



VisitBritain's response to the consultation on information which should inform the final impact assessment and on the Draft Legislation to Repeal the Furnished Holiday Lettings Rules from 2010-11

February 2010

VisitBritain, incorporated under the Development of Tourism Act 1969 as the British Tourist Authority, is Britain's national tourism agency, responsible for marketing Britain overseas. We work in partnership with thousands of organisations in the UK and overseas to ensure that Britain is marketed appropriately and effectively in 35 markets around the world. We also work to realise the potential of the tourism industry within the UK itself. We are pleased to have an opportunity to respond to the consultation on information which should inform the final impact assessment, and on the *Draft Legislation to Repeal the Furnished Holiday Lettings Rules from 2010-11*.

Our current major concern is with harnessing the resources of government and the private sector to increase the competitiveness of the British tourism industry, and to ensure that government appreciates the key role that the visitor economy can play as a driver of economic recovery and advancement. From our perspective, any reform which undermines that objective gives cause for very serious concern. We regret that we find that the current proposals relating to the abolition of Furnished Holiday Lettings Relief fall into that category.

OUR RESEARCH

VisitBritain has received a number of representations from concerned self-catering owners (particularly in the South West and Scotland), Members of Parliament and Regional Development Agencies. We have discussed the issues with interested MPs, the CEOs of the two largest holiday cottage agencies, specialist accountants, the Tourism Alliance, the Wales Tourism Alliance, the Scottish Tourism Forum, the Federation of Small Businesses in both Scotland and Wales, the English Association of Self Catering Operators, the Association of Scotland's Self Caterers, and the Chairman of the British Hospitality Association, in addition to our partners the national tourist boards. In response to these approaches we conducted field research at properties in north-east Scotland, Shropshire and Northamptonshire, where we were pleased to address a meeting of over a dozen operators. Others are better equipped to deconstruct the finer points of tax reform. We have made it our business to inform ourselves of the likely impact of the proposals on the ground.

THE LANDSCAPE OF UK TOURISM

Tourism is Britain's fifth biggest industry, our third largest export earner, employs directly or indirectly around 2.7 million people and is worth £114 billion a year to the national economy¹.

It has the potential to grow and be a driver of the British economy. VisitBritain argues that if the Government took a more proactive approach to the development of the visitor economy we could benefit from winning over 49 million overseas visitors, and the industry could be worth £188 billion by 2018, supporting more than 250,000 new jobs². We are particularly keen to embrace and encourage new wealth and jobs created here in the UK in an industry that can't be outsourced or moved abroad as happens with manufacturing, IT, call centres, hedge funds or banking.

However Britain's position in the international tourism earnings league slipped from sixth to seventh in 2008, and our international competitiveness is far from secure in the current challenging economic climate.

¹ British Tourism Framework Review

² Deloitte 2009

Investment in the visitor economy offers significant returns on investment, with a national reach that is not restricted to one particular area or region of the country. The large number of tourism-related SMEs ensures that there are plenty of entry-level jobs that are accessible to all and are spread right across the country, in every village, town and city.

The role of self-catering

While the most familiar image of the UK accommodation sector may be that of the hotel, guest house or bed & breakfast establishment, it is important to recognise that the sector is not homogenous, and that other options, including self-catering cottages and flats, holiday parks, caravan sites and campsites all play an important role in creating the mix of alternatives that characterise the UK industry. The table which follows overleaf from the UK Tourism Survey ³ illustrates this starkly.

Self-catering is a particularly family-friendly form of accommodation. It allows parents and children to occupy a discrete and self-contained unit, with the optimum arrangement for accommodating everything from fussy eaters to differential bed and meal times for children, while simultaneously affording the parents security as to the children's location with a degree of privacy for the adults, a combination not easily realised when occupying separate rooms in serviced accommodation which, even when adjoining, may not necessarily enjoy communicating doors. It allows parents to enjoy a companionable dinner and glass of wine while the children slumber – or to be readily on hand to deal with tantrums, disturbed sleep patterns or bad dreams.

It is also very often a more economical way for families to enjoy together holidays of a duration which simply would not be affordable in a hotel or guest house. The hotel booking website Hotels.com reports that the average price per room paid (actual, not rack rates) in January to June 2009 in its UK properties was £83 per night.⁴, in itself a 16 per cent decrease from 2008, and expected to rise as the grip of the credit crunch loosens. Since many families would require to occupy two rooms, the cost for a week would be from around £1200 and upwards, plus the cost of purchasing all meals, a much more controllable expense when self catering. Wealden District Council in East Sussex (which covers the High Weald and the eastern end of the South Downs) publishes a comprehensive annual tourism report⁵ which breaks down the average cost achieved by different accommodation sectors. For 2008 it reported that summer double rooms charges averaged £66 per night (£75 in winter when fewer hotels and B&Bs are open), whereas for self-catering (with properties equipped on average to accommodate up to eight people) the average weekly rate was £554 in summer and £390 in winter. From a VisitBritain perspective it is also notable that whereas 84 per cent of visitors in bed and breakfast and hotel accommodation were from the UK, the equivalent figure for self-catering was 78 per cent, illustrating that the self-catering sector has a valuable role to play in achieving foreign currency earnings.

