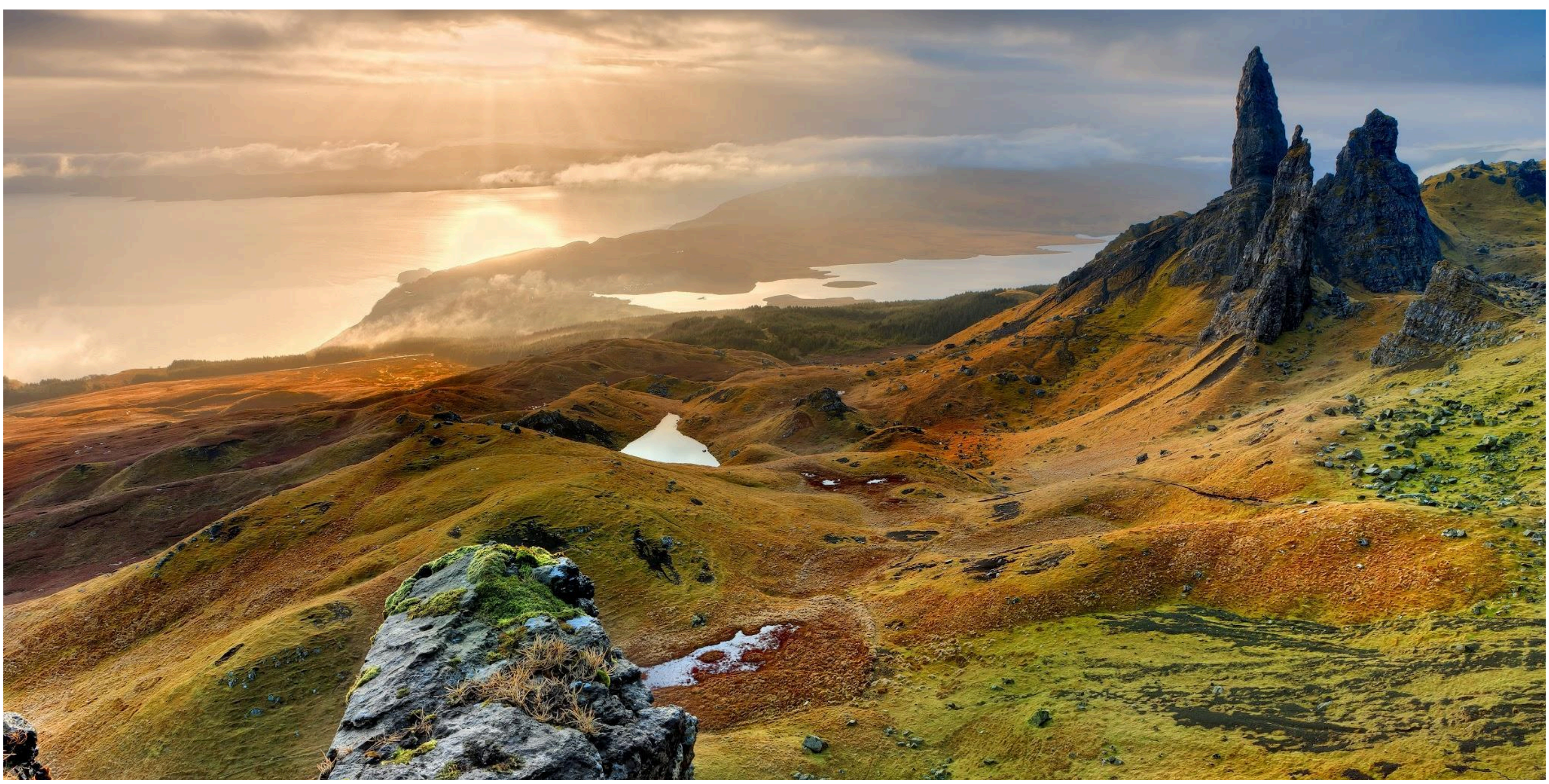
NorthStar

DATA INSIGHTS STRATEGY

# TOURISM TAX

## Focus on Scotland: A Proposed Tourist Levy for Scotland.

## An Analysis of the urban-Rural Divide and Models for Sustainable Implementation



## Introduction: The Challenge of Success in Scottish Tourism

In the post-war era, as Britain's traditional primary and manufacturing industries declined, tourism evolved from a peripheral "candy floss industry" into a leading influence in society and a critical economic driver in almost every part of the UK.

