

# Preliminary estimates of potential 'tourism tax' revenues in Wales

Final report for the Welsh Government



**LE**  
**Wales**

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Our team is comprised of skilled economists, benefiting from rigorous intellectual backgrounds. All our senior economic consultants possess postgraduate economics degrees from leading universities, and have a wealth of academic and practical experience. LE Wales are able to combine academic rigour and expert contract

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## Executive Summary

This short study provides preliminary estimates of potential revenue from applying a tourism tax in Wales. We use public data on tourism in Wales for 2019 to estimate the potential revenues from a range of tourism tax options, as if they had been applied at an all Wales level in 2019.<sup>1</sup>

In making the revenue estimates we assume no behavioural response, i.e. that the introduction of a tax does not affect the number of visitor nights, spend on accommodation etc.<sup>2</sup> Based on tourism tax policies implemented in other European cities, we compiled a list of seven different tax policies and five different levels for each policy that were applied to the Welsh tourism data. The tax levels broadly reflect the various tax levels in other European tourist destinations. The tax policies include both fixed and variable taxes which can be applied per night or per stay and differ by season or accommodation type.

The preliminary tax revenue estimates from applying a flat tourism tax for Wales at a national level range from £14 million to £113 million depending on the type of tax policy and the level of the tax. Table 1 indicates the range of potential tax revenues from different flat tax options.

**Table 1 Tax revenue estimates, £m (flat tax)**

Tax type		Option 1	Option 2	Option 3	Option 4	Option 5
Per person/night	Tax level:	£0.50	£1.00	£2.00	£3.00	£4.00
	Tax revenue:	£14m	£28m	£57m	£85m	£113m
Per person/stay	Tax level:	£2.00	£3.00	£4.00	£5.00	£6.00
	Tax revenue:	£17m	£25m	£33m	£42m	£49m
Per person/night seasonal*	Tax levels:	High: £1.00 Low: £0.50	High: £2.00 Low: £1.00	High: £3.00 Low: £1.00	High: £3.00 Low: £2.00	High: £4.00 Low: £2.00
	Tax revenue:	£23m	£47m	£66m	£74m	£94m
Per person/night by price category**	Tax levels:	High: £2.00 Mid: £1.00 Low: £0.50	High: £2.50 Mid: £1.50 Low: £1.00	High: £3.00 Mid: £2.00 Low: £1.00	High: £4.00 Mid: £2.50 Low: £1.00	High: £5.00 Mid: £3.00 Low: £2.00
	Tax revenue:	£20m	£34m	£38m	£42m	£68m

Source: LE Wales' analysis of GB Tourism Survey (GBTS) and International Passenger Survey (IPS) data

\*For seasonal taxes, high season includes quarter 1 and 4, low season includes quarter 2 and 3.

\*\*For the accommodation price categories, high consists of 25% of all hotel and motel nights/spending; mid consists of 50% of all hotel/motel, and all rented houses and flats; low consists of 25% of hotel/motel, B&Bs, hostels, camping, and other commercial accommodation.

Applying a variable tax for Wales yields tax revenue estimates between £12 million and £50 million, depending on the tax policy and tax level. Table 2 shows the range of tax revenue from various variable tax policies.

<sup>1</sup> We understand that, currently, the intention is that - if any tourism tax were introduced - it would be as a power that enabled Welsh local authorities to introduce such a tax for their own areas if they wished. Data limitations mean that, in the time available, we have not estimated potential revenues from a tourism tax at the level of individual local authorities.

<sup>2</sup> In reality there is likely to be some behavioural response that would be expected to reduce tax revenues. Discussion on estimates of this response in other contexts is provided in GLA Economics (2017).

**Table 2 Tax revenue estimates, £m (variable tax)**

		Option 1	Option 2	Option 3	Option 4	Option 5
% accommodation charge	<i>Tax levels:</i>	2%	3%	4%	5%	6%
	<i>Tax revenue:</i>	<b>£17m</b>	<b>£25m</b>	<b>£34m</b>	<b>£42m</b>	<b>£50m</b>
% accommodation charge seasonal*	<i>Tax levels:</i>	<i>High: 2%</i> <i>Low: 1%</i>	<i>High: 3%</i> <i>Low: 2%</i>	<i>High: 4%</i> <i>Low: 2%</i>	<i>High: 5%</i> <i>Low: 3%</i>	<i>High: 6%</i> <i>Low: 3%</i>
	<i>Tax revenue:</i>	<b>£12m</b>	<b>£19m</b>	<b>£25m</b>	<b>£31m</b>	<b>£37m</b>
% accommodation charge by price category**	<i>Tax levels:</i>	<i>High: 3%</i> <i>Mid: 2%</i> <i>Low: 1%</i>	<i>High: 4%</i> <i>Mid: 3%</i> <i>Low: 2%</i>	<i>High: 5%</i> <i>Mid: 4%</i> <i>Low: 3%</i>	<i>High: 6%</i> <i>Mid: 4.5%</i> <i>Low: 3%</i>	<i>High: 7%</i> <i>Mid: 5%</i> <i>Low: 3.5%</i>
	<i>Tax revenue:</i>	<b>£12m</b>	<b>£21m</b>	<b>£26m</b>	<b>£31m</b>	<b>£36m</b>

**Source: LE Wales' analysis of GBTS and IPS data**

\*For seasonal taxes, high season includes quarter 1 and 4, low season includes quarter 2 and 3.

\*\*For the accommodation price categories, high consists of 25% of all hotel and motel nights/spending; mid consists of 50% of all hotel/motel, and all rented houses and flats; low consists of 25% of hotel/motel, B&Bs, hostels, camping, and other commercial accommodation.

Due to the preliminary nature of this analysis and the lack of more granular data, the current tax revenue estimates come with certain limitations. This provides scope for future research, as follows.

