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# Comparative Analysis of the Tax Systems Faced by the Visitor Economies in Selected Countries

**Executive Summary**

## 1. Aims and Objectives

1.1 This research aims to build an understanding of the tax systems facing the visitor economy in general, and the accommodation sector specifically, in Wales and other similar (potentially competitor) visitor economies.

1.2 The main objectives of this report are:

(1) To identify appropriate comparator tourist economies to Wales;

(2) To collect and report details of the main taxes affecting the tourism sectors in Wales and the comparator economies;

(3) To calculate some exemplar tax wedges for various suppliers of tourism services, to highlight the salient differences between the tax regimes in Wales and the comparators.

## 2. Identifying comparator tourist economies

2.1 Comparator tourist economies from the UK, EU and EFTA were identified using cluster analyses at the national and NUTS3 regional levels.[1,2] These were based on data relating to overall tourism activity, tourism demand characteristics, industry characteristics and destination characteristics.[3]

2.2 The national level cluster analyses identified Denmark as having the most similar visitor economy to Wales, followed by France, Norway, Sweden, the Netherlands and Luxembourg.

2.3 The clusters identified at the NUTS3 level are illustrated in Figure 1.

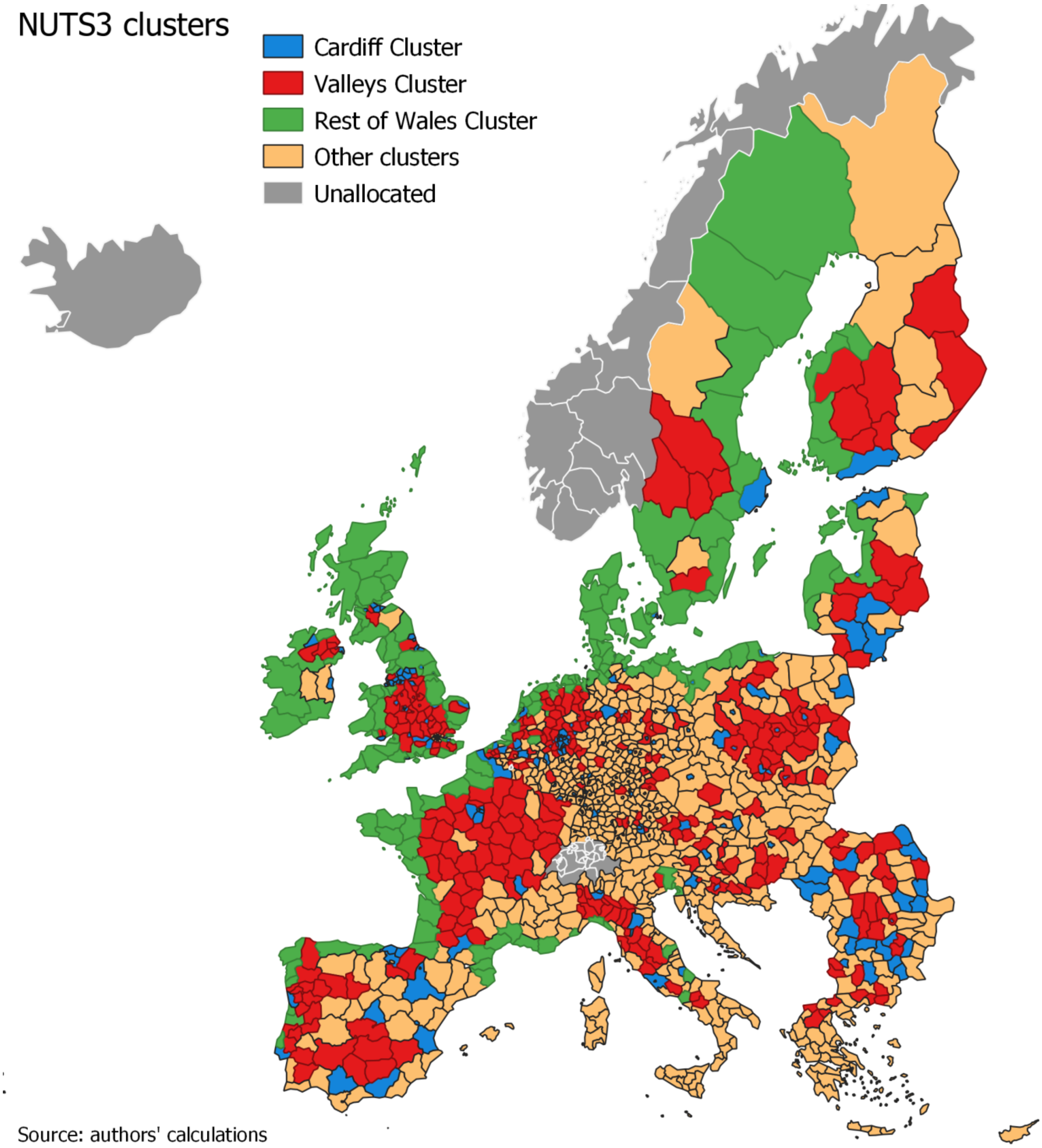
[1] Cluster analysis is a commonly used statistical technique for grouping a set of objects (in this case tourist economies) in such a way that objects in the same group are more similar to each other than to those in other groups.

