2026

Tourism Levy Impacts in England

Draft Report

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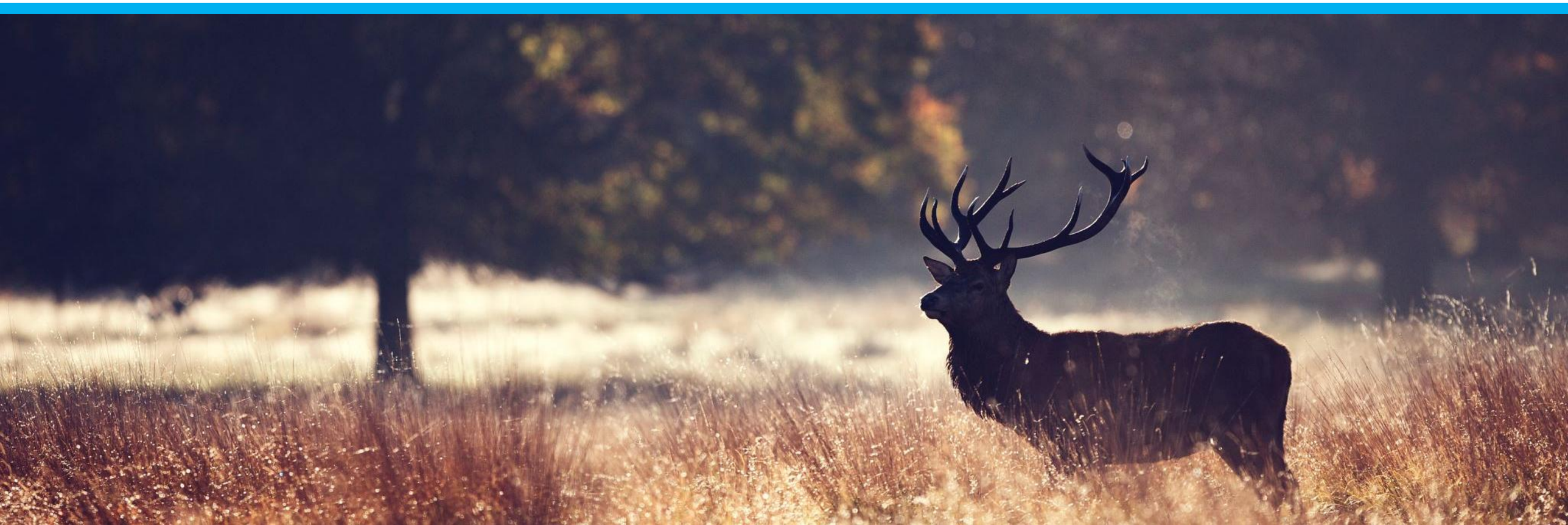


ECONOMIC IMPACT OF A TOURISM LEVY IN ENGLAND

TOURISM ECONOMICS
AN OXFORD ECONOMICS COMPANY

The introduction of an accommodation levy is expected to reduce visitor activity, leading to a contraction in GDP and job losses.

England is considering a levy on overnight stays

Three scenarios are modelled to estimate the impact of such a levy on England's economy:

£££ A **5% charge** to all accommodation bookings

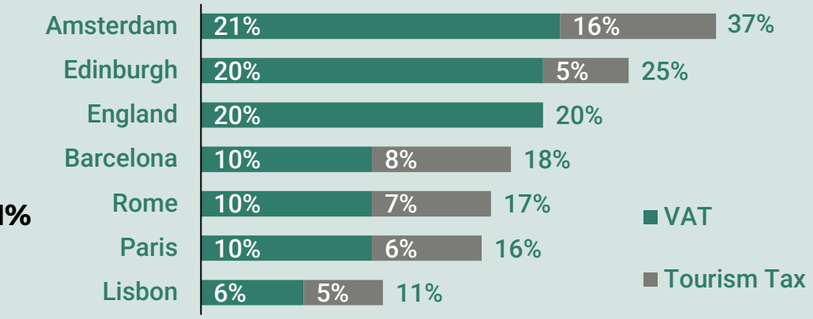
££ A **£2 charge** per guest night

£ A **£2 charge** per room night

The UK already has a higher tax base than many competing destinations

The VAT on accommodation in **England is at 20%.**

Effective accommodation taxes in **Europe typically range between 11% and 18%**, with tourism taxes often offset by reduced VAT rates



Taxes under the 5% scenario would decrease tourism demand in 2030

-11.9M
Nights from domestic and international visitors

-3.5M
Visits from domestic and international visitors

-£610M
Accommodation spend linked to the reduced nights spent

-£1.8B
Tourism spend linked to the reduced visitor activity

The reduced visitor activity would affect the wider economy in England

-£2.2B
Loss in total GDP linked to the 5% charge scenario

-33,000
Fewer jobs linked to the 5% charge scenario

-£101M
Loss in sectoral investment in 5% charge scenario

£907M
Net tax benefit, accounting for £1.6 bn in gross receipts and £688 m in tax erosion from reduced activity

Impacts are shown in relation to a "no tax" baseline scenario for 2030, in £ current (nominal) prices.
Numbers may not sum due to rounding. Total impact consists of direct, indirect, induced impacts. Impacts are presented on an annual basis for 2030.

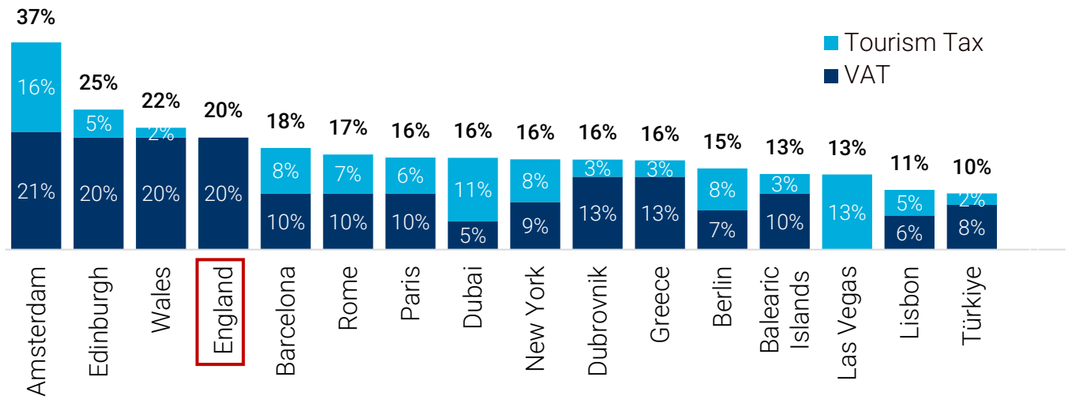
Tourism Levy Impacts in England

Policy Context

Tourism levies are commonly used across Europe to generate public revenue, often alongside preferential VAT rates for the hospitality sector. In contrast, England imposes a standard VAT rate of 20% on accommodation with no discounted tier. As a result, the effective tax on accommodation in England is already higher compared to many international competitors. Even without a specific tourism tax, this existing tax structure positions England among the higher-end destinations reviewed.

This research evaluates the potential consequences of introducing a new levy onto this high-VAT baseline, seeking to quantify how additional price pressures might influence visitor behaviour and the sector's long-term economic contribution.

Effective tax on accommodation, selected destinations



Source: Tourism Alliance, Your Europe VAT rules and rates, Tourism Economics analysis.
Note: Excludes VAT applied to the tourism tax. Based on 2 people sharing a room for 2 nights in a 3-star hotel.

Scenario Analysis

In this report, we model the impact of introducing an accommodation levy in England through 3 distinct scenarios:

- **Scenario 1** considers a 5% levy applied on accommodation costs, on top of VAT. This is effectively higher than scenarios 2 or 3.
- **Scenario 2** considers a £2.00 levy applied on each visitor night. As multiple guests stay on hotel rooms, this levy is effectively higher than scenario 3.
- **Scenario 3** considers a £2.00 levy applied on each room night.

The impacts on visitation and spending are compared to our baseline forecasts of tourism activity in England over 2026-2030.

It is important to note that our modelling reflects the impacts of a levy applicable throughout England. However, the policy proposal under discussion would allow local government to choose whether they implement a levy or not.

Visitor Impacts

The introduction of an accommodation levy is projected to influence the decision-making processes of both domestic and international travellers.

Most visitors are expected to absorb marginal price increases, but the modelling suggests that specific segments will exhibit notable sensitivity to these changes. International visitors, facing higher global competition, may opt for alternative destinations or forgo travel entirely. Similarly, domestic travellers are anticipated to pivot toward more affordable alternatives, such as day trips or staying with friends and relatives (VFR), to mitigate the increased cost of paid accommodation.

A 5% levy could lead to 11.9 million fewer visitor nights and £1.8 billion less in tourism spending in 2030.

Under Scenario 1 (a 5% surcharge per booking), paid accommodation nights are forecasted to fall 11.9 million below the 2030 baseline, resulting in a £610 million reduction in direct accommodation spend and a total tourism expenditure loss of £1.8 billion. The more conservative levy of £2 per room night in Scenario 1 is predicted to catalyse a smaller decline, with 2.7 million fewer nights and a £395 million reduction in total visitor spending.

Regions with a larger tourism industry will be impacted the most, in absolute terms.

The geographic distribution of these impacts is anticipated to vary based on existing market dynamics. While regions with robust visitor economies may see the largest absolute declines, more affordable destinations are projected to shoulder a disproportionate relative burden under flat-fee models. In these areas, a fixed-rate levy represents a higher percentage of the total stay cost, exerting greater pressure on price-sensitive travellers.

It should be noted that these findings are modelled primarily as a function of price elasticity. In practice, the total impact may be amplified by administrative complexities and the psychological deterrent of perceived "travel taxes". Consequently, these figures are viewed as conservative estimates, and the actual contraction in visitor activity could exceed these modelled projections.

Visitor Impacts in England

projections for 2030

	Nights in paid accommodation	Accommodation spending	Total Tourism Spending
Scenario 1	-11.9M	-£610M	-£1.8B
Scenario 2	-5.9M	-£291M	-£846M
Scenario 3	-2.7M	-£136M	-£395M

Source: Tourism Economics
Note: in £ current prices, may not sum due to rounding.

Wider Economic Impacts

A reduction in tourism spending affects the wider economy, impacting GDP, employment, and investment.

