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# CUTTOURSMVAT



Survey Results  
December 2020/January 2021

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# *The impact of the 5% VAT rate in helping UK tourism & hospitality businesses get through the Covid-19 crisis*

Results of a survey of businesses by the Cut Tourism VAT Campaign in association with UK Hospitality, the Tourism Alliance and the Association of Leading Visitor Attractions undertaken in late December 2020 and completed in early January 2021.



# Background

- The Cut Tourism VAT (CTV) Campaign was set up to seek an end to the competitive disadvantage suffered by the British tourism and hospitality industry as a result of having to pay VAT at 20%, approximately double the average rate applied across other European countries.
- In July 2020, the Chancellor of the Exchequer announced a temporary reduction in VAT to 5% charged on visitor accommodation, visitor attractions and out-of-home meals. Originally this reduced rate was to apply until the end of 2020; it has since been extended to the end of March 2021.
- In December 2020, the CTV Campaign, in association with industry associations, undertook a survey of sector businesses to assess the impact of lower VAT to date, and the likely impact if VAT is levied at 5% or at 20% from April 2021.

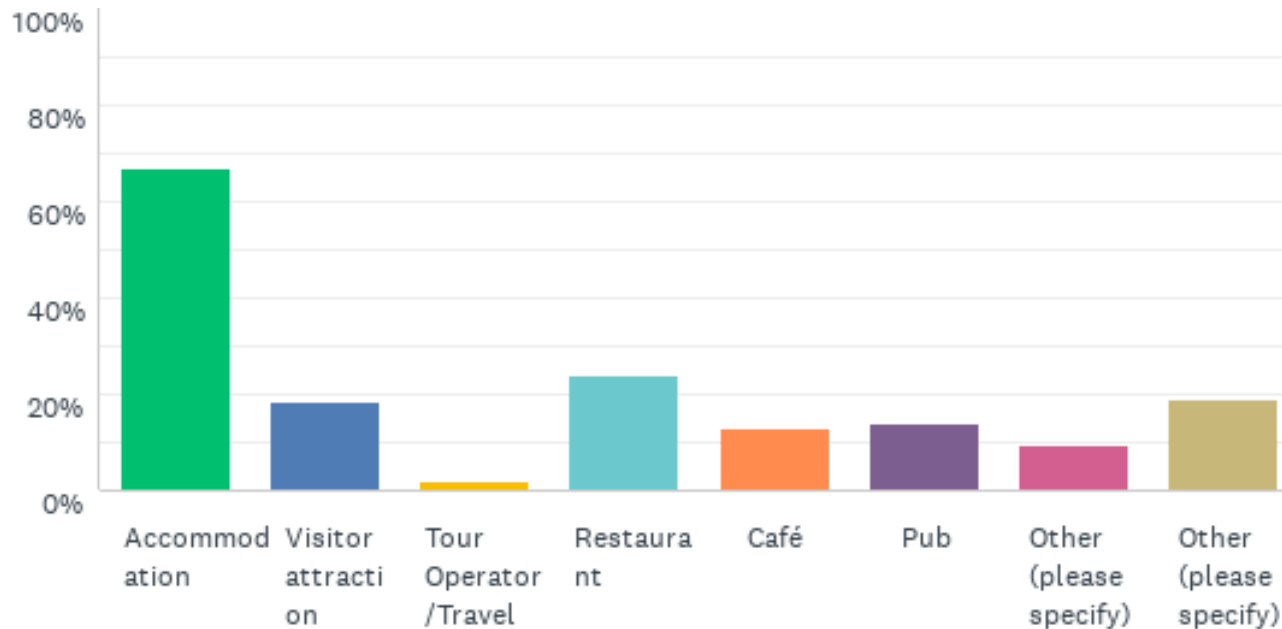
# Summary of key findings - 1

- A total of 1,144 businesses from all parts of tourism & hospitality responded during a narrow survey window, indicating a high level of interest in this topic.
- Almost 90% of respondents (over 1,000 businesses) are registered for VAT.
- More than 9 out of 10 respondents said that the VAT cut in July 2020 was ‘important’, ‘very important’ or ‘crucial’ to their business; over 75% said that they might not have been able to continue trading without it.
- Most businesses used some of the VAT reduction to meet the additional costs of Covid-19 health & safety compliance. The next most important uses made of the cut were to pay wages and suppliers.
- If the VAT rate reverts to 20% from April 2021, the overwhelming majority of businesses responded that it would lead to further cut-backs and job losses. Nearly 5% of operators said that they might be forced to close. A fifth of respondents said it would force them to cut over 20% of their workforce and a further 44% said it would force workforce cuts of between 5% and 20%. These responses suggest that a further 310,000 jobs could be lost in addition to those already lost by December 2020.