Today, Scotland's tourism sector stands as a cornerstone of the national economy, showcasing the country's unparalleled natural scenery and rich cultural heritage.

However, this success, built over decades, has brought significant challenges.

**The post-1960s shift from rail-based holidays to car-dependent tourism opened up remote rural areas, but the infrastructure in these regions was never designed for the volume of visitors it now experiences.**

This has placed substantial pressure on local services and the environment, a strain felt most acutely in popular rural destinations.

In response, the **Transient Visitor Levy (TVL)** concept has been proposed as a mechanism to generate a dedicated revenue stream for reinvestment.

This report analyses the complexities involved in designing and implementing such a levy. It focuses on the critical distinction between Scotland's urban and rural tourism landscapes and argues for a nuanced approach that addresses the unique challenges faced by each.

The economic importance of the sector provides a compelling backdrop for this discussion.

**Scotland's Tourism Sector Soars in 2024, Driven by International Demand and Screen Tourism. Scotland welcomed a record-breaking wave of visitors in 2024, with international tourism reaching new heights.** According to VisitScotland's Annual Performance Report, the country received 4.4 million international trips, generating £4.0 billion in visitor spending and accounting for 30.7 million nights stayed.

This marks a 9% increase in international visitor numbers compared to 2023 and a remarkable 26% rise compared to pre-pandemic levels in 2019. Even more striking is the 56% surge in international visitor spending since 2019—highlighting not only growing interest in Scotland as a destination but also higher per-visitor expenditure.

Momentum was evident early in the year: the first half of 2024 alone saw nearly 2 million international arrivals—a 14% increase from the same period in 2023 and a 46% jump from 2019.

**Domestic tourism also showed strong resilience.** Visitor attractions across Scotland recorded a total of 49,708,483 visits in 2024, up 3.9% from the previous year. This growth was fueled in part by a surge in "set-jetting"—trips inspired by film and television productions filmed at Scotland's historic sites.

Edinburgh Castle retained its title as the nation's most visited paid attraction, welcoming 1,981,152 guests—a 4% increase from 2023. Meanwhile, the National Museum of Scotland remained the top free attraction, with 2,314,974 visitors, reflecting a 5.9% year-on-year rise.

Other heritage sites saw even more dramatic gains:

- Stirling Castle recorded 594,938 visits, up 14.8%.
- Culloden Visitor Centre welcomed 374,443 visitors, a 42.8% increase.
- St Giles' Cathedral drew 1,742,147 visitors, an 18.3% rise.

Together, these figures underscore Scotland's growing appeal as a global destination—bolstered by cultural storytelling, historic landmarks, and a robust recovery in international travel.

While visitor levies are not a new concept in Europe, their application in Scotland faces a unique set of fiscal, geographical, and administrative challenges that demand careful consideration.

## The European Context: Precedent and Precaution

Understanding the broader European landscape for tourist taxes is strategically important for Scotland.

Many of the continent's most popular destinations have already implemented such levies, normalising the concept for international travellers. For visitors accustomed to destinations like Venice, Berlin, and Barcelona, a modest local levy is an expected part of the travel experience.

However, while these precedents exist, **Scotland must consider a key fiscal counter-argument rooted in the UK's specific policy environment**.

The UK government's attitude towards domestic tourism has historically been one of "benign neglect," characterised by a long-standing "preoccupation with inbound tourism and foreign exchange earnings."

**A significant concern for the accommodation sector is that this policy history has left UK businesses operating at a competitive disadvantage due to a high rate of Value Added Tax (VAT)**.

