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Ariane Burgess MSP
Convener, Local Government, Housing and Planning
Committee
Scottish Parliament
By Email

1 September 2023

Dear Ariane

Visitor Levy (Scotland) Bill – interaction with VAT

I am writing to you to provide the Local Government, Housing and Planning Committee with an update on the Visitor Levy (Scotland) Bill. Specifically, on our engagement with the UK Government on the interaction of Value Added Tax (VAT) if a local authority decided to introduce a visitor levy in line with the Bill currently before the Scottish Parliament.

As you will be aware, matters relating to VAT are reserved under the Scotland Act 1998 to the UK Government and UK Parliament. During the Scottish Government's engagement on a potential visitor levy, tourism and hospitality industry stakeholders raised queries as to how a visitor levy would interact with UK VAT law.. There are two aspects to this; firstly, whether VAT would apply to a visitor levy (if a local authority decided to introduce one); and secondly, whether the levies collected by an accommodation provider and remitted to the levying local authority will be considered in a business's turnover for VAT registration purposes.

At the launch of the Bill on 24 May, I wrote to the UK Government's Chief Secretary to the Treasury to request clarity on how a visitor levy would be treated for VAT purposes.

The Financial Secretary to the Treasury, Victoria Atkins MP, wrote back to me in July 2023, setting out the following points. Firstly, she noted that a fundamental principle of VAT law is that VAT is charged on the price paid on the supply of taxable goods or services, including other taxes, levies and charges. In the case of the visitor levy, if an accommodation provider includes an amount equivalent to a visitor levy in the charge for the overnight accommodation, then this will form part of what is paid under a contract for the supply of accommodation. This portion will therefore have the same VAT liability as the accommodation. Secondly, the Financial Secretary was clear that any amount charged by an accommodation provider relating to the visitor levy will also form part of the turnover of accommodation providers for VAT registration purposes.

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I am providing this update to the Committee to assist you in your scrutiny of the Visitor Levy (Scotland) Bill. As noted above, this is a reserved matter and while I know that this position will be disappointing for accommodation providers, Scottish Ministers do not have the legal competence to determine how a visitor levy is treated for VAT purposes. The Scottish Government's position is that any local authority thinking of introducing a visitor levy will need to consider the potential VAT implications that it would have for relevant businesses in their area.

I hope this information is useful to the Committee.

TOM ARTHUR

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