## Summary of key findings - 2

- If the VAT cut were to continue beyond March 2021, most operators would use it to continue to meet additional costs of Covid-19 compliance, but also to rebuild their businesses through investment and price reductions.
- Respondents were asked to comment on how their attitude to investment might change if VAT were to be 5% indefinitely. Over 80% did so, with nearly all comments indicating a very strong positive impact on confidence and investment. This supports a previous research finding of the CTV Campaign that temporary VAT reductions have limited impact on investment, while longer term reductions provide a much greater incentive to invest.
- Half of those businesses not currently VAT-registered responded that continued VAT at 5% would remove a significant constraint on business growth, and some would then register for VAT, potentially boosting sector productivity and the size of the VAT-tax base.
- Additional comments were made by 403 respondents and demonstrate extremely strong support for the retention of VAT on tourism and hospitality at 5%.

# Scope of the survey: sector – 1



*A total of 1,144 businesses responded to the survey from all sectors of UK tourism and hospitality. The sectors represented by respondents are shown in the graph above, with the percentages given in the table overpage.*

## Scope of the survey: sector - 2

ANSWER CHOICES	RESPONSES	
Accommodation	66.78%	764
Visitor attraction	18.36%	210
Tour Operator/Travel Agent	2.01%	23
Restaurant	24.13%	276
Café	13.11%	150
Pub	13.99%	160
Other (please specify)	9.70%	111
Other (please specify)	19.14%	219
Total Respondents: 1,144		

*Note that respondents ticked more than one box if their business provides more than one service, e.g. accommodation plus a restaurant.*

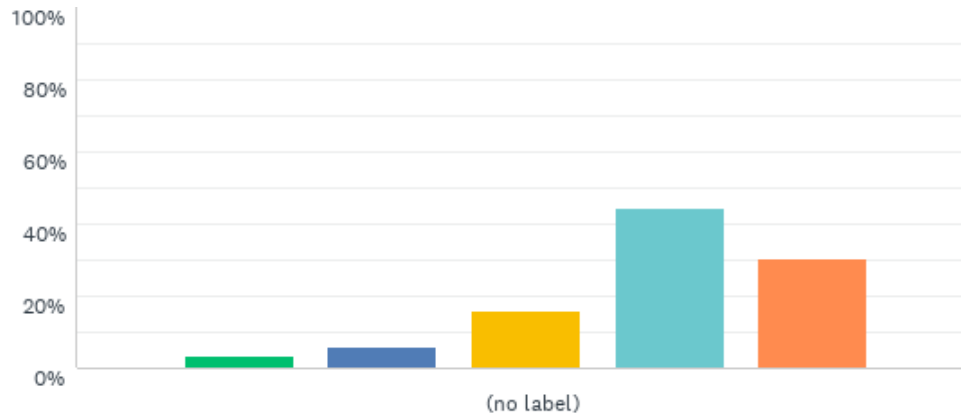
## Scope of the survey – VAT registration