- 1) We have not estimated the potential revenue from a tax per room. This could be investigated in future through combining data on the total bed stock in Wales with data on occupancy rates.
- 2) If the Welsh Government wished to exempt children under 16 or 18 from a tourism tax, then further age-based breakdowns of Great Britain Tourism Survey data could be requested from VisitWales.
- 3) There appear to be some inconsistencies in the data on the numbers of holiday property rentals. For future research it could be useful to obtain more recent and more detailed data on self-catering accommodation, potentially from Airbnb directly.
- 4) If Welsh Government wanted to enable tax rates to vary by type and quality of accommodation, then further data may be needed on the distribution of properties by star rating. Better data on accommodation spend would also be desirable to support the introduction of a variable tax based on accommodation spend.
- 5) We have used data at the national level for Wales – for implementation of taxes at a local level, it would be desirable to understand the impacts at a local level, particularly in areas where levels of tourism are high.
- 6) This analysis does not take into account the impact of the COVID-19 pandemic and developments in the tourism sector post-pandemic should inform estimates of future potential tax revenues.
- 7) Further exploration of the extent to which any tourism tax is likely to be paid by visitors from Wales may also be possible.
- 8) Future research could seek to incorporate a behavioural response from consumers to a tourism tax in a model of tax revenue.
- 9) Further analysis around the breakdown of VFR (visiting friends and relatives) visits that stay in commercial accommodation will be needed to feed into future models.



# 1 Introduction

LE Wales has been contracted by the Welsh Government to undertake preliminary research on a potential ‘tourism tax’ in Wales. The core of the research is to make indicative estimates of the potential revenues from a range of potential alternative options for a tourism tax in Wales. The original brief provided by the Welsh Government is set out in Annex 1. The work was undertaken during March 2021.

Although the tax is referred to as a ‘tourism tax’, we model it as applying to overnight visits in commercial (paid for) accommodation in Wales, and so it includes visits for both holiday and business purposes.

For the purpose of this initial study, due to limited sub-Wales data, we assume that a tourism tax is applied for Wales as a whole. In practice, the Welsh Government has indicated that the case for considering tourism taxes will likely be considered at a local level, that is providing permissive powers to local authorities to implement a tourism tax.

This analysis has several limitations due to the data used, which are discussed in more detail in section 2.3. For future research more accurate estimates of the tax revenue, data on the number of rooms, regional differences, visitors’ age, spend purely on accommodation, and the exact distribution of accommodation types are required.

In the remainder of the report we set out our data sources and approach along with its limitations in Chapter 2; and our detailed estimates of potential revenues from a tourism tax in Chapter 3.

## 2 Data sources and approach

### 2.1 Data on tourism volumes

The two main sources for data on overnight tourism in Wales used in this report are the International Passenger Survey (IPS) and the Great Britain Tourism Survey (GBTS). The IPS contains data on visitors from overseas, while the GBTS collects data on domestic visitors.

Estimating potential tax revenue from various tourism tax options in Wales requires data on the number of visits, the nights spent and overall spend of domestic and overseas tourists in Wales. Ideally, the data need to differentiate by journey purpose and by accommodation type and be reported on a quarterly basis.

#### 2.1.1 International Passenger Survey

The Office for National Statistics conducts the IPS and collects data on overseas visitors to and from the UK. The IPS measures the number and types of visits made to and from the UK via air, sea, and tunnel ports. The survey is continuously carried out through anonymous face-to-face interviews and the data are published monthly, quarterly, and annually. The overall sample size of the IPS for

travellers to and from the UK is around 250,000 per year, which makes up approximately 0.2% of travellers.<sup>3</sup>

The IPS records overall visits, nights spent, and spend of all overseas overnight visitors to England, Scotland, Wales, and Northern Ireland. It collects information on the accommodation type, purpose of the visit, and some demographic information. For the purpose of this analysis, only the data on overseas travellers to Wales based on purpose of the visit and type of accommodation are relevant. Data on accommodation type are only available on a yearly basis. The recorded spend is measured in nominal terms, based on the prices of the year which they refer to. For a detailed breakdown of the accommodation categories and travel purposes, please see section A1.1.

### 2.1.2 Great Britain Tourism Survey

The GBTS measures the volume, value and profile of overnight trips taken by British residents to destinations in England, Scotland, and Wales. The survey collects data on the number of trips taken by British residents, the number of bed nights on those trips, and the value of spending on those trips. The survey was conducted continuously throughout the year via face-to-face interviews with around 2,000 adults per week who are 16 and over. In 2019, roughly 90,000 interviews were conducted.<sup>4</sup> Data on accommodation categories are only available on a yearly basis.

### 2.1.3 Assumptions

For this initial study, due to limited sub-Wales data, we assume that a tourism tax is applied for Wales as a whole. In practice, the Welsh Government has indicated that the case for considering tourism taxes will likely be considered at a local level, that is providing permissive powers to local authorities to implement a tourism tax. That is in line with many other European tourist destination, which apply tourism taxes at a local or city level.

This analysis is based on data from 2019, which is assumed to be a representative year and presents the most recent data available. Generally, tourism in Wales has increased since 2010<sup>5</sup> and 2019 does not appear to be an outlier. Tourism in 2020 was very different, and it could take a while until it reaches pre-pandemic levels, which this analysis does not consider.

For the purpose of the analysis, the data on domestic and overseas travel need to be comparable. The categories for accommodation types used in the model are highlighted below:

- **Commercial accommodation**
  - Hotel/guest house**
  - Bed & Breakfast**
  - Camping/mobile home**
  - Hostel/University/school**

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<sup>3</sup> VisitBritain (2020). International Passenger Survey (IPS). VisitBritain Q&A. Available at: [https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/ga\\_for\\_external\\_ips\\_users\\_2020.pdf](https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/ga_for_external_ips_users_2020.pdf) [Accessed 22 March 2021].

<sup>4</sup> VisitBritain (2020). Great British Tourist Report 2019. Available at: [https://www.visitbritain.org/sites/default/files/vb-corporate/gb\\_tourist\\_annual\\_report\\_2019\\_final.pdf](https://www.visitbritain.org/sites/default/files/vb-corporate/gb_tourist_annual_report_2019_final.pdf) [Accessed 22 March 2021].

<sup>5</sup> Looking at data for visits, spend, and nights from domestic tourism. Available at: Visit Britain <https://www.visitbritain.org/latest-quarterly-data-area> [Accessed 30 March 2021].