The forecasted reduction in tourism expenditure is projected to resonate throughout the wider economy, driven by weakened supply-chain demand (indirect impacts) and diminished household spending resulting from labour market adjustments (induced impacts). The severity of these disruptions scales with the magnitude of the levy.

- **Scenario 1:** A 5% per accommodation levy is forecasted to catalyse a £2.2 billion contraction in GDP and a loss of nearly 33,000 jobs in 2030. Under this model, business investment is expected to fall £101 million below the baseline. Although gross tax collections are anticipated to reach £1.6 billion, the net fiscal gain is projected at a more moderate £907 million once £688 million erosion in wider tourism-related tax activity is considered.
- **Scenario 2:** A £2.00 per-person-night levy is estimated to trigger a £1.1 billion GDP contraction and a reduction of nearly 16,000 jobs in 2030, with sectoral investment expected to decline by £48 million. Despite a projected tax volume of £766 million, the decline in broader economic activity is anticipated to result in a £326 million tax loss, bringing the net fiscal impact down to £441 million.
- **Scenario 3:** A £2.00 per-room-night levy is estimated to result in a £496 million GDP deficit and over 7,000 job losses by 2030, alongside a £22 million reduction in sectoral investment. While the levy is projected to generate £361 million in gross receipts, the net fiscal benefit is estimated at a more moderate £209 million after accounting for a £152 million erosion in existing visitor-linked tax revenues.

Economic Impact of a Tourism Levy in England

nominal prices, in 2030

	Scenario 1 *5% per accom. booking*	Scenario 2 *£2.00 per person per night*	Scenario 3 *£2.00 per room per night*
GDP	-£2.2B	-£1.1B	-£496M
Jobs	-33,000	-16,000	-7,000
Investment	-£101M	-£48M	-£22M
Gross tax collection	£1.6B	£766M	£361M
Tax erosion	-£688M	-£326M	-£152M
Net tax impact	£907M	£441M	£209M

Source: Tourism Economics

Note: In nominal (current) prices, figures may not sum due to rounding and represent annual impacts

1

INTRODUCTION

Introduction

Following recent developments in Scotland and Wales to introduce tourism levies, the UK Government is consulting on devolving powers to local areas to introduce a levy in England. In this context, UKHospitality commissioned Tourism Economics, an Oxford Economics company, to evaluate the potential economic implications of such a policy for England's tourism sector and the wider UK economy.

This report assesses how an accommodation levy could affect visitor behaviour, tourism spending, and wider economic activity over 2026–2030.* The analysis focuses on how higher overnight costs may influence travel demand and how responses vary depending on the scale and design of the levy. The modelling framework centres on behavioural effects and does not incorporate the potential administrative or operational costs associated with implementing and collecting the levy.

Chapter 2 outlines the policy context, reviewing tourism levy and VAT rules in key comparator markets to assess England's competitiveness. Chapter 3 establishes the baseline outlook for England's tourism sector in the absence of a levy, consistent with the UN 2008 Tourism Satellite Account framework. Then it sets out the modelling approach and estimates the impacts of three levy scenarios on visitor volumes and tourism expenditure. Chapter 4 assesses the wider macroeconomic implications, including effects on GDP, investment, employment, and tax revenues across the UK.

All monetary values are presented in current prices unless otherwise stated and are rounded for clarity. Detailed results and modelling assumptions are provided in the appendix.

*Note: We acknowledge that the policy would not take effect immediately in 2026 and that its impacts would be realised gradually. Consequently, we have presented the estimated annual impacts for 2030 as the headline figures throughout the report.

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POLICY CONTEXT

Policy Context

Introduction

While England does not currently have a tourism-specific levy, its standard 20% VAT rate on accommodation already creates a high-tax baseline that, when combined with a potential new levy, could significantly reduce the sector's international price competitiveness compared to destinations that utilise lower hospitality VAT rates to offset such taxes.

Tourism levies are a common fiscal tool used internationally to generate public revenue, typically structured as a flat nightly fee or a percentage of the accommodation cost. A key feature of the global landscape is that these levies frequently coexist with preferential VAT rates for the hospitality sector. This integrated tax approach is often designed to balance local revenue generation with the maintenance of a destination's overall price positioning.

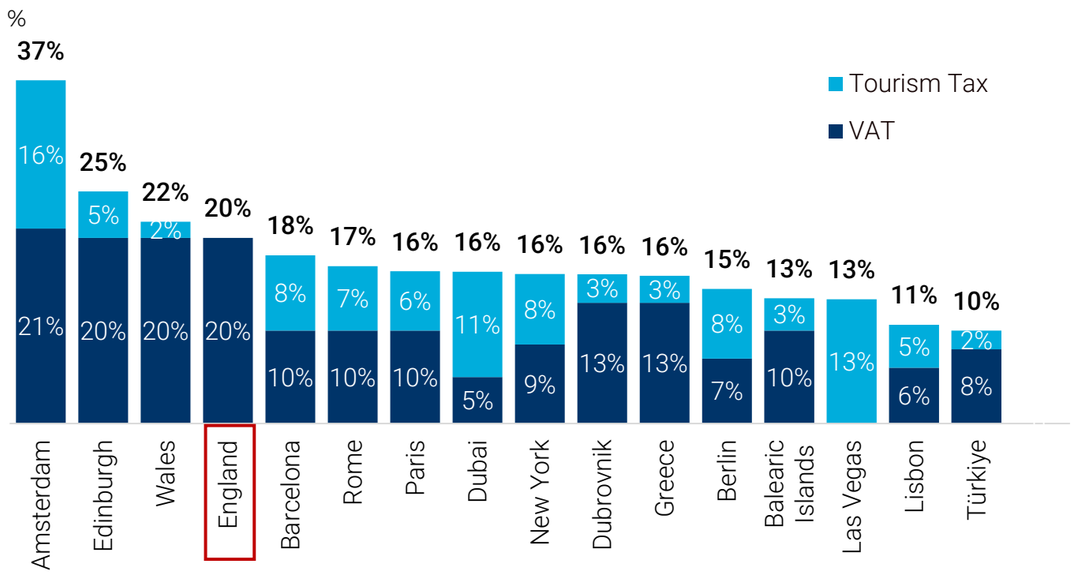
Comparative Analysis

When assessing the global landscape, destinations can be categorised into four distinct archetypes based on the relationship between national VAT and local tourism levies. This benchmarking reveals that England's current position is unique and potentially vulnerable.

- **The Offset Model (Low VAT / High Levy):** Destinations such as Berlin, Dubai, Las Vegas, New York and Barcelona utilise a low VAT or sales tax base (often ≤ 10%) as a "buffer." This allows for higher, more visible tourism levies (> 5%) to fund city infrastructure without making the total cumulative cost prohibitive for the traveller.
- **The Competitive Entry Model (Low VAT / Low Levy):** Markets like Lisbon and Türkiye prioritise high-volume growth. By keeping both VAT and levies low, they minimise "tax friction" and maximise appeal to price-sensitive segments.
- **The Balanced Model (Medium VAT / Low Levy):** In jurisdictions like Greece and Dubrovnik, where national VAT is comparably higher (> 10%), local authorities intentionally limit tourism levies to prevent the effective tax on accommodation from reaching levels that would deter international visitors.
- **The Compounding Model (High VAT base / Additional Levy):** The UK destinations (Amsterdam, Edinburgh, Wales, England) operates under a standard 20% VAT rate on accommodation with no discounted tier. Introducing a levy here is expected to result in a "compounding" effect, where new taxes are layered directly onto an already high-tax baseline without the offsets seen in other archetypes.

Given that international tourism demand is price sensitive and highly substitutable across destinations, differences in effective tax rates can influence market share over time. Maintaining price competitiveness in key inbound markets is important, particularly as the UK competes with European destinations that often apply lower indirect tax burdens to tourism services.

Effective tax on accommodation, selected destinations



Source: Tourism Alliance, Your Europe VAT rules and rates, Tourism Economics analysis

Note: Figures represent the cumulative impact of VAT and tourism levies on the base room rate; calculations exclude VAT applied directly to the tourism levy itself. Based on 2 people sharing a room for 2 nights in a 3-star hotel.

Case Study - Florence

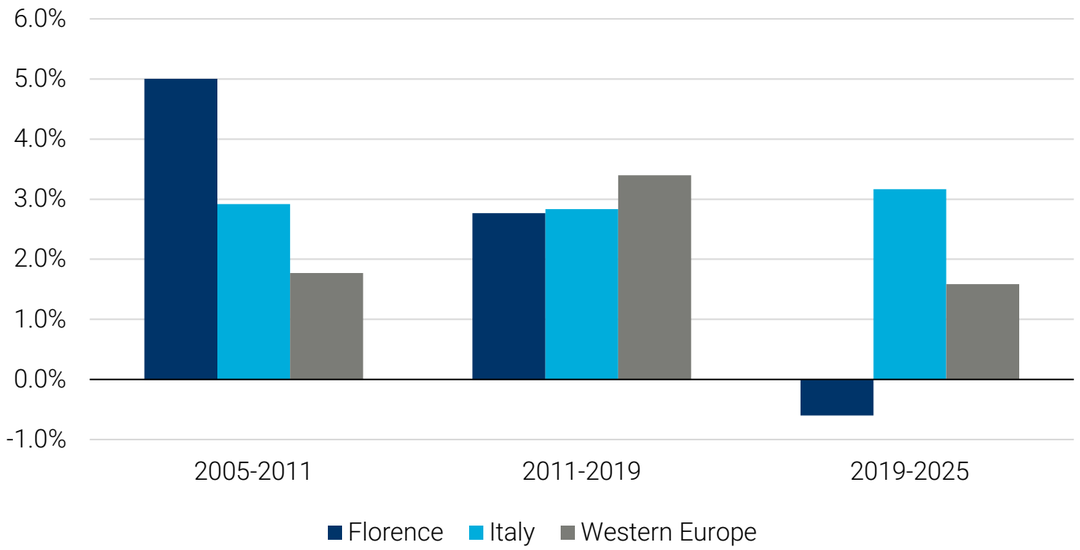
In 2011, Italy allowed its municipalities to raise revenue from a tax on tourist accommodation, and Florence implemented it the same year. Since then, international tourism to the city has grown at a slower rate than Western Europe.