ANSWER CHOICES	RESPONSES	
Yes	88.29%	1,010
No	11.71%	134
TOTAL		1,144

*Almost 90% of respondents are registered for VAT.*



# The importance of the VAT cut for VAT-registered businesses – 1



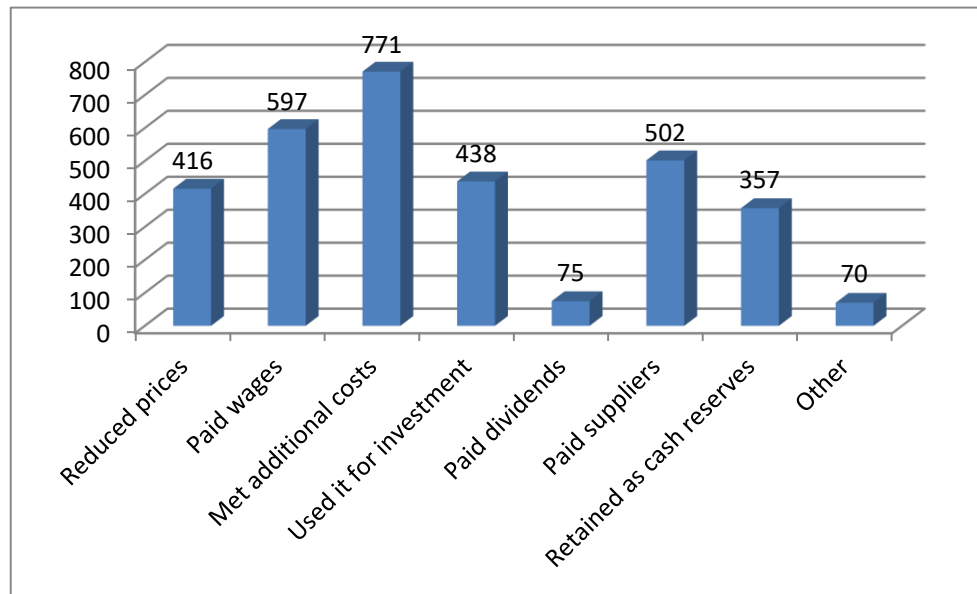
-  Not very important / didn't make much difference
-  Helpful to sustaining viability and jobs
-  Important: the business could have survived without the cut, but with more cutbacks
-  Very important to ensuring continued trading
-  Crucial - without the VAT cut, the business would have faced closure.

# The importance of the VAT cut for VAT-registered businesses - 2

	NOT VERY IMPORTANT / DIDN'T MAKE MUCH DIFFERENCE	HELPFUL TO SUSTAINING VIABILITY AND JOBS	IMPORTANT: THE BUSINESS COULD HAVE SURVIVED WITHOUT THE CUT, BUT WITH MORE CUTBACKS AND JOB	VERY IMPORTANT TO ENSURING CONTINUED TRADING	CRUCIAL – WITHOUT THE VAT CUT, THE BUSINESS WOULD HAVE FACED CLOSURE.	TOTAL	WEIGHTED AVERAGE
(no label)	3.54% 31	5.94% 52	15.89% 139	44.34% 388	30.29% 265	875	1.00

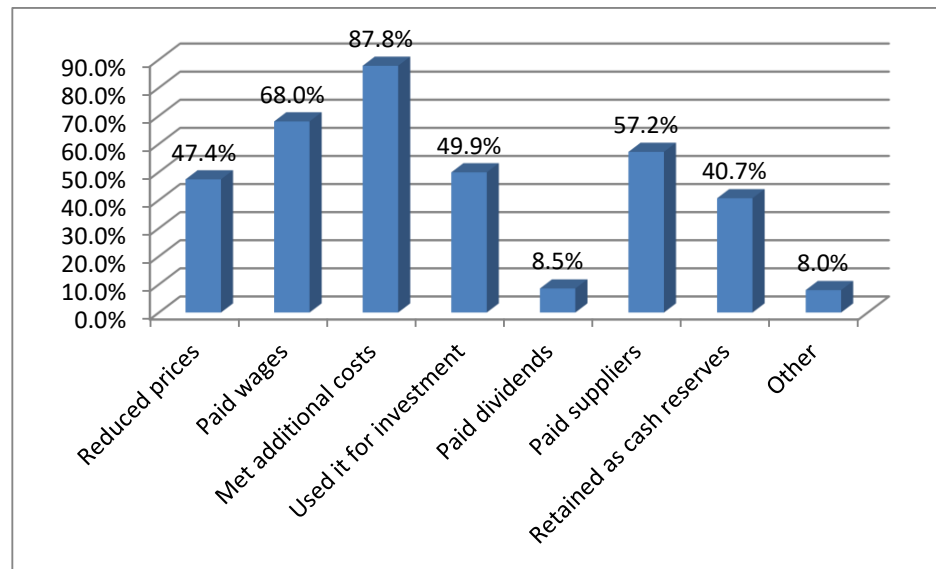
*More than 9 out of 10 respondents said that the VAT cut was ‘important’, ‘very important’ or ‘crucial’ to their business; approximately 75% said they might not have been able to continue trading without it.*