- Rented House/flat
- Other commercial
- VFR – Visiting friends and relatives (including paying/free guests with family or friends, Own Home)
- Other

The categories used for the journey purpose are:

- **Holiday**
- **Business**
- VFR
- Other

Categories in bold are the ones counted as ‘tourism’, and hence used as the tax base. This assumes that people visiting friends and relatives do not stay in commercial accommodation and similarly, people on holiday do not stay in friends’ or relatives’ houses. The majority of overnight visits to friends or relatives in Wales by GB residents involve a stay in their own home / friend or relative's home - 72% of trips in 2019. But a substantial minority use commercial accommodation, and over the last few years around a fifth of all such trips have used commercial serviced accommodation, with smaller proportions using self-catering or caravan. Further analysis of this assumption will be needed to feed into future models (see Annex 3 for current breakdowns). This split requires combining some categories used in the IPS and the GBTS to make domestic and international tourism data comparable. For a breakdown of categories used in the GBTS and IPS, please refer to Annex 1.

The data by accommodation type are only available on an annual basis. Thus, to compute tax revenue from seasonal taxes, data on the purpose of travel are used, as this is available on a quarterly basis for the IPS. Quarterly data on domestic travel is not available divided by purpose of travel. Hence, the annual distribution of journey purpose was used to calculate the quarterly numbers for each category.

Spend on accommodation as a share of total spend varies from year to year. In Wales it was 41% of total spend in 2019 and 39% or 40% in the previous three years.<sup>6,7</sup> In 2019, the accommodation spend shares in England and Scotland respectively, were 38% and 37%. This is similar to other data that suggest that the average across the EU in 2017 was 37%.<sup>8</sup> For our estimates for Wales we used an assumption of 40%. Given the variation in in this share, in future research it will be important to understand the sensitivity of any revenue estimates to this assumption.

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<sup>6</sup> GBTS Annual report, page 94. This covers all tourism spend, not just holiday spend. Available at: <https://gov.wales/sites/default/files/statistics-and-research/2020-08/great-britain-tourist-statistics-2019.pdf>

<sup>7</sup> Over the period 2011 – 2019, the share of accommodation in total spend ranged from 35% to 43%.

<sup>8</sup> Eurostat (2017). Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism\\_statistics\\_-\\_expenditure#Accommodation\\_took\\_up\\_the\\_largest\\_share\\_of\\_the\\_tourism\\_budget\\_of\\_EU\\_residents](https://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_statistics_-_expenditure#Accommodation_took_up_the_largest_share_of_the_tourism_budget_of_EU_residents) [accessed 24 March 2021].

## 2.2 Tax structures and levels

### 2.2.1 Examples from other European cities

Across Europe, many cities and tourist destinations have a tourism tax in place, also referred to as an occupancy tax. Tourism taxes are charged for short-term residencies in paid accommodation in addition to VAT. The VAT charged on hotel accommodation varies by country, averaging 11% among EU-28 countries. Out of the 28 EU countries, 19 countries have a tourism tax in place.<sup>9</sup> The tourism taxes are usually applied at local government level (i.e. city, municipality or province) and collected in person by the accommodation providers.<sup>10</sup> This generally includes hotels, guest houses and hostels, whereas for other accommodation types such as camp sites or self-catered accommodation, like rented apartments, houses, and Airbnb properties, the tax collection may not be so straight forward.

Different cities use different types and levels of tourism taxes. The tourism taxes can be classified into two categories: Flat and variable taxes. In addition, there can be seasonal variations or taxes dependent on the accommodation category such as the hotel star-rating. These variations can be applied to variable or flat taxes. Children up to 16 or 18 often pay reduced rates or are exempt from the occupancy tax.<sup>11</sup>

#### Flat taxes

The most commonly used flat tax is a fixed tax charged per person per night. In most European cities, the tax levels are around €2 to €3, such as in Lisbon or Antwerp. This tax policy is easy to apply and to verify. One drawback of this tax is that it is a higher proportion of the price paid by consumers staying in cheaper accommodation more than consumers staying in expensive accommodation. Assuming that, on average, people with lower incomes stay in cheaper accommodation, this means that this tax policy is regressive over the range of incomes of people who go on holiday. Another question that arises is whether this tax only applies to hotels and guest houses or also to camp sites.

Another option is to charge a flat tax per room per night, which Brussels does at a level of €4.25 per night. For hotels, this might be easier to apply than a per person tax, but more difficult for places like hostels, where several people share a room but are not necessarily travelling together. The tax would impact single travellers more than families, couples, or groups. For taxes per night, both per room and per person, the charges are usually capped at a certain number of nights, ranging from 7 in Lisbon, 10 in Rome to 21 nights in Berlin.<sup>12</sup>

A third, less common, flat tax option is to charge per person per stay, irrespective of the length of the stay. This tax policy is sometimes used for national parks or islands as an entrance fee for tourists. One example are the Aeolian islands in Sicily, where visitors are charged €1.50<sup>13</sup>. In a similar manner, the national park of Raja Ampat in Indonesia charges IDR 1,000,000 (around £50) to foreign

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<sup>9</sup> Edinburgh City Council (2018). Edinburgh Transient Visitor Levy.

<sup>10</sup> EU Commission (n.d.). Tourism-related taxes across the EU. Available at: [https://ec.europa.eu/growth/sectors/tourism/business-portal/financing-your-business/tourism-related-taxes-across-eu\\_en](https://ec.europa.eu/growth/sectors/tourism/business-portal/financing-your-business/tourism-related-taxes-across-eu_en) [accessed 22 March 2021].

<sup>11</sup> Ibid.

<sup>12</sup> ETOA (2021). Tourism tax rates. Available at: <https://www.etoa.org/destinations/tourist-tax-rates/> [accessed 22 March 2021].

<sup>13</sup> Edinburgh City Council (2018). Edinburgh Transient Visitor Levy.

visitors and IDR 500,000 (around £25)<sup>14</sup> to domestic visitors irrespective of the length of the stay on the islands as a tariff to support environmental protection services. For cities, this tax type is less common since it does not charge visitors according to the length of their stay.