Italy allowed its municipalities to levy a tax on tourism accommodation in 2011. Tuscany was one of the first regions to implement it, with €5 per guest night charged from July 2011 on 5-star hotel stays, coming down to €1 for 1-star hotels. In the years until 2019, this was raised marginally to €1.5 for 1-star hotels, remaining flat for 5-star stays. Over the same period, nights from international visitors to Florence and Italy grew as a slower rate when compared to the Western Europe as a whole.

Florence increased its tourist tax to €8 per person per night for five-star hotels, effective from April 2023. This was done to deter some visitors and prevent overcrowding during the peak season. Over the 2019-2025 period, Italy has recovered faster than Western Europe. Florence was hit particularly hard in 2020 when stringent travel restrictions were introduced, and it has not yet fully recovered to its pre-pandemic level as of 2025.

International nights in paid accommodation

Compound Annual Growth Rate, %



Source: Global City Travel by Tourism Economics

Case Study - Berlin

Berlin introduced a 5% levy on leisure stays in the city from 2014. Over the next five years Berlin's growth rate slowed while growth across Western Europe accelerated.

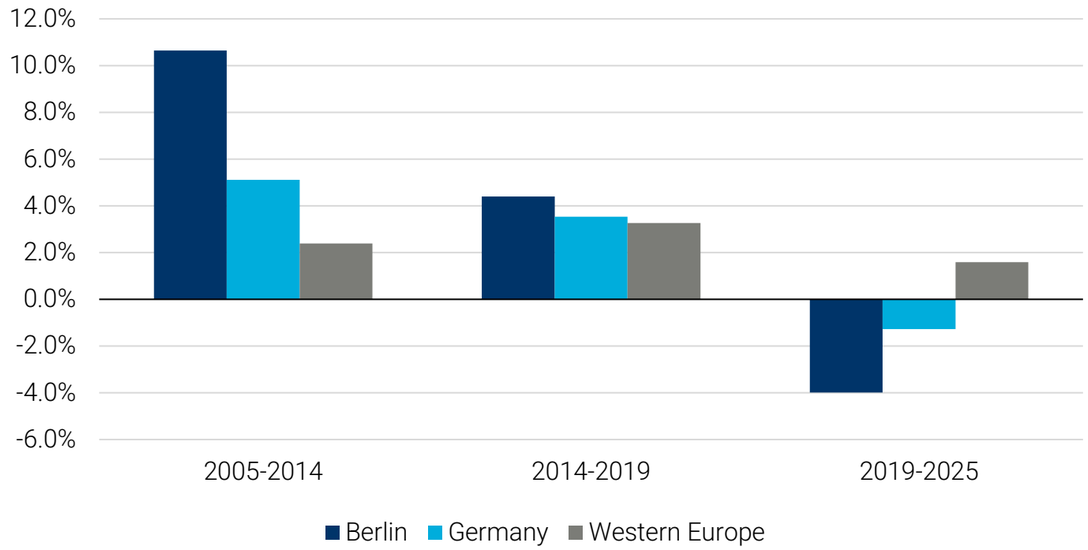
At the beginning of 2014, Berlin introduced a 5% charge on paid accommodation. Its scope was limited to leisure stays only, applied before VAT and excluded any non-accommodation items such as breakfast and minibar. In the next five years, international travel to Berlin decelerated, but still grew faster than Western Europe.

After covid, the levy grew in both scope and level. From April 2024, the charge was expanded to include business travellers, and from January 2025 the rate increased to 7.5%, making it the highest in Germany.

Over the same period, international travel to Berlin has struggled to recover to its pre-pandemic level. The number of international nights in 2025 remained 22% below the level seen in 2019. This should be interpreted in the context of a weaker recovery of travel to Germany as a whole, expected to finish 2025 at 7% below 2019 levels.

International nights in paid accommodation

Compound Annual Growth Rate, %



Source: Global City Travel by Tourism Economics

UK Policy Discussion

Tourism levies are not currently charged in England, but statutory levies are being introduced in other parts of the UK, with proceeds collected and spent locally. Scotland and Wales have legislated to give local authorities powers to impose tourism levies on overnight stays, reflecting growing interest in using such taxes to fund tourism-related services and infrastructure.

In Scotland, the Visitor Levy (Scotland) Act 2024 gives local authorities the discretionary power to impose a charge on overnight accommodation. The Act received Royal Assent on 5 July 2024 and allows councils to design and implement their own levy schemes, setting the rate and scope of application. Edinburgh has announced it will introduce a visitor levy of 5 % on paid accommodation stays from 24 July 2026.

In Wales, the Visitor Levy legislation has been passed by the Senedd and grants councils the option to introduce a per-person, per-night charge — proposed at £1.30 for most accommodation and £0.75 for hostels and campsites — with implementation possible from April 2027 after consultation with local communities and businesses. Proceeds are intended to be reinvested locally to support tourism infrastructure, facilities, and sustainable tourism development.

By contrast, in England there is currently no statutory power for central or local government to impose a tourism levy. Proposed measures to grant powers to mayors and local authorities to introduce overnight visitor levies have been under consultation, but no final regulations or implementation timelines have been confirmed. Manchester and Liverpool city regions have used Business Improvement District (BID)-style funding mechanisms to generate tourism-related resources within defined areas, but these are not tourism taxes per se and do not confer the same statutory levy powers.

Levy proceeds are generally intended for local reinvestment in tourism infrastructure and services. In Scotland and Wales, legislation requires local authorities to account for these funds separately to ensure they benefit the visitor economy. However, the definition of "tourism-related" expenditure is a point of debate; for example, Edinburgh's inclusion of social housing as a sector-support measure has met with industry scepticism. This highlights broader concerns regarding "additionality"—the risk that levy revenue might be used to fund general council duties rather than providing transparent, ring-fenced investment for the industry.

The design, application, and collection of these levies raise important considerations for pricing, market competitiveness, and economic burden, which are explored in subsequent sections.

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TOURISM ECONOMICS

VISITOR DEMAND IMPACT

Baseline Tourism Activity

Introduction

The introduction of a tourism levy affects mostly the number of stays in paid accommodation. Therefore, it is essential to establish a baseline of tourism activity in England before assessing the impact of a levy. The year of analysis chosen is 2030, to allow enough time for the implementation of a tourism levy, which is currently in the consultation stage.

To establish a baseline, this section examines the potential of tourism in England through the following metrics, focusing on 2030:

- **International travel -** examines the potential change in international inbound arrivals to the UK over a five-year period. They are based on Tourism Economics' Global Travel Service (GTS).
- **Domestic tourism** – explores the potential development of the domestic tourism market over the next five years. It is based on Tourism Economics' Global Travel Service (GTS) and include detail by region/nation.
- **Projected economic impact -** quantifies the implications of the baseline forecasts for UK GDP and employment.

The baseline established will be used to measure the impacts of the three scenarios for a levy in England.

Modelling Approach

The baseline forecasts combine historical tourism data from national statistics offices (e.g. ONS), tourism agencies (e.g. VisitBritain) and economic indicators from the Oxford Economics Global Economic Model. Key macroeconomic indicators that have been identified as key drivers of growth to the travel sector include, GDP, unemployment, income levels and exchange rates.

The econometric relationships between these economic drivers and travel trends in source markets are complemented by destination-specific indicators such as price competitiveness, attractiveness, and market share across 185 countries worldwide. More information is available on Appendix B.

Key Findings

Annual international overnight stays in England are projected to grow at an average rate of 4.7% per year between 2026 and 2030, reaching almost 330 million nights by 2030. This growth is driven by modelled macroeconomic factors, including exchange rate movements and income growth, as well as recent travel trends.

Domestic overnight stays in paid accommodation are forecast to grow more slowly, at an average annual rate of 1.3% over the same period, reaching 287 million nights. This more modest growth reflects the increasing attractiveness of overseas travel, supported in part by relatively affordable airfares, which has made international trips more competitive relative to domestic stays.

Baseline Tourism Activity in England

projections for 2030

158M	379M	£26B	£185B
Overnight Visitors	Nights in paid accommodation	Accommodation spending	Total Spending

Source: Tourism Economics
Note: in £ current prices, may not sum due to rounding.

Price Sensitivity of Visitor Demand

Introduction

This section examines the potential impact of introducing a levy on tourism accommodation in England. It models it through three distinct scenarios:

- **Scenario 1** considers a 5% levy applied on accommodation costs, on top of VAT. This is effectively higher than scenarios 2 or 3.
- **Scenario 2** considers a £2.00 levy applied on each visitor night. As multiple guests stay on hotel rooms, this levy is effectively higher than scenario 3.
- **Scenario 3** considers a £2.00 levy applied on each room night..

Each scenario presents an increase in the price of paid accommodation in England. As prices increase, both international and domestic guests travel less, stay for fewer nights and reduce their spending, impacting tourism demand. The results for each scenario are compared to the baseline for tourism in England set in the previous chapter.

Modelling Framework

The analysis considers the impact of a levy on accommodation stays in England as a price change, modelling the demand reaction (price elasticity of demand). We model the reaction of international and domestic visitors separately.

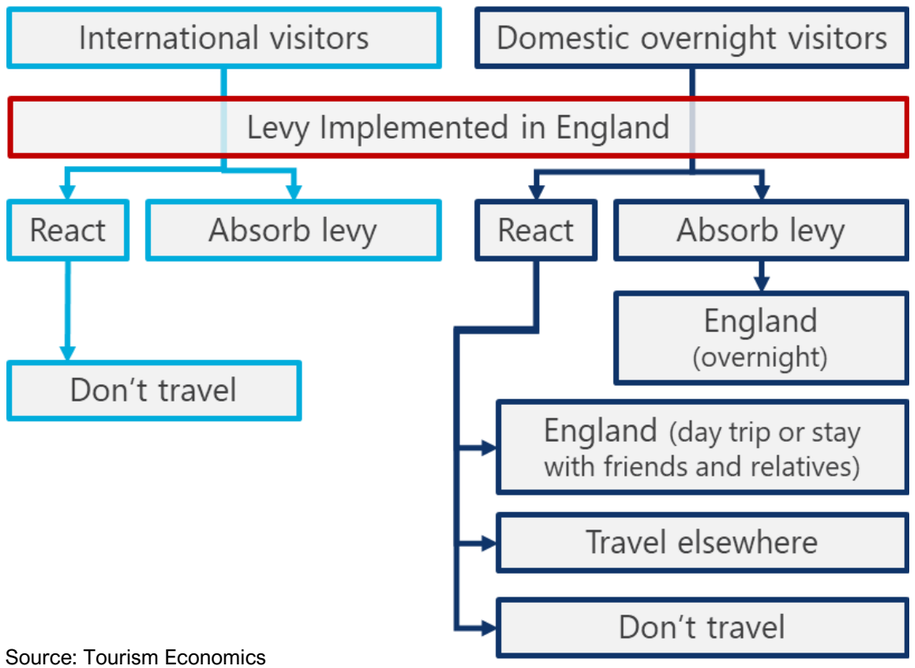
International visitors will either absorb the levy, or react by choosing a different destination outside England, or not travelling at all.

