed above. As with other sections in this document, this Financial Memorandum does not include estimates of the possible cost to all visitors should each of the 32 local authorities in Scotland choose to implement a visitor levy.

73. Accommodation costs vary substantially across the accommodation sector, depending on the type and quality of accommodation, the location of the accommodation and the season in which accommodation is booked. Table 5, below, provides some examples of the range of possible visitor levy amounts payable by different groups of visitors, depending on the type of trip they are planning under a 1% visitor levy.

**Table 5: Examples of visitor trips and visitor levy payable across different accommodation types**

Scenario	Description	Price	Total taxable cost	Total Visitor Levy Payable (1%)
A	A couple stay in Edinburgh for a long weekend (3 nights) in August and stay in an average priced hotel	£220 per room per night	£660	£6.60
B	A single person stays 2 nights in a hotel in an average priced hotel in Aberdeen in November	£80 per room per night	£160	£1.60
C	Two couples visits Edinburgh for a short-break (4 nights) using an Airbnb rental (entire home)	£170 per property per night	£680	£6.80
D	A group of 4 backpackers travel to the Highlands for a long-weekend (3 nights) and use hostel accommodation on their trip	£30 per bedspace per person	£360	£3.60
E	A family of five (2 adults and 3 children) on a week holiday in April in self-catering accommodation in Argyll & Bute	£775 for a weeks booking	£775	£7.75
F	A family of four (2 adult and 2 children) on a week summer holiday at a caravan site	£40 per pitch per night	£280	£2.80

\*Note: Prices are illustrative and are drawn from various sources.

74. The average price of a dormitory bedspace in a hostel in the Highlands was found to be around £30 per person per night. In scenario D, a group of 4 backpackers travelling in the Highlands for a long weekend would be expected to pay an additional £3.60 (30p per person per night). A typical price of a caravan pitch for a family of four was found to be around £40 per night in Scotland, as per scenario F, this would mean a family of 4 would pay an additional £2.80 for a week's holiday (10p per person per night). A couple visiting Edinburgh in August for a long weekend and staying in an average priced hotel would pay an additional £6.60 (£1.10 per person per night) as per scenario A.

75. It should be noted that, had the Bill legislated for a fixed charge per person per night, the costs to these groups could have looked very different. For example, a £1 per person per night charge would have meant the visitors in scenario F paying £28 as opposed to £2.80, whilst the couple in scenario A would only face a decrease in the levy from £6.60 to £6. This reflects that the basis of charge in the visitor levy bill is progressive in respect to the cost of accommodation.

76. Whilst the costs to overnight visitors to some parts of Scotland are likely to increase marginally, the analysis above does not take into account the potential wider benefits to visitors from how local authorities will use the additional revenue raised to sustain and support the visitor economy locally. Investments of this nature are likely to enhance the value-for-money and uniqueness of the destination for visitors, which might mitigate fully or in part the impact of any small price increases. There is evidence that visitors are increasingly placing value on paying additional taxes if it is demonstrated that funds are used to enhance local communities. As part of Booking.com's 2022 sustainable travel report,<sup>4</sup> it was found that 59% of international travellers surveyed want to leave the places they visit better than when they arrived, and 25% of travellers would be willing to pay more for travel activities to ensure they are giving back to local communities.

## Costs on other businesses

77. Scottish businesses may incur increased costs if they choose to meet travel and subsistence costs for staff whom may be required to travel and stay overnight in other areas of Scotland where a visitor levy is implemented.

78. Statistics from VisitScotland's Visitor Survey indicate that in 2019, across Scotland as a whole, around 1.6 million (12%) of the total 13.8 million domestic visitor nights estimated to take place are accounted for by people staying overnight for business purposes. For international visitors staying overnight in Scotland, it is estimated that 371,000 (11%) of the total 3.4 million were for business purposes.<sup>5</sup> There are also strong regional variations across Scotland; travel for a business related reason in 2019 made up a higher share of international visits in Grampian (29% of international visits, 16% of domestic) than in Edinburgh and Lothians (9% of international visits, 15% of domestic). Greater Glasgow & Clyde saw the highest share of business travel for domestic visitors (21% of domestic visits, compared to 15% of international visits).<sup>6</sup>

79. The additional costs to these businesses will vary and depend on which local authorities implement a visitor levy scheme, the rate at which a visitor levy would be set and the impact of any local exemptions to a visitor levy.