### Variable taxes

Many cities apply a variable tax based on a percentage of the accommodation price. Amsterdam charges 7% of the accommodation price, Berlin charges a tax of 5%, and Vienna charges 3.2%. This type of tax affects everyone equally. However, accommodation prices may fluctuate due to seasonal changes in demand, special occasions (e.g. conventions, holidays, events), or special offers. Thus, the monetary value of taxes charged for the same holiday property rental can vary drastically throughout the year, which means they are harder to monitor.

In addition to these tax policies, cities may also set varying tax rates or levels depending on the season and the class of accommodation. In Venice, the tax rates vary between €3 and €10 throughout the year, and the Spanish islands (e.g. Mallorca, Ibiza) lower their taxes by up to 75% from November to April. In several cities like Paris, Rome, Athens or Florence, the taxes vary with the type of accommodation. Tax rates are higher for more expensive accommodation, such as 5\* hotels, whereas 2\* or 1\* hotels or hostels face lower tax rates. The classification of accommodation types for hotels is quite clear and based on the star rating in the respective country. For other types of accommodation, such as rented houses and apartments or Airbnb's, the classification is more difficult as there is a huge variation in prices but no clear distinction as with hotel ratings.

Both seasonal and class-based taxes can be combined with variable or flat taxes.

**Table 3 Overview of tourism taxes**

	Type	Description	Example
Flat	Per person per night	Each tourist is charged a fixed amount per night	€2 in Lisbon €3 in Ghent; €2.39 in Antwerp
	Per room per night	Fixed charge for each room	€4.25 in Brussels
	Per person per stay	Fixed charge for every tourist irrespective of length of stay	€1.50 in Aeolian islands in Sicily 15.68 BGN Lev (£6.90) in for resorts in Bulgaria
Variable	Percentage of accommodation charge	Charge a percentage of accommodation price as tax	Amsterdam 7% accommodation rate per night; Berlin 5% ; Vienna 3.2%; 4% in Budapest; 1% in Romania
Other	Seasonal taxes	Varying taxes in high and low seasons (e.g. summer and winter)	Varying between €3 to €10 per day in Venice (low season Nov-March); in Spanish islands up to 75% lower from Nov-April
	Taxes based on accommodation price category	Charge flat/variable taxes based on accommodation category (e.g. hotel star-rating)	Paris: between €4 and €0.23; Rome: €7 for 5* hotels, €6 for 4*, €4 for 3*, €3 for 1* and 2*, hostels excluded; Florence: €5 for 5*, €4 for 4*, €3 for 3*; Greece: €4 for 5*, €3 for 4*, €1.50 for 3*, €0.50 for 1* and 2*; Spanish islands: between €4 and €2

Source: *Edinburgh City Council (2018). Edinburgh Transient Visitor Levy and ETOA*<sup>15</sup>

<sup>14</sup> IDR 1 = £0.00005. Available at: <https://www.xe.com/> [accessed 18 March 2021].

<sup>15</sup> ETOA (2021). Tourism tax rates. Available at: <https://www.etoa.org/destinations/tourist-tax-rates/> [Accessed 31 March 2021].

### 2.2.2 Choice of tax structures and levels for the analysis

This analysis models 7 different tax structures – 4 flat and 3 variable tax structures. For each tax structure, 5 different levels are applied to give a range of potential tax revenue estimates that can be obtained from this type of occupancy tax policy. Due to the lack of data on rooms of various categories in Wales, the tax per room per night was not included.

The various tax types and levels are stated in Table 2:

**Table 4 Tax levels**

	Option 1	Option 2	Option 3	Option 4	Option 5
Per person/night	£0.50	£1.00	£2.00	£3.00	£4.00
Per person/stay	£2.00	£3.00	£4.00	£5.00	£6.00
Seasonal per person/night*	High: £1.00 Low: £0.50	High: £2.00 Low: £1.00	High: £3.00 Low: £1.00	High: £3.00 Low: £2.00	High: £4.00 Low: £2.00
Per person/night by price category**	High: £2.00 Mid: £1.00 Low: £0.50	High: £2.50 Mid: £1.50 Low: £1.00	High: £3.00 Mid: £2.00 Low: £1.00	High: £4.00 Mid: £2.50 Low: £1.00	High: £5.00 Mid: £3.00 Low: £2.00
% of accommodation charge	2%	3%	4%	5%	6%
Seasonal % of accommodation charge	High: 2% Low: 1%	High: 3% Low: 1.5%	High: 4% Low: 2%	High: 5% Low: 2.5%	High: 6% Low: 3%
% accommodation charge by price category	High: 3% Mid: 2% Low: 1%	High: 4% Mid: 3% Low: 2%	High: 5% Mid: 4% Low: 2.5%	High: 6% Mid: 4.5% Low: 3%	High: 7% Mid: 5% Low: 3.5%

Source: LE Wales

\*For seasonal taxes, high season includes quarter 1 and 4, low season includes quarter 2 and 3.

\*\*For the accommodation price categories, high consists of 25% of all hotel and motel nights/spending; mid consists of 50% of all hotel/motel, and all rented houses and flats; low consists of 25% of hotel/motel, B&Bs, hostels, camping, and other commercial accommodation.

## 2.3 Limitations of the current analysis and suggestions for further Analysis

With the data obtained from the IPS and the GBTS, this analysis has several limitations, which affects the reliability and accuracy of the estimates of the tax revenue.

- First, there are no recent data on the number of rooms rented out, so the revenue from charging a per room per night tax cannot be estimated. However, there are data on Wales bedstock data for 2013.<sup>16</sup> This, or more recent estimates could be combined with data on the occupancy rates of accommodation, available from the Wales tourism accommodation occupancy survey<sup>17</sup> to estimate tax revenue from a tax per room per night.
- 10) Second, if the Welsh Government plans to make children under 16 or 18 exempt from the tourism tax, the given results overestimate the tax revenue. The GBTS includes some information on visitors' age but does not differentiate by accommodation type or journey purpose by age, which would be required for the tax revenue estimation. Analysis for 16-18

<sup>16</sup> Welsh Government (2013). Summary of Wales Bedstock Data: Situation as at March 2013. Available at: <https://gov.wales/sites/default/files/statistics-and-research/2018-12/131011-accommodation-bedstock-march-2013-en.pdf> [accessed 23 March 2021].