Domestic overnight visitors will either absorb the levy or react. A share of those that react are still likely to make a substitute trip, which can be either:

- A day trip in England, avoiding the levy
- A stay with friends or family, avoiding the levy
- A trip abroad, as domestic stays become less competitive

Note we model visitors' reaction based solely on the cost implication of the levy, ignoring any psychological impact or administrative cost that may occur. On the other hand, we also do not consider any benefits to local areas that come from improvements to local areas as a result of the levy's proceeds. Such impacts can take longer to materialise and are unlikely to have a significant impact within the timeframe of this study.

Behavioural Flowchart – Levy on accommodation



Source: Tourism Economics

Measuring visitors' reaction through Price Elasticity of Demand

The accommodation levy is modelled as a cost increase to accommodation in England introduced in 2026. Scenarios with a flat fee increase in line with inflation until 2030. The levy applies to all overnight stays, both international and domestic, in England.

To estimate the impact on tourism arrivals, we draw on the literature and apply a gravity model of tourism flows. This framework explains travel between two destinations based on their economic size and the distance between them. Closer and larger markets tend to generate stronger travel flows, while factors such as income levels, exchange rates, and airfares also influence demand. By incorporating the relative cost of travel to the UK, the model allows us to estimate the price elasticity of demand for UK-bound tourism.

Key features of the model

- The dependent variable of interest is tourism arrivals to the UK, broken down by year and country of origin.
- We estimate the impact of an increase in in-destination costs on our dependent variable (price elasticity of demand).
- We control for a wide range of factors to isolate the impact attributable to in-destination costs only (GDP, income, air fares, exchange rates).

For more detail see Appendix C.

Implicit assumptions and limitations

Using price elasticity of demand means we model the impact of an accommodation levy as a price change. The levy could have other impacts outside price that affect UK-bound tourism, such as:

- An administrative burden placed on visitors, or 'surprise' costs at the end of a visit can leave an unfavourable impression to the visitor. The more seamless the levy's application is, the lower its impact. This non-monetary effect is not captured in the model.
- Proceeds from the levy could be used to improve local areas and infrastructure. This can in turn increase the attractiveness of a place and better tourism prospects in the long-term. This non-monetary effect is not directly captured in the model, although we consider the amount raised from the levy under each scenario.
- Price Elasticity of Demand assumes a linear response of demand to price, with every 1% increase in costs leading to a proportionate 0.9% decrease in arrivals.

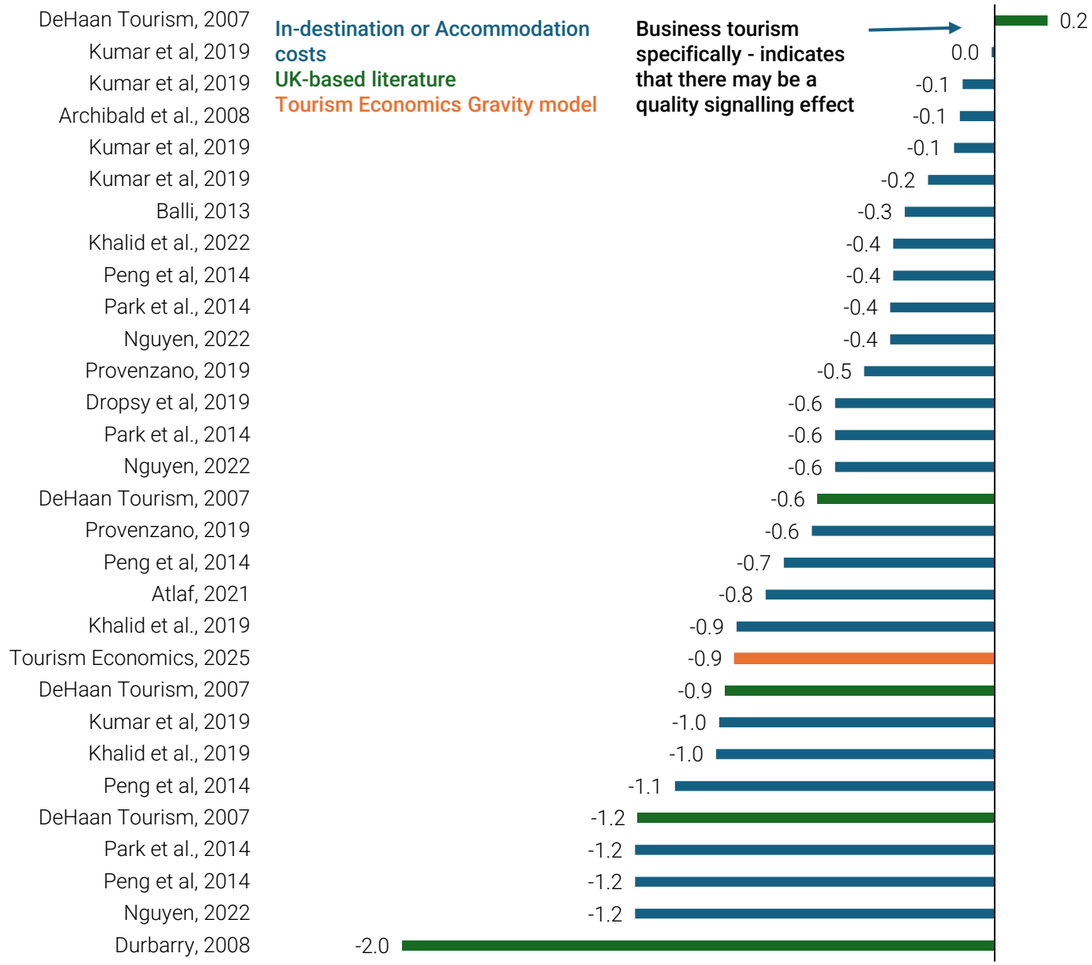
Key elasticity of the model and comparison to literature

To benchmark our findings, we compared our results with the broader literature on price elasticities. Coefficients for international travel range from -2.0 to 0.2, without distinguishing between origin or destination markets. Notably, studies examining the UK as a destination span this entire range. Our estimated impacts fall in the middle of the range at -0.9.

The results of our model assume that a 1% increase in the in-destination costs of a trip results in a 0.9% decrease in tourism arrivals.

For domestic tourism, we are using the recent findings from Elizabeth del Carmen Pérez-Ricardo and Josefa García-Mestanza in their 2025 study. It attaches an elasticity of -1.25 to domestic travellers after their study using large-scale analytics.

Benchmark of Model Results



Source: Tourism Economics, Oxford Economics

International visitors

A 5% levy per booking in England is estimated to result in approximately 1.5% fewer international visitor nights in 2030 relative to the baseline projection. Under a £2 per room night scenario, the reduction is forecast to decrease to around 0.3%.

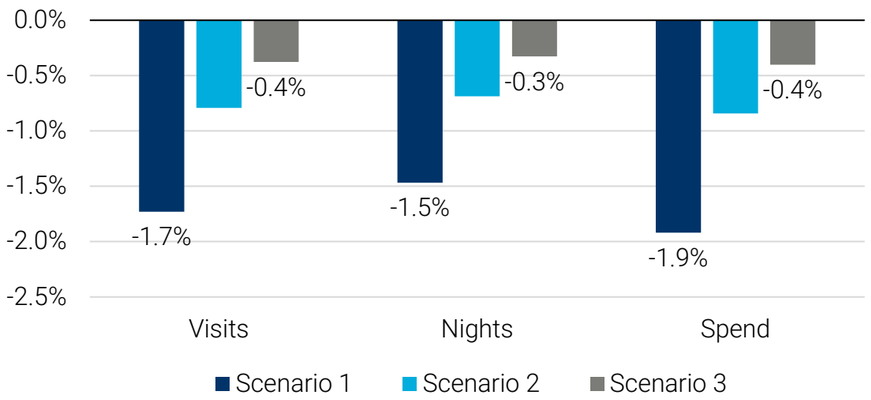
The introduction of an accommodation levy would be expected to affect price-sensitive international visitors, potentially reducing the number of nights spent in paid accommodation and associated tourism expenditure in England.

If implemented between 2026 and 2029, the levy is projected to result in between 186,000 and 856,000 fewer international visits in 2030, equivalent to a reduction of between 0.4% and 1.7% relative to the baseline forecast for that year.

A decline in visitor numbers would translate into fewer paid overnight stays and lower overall tourism spending. Under the 5% levy scenario, international overnight stays are forecast to be approximately 1.5% lower than the baseline, while associated spending is projected to be around 1.9% lower. The proportionately larger impact on spending reflects the fact that the levy applies to visitors staying in paid accommodation, who tend to have higher average expenditure than those visiting friends and relatives.

Impacts of a levy in England on international visitor activity

% difference from 2030 baseline



Source: Tourism Economics

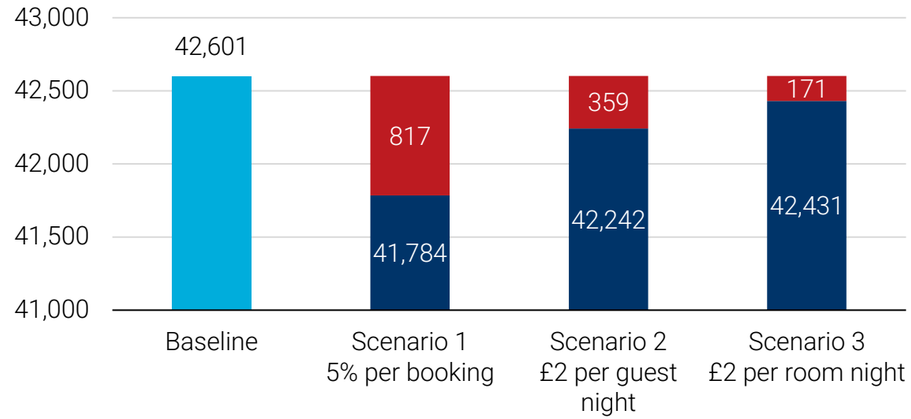
Note: Spend estimates exclude the impact on air fares.

