

# Overnight Visitor Levy in England: CenTax Response

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## 1 About CenTax

We are researchers at the Centre for the Analysis of Taxation (CenTax), a research centre co-hosted by LSE and the University of Warwick. CenTax is dedicated to improving public understanding of tax policy and helping to design a better tax system, by generating evidence that is rigorous and relevant to policymakers and the public. Further information about CenTax is available via our website.

Our work focuses on tax policy design and the measurement of tax policy outcomes. We conduct cutting-edge research on the behavioural and economic impacts of tax policy changes and have contributed substantively to debates on tax policy in the UK over recent years.

We note at the outset that the visitor levy is not a core area of CenTax's research programme. The comments below are general observations on tax design principles rather than the product of our empirical research. We have not responded to all 36 consultation questions individually. Instead, we focus on a smaller number of cross-cutting design questions which were posed to us by HMT and MHCLG.

We sent this in response to the government's consultation on Overnight Visitor Levy in England which can be found [here](#).

## 2 Rate design: percentage over flat rate

We would recommend a percentage-based levy over a flat rate.

A percentage rate could draw on the VAT regime, using existing definitions, a defined tax base and HMRC infrastructure. This would smooth administration. Industry concerns about bundled pricing and third-party sales could be addressed using established VAT principles, which already deal with these issues.

A flat rate, by contrast, creates several problems. It has a disproportionate impact on lower-cost accommodation, since the levy represents a larger share of the room price at the budget end of the market. Providers at this end also tend to have smaller margins and less ability to absorb costs, meaning the levy is more likely to be passed through in full to price-sensitive travellers. These complexities would likely require the drawing of new

boundaries and definitions to determine who and what falls within scope, adding administrative cost that could be large relative to revenue.

If progressivity is a policy objective, it could be achieved through the rate structure applied to a common tax base, not by creating separate categories of accommodation or traveller type (see below).

### **3 Mayoral flexibility and exemptions**

Mayoral Strategic Authorities should have meaningful flexibility within structured parameters. We would suggest that this flexibility could be structured around price bands rather than geography, accommodation or visitor type. A banded approach – for example, a lower percentage rate for lower-cost accommodation, or a zero rate below a threshold of £40–50 per night – would allow mayors to tailor the levy to local conditions while preserving a simple tax base.

We would caution against two sources of complexity in particular. First, geographic variation within a single mayoral area creates competitive distortions at internal boundaries and inevitably leads to lobbying to shift those boundaries. Second, categorisation of accommodation types (e.g. campsites vs. hotels vs. B&Bs) is difficult to define, hard to enforce, and encourages reclassification. Both approaches make the system less stable over time.

For similar reasons, we would recommend against visitor-based exemptions (e.g. exempting under-18s or school trips). These require accommodation providers to verify visitor characteristics, create hard cases for enforcement, and generate administrative burden to deal with refunds and proof requirements. If the policy objective is to protect access to lower-cost accommodation, this is better achieved through the price-based flexibility that mayors can use as a proxy (e.g. lower-cost accommodation is more likely to be used by groups on school trips).

### **4 National rate caps**

We do not have a strong view on whether a national rate cap should be imposed. There are arguments on both sides, but it is worth noting that caps tend to become focal points. Examples such as the Spanish wealth tax (where regions that could set a zero rate did so in a competitive race) and UK university tuition fees (where the cap quickly became the near-universal price) suggest that a cap may function less as a ceiling and more as a target or default rate.

On the other hand, a cap could provide some reassurance to the accommodation sector during the introduction. The trade-off is that it reduces mayoral accountability. More fundamentally, it is not standard practice elsewhere in the tax system to provide businesses with rate guarantees. The democratic accountability for mayors who face re-election may act as a more appropriate constraint on excessive rates.

## **5 Revenue hypothecation**

We are not, in general, in favour of strict hypothecation. Mayors who choose to introduce a levy should be free to decide how to spend the proceeds. The fungibility of public money means that tight restrictions on revenue use rarely work well in practice: spending nominally classified as ‘supporting the visitor economy’ could simply displace other funds that would have been spent on the same purpose.

There is also a risk that strict hypothecation makes the levy politically unviable. If a mayor cannot use the revenue for their actual spending priorities, the political cost of introducing the tax may outweigh the benefit, and the levy may never be adopted. This would also set a poor precedent for future devolved taxes.

That said, we recognise the political case for some form of broad hypothecation, particularly to build public and industry support. If hypothecation is to be included, we would recommend a negative definition – ruling out the use of levy revenue for specific categories of mandated spending (e.g. social care, SEND provision), rather than a prescriptive positive list. This preserves flexibility while addressing the concern that the levy could be used to substitute for existing central government funding.

## **6 Data collection, administration and risk management**

It is critical that data collection requirements are designed into the levy from the outset, not bolted on afterwards. Good post-implementation data is especially important here because pre-implementation baseline data is likely to be limited.

At a minimum, the data collected alongside levy returns should include the number of room nights (or bed nights) and accommodation type, not just total revenue. It should also capture the same identification information as HMRC (VAT registration number or Company Registration Number) to enable data linkage.

The enabling legislation should include data-sharing provisions allowing this information to be shared with HMRC and the ONS. This would enable the evaluation of the levy's economic impact, comparing visitor flows and employment effects across areas with different rate structures.

More broadly, we would recommend keeping administration as simple as possible. Revenue amounts for most mayoral areas will be modest, and administrative costs must be proportionate. Standardised forms across all mayoral areas would reduce the burden on multi-location operators. Aligning the tax base with the existing VAT base is the single most important step to achieving this.

## **7 Conclusion**

The overnight visitor levy is a modest revenue instrument, and its design should reflect that. The single biggest risk is that complexity, through multiple accommodation categories, geographic variations, visitor-based exemptions, or prescriptive hypothecation, makes the levy more costly to administer than the revenue it raises, and creates instability that eventually undermines the levy.

Complex systems with many boundaries invite lobbying and claims of unfairness, and once exceptions are created, others will seek similar treatment. The resulting instability is arguably worse for businesses than a straightforward tax structure that they can plan around.

A percentage-based levy, aligned with the existing VAT base, with mayoral flexibility exercised through price bands and strong data collection provisions built into the legislation, would be a straightforward and durable approach. We would be happy to discuss these issues further with HMT and MHCLG.