<sup>17</sup> Welsh Government (2019). Wales tourism accommodation occupancy surveys: 2019. Available at: <https://gov.wales/wales-tourism-accommodation-occupancy-surveys-2019> [accessed 23 March 2021].

year olds can be provided by VisitWales for future research (age breakdowns start at 16, so 15-17 year olds cannot be analysed). For the IPS, no data on visitors' age is available.

- Third, the data on apartment or home rentals in Wales used for this analysis may not be accurate. According to the UK Insight report from Airbnb on activity in the UK for 2018, Wales attracted 467,000 guests within that year.<sup>18</sup> Together, the IPS and GBTS only count 234,000 visits staying in apartment or home rentals in Wales for 2019. Although the GBTS explicitly contains Airbnb rentals, the number may not be accurate. The IPS does not mention if the apartment and home rental category includes Airbnb's. Thus, data on apartment or home rentals from the IPS and the GBTS may not accurately reflect the number of rentals in Wales when including Airbnb. For future research it could be useful to obtain more recent and more detailed data on apartment and home rentals, potentially from Airbnb directly.
- Fourth, accurately estimating the tax revenue from applying various tax rates by accommodation category requires data on the distribution of hotels and self-catering by star rating. To differentiate rented apartments and houses by price categories requires additional data on apartments, houses, and Airbnb's. More accurate data on bedstock (see above) may provide the necessary level of detail.
- Fifth, not all data are available at the local authority level and so they do not enable tax revenue estimates at the level of each local authority. The GBTS data are available at the regional level<sup>19</sup>, but the IPS data are not.
- Sixth, this analysis does not take into account the impact of the COVID-19 pandemic and is based on pre-pandemic tourism levels in 2019. In reality, future tourism levels may take some time before they reach similar levels, which future research may need to reflect.

Additionally, it may be interesting to have more granular data on domestic visitors, to see which visitors are from Wales and which are from other parts of the UK. The GBTS provides some details on that, as Welsh guests account for 19.2% of all trips, 16.4% of all nights, and 14.2% of all spending from domestic guests in Wales in 2019. However, data on the share of Welsh visitors based on purpose or accommodation type used can be explored for further research.

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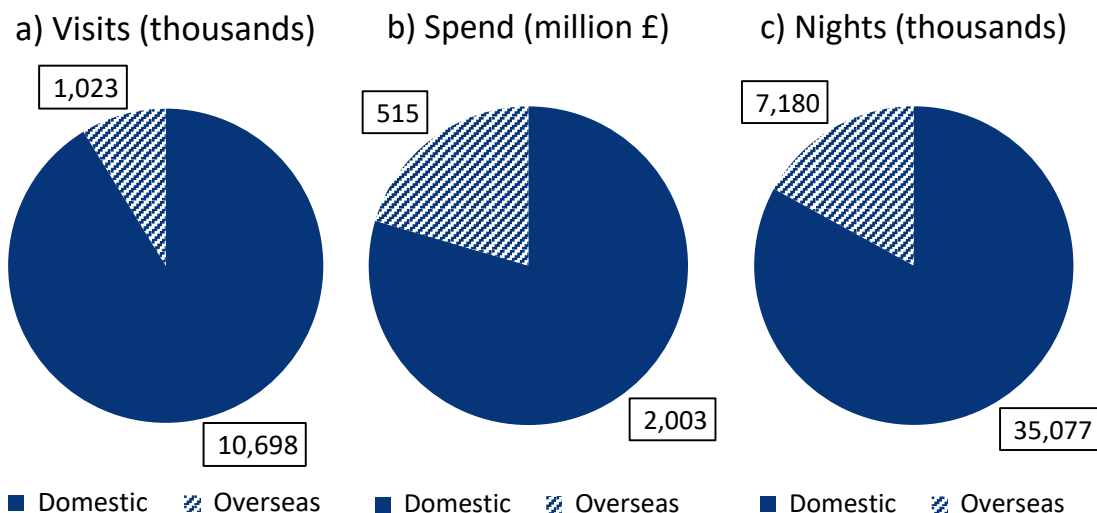
<sup>18</sup> Airbnb (2018). Airbnb UK Insights Report. Available at: [https://www.airbnbcitizen.com/wp-content/uploads/2018/10/AirbnbUKInsightsReport\\_2018.pdf](https://www.airbnbcitizen.com/wp-content/uploads/2018/10/AirbnbUKInsightsReport_2018.pdf) [accessed 22 March 2021].

<sup>19</sup> Of all domestic visitors in 2019, 17% visit Mid Wales, 39% visit North Wales, 23% visit South East Wales, and 20% visit West Wales. Source: GBTS via VisitWales. Available at: <https://gbtswaleslightviewer.kantar.com/ViewTable.aspx> [accessed 23 March 2021]. Small sample sizes will limit the conclusions that can be made.

### 3 Revenue estimates

Most visitors to Wales in 2019 were domestic tourists from the UK, as shown in Figure 1. Overseas visitors accounted for 9% of all visits, but 20% of overall spend and 17% of nights spent in 2019.