Under the three scenarios examined, annual international visitor spending is projected to decline relative to the 2030 baseline of £42.6 billion. Spending is estimated to fall to £42.4 billion under Scenario 3 and to £41.8 billion under Scenario 1.

The projected decline in international visitor activity is expected to be concentrated in regions with high proportions of overseas arrivals, such as London and the South East. Conversely, regions more reliant on the domestic market, including the South West and North East, are forecast to be more affected by shifts in domestic tourism.

Impacts of a levy in England on international visitor spend

£ millions, nominal prices for 2030



Source: Tourism Economics

Note: Spend estimates exclude the impact on air fares.

A 5% levy on accommodation in England would lead to a loss of **£817 million** in international tourism spend in 2030.

Domestic visitors

A £2 per room per night levy in England is estimated to result in approximately 0.6% fewer domestic nights in paid accommodation in 2030 relative to the baseline projection. Under a 5% levy scenario, the reduction is forecast to increase to around 2.5%.

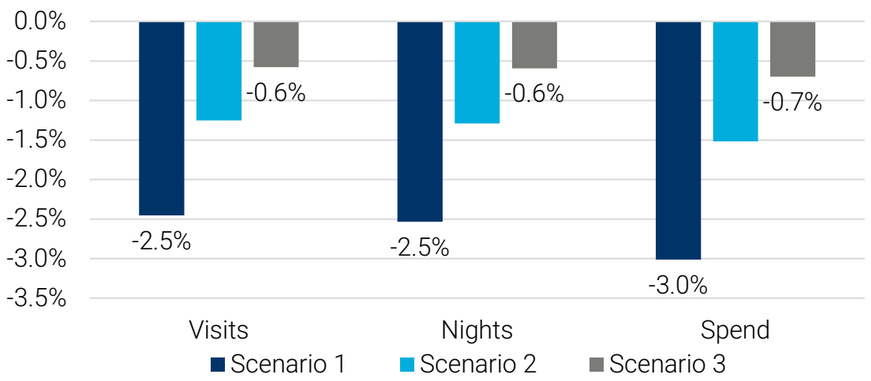
Domestic visitors are also expected to respond to higher accommodation prices. An increase in overnight costs may discourage some travellers from staying in paid accommodation, leading to fewer hotel stays and lower associated tourism expenditure in England.

If introduced between 2026 and 2029, the levy is projected to reduce domestic overnight stays in 2030 by between 1.7 million and 7.0 million nights, equivalent to a decline of 0.6% to 2.5% relative to the baseline. This suggests that some domestic visitors may shorten their trips or choose not to travel, resulting in lower overall spending.

Under the 5% levy scenario, domestic overnight stays are forecast to be approximately 2.5% lower than the baseline, while associated spending is projected to decline by around 3.0%. The proportionately larger reduction in spending reflects the fact that the levy applies only to paid accommodation, and visitors staying in such accommodation typically have higher average expenditure than those visiting friends and relatives.

Impacts of a levy in England on domestic overnight visitor activity

% difference from 2030 baseline



Source: Tourism Economics

Note: Estimates here only consider overnight stays.

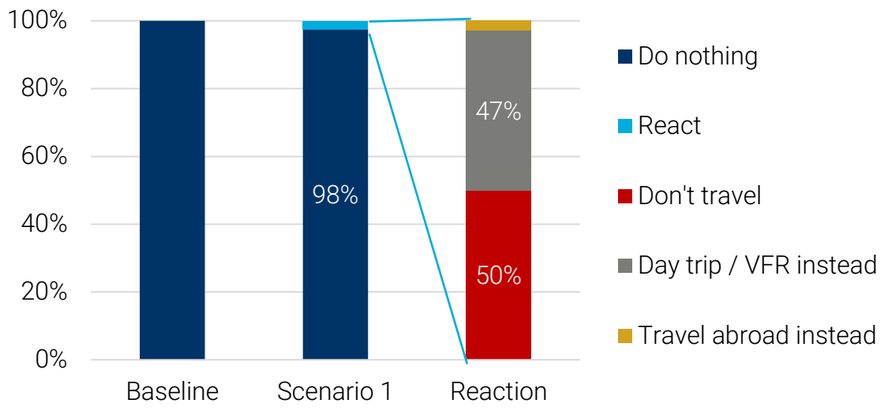
Substitution

Domestic visitors typically possess a broader range of substitution options than international travellers, as those sensitive to price changes may opt for day trips or visiting friends and relatives (VFR) to avoid additional accommodation costs.

For simplicity, we first assumed that 50% of price-sensitive domestic visitors (i.e. those affected by a price increase) choose not to travel, while the remaining half substitute their overnight trip with an alternative option. Drawing on VisitEngland data on the distribution of domestic tourism activity, most substituting visitors are assumed to switch to day trips or visiting friends and relatives (VFR) (approximately 47%), while a smaller proportion (around 3%) are assumed to travel abroad. The latter represents a potential leakage of spending from the UK economy.

Domestic substitution options

% of total visits



Source: Tourism Economics.

In addition, we conducted a sensitivity analysis around our 50% assumption above. Alternative assumptions in which 25% or 75% of affected visitors choose not to travel were tested. The resulting variation in total spending impacts is limited, fluctuating by approximately ±2.3%. This relatively small difference reflects the lower average spend associated with day trips and VFR compared with overnight stays in paid accommodation. As a result, substitution provides only a partial offset to the decline in paid overnight stays, while outbound substitution reduces domestic economic activity.

Domestic visitors (continued)

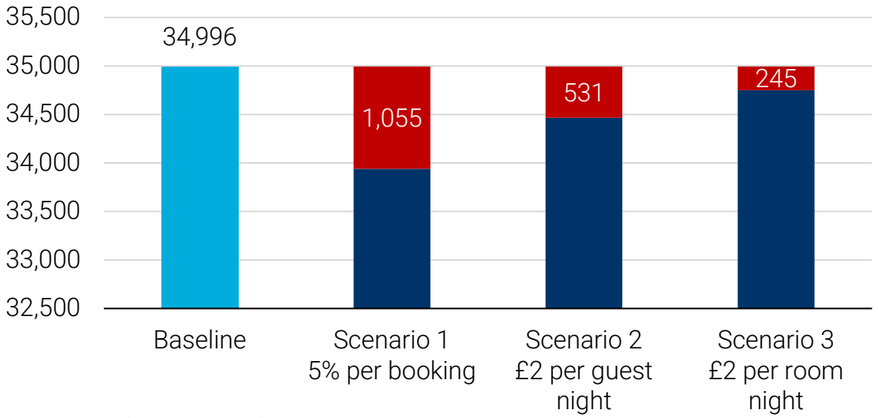
The introduction of a tourism levy in England is estimated to reduce tourism spending by between £245 million and £1.1 billion in 2030, depending on the levy design and rate.

Across the three scenarios examined, domestic visitor spending is projected to decline, even when allowing for substitution towards alternative activities such as day trips or visits to friends and relatives. Relative to a baseline of £35 billion in 2030, annual domestic tourism spending is forecast to decrease by approximately £1.1 billion under Scenario 1, which applies a 5% levy per booking.

Under Scenario 2, the impact on domestic tourism spending is expected to reach around £531 million in 2030. Under Scenario 2, which applies a a £2.00 levy per room night, the reduction in domestic visitor spending is estimated at nearly £245 million.

Impacts of a levy in England on total domestic tourism spend

£ millions, nominal prices for 2030

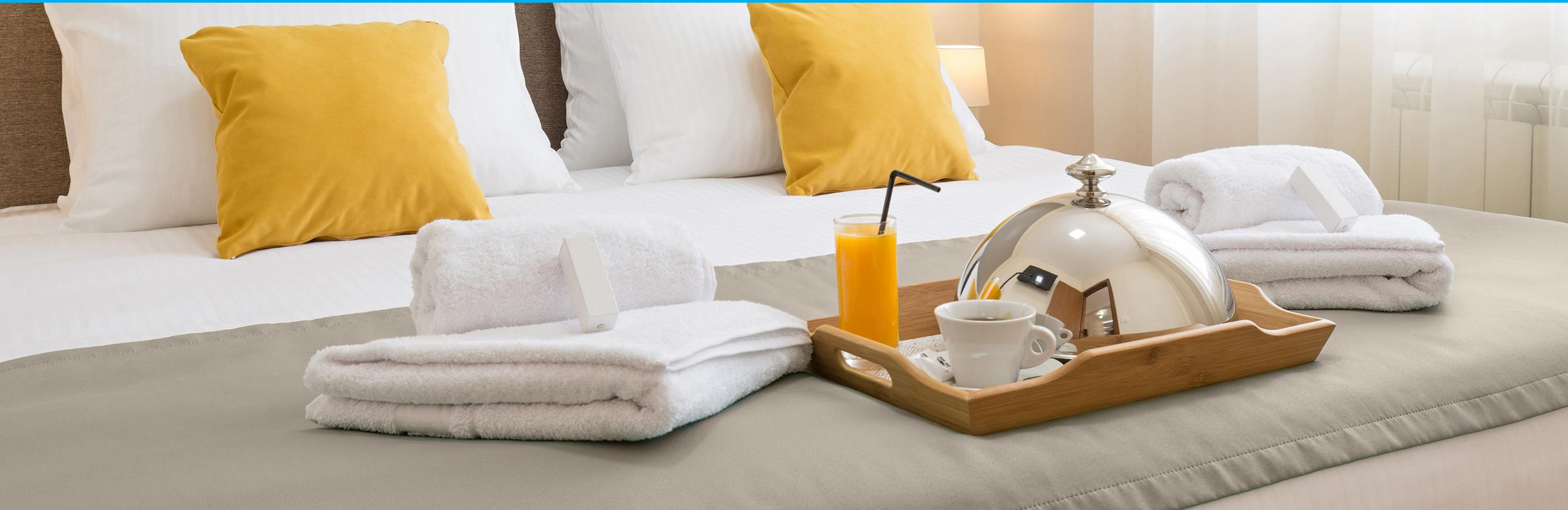


Source: Tourism Economics

Note: Spend impacts account for substitution of overnight stays with day trips or visits to friends and family

4

WIDER ECONOMIC IMPACT



Wider Economic Impact

Introduction

This section assesses the wider economic impacts of each levy scenario relative to the tourism baseline. Building on the projected changes in visitor volumes and spending presented in the previous chapter, we estimate the implications for GDP, employment, and tax revenues in England.