## The use that VAT-registered businesses made of the VAT reduction (more than one answer possible) – 1



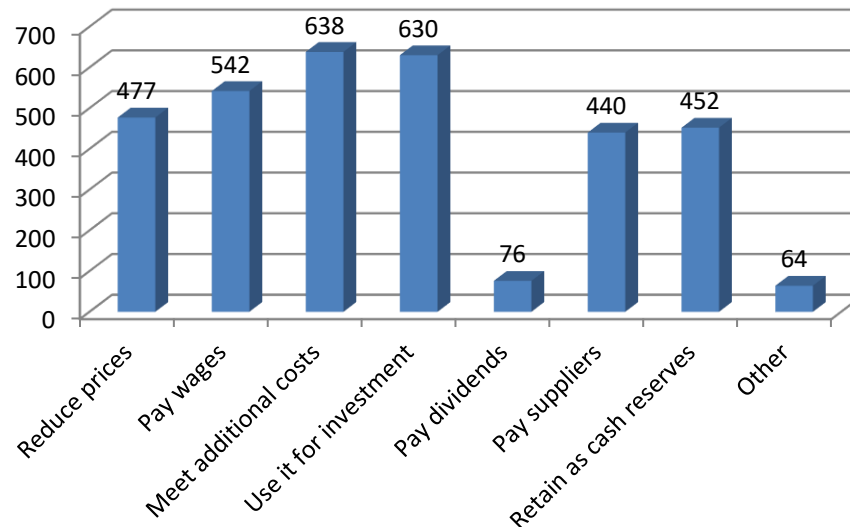
*A total of 878 VAT-registered businesses responded. Most [771] used some of the VAT reduction to meet the additional costs of Covid-19 health & safety regulations. After that, the most important uses made of the reduction were to pay wages [597] and to pay suppliers [502].*

## The use that VAT-registered businesses made of the VAT reduction (more than one answer possible) – 2



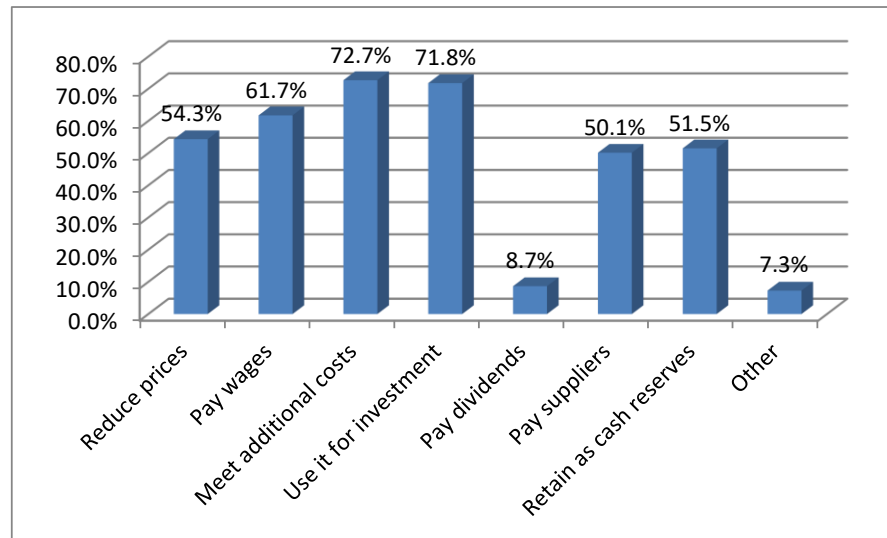
*The responses shown as a percentage of all responses reinforce the point that the main use made of the VAT cut was to enable operators to keep on trading, by meeting the additional costs of Covid-19 regulations and paying their workers and suppliers.*

## The use that VAT-registered businesses will make of the VAT reduction if it continues beyond March 2021 – 1



*Most VAT-registered businesses would continue to use some of the VAT reduction to meet the additional costs of coronavirus regulatory requirements, but also to rebuild their businesses through investment and price reductions.*

## The use that VAT-registered businesses will make of the VAT reduction if it continues beyond April 2021 – 2



*Operators will use a longer term VAT reduction for several purposes, but mainly to meet the additional costs of health & safety measures, investment, price reductions and wages to rebuild their businesses for the future.*