Within the European Union, only Denmark imposes a higher VAT on visitor accommodation.[1] This existing high tax burden, a reflection of a fiscal policy that has often disadvantaged the domestic sector compared to European competitors, makes the addition of a further levy a sensitive issue for business competitiveness.

Despite these precedents and precautions, the tangible and growing pressures on Scotland's local infrastructure provide a compelling local rationale for considering a purpose-built levy designed to secure the long-term sustainability of the tourism economy.

## The Rationale for a Levy: Addressing Tourism-Related Infrastructure Strain

The debate surrounding a Transient Visitor Levy in Scotland is not an abstract economic exercise; it is driven by the tangible, on-the-ground impacts of high visitor numbers that are degrading the visitor experience and straining community resources.

These problems are the direct, modern-day symptoms of long-term historical trends.

For example, the national motorway building programme of the 1960s and the subsequent explosion in car ownership fundamentally changed how tourists access remote areas, creating pressures that local infrastructure was never intended to handle.

The well-documented case study of the Isle of Skye can help better understand the context

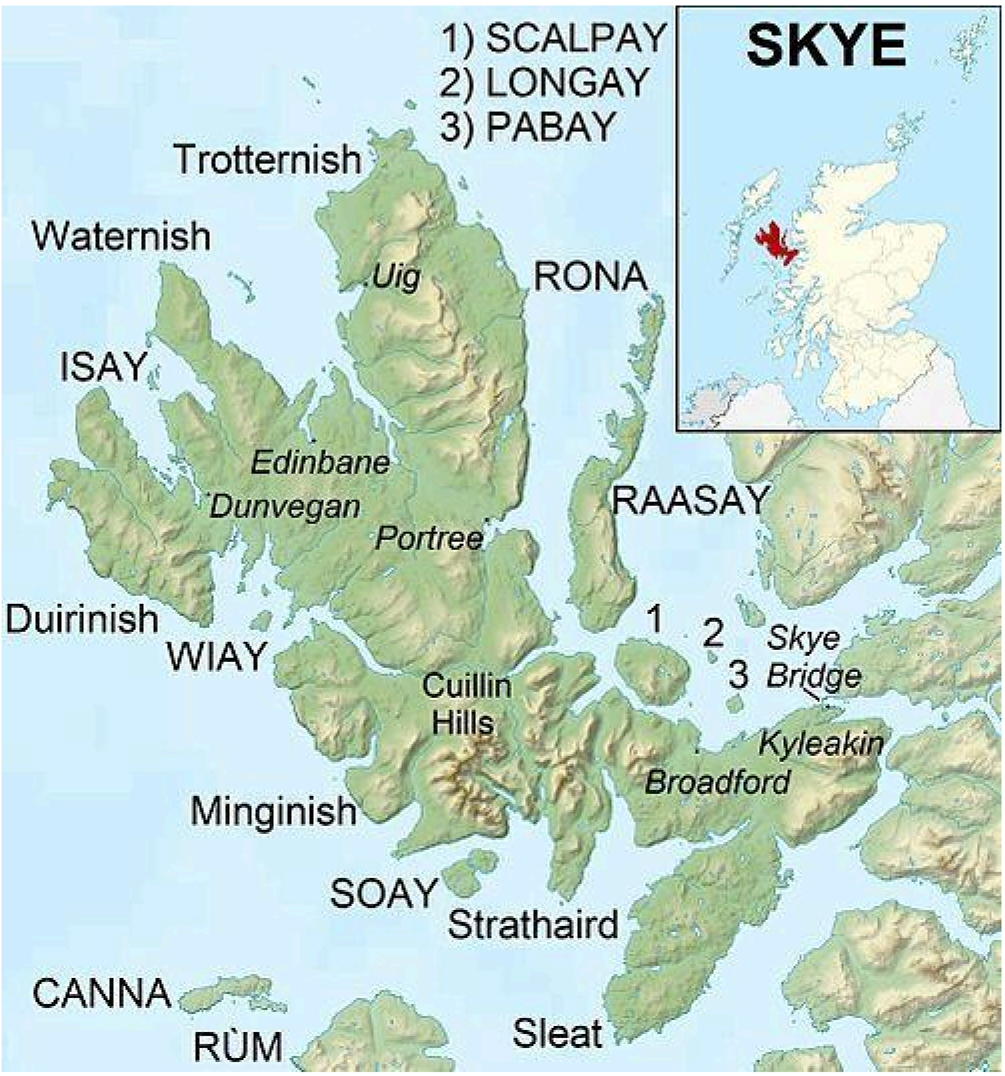
The success of destinations like Skye has led to a range of negative consequences that require significant and sustained investment to mitigate.