Reductions in visitor spending under each scenario are modelled using Oxford Economics' regional Input–Output (I-O) framework to capture the knock-on effects across the wider economy. These include supply-chain impacts (indirect effects) and the effects of wage-related household spending (induced effects).

Visitor volumes and expenditure estimates are informed by the International Passenger Survey (IPS) and the Great Britain Tourism Survey (GBTS), covering both overnight and day visits, as well as outbound travel by UK residents.

Each scenario models an increase in the price of paid accommodation in England. Higher prices are projected to reduce international and domestic visitor demand, leading to lower tourism spending relative to the baseline.

Economic Impact Framework

Our analysis of England's visitor economy begins with direct visitor spending and analyses the downstream effects of this spending on the broader economy. To determine total economic impact, we input direct spending into a model of the English economy, constructed using a regional input-output (I-O) model.

I-O models represent a profile of an economy by measuring the relationships among industries and consumers, quantifying three levels of impact:

1. **Direct impacts:** Visitor spending creates direct economic value within a discrete group of sectors (such as recreation and transportation). This supports a relative proportion of spending, jobs, GDP, and taxes within each sector.
2. **Indirect impacts:** Each directly affected sector also purchases goods and services as inputs (e.g. food wholesalers, utilities) into production. These impacts are called indirect impacts or supply-chain effects. Further, we account for investment made by businesses in travel & tourism, as well as government consumption related to travel.
3. **Induced impacts:** Lastly, the induced impact is generated when employees whose wages are generated either directly or indirectly by visitor spending spend those wages in the local economy. This is called the induced impact or income effect.

The sum of the three channels above constitute the total economic contribution of visitor activity to England's economy. The Tourism Economics model calculates these three levels of impact—direct, indirect and induced—for a broad set of indicators, including output, employment, GDP and taxes.

Scenario 1: a 5% surcharge per booking

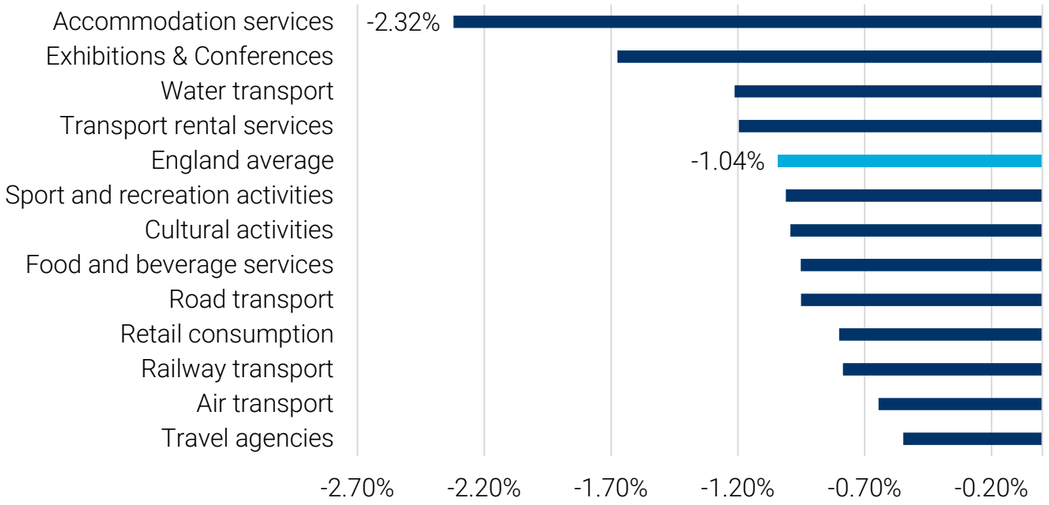
The implementation of a 5% levy on accommodation bookings is forecasted to reduce GDP by £2.2 billion and 33,000 fewer jobs in 2030 relative to the baseline.

Under this scenario, total tourism nights are forecast to be around 11.9 million lower in 2030, as some travellers substitute away from paid overnight stays towards lower-cost alternatives, including day trips and visits to friends and relatives. This reduction in visitor volumes is estimated to result in a decline of approximately £1.8 billion in total tourism expenditure.

The accommodation sector is expected to experience the largest direct impact, with activity projected to decline by around 2.3%, more than double the average contraction across the broader tourism economy. This reflects the direct exposure of paid accommodation to the levy relative to other forms of tourism activity.

Effect of levy on direct tourism spending by industry

% of tourism activity



Source: Tourism Economics

As these effects ripple through the supply chain via reduced wages and indirect spending, the total impact on national GDP is estimated to reach £2.2 billion below the baseline projection. This economic softening is closely linked to a predicted loss of nearly 33,000 jobs across the broader tourism economy and its wider supply chain in 2030. Furthermore, the analysis suggests a more cautious outlook for long-term private sector growth, as business investment is estimated to fall £101 million below the baseline.

The policy is anticipated to collect approximately £1.6 billion in taxes, which would typically go to local government. On the other hand, there is an expected loss in the tax received by central government of £688 million, linked to reduced visitor activity. This takes the net fiscal impact to a more moderate £907 million once the erosion of visitor-linked tax revenues is considered.

Effect of levy on different metrics

difference from baseline projection for England

Indicator	Unit	2026	2027	2028	2029	2030
Tourism nights	000s	-10,869	-11,167	-11,390	-11,662	-11,874
domestic	000s	-6,831	-6,846	-6,897	-6,957	-7,040
international	000s	-4,038	-4,321	-4,493	-4,705	-4,834
Tourism spend	£ mn	-1,473	-1,558	-1,638	-1,717	-1,787
Investment, direct	£ mn	-83	-88	-92	-97	-101
GDP impact	£ mn	-1,827	-1,933	-2,034	-2,132	-2,241
Employment impact	000s	-28	-29	-30	-32	-33
Gross levy receipts	£ mn	1,388	1,441	1,495	1,546	1,595
domestic	£ mn	708	736	765	792	818
international	£ mn	680	705	730	754	776
Tax impact	£ mn	-560	-593	-624	-654	-688
Net tax impact*	£ mn	827	848	872	892	907

*The net tax impact is the difference between the impact tax revenue gained from the levy and the impact on the tax from visitor spending, which is affected by the number of arrivals.

IMPACTS OF LEVY

SCENARIO 1 (per booking)

A 5% LEVY ON ACCOMMODATION

-11.9M
Nights in 2030

-£1.8B
Tourism Spend in 2030

-£2.2B
GDP in 2030

£907M
Net tax in 2030

-33K
Jobs in 2030

Scenario 2: a levy of £2 per guest night

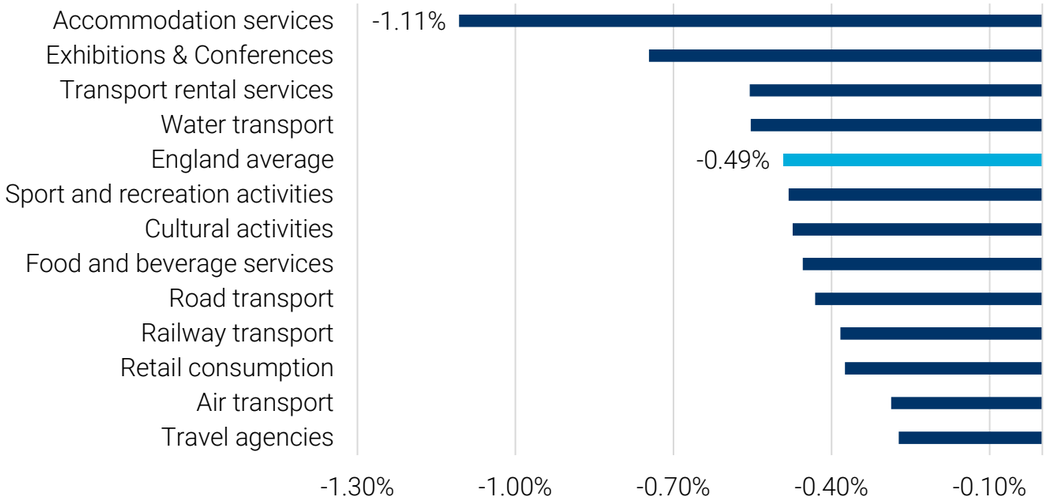
The introduction of a £2.00 per guest night accommodation levy is projected to reduce GDP by £1.1 billion and 16,000 fewer jobs in 2030 relative to the baseline scenario.

If introduced between 2026 and 2029, tourism nights in 2030 are estimated to be 5.9 million lower than the baseline projection for that year. This reduction is forecast to translate into approximately £846 million less in tourism spending, as some overnight visitors choose not to travel or substitute towards lower-cost alternatives such as day trips or VFR.

The accommodation sector is expected to experience the largest direct impact, as the levy applies only to paid overnight stays. Forms of tourism that do not involve paid accommodation, including day trips and VFR travel, are not directly affected.

Effect of levy on direct tourism spending by industry

% of tourism activity



Source: Tourism Economics

The resulting decline in tourism expenditure generates wider economic effects through supply-chain linkages and reduced wage-related household spending. Overall, GDP in 2030 is estimated to be £1.1 billion below the baseline under this scenario. Employment is projected to be nearly 16,000 jobs lower than the baseline, with impacts affecting both tourism-facing industries and their wider supply chains. Investment by tourism-related businesses is also forecast to be around £48 million lower in 2030, reflecting reduced earnings.

At the same time, the levy is expected to generate additional government revenue, depending on the allocation mechanism in place. Gross receipts are projected to reach approximately £766 million in 2030, with the majority attributable to domestic visitors and collected by local government. After accounting for lower tax revenues for central government associated with reduced tourism spending, the net fiscal impact is estimated at around £441 million.