**Figure 1 Visitor Numbers to Wales 2019**



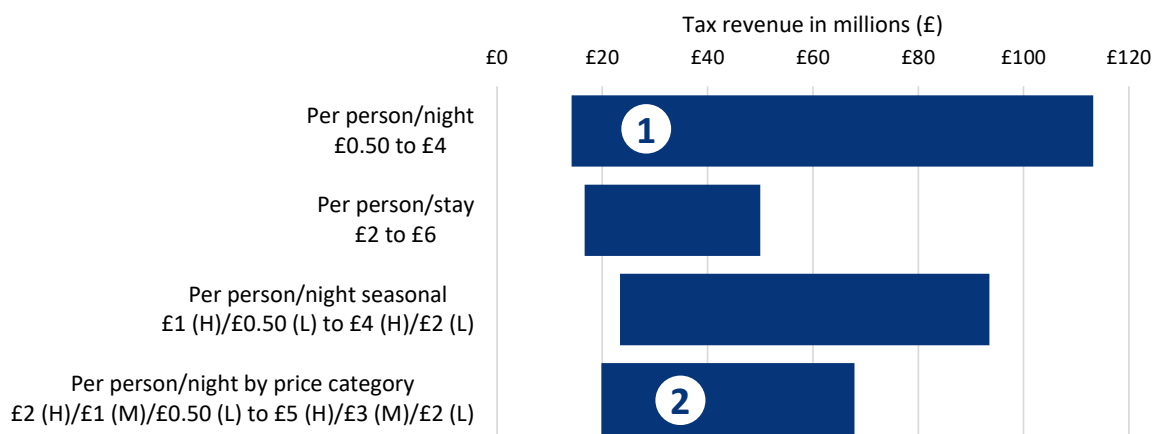
Source: LE Wales' analysis of data from GBTS and IPS

Applying the various tax policies to the data on overnight visitors to Wales from the IPS and the GBTS yields a range of revenue estimates. The tax revenue that can be obtained depends both on the type of tax policy and on the chosen tax level. The modelled tax levels are based on tax levels elsewhere in Europe, hence providing an indication of comparable tax policies. However, tax levels may reflect national and local price levels as well as existing VAT. Thus, tax levels in Eastern Europe are generally lower reflecting lower overall price levels. Similarly, cities such as Rome or Paris have very high tourism taxes, reflecting the large volume of tourists as well as the price level.

Figure 2 and Table 5 display the range of tax revenue estimates that can be obtained by applying a flat tax in Wales based on the tax options shown in Table 4.

- Revenue from a per person per night tax ranges from £14.2m for a tax of £0.50 to £113.2m for a tax of £4. Point 1 in the figure indicates the revenue from a £1 per night tax. The revenue from such a policy would amount to £28.3m. £24.7m of this revenue would be due to domestic visitors, with £4.1m from Welsh visitors specifically.
- For a tax per person per stay, the revenue range is much smaller, from £16.7m from a £2 tax to £50.0m from a £6 tax.
- Including seasonal variations in the tax per person per night narrows the range of tax revenue down compared to a fixed per person per night tax.
- When including different tax rates for different accommodation categories, the tax revenue ranges from £19.9m to £67.9m. Applying similar tax levels as in Greece (point 2, see Table 3 for tax level of Greece) would yield £37.6m in tax revenue for Wales. Domestic visitors would account for £31.2m of this revenue, £5.1m of which from Welsh visitors.

Figure 2 Flat tax revenue estimates



Source: LE Wales' analysis of data from GBTS and IPS

Table 5 Tax revenue estimates, £m (flat tax)

Tax type	Visitors	Option 1	Option 2	Option 3	Option 4	Option 5
Per person/night	<b>Tax levels:</b>	£0.50	£1.00	£2.00	£3.00	£4.00
	Domestic:	£12m	£25m	£49m	£74m	£99m
	International:	£2m	£4m	£7m	£11m	£14m
	<b>Total revenue:</b>	<b>£14m</b>	<b>£28m</b>	<b>£57m</b>	<b>£85m</b>	<b>£113m</b>
Per person/stay	<b>Tax levels:</b>	£2.00	£3.00	£4.00	£5.00	£6.00
	Domestic:	£15m	£23m	£31m	£38m	£46m
	International:	£1m	£2m	£3m	£3m	£4m
	<b>Total revenue:</b>	<b>£17m</b>	<b>£25m</b>	<b>£33m</b>	<b>£42m</b>	<b>£49m</b>
Per person/night seasonal*	<b>Tax levels:</b>	High: £1.00 Low: £0.50	High: £2.00 Low: £1.00	High: £3.00 Low: £1.00	High: £3.00 Low: £2.00	High: £4.00 Low: £2.00
	Domestic:	£21m	£42m	£59m	£67m	£84m
	International:	£2m	£5m	£7m	£8m	£9m
	<b>Total revenue:</b>	<b>£23m</b>	<b>£47m</b>	<b>£66m</b>	<b>£74m</b>	<b>£94m</b>
Per person/night by price category**	<b>Tax levels:</b>	High: £2.00 Mid: £1.00 Low: £0.50	High: £2.50 Mid: £1.50 Low: £1.00	High: £3.00 Mid: £2.00 Low: £1.00	High: £4.00 Mid: £2.50 Low: £1.00	High: £5.00 Mid: £3.00 Low: £2.00
	Domestic:	£16m	£29m	£31m	£34m	£57m
	International:	£4m	£5m	£6m	£8m	£11m
	<b>Total revenue:</b>	<b>£20m</b>	<b>£34m</b>	<b>£38m</b>	<b>£42m</b>	<b>£68m</b>

Source: LE Wales' analysis of GBTS and IPS data

\*For seasonal taxes, high season includes quarter 1 and 4, low season includes quarter 2 and 3.

\*\*For the accommodation price categories, high consists of 25% of all hotel and motel nights/spending; mid consists of 50% of all hotel/motel, and all rented houses and flats; low consists of 25% of hotel/motel, B&Bs, hostels, camping, and other commercial accommodation.