³ The UK Tourist: Statistics 2008, page 16

⁴ Hotels.com *The Hotel Price Index 2009* page 15

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It is arguable that any contraction in the supply of self-catering accommodation (which it is acknowledged that the proposals may precipitate⁶) will therefore impact most strongly on those on limited incomes, including families with children, and will lead to holidays of shorter duration, with consequent repercussions for pubs, restaurants, cafes, visitor attractions and sites of cultural or historical interest.

TABLE 1 – All Tourism in the UK	TRIPS				NIGHTS				EXPENDITURE			
	UK	England	Scotland	Wales	UK	England	Scotland	Wales	UK	England	Scotland	Wales
	Millions				Millions				£ Millions			
ALL TOURISM – 2007	123.46	100.17	13.12	8.85	394.4	307.8	47.4	32.1	21,238	16,531	2,836	1,418
ALL TOURISM – 2008	117.72	95.53	12.15	8.49	378.4	295.4	44.2	31.9	21,107	16,433	2,812	1,411
ACCOMMODATION USED	%	%	%	%	%	%	%	%	%	%	%	%
Commercial accommodation (total)	55	54	61	61	54	53	60	58	74	74	76	74
Serviced rented accommodation (sub-total)	37	37	43	31	27	27	31	22	54	54	56	42
Hotel/ motel/ guest house (sub-total 2)	33	33	38	25	23	24	27	17	48	49	50	34
Hotel/ Motel	31	31	36	23	22	22	25	15	46	47	49	31
Guest house	2	2	2	3	2	2	2	2	2	2	2	4
Paying guest (sub-total 2)	5	5	6	6	4	4	4	5	6	6	5	8
Farmhouse	1	1	1	1	1	1	1	1	1	1	1	1
Bed & Breakfast	4	4	5	5	3	3	3	4	5	5	4	7
Self-catering rented accommodation (sub-total)	16	14	16	28	23	22	26	34	18	18	18	30
Self catering in rented flat/apartment	2	1	2	2	3	2	6	3	3	2	3	3
Self catering in rented house/chalet/villa/bungalow/cottage	3	3	4	5	6	6	8	7	6	6	8	9
Holiday camp/ village-self catering	1	1	1	1	1	2	1	1	1	2	1	2
Camping	4	3	3	8	4	4	3	7	2	2	2	4
Caravan-towed/ campervan/ motorcaravan/ motorhome	3	3	3	6	5	5	5	8	3	3	2	5
Caravan- static not owned	3	2	3	6	4	4	4	8	3	3	3	7
Hostel (sub-total)	1	1	2	2	1	1	2	1	1	1	2	1
Hostel - official/group	1	1	1	1	1	*	1	1	*	*	1	*
Hostel - independent	1	1	1	1	1	1	1	1	1	1	1	1
Holiday camp/ village-serviced	1	1	*	1	1	1	*	1	*	1	*	*
University/ School	1	1	1	*	1	2	1	*	*	*	*	*
Hotel/ motel/ guesthouse/ B&B (EU definition sub-total)	37	37	43	31	27	27	31	22	54	54	56	42
Other rented accommodation (EU definition sub-total)	13	13	12	24	18	18	15	27	12	12	10	19
Own home/ friend's home / relative's home (total)	43	44	40	39	43	44	38	40	24	24	22	24
Friend's home	15	16	13	10	12	13	10	9	8	9	7	6
Relative's home	24	25	22	19	25	26	21	19	12	12	12	10
Own second home/timeshare	1	1	1	1	1	1	2	2	1	1	1	1
Caravan- static owned	3	3	4	9	4	4	5	11	2	2	2	6
Boat(s)	*	*	*	*	1	1	*	*	1	1	*	*
Sleeper cab of lorry/truck	1	1	1	*	*	*	1	*	*	*	1	1
Transit	*	*	*	-	*	*	*	-	*	*	*	-
Other	1	1	1	1	2	2	1	1	1	1	1	1

⁶ See Hansard answer to Parliamentary Question 300130, Scotland Office questions 25 November 2009

The statistics on the previous page are key to understanding the importance of the self-catering sector, because while it accounts for 16 per cent of trips taken, it generates 18 per cent of expenditure, and accounts for almost a quarter of all bed nights taken. The figures for Wales are particularly striking, with self-catering accounting for 28 per cent of trips, more than a third of nights and 30 per cent of expenditure.

Self-catering has a key role to play in dispelling some of the negative perceptions associated with a trip to Britain in the minds of potential visitors, particularly with regard to anxieties concerning cost. Survey evidence indicates that value for money is a key consideration when choosing a destination for a holiday or short break, with 63 per cent of respondents in the Nation Brands Index agreeing that Britain is an expensive destination for a holiday, with only 13 per cent disagreeing.⁷

A PAUCITY OF INFORMATION

The HMRC Impact Assessment advises us that “Comprehensive data on the extent to which corporate bodies currently benefit from the FHL rules are not available. It has been assumed that individuals are the vast majority of the users of the FHL rules”⁸.