Effect of levy on different metrics

difference from baseline projection for England

Indicator	Unit	2026	2027	2028	2029	2030
Tourism nights	000s	-5,378	-5,517	-5,622	-5,751	-5,852
domestic	000s	-3,481	-3,487	-3,513	-3,543	-3,585
international	000s	-1,896	-2,029	-2,109	-2,208	-2,267
Tourism spend	£ mn	-701	-740	-778	-814	-846
Investment, direct	£ mn	-39	-41	-44	-46	-48
GDP impact	£ mn	-868	-917	-963	-1,008	-1,061
Employment impact	000s	-13	-14	-14	-15	-16
Gross levy receipts	£ mn	666	692	718	743	766
domestic	£ mn	363	378	393	407	420
international	£ mn	303	314	325	336	346
Tax impact	£ mn	-266	-281	-295	-309	-326
Net tax impact*	£ mn	400	411	423	434	441

*The net tax impact is the difference between the impact tax revenue gained from the levy and the impact on the tax from visitor spending, which is affected by the number of arrivals.

IMPACTS OF LEVY

SCENARIO 2 (per guest night)

£2.00 IN 2026 >> £2.17 IN 2030

-5.9M
Nights in 2030

-£846M
Tourism Spend in 2030

-£1.1B
GDP in 2030

£441M
Net tax in 2030

-16K
Jobs in 2030

Scenario 3: a levy of £2 per room night

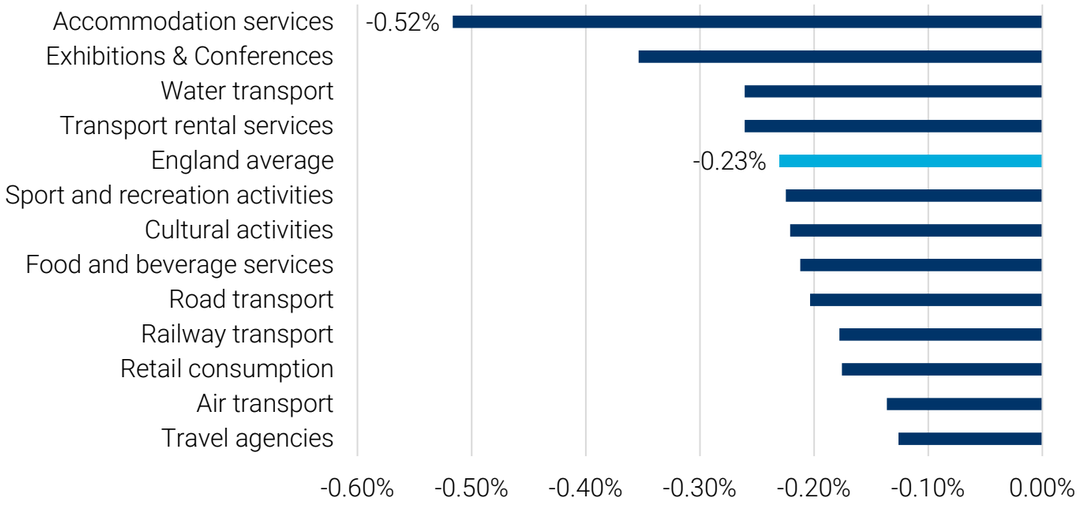
The introduction of a £2.00 accommodation levy per room night is estimated to result in a GDP loss of £496 million and 7,000 fewer jobs in 2030.

If introduced between 2026 and 2029, total tourism nights in 2030 are estimated to be 2.7 million lower than the baseline projection for that year. This reduction is forecast to translate into approximately £395 million less in tourism spending, as some overnight visitors choose not to travel or substitute towards lower-cost alternatives.

The accommodation sector is expected to experience the largest direct impact, as the levy applies only to paid overnight stays. Forms of tourism that do not involve paid accommodation, such as day visits or VFR travel, are not directly affected.

Effect of levy on direct tourism spending by industry

% of tourism activity



Source: Tourism Economics

The decline in tourism spending generates wider economic effects through supply-chain linkages (indirect impacts) and reduced wage-related household spending (induced impacts). Overall, GDP in 2030 is estimated to be £496 million below the baseline as a result of the levy. Employment is projected to be over 7,000 jobs lower than the baseline, with impacts felt both within tourism-related industries and across their supply chains. Business investment in the tourism sector is also forecast to be approximately £22 million lower in 2030.

At the same time, the levy is expected to generate additional government revenue, depending on the allocation mechanism in place. Gross receipts are projected to reach approximately £361 million in 2030, with the majority attributable to domestic visitors and collected by local government. After accounting for reduced tax revenues for central government linked to lower tourism spending, the net fiscal impact is estimated at around £209 million.

Effect of levy on different metrics

difference from baseline projection for England

Indicator	Unit	2026	2027	2028	2029	2030
Tourism nights	000s	-2,506	-2,572	-2,622	-2,682	-2,730
domestic	000s	-1,605	-1,607	-1,619	-1,633	-1,652
international	000s	-901	-965	-1,003	-1,050	-1,078
Tourism spend	£ mn	-327	-346	-363	-380	-395
Investment, direct	£ mn	-18	-19	-20	-21	-22
GDP impact	£ mn	-405	-428	-450	-471	-496
Employment impact	000s	-6	-6	-7	-7	-7
Gross levy receipts	£ mn	314	326	339	350	361
domestic	£ mn	169	176	183	189	196
international	£ mn	145	150	156	161	166
Tax impact	£ mn	-124	-131	-138	-144	-152
Net tax impact*	£ mn	190	195	201	206	209

*The net tax impact is the difference between the impact tax revenue gained from the levy and the impact on the tax from visitor spending, which is affected by the number of arrivals.

IMPACTS OF LEVY

SCENARIO 3 (per room night)

£2.00 IN 2026 >> £2.17 IN 2030

-2.7M
Nights in 2030

-£395M
Tourism Spend in 2030

-£496M
GDP in 2030

£209M
Net tax in 2030

-7K
Jobs in 2030

Impacts by industry

Under the 5% levy scenario, the accommodation and food services sector is projected to experience the largest impact, with GDP estimated to decline by approximately £662 million in 2030 and employment falling by nearly 15,000 jobs.

The retail and wholesale sector is also expected to be materially affected, with GDP projected to decline by between £64 million under Scenario 3 and £290 million under Scenario 1. Manufacturing and real estate are forecast to experience reductions of up to £239 million and £184 million respectively under the 5% levy scenario, reflecting supply-chain linkages to tourism activity.

Total GDP impact by industry

£ millions in 2030 , including multiplier effects

Industry	Scenario 1	Scenario 2	Scenario 3
Accommodation & food	-662	-315	-147
Retail & wholesale	-290	-136	-64
Manufacturing	-239	-113	-53
Real estate	-184	-87	-41
Transport & storage	-155	-72	-34
Administrative services	-137	-66	-31
Arts & entertainment	-126	-60	-28
Professional services	-102	-48	-22
Financial services	-97	-46	-21
Info & communications	-67	-32	-15
Construction	-49	-23	-11
Power	-22	-11	-5
Education	-21	-10	-5
Other services	-20	-10	-4
Utilities	-20	-9	-4
Agriculture	-18	-9	-4
Health	-17	-8	-4
Public admin	-11	-5	-2
Mining	-4	-2	-1
HHs as employers	-1	-1	0
Total	**-2,241**	**-1,061**	**-496**

Source: Tourism Economics

Employment impacts broadly follow the sectoral distribution of GDP effects, though differences arise due to variations in labour intensity across industries.

The largest impacts are concentrated in accommodation and food services, where employment is forecast to decline by nearly 15,000 jobs. Retail and wholesale trade is projected to see a reduction of around 4,300 jobs. Arts and entertainment ranks as the third most affected sector in employment terms, with losses estimated at approximately 2,400 jobs under the 5% scenario. The relatively larger employment impact in this sector reflects its higher labour intensity, as it supports more jobs per £ million of GDP compared with sectors such as manufacturing.

Total employment impact by industry

number of jobs in 2030, including multiplier effects

Industry	Scenario 1	Scenario 2	Scenario 3
Accommodation & food	-14,969	-7,138	-3,329
Retail & wholesale	-4,336	-2,043	-956
Arts & entertainment	-2,408	-1,137	-532
Transport & storage	-2,197	-1,027	-481
Administrative services	-1,989	-945	-441
Manufacturing	-1,740	-823	-384
Professional services	-1,399	-663	-310
Info & communications	-549	-260	-121
Construction	-483	-229	-107
Financial services	-465	-220	-103
Agriculture	-443	-210	-98
Education	-418	-198	-93
Real estate	-387	-183	-86
Health	-358	-170	-79
Other services	-288	-137	-64
Power	-147	-70	-33
Public admin	-124	-58	-27
Utilities	-119	-57	-26
Mining	-13	-6	-3
HHs as employers	0	0	0
Total	**-32,832**	**-15,573**	**-7,273**

Source: Tourism Economics

TOURISM ECONOMICS

TECHNICAL APPENDIX

Appendix A: Economic Impact Framework

This report quantifies the **direct indirect and induced economic impact** of tourism. The direct impact refers to the contribution made by industries directly receiving tourism spending, for example hotels, tour operators, airlines, and attraction venues. The indirect impact represents the wider economic activity that spreads through the supply chain, for example a hotel purchasing food from a local supplier.

The induced impact measures the economic activity generated by the spending of wages earned by those directly or indirectly employed in the tourism industry, for example, hotel staff spending their income in local shops. It is included within the total GDP, Employment, and Tax impacts.

DIRECT IMPACT

The tourism sector employs staff and generate GDP and tax for the authorities.

INDIRECT IMPACT

It also spends money with suppliers who employ staff and generate GDP.

INDUCED IMPACT

Employees (including of the suppliers) spend their wages in the wider economy, generating more GDP and supporting more employment.

TOTAL IMPACT

Added together, these three effects (direct, indirect, induced) comprise the total economic impact of the tourism sector.