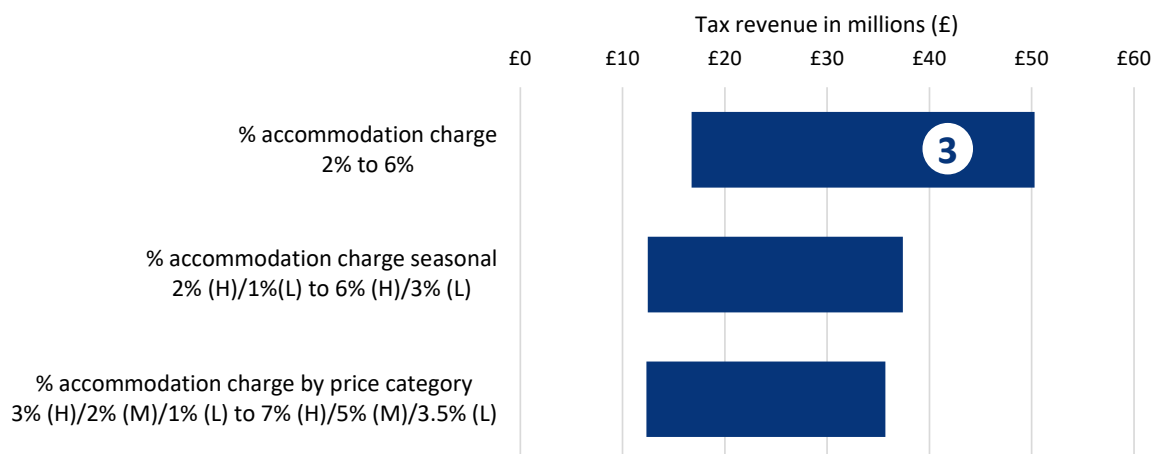
The revenue estimates of applying a variable occupancy tax are displayed in Figure 3 and Table 6. Due to the approximation of the share of overall spend on accommodation, these estimates should be treated with caution.

- Applying a 2% to 6% tax of the accommodation price is roughly comparable with other European cities, since Vienna charges 3.2%, Berlin charges 5%, and Amsterdam 7%. For Wales, variable tourism taxes would yield a revenue between £12.3m to £50.3m. A 5% tax

is comparable to what Berlin charges overnight visitors (point 3). In Wales, this tax policy would yield £41.9m in revenue, £34.6m from domestic visitors of which £6m would stem from Welsh visitors.

- With seasonal tax rate variation, the revenue ranges from £12.5m to £37.4m.
- Tax revenue by accommodation categories ranges from £12.3m to £35.7m.

**Figure 3** Variable tax revenue estimates



Source: LE Wales’ analysis of data from GBTS and IPS

**Table 6** Tax revenue estimates, £m (variable tax)

		Option 1	Option 2	Option 3	Option 4	Option 5
% accommodation charge	<b>Tax levels:</b>	2%	3%	4%	5%	6%
	Domestic:	£14m	£21m	£28m	£35m	£42m
	International:	£3m	£4m	£6m	£7m	£9m
	<b>Total revenue:</b>	<b>£17m</b>	<b>£25m</b>	<b>£34m</b>	<b>£42m</b>	<b>£50m</b>
% accommodation charge seasonal*	<b>Tax levels:</b>	High: 2% Low: 1%	High: 3% Low: 2%	High: 4% Low: 2%	High: 5% Low: 3%	High: 6% Low: 3%
	Domestic:	£11m	£16m	£22m	£27m	£32m
	International:	£2m	£3m	£3m	£4m	£5m
	<b>Total revenue:</b>	<b>£12m</b>	<b>£19m</b>	<b>£25m</b>	<b>£31m</b>	<b>£37m</b>
% accommodation charge by price category**	<b>Tax levels:</b>	High: 3% Mid: 2% Low: 1%	High: 4% Mid: 3% Low: 2%	High: 5% Mid: 4% Low: 3%	High: 6% Mid: 4.5% Low: 3%	High: 7% Mid: 5% Low: 3.5%
	Domestic:	£10m	£17m	£21m	£25m	£29m
	International:	£3m	£4m	£5m	£6m	£7m
	<b>Total revenue:</b>	<b>£12m</b>	<b>£21m</b>	<b>£26m</b>	<b>£31m</b>	<b>£36m</b>

Source: LE Wales’ analysis of GBTS and IPS data

\*For seasonal taxes, high season includes quarter 1 and 4, low season includes quarter 2 and 3.

\*\*For the accommodation price categories, high consists of 25% of all hotel and motel nights/spending; mid consists of 50% of all hotel/motel, and all rented houses and flats; low consists of 25% of hotel/motel, B&Bs, hostels, camping, and other commercial accommodation.



### 3.1 Behavioural Effects

Generally, tourism taxes make up a small proportion of the overall cost of accommodation and VAT. Since these taxes are usually payable in person and cannot be included in the pre-paid price of accommodation, they are hard to see in published accommodation prices but highly visible to the end customer. This may have an impact on end consumers and tourist activity.<sup>20</sup>

The estimates of tax revenue for Wales in this analysis are based on the assumption that there is no behavioural response from tourists to the change in price. In practice, that may not be true. Some previous studies have looked at the effect of tourism taxes on behaviour and price elasticities of demand. Durbarry and Sinclair (2000) look at the sensitivity of tourism demand in the UK to changes in prices, exchange rates and expenditure. They find that an increase of effective prices in the UK relative to the origin country price of 1% would lead to a decrease in tourism expenditure of around 1%, i.e. a price elasticity of -1.<sup>21</sup>

In a study commissioned by the British Tourist Authority (BTA, now VisitBritain),<sup>22</sup> the estimated exchange rate elasticity of tourism in the UK was -1.3. Thus, a 1% increase in the cost of staying in Britain due to exchange rate fluctuation would lower the UK's international tourism earnings by 1.3%. International tourism is thought to be more competitive and price sensitive than domestic tourism.<sup>23</sup>

Another study from the University of Nottingham found an average price elasticity of -0.61 for tourism in the UK,<sup>24</sup> meaning that a price increase of 1% produces a fall in demand of 0.61%. This suggests that tourism is less price sensitive than what other studies found. The study also looks at the price elasticity for tourists from various countries and journey purposes. Visitors from Spain and Ireland are found to be the most price sensitive to tourism price changes, with an elasticity of -1.38 and -1.86 respectively. Italian and German visitors are less price sensitive, with an elasticity of 0.49 and -0.33 respectively. Among all journey purposes, holidaymakers are the most sensitive to price changes with an elasticity of -1.23 while business travellers are the least price sensitive, with an elasticity of 0.18.