[2] The NUTS classification is a commonly used hierarchical system for dividing up the economic territory of the EU, EFTA and the UK for the purpose of collection, development and harmonisation of European regional statistics.

[3] All data in the report relate to 2019, unless otherwise specified, to abstract from the exceptional impact of the Covid-19 pandemic on the tourism sector and tax regimes.

2.4 Combining the cluster analyses, Denmark, Sweden, the Netherlands, Norway and France were identified as a group of close comparators to Wales's tourism sector. A further group of nations was identified which represent remoter comparators to Wales. This consisted of Luxembourg, Estonia, Latvia, Scotland, England and Ireland.

**Figure 1:**



## 3. Comparison of Tax Systems and Estimation of Exemplar Tax Wedges

3.1 The tax systems considered are complex.[4] As a result, making comparisons between different countries' tax codes is inexact, but this report set out to do so in an impartial and objective manner.[5] Data on tax rates, thresholds, allowances, exemptions and various other characteristics were collected, and triangulated where possible with alternative sources.[6]

3.2 Tourism-specific taxes are relatively uncommon in the comparator economies. Of the ten tax regimes considered, only two (France and the Netherlands) have a visitor levy.[7] Five of the comparators (France, the Netherlands, Norway, Sweden and the UK) collect an air passenger departure tax.

3.3 Tourism businesses, however, engage in a wide variety of activities, and the competitiveness of a country's tourism sector is likely to be affected by the full range of taxes raised.

3.4 The full report provides significant details on the rates, thresholds, allowances and exemptions for personal income tax (PIT), social security contributions (SSC), corporate income tax (CIT), value added tax (VAT), and property taxes, as well as the specific tourism-related taxes, across all comparator economies.

3.5 To highlight the salient features of Wales's tax regime relative to the close comparator economies, the report estimates tax wedges for three exemplars.[8,9]

3.6 Table 1 shows the estimated tax wedge for a self-employed owner-manager of a small guesthouse or B&B with a take-home annual income of £25,000 (or equivalent in local currency).

**Table 1: Exemplar 1 - Micro enterprise owner-manager[10]**

| | Wales | Denmark | France | Netherlands | Norway | Sweden |
|---|---|---|---|---|---|---|
| **SSC** | 6.5% | 0.5% | 19.5% | 22.5% | 9.3% | 5.6% |
| **PIT** | 11.8% | 21.5% | 7.1% | 0.0% | 16.0% | 22.2% |
| **CIT** | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Property tax** | 0.0% | 3.1% | 0.0% | 0.3% | 0.5% | 2.5% |
| **VAT** | 0.0% | 23.5% | 9.6% | 4.6% | 7.9% | 8.1% |
| **Visitor levy** | 0.0% | 0.0% | 4.0% | 4.3% | 0.0% | 0.0% |
| **TOTAL tax wedge** | 18.3% | 48.6% | 40.2% | 31.7% | 33.7% | 38.3% |

[4] For example, in 2009, the UK's tax code comprised 11,520 pages (Accountingweb 2009).