## For VAT-registered businesses: what would be the impact if VAT were increased to 20% in April 2021? - 1



*The overwhelming majority of businesses responded that, if VAT were increased to 20% in April, it would lead to further cutbacks and job losses.*

## For VAT-registered businesses: what would be the impact if VAT were increased to 20% in April 2021? - 2

	IT WON'T MAKE MUCH DIFFERENCE	LIKELY TO LEAD TO A SMALL NEGATIVE IMPACT ON OUR BUSINESS, BUT WILL BE MANAGEABLE	LIKELY TO LEAD TO SOME CUTBACKS AND JOB LOSSES (UP TO A FIFTH OF THE WORKFORCE)	LIKELY TO LEAD TO MAJOR CUTBACKS AND JOB LOSSES (MORE THAN A FIFTH OF THE WORKFORCE)	MAY THREATEN BUSINESS CLOSURE	TOTAL	WEIGHTED AVERAGE
(no label)	2.34%	18.03%	44.15%	20.61%	14.87%	854	3.28
	20	154	377	176	127		

*If VAT increases from 5% to 20% in April 2021, respondents anticipate further job cuts. Assuming that: 50% of those responding 'may threaten business closure' were actually to close; those responding 'major job losses' cut 25% of jobs; and those responding 'some job losses' cut 10% of jobs - then the workforce of responding businesses would decline by an average of around 17%. According to ONS statistics, there were 2.3 million employees in accommodation services, food & beverage and cultural activities in 2019. Research, both by UK Hospitality and by software provider Fourth in December 2020, indicates that hospitality employment might have fallen by a fifth during 2020, which would equate to around 1.84 million employed in December 2020 (2.3 m x 80%). The results of our survey therefore indicate possible further job losses of around 310,000 (1.84 m x 17%).*



## For VAT-registered businesses: what do you think the impact would be on your turnover if a 5% VAT rate continued beyond March 2021?

ANSWER CHOICES	RESPONSES	
It won't make much difference	6.67%	59
I estimate that my business turnover would increase by between 1% and 5% if VAT continued to be levied at 5% rather than 20%	10.17%	90
I estimate that my business turnover would increase by between 6% and 10% if VAT continued to be levied at 5% rather than 20%	26.33%	233
I estimate that my business turnover would increase by between 11% and 15% if VAT continued to be levied at 5% rather than 20%	30.51%	270
I estimate that my business turnover would increase by between 16% and 20% if VAT continued to be levied at 5% rather than 20%	14.92%	132
I estimate that my business turnover would increase by more than 20% if VAT continued to be levied at 5% rather than 20%	9.60%	85
Other {If you ticked the last box (business turnover would increase by more than 20%), please indicate the estimated % increase in your business turnover.}	1.81%	16
<b>TOTAL</b>		<b>885</b>

*57% of respondents estimated that business turnover would increase by more than 10% if VAT continues at 5% beyond March 2021.*

## If VAT were to remain at 5% indefinitely, how would this influence your attitude to investment?

- There were 822 responses (over 80% of VAT-registered businesses) to this question.
- Nearly all indicated a positive response. The most frequently used word was 'confidence', often qualified with adjectives such as 'huge', 'massive', 'vast' and 'enormous'.
- Examples of purposes to which investment would be directed included: regaining financial sustainability after 2020; cutting prices; acquiring new premises to convert to tourist use; expanding and refurbishing existing buildings; switching investment from overseas to the UK; employing additional staff and increasing wages; improving the customer experience; improving cash flow; building financial reserves.
- 21 responses (2.5% of all responses) indicated no change or a negative change in attitude towards investment, although these include some comments from non-VAT registered businesses.