Appendix B: Forecasting Approach

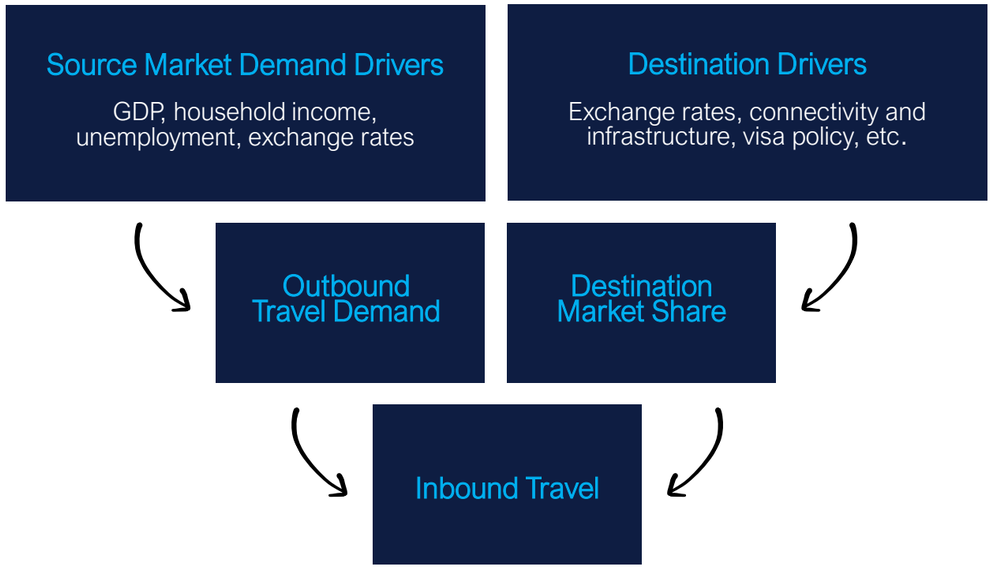
The baseline forecasts have been developed using a conceptual framework adapted from our Global Travel Service. This model combines historical tourism data from national statistics offices (e.g. ONS), tourism agencies (e.g. VisitBritain) and economic indicators from the Oxford Economics Global Economic Model. Key macroeconomic indicators that have been identified as key drivers of growth to the travel sector include, GDP, unemployment, income levels and exchange rate.

The econometric relationships between these economic drivers and travel trends in source markets are complemented by destination-specific indicators such as price competitiveness, attractiveness, and market share. This approach allows for robust forecasts of travel across 185 countries worldwide.

Forecasts for England, and all other destinations, are produced within a consistent and comparable framework balancing source market demand and destination performance; any growth in destinations from supportive policy are derived from market share gains relative to other destinations. The regional forecasts that underpin the policy analysis are produced on a top-down basis, by distributing UK level forecasts to each of the regions/nations using location quotients that indicate the relative importance of each destination according to historical data trends.

GTS includes both short-run dynamics in response to immediate demand effects, as well as longer-run structural relationships within an ECM framework.

Travel flow modelling framework



Appendix C: Accommodation levy

The impact of a proposed accommodation levy is modelled as a price change to the total cost of the trip for a visitor staying at paid accommodation in England. The reaction to this price change (Priced Elasticity of Demand, or PED) is then used to estimate the impact of the accommodation levy on arrivals, nights and spend in England.

One caveat of this approach is that we only model the impact of a price change. Applying the levy may result in a non-monetary administrative burden for businesses and visitors. This means that the real impact on visits could be higher if the levy is not applied in a seamless manner and leads to an increased administrative burden for businesses and/or visitors.

Estimate of Price Elasticity of Demand

The dependent variable in the gravity model is the natural logarithm of tourism arrivals to the UK. Distance is modelled as real air fares, while mass is modelled as the GDP in Purchasing Power Parity (PPP). The underlying data is a balanced panel of 46 countries over 18 time periods (2002-2019). Countries with lower volumes and less reliable data have been excluded.

Explanatory Variable	Coefficient	p-value
GDP (in Purchasing Power Parity)	0.4222***	0.00
In-destination tourist costs in the UK (exchange rate adjusted)	-0.8962***	0.00
Air fares (real prices)	-0.5818***	0.00
Disposable income in country of origin (exchange rate adjusted)	0.3645***	0.00
Bilateral tradeflow (USD)	0.2667***	0.00
Common language (binary)	0.7424***	0.00
Common religion (binary)	3.4244***	0.00
Diplomatic Disagreement (index)	-0.1173	0.19

Source: Tourism Economics. ***, **, * = significant at the 1%, 5% and 10% level respectively

Model Tests/Robustness: The model passes tests for collinearity, and stationarity is addressed by controlling for individual years in the panel OLS. Further, standard errors are clustered at the origin/destination pair level to account for heteroskedasticity.

Interpretation of Econometric Outputs

Outputs from the modelling indicate that the models capture most of the variation in arrivals between countries and over time ($R^2 > 0.9$). Robustness tests indicate that results are valid.

- Fixed effects are applied across years to capture any time-specific events that aren't captured in the data.
- All variables act as expected– with common language and religion attracting tourists. Further, higher disposable income in the country of origin, higher GDP, and stronger trade ties all work to boost tourism flows to the UK. On the other hand, diplomatic disagreements and cost variables (in-destination and air fares) act as deterrents to UK-bound tourists. The diplomatic disagreement index is not significant at the 10% level, but is in the right direction, having a negative impact on arrivals.

Applying Econometric Outputs to Policy Impacts

The PED coefficient is based on the response of England-bound tourists to changes in in-destination costs (see LHS). This coefficient is applied to international guests, with an alternative (-1.253) applied to the domestic market. The following estimates are calculated for the international and domestic overnight markets separately. All figures refer to paying overnight visits only, i.e. visitors staying with relatives or friends are excluded.

$$Impact\ on\ visits = baseline\ visits\ \times \%\ impact\ on\ visits$$

$$Impact\ on\ spend = baseline\ spend\ \times \%\ impact\ on\ visits$$

$$Impact\ on\ nights = baseline\ nights\ \times \%\ impact\ on\ visits$$

Where:

$$\%\ impact\ on\ visits = levy\ as\ share\ of\ visit\ cost \times PED\ coefficient$$

$$levy\ as\ \%\ of\ visit\ cost = \frac{levy\ per\ visit}{spend\ per\ visit}$$

Estimating the impact on the domestic and international markets separately means the relative impact on nights and spend may vary from the impact on visits, as the domestic and international markets exhibit a different average spend and length of stay.

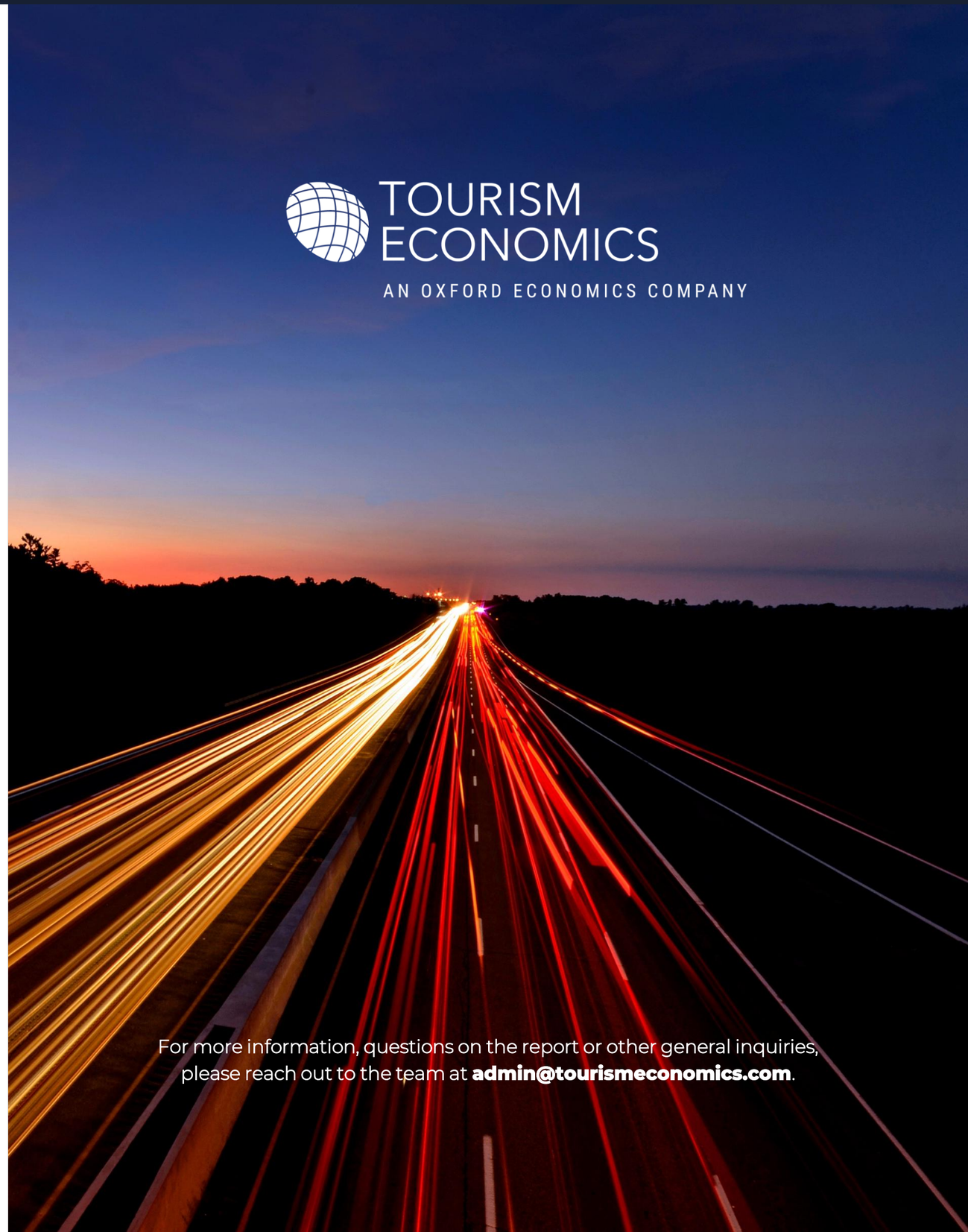
About the Research Team

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Oxford Economics is an adviser to corporate, financial and government decision-makers and thought leaders. Our worldwide client base comprises over 2,000 international organizations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

This study was conducted by the Tourism Economics group within Oxford Economics. Tourism Economics combines an understanding of traveler dynamics with rigorous economics in order to answer the most important questions facing destinations, investors, and strategic planners. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, destination recovery plans, forecasting models, policy analysis, and economic impact studies.

Oxford Economics employs 600 full-time staff, including 300 professional economists and analysts. Headquartered in Oxford, England, with regional centers in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC.



TOURISM ECONOMICS

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