Heffer-Flaata, Voltes-Dorta and Suau-Sachez (2020)<sup>25</sup> look at tourists from the UK to France, Spain and Italy and find that air travellers are slightly price-inelastic during the peak summer period and slightly elastic during winter, so there might be seasonal differences in visitors' price sensitivity.

Overall, evidence suggests an average price elasticity for visitors to the UK of around -1. Thus, in practice tax revenue for Wales could be lower than the given estimates. In addition to the effect on visitors, tourism taxes may impose costs to administering bodies in terms of staff time and cost. In

<sup>20</sup> EU Commission (n.d.). Tourism-related taxes across the EU. Available at: [https://ec.europa.eu/growth/sectors/tourism/business-portal/financing-your-business/tourism-related-taxes-across-eu\\_en](https://ec.europa.eu/growth/sectors/tourism/business-portal/financing-your-business/tourism-related-taxes-across-eu_en) [accessed 22 March 2021].

<sup>21</sup> Durbarry, R. and Sinclair, M.T. (2000). Tourism taxation in the UK. Christel DeHaan Tourism and Travel Research Institute, University of Nottingham.

<sup>22</sup> British Tourist Authority (BTA) (2001). The Price Sensitivity of Tourism to Britain.

<sup>23</sup> GLA Economics (2017). Options for a tourism levy for London: A publication for the London Finance Commission.

<sup>24</sup> Blake, A. and Cortes-Jimenez, I. (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. Available at: <http://data.parliament.uk/DepositedPapers/Files/DEP2008-2963/DEP2008-2963.pdf> [accessed 22 March 2021].

<sup>25</sup> Heffer-Flaata, H., Voltes-Dorta, A. and Suau-Sachez, P. (2020). The impact of accommodation taxes on outbound travel demand from the United Kingdom to European Destinations. *Journal of Travel Research*, 60(4), 749-760.

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a consultation from Aberdeen City Council and the Hague, Netherlands the administrative burden of a tourism tax for the Council was estimated around 0.75 FTE. Accommodation providers would incur an even larger cost from making changes to billing and accounting systems, collecting, and depositing the tax.<sup>26</sup>

Future research could incorporate a behavioural response from consumers to a tourism tax in a model of tax revenue. If visitors are significantly price sensitive, this would not only lower tax revenue but also lower the revenue generated by the tourism industry. Further, it may be worth looking at the cost imposed on accommodation providers and councils through an additional administrative burden from imposing and collecting a tourism tax.

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<sup>26</sup> Edinburgh City Council (2018). Edinburgh Transient Visitor Levy.

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## **ANNEXES**



## Annex 1 Data

### A1.1 IPS

The various accommodation types as classified in the IPS are:

- Hotel/guest house
- Bed & Breakfast
- Camping/mobile home
- Hostel/University/school
- Holiday village/Centre
- Rented House
- Paying guest family or friends
- Free guest with relatives or friends
- Own Home
- Other

The various journey purposes for visitors coming to Wales are:

- Holiday
- Business
- VFR
- Study
- Other (e.g. Au pair, medical treatment, looking for work, voluntary work, etc.)

### A1.2 GB Tourism Survey

Under the GBTS, the different accommodation categories are not all mutually exclusive. They are:

- Commercial accommodation
  - Commercial serviced accommodation
  - Hotel/motel
  - Guest house/B&B
  - Self-catering (incl. caravan and camping)
  - Self-catering (excl. caravan and camping)
  - Caravan or camping
  - Touring caravan (towed)\campervan\motorhome
  - Static caravan - not owned
  - Static caravan - owned
  - Tent
  - Glamping/alternative accommodation e.g. yurt, tipi, eco-pod
  - Hostel
  - Airbnb/Someone else's home
- Friend's home, Relative's home, Own second home\timeshare

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The journey purpose categories are also not all mutually exclusive. They are:

- Leisure
- Total holiday
- Holiday\pleasure\leisure
- VFR
  - Visiting friends or relatives - mainly holiday
  - Visiting friends or relatives - mainly other reason
- Total Business
  - To attend a conference
  - To attend an exhibition\trade show
  - Travel\transport is my work
  - To do paid work\on business
- School trip
- Other reason



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## Annex 2 Welsh Government brief

### A2.1 Introduction

The Client wishes to commission an indicative economic appraisal of the factors that may influence the scale of revenue generation from a Tourism Tax in Wales, and an initial model that can be adjusted in the future to take into account different conditions. The aim is to provide the Client with timely and robust information on such a proposal. The project will need to complete by 31 March 2021.

### A2.2 Background / Aims / Objectives

Since the shortlist of new tax ideas was announced in autumn 2017, the ‘tourism tax’ has attracted significant industry, political and media attention.

The recently published Tax Policy Report Plan 2021 sets out the Welsh Government will:

“Continue to gather evidence and to discuss and assess with a range of stakeholders and experts whether there is a case for providing permissive powers to local authorities to implement a tourism tax (this would not be for this Senedd term). This will include consideration of the ongoing implications of Covid-19 on the tourism industry”.

The working assumption is that officials should continue to explore options for a Tourism Tax, and that this should be based on an enabling power for local authorities to levy such a tax, with soft hypothecation to earmark the proceeds for projects to support tourism.

We wish to procure a short piece of research to inform the evidence base and establish an initial model of potential revenue generation, which will inform options appraisal should the next Senedd choose to continue work on developing a Tourism Tax.

### A2.3 Requirement

To gain a baseline understanding of the factors that may influence the scale of revenue generation from a Tourism Tax in Wales, and to provide an initial model that can be adjusted in the future to take into account different conditions.

The model would be based on an overnight charge of accommodation, so would not include, for example, potential revenue generation from day trippers.

The research would consider and model the implications for the potential revenue from the tax of the following factors:

- i. Whether any tax rate is set at a national or local level;
- ii. The types of accommodation any tax would be applied to;
- iii. Whether the tax is applied to short-terms lets like Airbnb; and
- iv. The basis for the tax, for example, a flat rate per person per night, flat rate per room per night, or a percentage of the accommodation charge etc.

The research may examine the potential distribution of revenue across Wales. It could also consider breakdown of revenue by different types of accommodation, domestic or overseas visitors and at different times of the year.



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