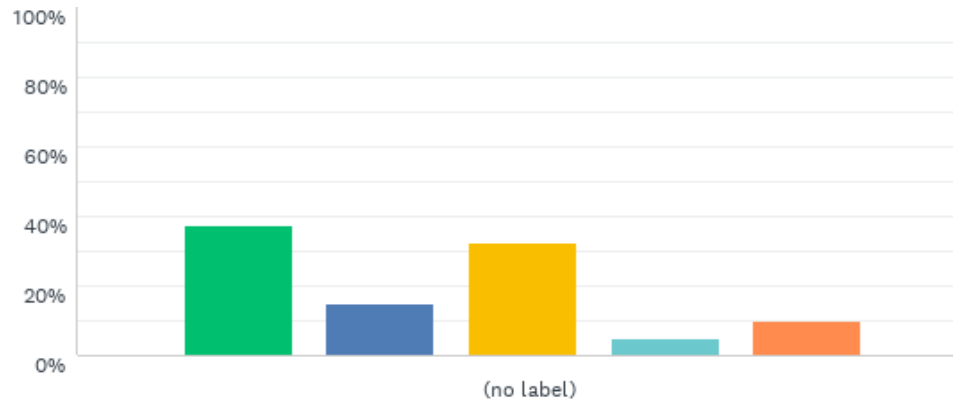
The responses give strong support to the argument that permanent changes to VAT rates are required to encourage investment, as clearly demonstrated by Cut Tourism VAT Campaign research of other countries that have decreased VAT rates. Businesses have little incentive to invest if it is known that a reduced rate of VAT will be removed at a fixed point of time.

[An annex containing all responses to this question is available on the Cut Tourism VAT Campaign website.]

## Attitude to investment: a farm tourism operator

“It would be much easier to justify investment in our business, and seeing as nearly 100% of our income is reinvested on the farm, it would allow us to actually cease to be on the breadline. We would be able to employ a full-time tourism manager. If we weren't doing this for love as opposed to income, the business wouldn't exist, the habitat would suffer, the national park would have less education and accommodation to offer and all our workers would be out of a job. We make huge sacrifices for our community. We seriously need a bit of appreciation from the Government. If our business goes under there's nothing to replace it because there's no new dwelling allowed in a national park. We're the dwellers here. There won't be any more in this natural area. So if we don't provide this service in the national park no one else will either. That would be a shame as we provide a lot of employment, our visitors bring income to the area and we are carbon-neutral in the way we run our eco-business. It's ten years old and a great success but zero-profit. A reduction in VAT would make a world of difference and allow us to continue to operate. Before we hit the VAT threshold we were much better off, and we might simply shrink the business and reduce staff to avoid going back to 20%. Basically it feels like small businesses are punished for doing well. Key word is SMALL. We're SMALL and pay the same VAT as huge businesses.”

## For non-VAT registered businesses: what would be the impact on your business if a 5% VAT rate continued beyond March 2021? - 1



- It won't make much difference – the business would continue to operate much as at present
- It would remove what we regard as a small disincentive to growing turnover
- It would remove a significant constraint on business growth
- We would probably register for VAT under these circumstances
- We would definitely register for VAT under these circumstances

*Half of those responding stated that it would remove a significant constraint on business growth (as the incentive to remain below the VAT threshold would be lessened).*

## For non-VAT registered businesses: what would be the impact on your business if a 5% VAT rate continued beyond March 2021? - 2

	IT WON'T MAKE MUCH DIFFERENCE – THE BUSINESS WOULD CONTINUE TO OPERATE MUCH AS AT PRESENT	IT WOULD REMOVE WHAT WE REGARD AS A SMALL DISINCENTIVE TO GROWING TURNOVER	IT WOULD REMOVE A SIGNIFICANT CONSTRAINT ON BUSINESS GROWTH	WE WOULD PROBABLY REGISTER FOR VAT UNDER THESE CIRCUMSTANCES	WE WOULD DEFINITELY REGISTER FOR VAT UNDER THESE CIRCUMSTANCES	TOTAL	WEIGHTED AVERAGE
(no label)	37.35% 62	15.06% 25	32.53% 54	4.82% 8	10.24% 17	166	2.36

*Half of those responding said keeping VAT at 5% would remove a significant constraint on business growth, and 15% said that they would probably or definitely register for VAT under these circumstances. The remainder who said it would not make much difference, or remove only a small disincentive, includes smaller businesses with annual turnover well below the £85,000 p.a. turnover threshold. The survey results therefore suggest that maintaining VAT at 5% could significantly broaden the VAT base.*

## All respondents were invited to add any other comments on how VAT affects their future business outlook

- There were 402 further comments and observations, demonstrating the high level of interest in, and concern relating to, this topic.
- The majority were similar to comments made earlier and nearly all were strongly in favour of maintaining VAT on tourism and hospitality at 5%.
- A selection of response are shown on the next three pages of this report.