## Costs on other bodies

80. Not all accommodation providers are private businesses. Some other charity and not-for-profit bodies that provide commercial accommodation may face some additional costs, including the set-up and ongoing administrations costs identified for businesses above. For example, The National Trust for Scotland (NTS), a registered charity, own and operate a range of commercial accommodation properties across Scotland. The NTS currently advertise 61 properties available for booking across a number of areas;<sup>7</sup>

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<sup>4</sup> <https://www.gstcouncil.org/booking-com-2022-sustainable-travel-report/>

<sup>5</sup> <https://www.visitscotland.org/research-insights/about-our-visitors/international/annual-performance-report>

<sup>6</sup> <https://www.visitscotland.org/research-insights/regions>

<sup>7</sup> Sourced from the National Trust for Scotland website, data extracted on 19.01.2022  
<https://www.nts.org.uk/holiday-accommodation>

Table 6 indicates the spread of properties across different parts of Scotland. Therefore, depending on which local authorities choose to implement a visitor levy, the NTS may bear similar costs to those that will apply to the accommodation sector in general. It should be noted that the NTS response to the public consultation indicated that they were neutral on various proposals for a levy on visitors to Scotland. In addition, in the design of local schemes, the Bill allows flexibility for local authorities to introduce exemptions at a local level, which could be applied to accommodation let by charitable bodies, which means bodies such as the NTS would not face any additional costs.

**Table 6: Location of National Trust for Scotland Properties**

Areas of Scotland	Number of NTS self-catering properties
Edinburgh & East	13
Highlands	21
North East	14
South & West	13
<b>Total</b>	<b>61</b>

81. Scottish universities that let student accommodation in halls of residence to non-students outside of term time will also be impacted by the Bill if they are located in a local authority area that introduces a visitor levy. By way of example, the University of Edinburgh advertises 153 bedrooms available for commercial letting all year-round and 2,500 bedrooms during the summer.<sup>8</sup> It is likely that universities will bear similar costs to businesses in relation to complying with any visitor levy scheme.

82. Other public bodies might directly benefit from the provisions in the Bill. As stated in the overview section, revenues from the visitor levy will be required to be spent on developing, supporting or sustaining facilities or services which are substantially for or used by those visiting the scheme area for leisure purposes, which could include providing funding for organisations that manage and promote particular destinations. These organisations could therefore benefit from an additional sustainable funding stream for their work. There may also be indirect benefits on businesses who benefit from an improvement in the visitor offer in an area, for example sightseeing tour businesses benefiting from the development of amenities around a historic site.

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<sup>8</sup> <https://www.uoecollection.com/>

## Summary table

83. The table below summarises the estimated costs outlined in this Financial Memorandum. Decisions about the implementation of the Bill will take place in due course. For the purposes of this Financial Memorandum and estimating the time when the financial impact of the Bill will arise, it is assumed that the earliest a visitor levy could be introduced in any part of Scotland is 2026.

**Table 7**

	Set-up costs	Recurring costs
Scottish Government	Minimal	None
Local Authorities	£110,000 - £480,000 per local authority	£190,000 - £500,000 per local authority
Accommodation providers – businesses and liable public bodies	£3,000 - £10,000 per accommodation provider (small to medium size)  £150 - £1,100 per accommodation provider (micro size)	£200 - £400 per accommodation provider (small to medium size)  £100 - £500 per accommodation provider (micro size)
Other businesses	None	Minimal
Other bodies	None	None

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# Visitor Levy (Scotland) Bill

## Financial Memorandum

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