[5] The report focuses on headline tax rates and disregards details that are conditional on an individual's or business's particular circumstances. For example, whilst universal tax credits are reported, those conditional on martial or child status are not.

[6] These sources included PWC, Deloitte, the OECD, the European Commission, and EY.

[7] However, it is worth noting that visitor levies exist in some form or other in eighteen of the EU-27 countries.

[8] A tax wedge is the difference between the price consumers pay and the value producers receive (net of tax) from a transaction. The tax effectively drives a "wedge" between the price consumers pay and the price producers receive for a product or service.

[9] Only two of the exemplars are reported in this executive summary. The estimates for the third exemplar (a large, incorporated business with a chain of hotels) are broadly similar to exemplar 2.

[10] The estimates in Tables 1 and 2 are intended to be illustrative of the broad principles underlying the tax systems in each country and not a definitive calculation of tax liabilities. The estimates in the two exemplars are not directly comparable, partly because those in exemplar 2 do not include personal taxes.

3.7 Table 2 shows the estimated tax wedge for a 50-bedroom hotel, with bar and catering facilities, running as an incorporated business which generates £200,000 (or local currency equivalent) of pre-CIT accounting profit, has £400,000 of staff costs and £400,000 of non-staff costs on which input VAT may be reclaimed.

**Table 2: Exemplar 2 - Small to medium-sized, incorporated business**[10]

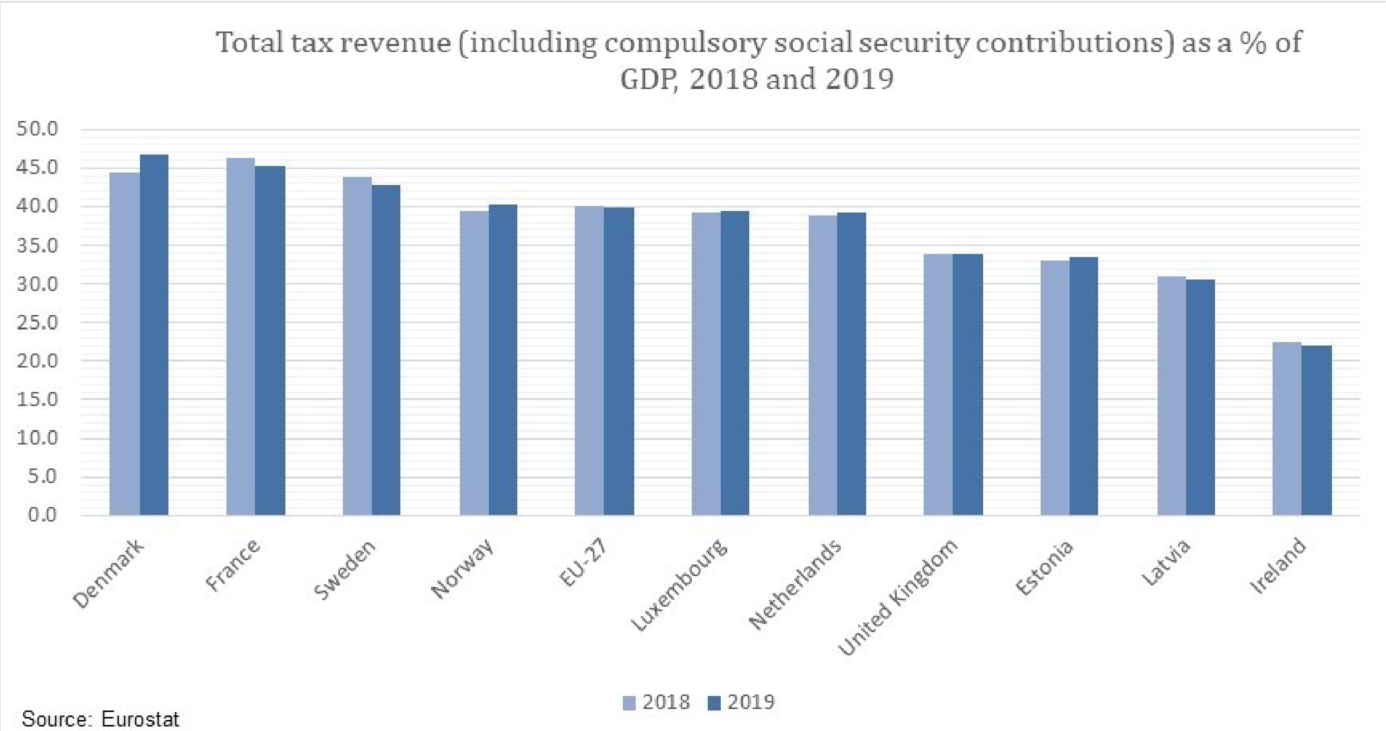
| | Wales | Denmark | France | Netherlands | Norway | Sweden |
|---|---|---|---|---|---|---|
| **CIT** | 3.1% | 3.7% | 4.4% | 2.7% | 4.0% | 3.6% |
| **Property tax** | 1.7% | 1.3% | 1.2% | 0.1% | 0.2% | 0.8% |
| **Employer SSC** | 2.4% | 1.3% | 13.1% | 6.9% | 4.7% | 10.6% |
| **VAT** | 14.2% | 13.3% | 6.0% | 3.0% | 4.2% | 3.9% |
| **Visitor levy** | 0.0% | 0.0% | 1.3% | 1.4% | 0.0% | 0.0% |
| **Tax wedge** | 21.4% | 19.5% | 26.0% | 14.1% | 13.1% | 19.0% |