[An annex containing all responses to this question is available on the Cut Tourism VAT Campaign website.]

## Comments on Social Impact – levelling up

- ***Helps holiday-oriented rural and seaside hotels more than business-oriented city hotels, because business visitors can reclaim VAT whereas leisure visitors cannot*** - “The reduction to 5% is of far greater benefit to the hotels in rural England than to those in the cities as the majority of guests in rural hotels are private individuals on holiday, whereas in the large cities the majority of guests are businessmen who can reclaim the VAT charged. Why not insist that ALL serviced accommodation providers (irrespective of their turnover) pay 5% VAT?”
- ***Creates jobs through the supply chain*** - “VAT affects the whole supply chain...it impacts on competitiveness of the whole sector in what is now a very competitive sector, whether Scottish, UK or globally. There are enough barriers with Covid and Brexit without making us even less competitive.”
- ***Reduces the threat to SMEs close to the VAT threshold*** - “It is punitive if it goes back to 20%. My turnover is just over the VAT threshold ergo the reduction of 20% has an enormous impact on profit.”

## Comments on fiscal impact – level playing field

- **Levels the playing field with Airbnb** - *“Even before Covid, I found 2019 and the start of 2020 to be seriously impacted upon by my non-VAT registered competitors on Airbnb. If I have an offering at £500 per week incl 20% VAT, they can offer the same option at less than £420 per week. When there were not many Airbnbs here in Belfast it didn't matter so much but now there are literally hundreds and at 20% VAT it cripples my business. At 5% VAT I can compete.”*
- **Reduces the potential distortions of the flat rate scheme** - *“This survey doesn't address the impact on flat rate VAT payers. The reduction in VAT has not benefitted us at all as we continue to charge 20% VAT. If 5% VAT became permanent, then we would come off the flat rate VAT scheme and likely try to increase our turnover which has been **restrained to the flat rate VAT limit.**”*
- **Ends the incentive to stay below the VAT threshold** - *“VAT reduction long term will encourage us to try to reach the threshold sooner rather than remain below it. Passing through the threshold, for us, means taking well in excess of the £85k as only just going above it effectively costs the business money - we estimate at 20% we need to take over £110k to make it viable moving through the threshold.”*
- **Hence boosts productivity** - *“The ability for the 000's of businesses currently staying below VAT threshold because the risk is just too high, compared to a hospitality VAT of 5%, must be significant, as the reason to NOT grow will have been removed more or less entirely!”*



## Comments on economic impact – jobs and growth

- **Promotes recovery** - *“The potential of keeping 5% longer means we will have a good shot at getting the business back on its feet in 2021. We have managed to get through to the winter but this week have had the bombshell of refunds for 90% of our Christmas and New Year revenue. The business is now running on personal savings and we realistically have 3 months left. The extra Covid cleaning measures, refunds and continuation of overheads mean that we are now very sadly at the end of the line...we can't run it on personal funds much longer.”*
- **Stimulates investment** - *“When the 5% VAT cut kicked in during the summer, our business was transformed from one that was clinging on, to one where a world of opportunities opened up. Suddenly it felt like we could undertake the projects for re-investment we'd wanted to do for a long time. It would make our business sustainable and allow us to build the business we want to run - one that continually invests in its future and its people.”*
- **Helps the consumer and creates jobs** - *“A reduction in VAT would help the consumer, as it would lead to a reduction on prices due to competition for leisure spend, which would generate greater spend over the longer term. This would feed into more investment and jobs.”*
- **Boosts international and domestic tourism** - *“Although covid has temporarily given people a reason to stay in the UK, this won't last forever. When things recover, it [is] essential that we can be competitive with our neighbours, especially as we will be outside the EU. We will need to encourage domestic customers to holiday in the UK, and overseas customers to visit. A reduced rate of VAT will help both.”*
- **Helps the Balance of Payments** - *“For us individually we were on the cusp of a large expansion before Covid. We believe that a lot more Brits will holiday in the UK and we want to expand and be ready for them. The help of a Government-led campaign for Brits to spend here would also boost the overall economy as billions are spent each year abroad. A VAT reduction on UK holidays would encourage that.”*