Amongst these we find, for example:

- Road Damage and Congestion: High volumes of tourist traffic, particularly campervans, have been cited as destroying and blocking narrow rural roads. This is a direct consequence of the post-war shift to car-dependent tourism, which has overwhelmed a road network originally built for local, low-volume use.
- Waste Management: Increased visitor numbers have overwhelmed local waste management capacity, evidenced by the improper disposal of chemical toilet waste on roadsides and the general strain on cleansing departments.
- Lack of Public Facilities: A systematic closure of public toilets by local authorities has resulted in a severe lack of facilities, leading to tourists

relieving themselves in public spaces, an issue that affects both sanitation and the visitor experience.

- Environmental Degradation: The sheer volume of visitors in sensitive natural areas is causing visible environmental damage that requires funding to repair and protect for the future.




There is a growing concern that without significant investment to address these issues, **the very brand of these destinations is at risk.**

The continued deterioration of infrastructure and environment threatens to damage "brand Skye," which could lead to a long-term decline in visitor numbers, a fall in tourism revenue, and a loss of reputation as a world-class destination.

**These localised problems, particularly acute in rural hotspots, highlight the central challenge: designing a levy that can work across Scotland's diverse and varied geography.**

## The Central Challenge: Navigating Scotland's Urban-Rural Tourism Divide

*The urban-rural divide, a product of divergent development paths dating back to the post-war tourism boom, represents the most critical factor in designing a viable Transient Visitor Levy.*

A uniform, "one-size-fits-all" approach fails to account for the vastly different economic structures, administrative realities, and tourism pressures between major cities and remote rural councils.

This disparity has deep historical roots; government investment, such as the Hotel Development Investment Scheme of 1968, was heavily focused on cities to support inbound tourism, while rural areas were left with a tourism economy traditionally composed of small-scale, seasonal, family-run providers.

This historical investment gap helps explain why the economic resilience and administrative capacity of urban and rural councils are so different today.

### *Economic Impact on Small and Medium-Sized Enterprises (SMEs)*

A simple "bedroom tax" model poses a disproportionate threat to rural accommodation providers.

For decades, rural tourism has been dominated by independent small and micr businesses, many of which have already disappeared through a long-term process of economic attrition.

The survivors are particularly vulnerable to new cost burdens. They operate within the "unsustainable economic realities of the 16-week holiday season" and face unique overheads not as prevalent in urban centres.

A key challenge is the necessity of purchasing expensive local housing to attract and retain staff.

These costs are passed on to customers, and an additional tax could render these fragile businesses uncompetitive in a global market.

### *The Administrative Burden*

There is significant concern that a Overnight Stay Tax would force the owners of small-scale bed & breakfast and self-catering establishments—many of which are family-run micro-enterprises—to act as "unpaid tax collectors" for the local authority.

The various proposals and decisions so far undertaken by various councils include a tax on overnight stay to be applied indiscriminately to camper sites and low-cost accommodation. This would create a substantial and unwelcome administrative burden, adding complexity and cost to operations without providing any direct benefit.

### *Governance and Revenue Allocation*

**Perhaps the most profound fear among rural stakeholders is that revenue generated in their communities would not be reinvested locally to address their specific needs.**

The administrative structure of large rural councils fuels this concern.

In The Highland Council, for instance, there is a widespread perception among stakeholders on Skye that funds collected on the island would be diverted to benefit Inverness, the region's administrative centre or viceversa. Stakeholders in the City of Stirling Council have similar fears.