## 4. Key Findings

4.1 Wales's tourist economy has most in common with Denmark, France, the Netherlands, Norway and Sweden. These happen to be countries which have a more social democratic model of government than the UK. They have much higher overall tax revenues as a proportion of GDP (see Figure 2), and much higher levels of government spending.

4.2 Wales's tax landscape is more similar to the more distant comparators identified in the cluster analyses – England, Estonia, Ireland, Latvia, Luxembourg and Scotland. These are all countries whose states have a tradition of following a more laissez-faire economic model, with lower overall taxes and government spending.

**Figure 2:**




Source: Eurostat

4.3 The most salient feature of labour taxes (PIT and SSC) in Wales relative to the comparator economies is their progressivity at the lower end of the income distribution. This is of particular note for the tourism sector, where a high proportion of jobs are low paid both amongst employees and the self-employed.

4.4 CIT rates in Wales are towards the lower end of the group of close comparators, but not by a substantial margin.

4.5 The high threshold for VAT registration in the UK is unique amongst the group of close comparators. This means that no VAT is payable on the value added of non-VAT registered micro enterprises in Wales's tourism sector. On the other hand, for those businesses which are registered, the VAT rate in Wales on accommodation is significantly higher than in any of the comparator economies except Denmark.

4.6 Property taxes on businesses in Wales (in the form of non-domestic rates, NDR) are generally very high by international comparison. However, the Small Business Rates Relief scheme exempts many micro businesses from NDR and reduces the rates payable for many others. This is particularly relevant in the tourism sector in Wales where, as previously noted, there is a prevalence of micro enterprises.

4.7 Visitor levies exist in only two of the comparator economies, France and the Netherlands. The rates in both countries vary significantly, depending on locality and accommodation type. In exemplars 1 and 2, this report assumed a per person per night rate of €1, which is close to the average charged in both countries. At this level, a visitor levy has a more modest impact on businesses than income taxes (personal or corporate), SSC or VAT. However, the impact is not insignificant. In each of the exemplars considered, the visitor levy accounts for between 5% and 12% of the overall tax wedge identified.

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Mae'r ddogfen yma hefyd ar gael yn Gymraeg.

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