This lack of trust means that any levy must come with ironclad guarantees that revenue will be ring-fenced and controlled at the most local level possible.

The significant flaws of a standard **Overnight Stay Tax model in a rural context necessitate an exploration of alternative models better suited to Scotland's varied landscape.**

### *Alternative Levy Models for a Diverse Scottish Landscape*

In response to the clear challenges of implementing a simple accommodation-based tax, particularly in rural areas, stakeholders, academic reviews and businesses have proposed several alternative models.

These proposals aim to raise the necessary revenue to fund infrastructure while minimising administrative complexity and negative economic impacts.

| Possible Levy Model | What would that be/entail? |
|---|---|
| Per-Person Cruise Passenger Levy | Proposes a simple, per-head levy (e.g., £10) on all cruise passengers arriving in a port. The rationale is that it is easy to administer, lucrative, and targets a high-volume, transient visitor group that utilises local infrastructure with minimal overnight contribution. |
| Vehicle-Based Levies | Suggests a charge on visitor vehicles entering a specific area, such as, for example, a toll on the Skye Bridge or a congestion charge system when entering the Trossachs. The rationale is that this model directly targets the primary driver of infrastructure strain that emerged with the post-1960s shift to car-based tourism, applying to all visitors, not just those in paid accommodation. |

| Possible Levy Model | What would that be/entail? |
|---|---|
| National-Level Collection | Proposes collecting a levy from international visitors at the national level, for instance, through visa applications or airport departure duties, similar to the model used in New Zealand. The rationale is that it would centralise collection and **remove the burden from local businesses.** |
| Sector-Specific Levies | Includes smaller-scale proposals such as a levy on tickets for major events. The rationale is to broaden the revenue base beyond just the accommodation sector. |

Regardless of the specific model chosen, its ultimate success and acceptance will depend on its adherence to a clear set of implementation principles consistently demanded by local communities and businesses.

## A Framework for a Sustainable Visitor Levy

While a Transient Visitor Levy offers a credible solution for funding the essential infrastructure that underpins Scotland's tourism sector, this analysis demonstrates that a simplistic, one-size-fits-all Overnight Stay Tax model poses significant risks.

Such an approach threatens to undermine the fragile economy of rural tourism hotspots, placing an undue burden on small businesses and failing to guarantee that revenue will be spent where it is most needed.

The case for carefully designed government intervention stems from a classic "market failure," where the tourism market, dominated by small, disparate businesses, cannot collectively fund the public infrastructure on which it depends.

A nuanced approach is therefore required—one that recognises the fundamental differences between urban and rural Scotland.

Drawing lessons from the long and often fraught history of tourism development in the UK, a successful framework must be built upon the following core principles. Any proposed legislation must ensure that the levy is:

1. **Locally Controlled and Administered**: Revenue must be ring-fenced and spent within the specific area from which it is collected to address local needs. There must be absolute certainty that funds raised in a community will be reinvested in that community.
2. **Developed in Partnership:** The design, implementation, and spending decisions must be made in close collaboration with local tourism organisations, community councils, and local businesses to ensure the model is fit for purpose.
3. **Transparent and Strategic:** There must be a clear, publicly communicated plan for how funds will be collected and allocated. Spending must be aligned with a long-term, strategic vision for sustainable tourism that protects environmental assets while promoting economic growth.
4. **Fair and Efficient:** The levy must not place a disproportionate administrative or financial burden on one specific sector, such as accommodation providers. The cost of collection must be proportionate to the revenue generated, and alternative models that spread the contribution across a wider range of visitors should be prioritised.

# Endnotes

1. As of 2024–2025, most EU countries apply reduced VAT rates to hotel stays—typically between 5% and 13%.

For example:

France: 10%
Germany: 7%
Italy: 10%
Spain: 10%
Portugal: 6%
Netherlands: 9%
Ireland: 13.5%
Greece: 13%
Sweden: 12%
Austria: 10% (13% in some regions)

Denmark applies a standard VAT rate of 25% to almost all goods and services, including accommodation—and does not offer a reduced rate for tourism or hospitality.