It appears to VisitBritain that the current plans to alter the tax treatment of the sector is predicated on a number of such damaging “assumptions”, and that those who have desired to engage in an informed debate on the issue have been hampered by being required to conduct advocacy in an information vacuum.

To buttress our information beyond that which HM Treasury and HMRC have placed in the public domain, VisitBritain has been monitoring the answers to Parliamentary Questions tabled by concerned Members of Parliament. We are concerned that the answers provided serve only to emphasise the deficient nature of the data set on which the current initiative is predicated. Indicative of this is the answer –

To ask the Chancellor of the Exchequer what estimate he has made of the number of businesses which will be affected by the abolition of furnished holiday lettings tax relief. [293440]

Mr. Timms: HM Revenue and Customs’ (HMRC) administrative systems do not record the number of companies with income from furnished holiday lettings. Based on information held by Companies House, we estimate that fewer than 500 companies have furnished holiday lettings as their main source of income. There may also be a number of companies who have a small amount of furnished holiday lettings income to supplement their main source of income.

⁷ Anholt-GMI Nation Brands Index, 2007 Wave 2 quoted in *Welcome & the Visitor Experience*, July 2009, page 13 http://www.visitbritain.org/Images/Welcome%20Topic%20Profile_tcm139-170413.pdf

⁸ HMRC *Impact Assessment of Withdrawing the Furnished Holiday Letting Rules* page 2

More broadly, in 2007-08, the last full year for which information is available, approximately 60,000 individuals declared income from furnished holiday lettings to HMRC.⁹

THE STANDARD OF ACCOMMODATION

Much of the previous market failure within the UK tourism industry has been attributable to sub-standard accommodation. In recent years enormous strides have been made in seeking to address this issue, and the promotion of best practice embedded within the grading scheme run by the national tourist boards has been a key factor in the crusade to drive up standards.

The stringent criteria for Quality Assessment are set out in the manual *Self-Catering Accommodation: Quality Standards*¹⁰ which sets out the common standards for quality assessment and grading operated by VisitEngland, VisitScotland, Visit Wales and the AA.

These set out the qualification criteria for the star rating scheme, but also embed minimum entry requirements, including, for instance, an obligation that

- It is the proprietor's responsibility to ensure that all properties are thoroughly cleaned throughout, before each new let, irrespective of whether the guests have cleaned it prior to departure. Any broken or damaged items should be replaced.

This extends not only to the fabric of the building, but for instance to ensuring that all cutlery and crockery used and cleaned by departing visitors passes muster before the arrival of the new visitors. The scale and extent of equipment provided in a contemporary self-catering property generally surpasses that provided in a hotel or bed & breakfast, making the duties incumbent on the cottage owner extremely onerous.

Perusal of the kitchen inventory at minimum entry requirement level on page 27 should be instructive in seeing the acute difference between a quality-assessed self-catering property, and a long-term residential let. We would venture to suggest that the number of property investment residential landlords who supply a butter dish, bread bin, sugar basin and toast rack is minuscule, and that the attention to detail required of the self-catering operator in order to satisfy the entry criteria suggests, on any ordinary language view of the issue, engagement in a trade.

We were somewhat concerned at our meeting with HMRC that there appeared to be limited understanding of the very high standards that prevail in upscale self-catering, and of the requirements for constant refurbishment and renewal – much more taxing than for a long-term residential let – which characterise the sector. For illustrative purposes the differences between a quality-assessed self-catering property and a standard residential let are set out in tabular form overleaf.

⁹ Hansard 19 October 2009 Question 293440, Mike Weir MP

¹⁰ Quality in Tourism *Self-Catering Accommodation: Quality Standards* accessible at http://www.northyntside.gov.uk/pls/portal/NTC_PSCM.PSCM_Web.download?p_ID=224923

Trade or Property Investment?

Services and their responsibilities	B&B, Hotel, Hotel with self-catering apartments	Furnished Holiday Lets (Self-catering)	Long-term Residential Lets
Period of Let	Less than 31 days?	Less than 31 days	No restriction
Furnishings	Full inventory	Full inventory	Usually basic inventory with tenant supplements. Tenant usually pays a deposit to cover any damages.
Inventory check and renewal/replacement	Every change-over. Business/Proprietor responsible for breakages.	Every change-over. Business/Proprietor responsible for breakages.	End of tenancy – normally after six months or more. Tenant responsible for breakages.
Payment of Council Tax (1)	N/a	N/a	Tenant
Payment of Business Rates	Business/Proprietor	Business/Proprietor	N/a
Payment of Water and Sewage Rates (1)	Business/Proprietor	Business/Proprietor	Tenant
Payment of Services: Electricity, Oil, Gas (1)	Business/Proprietor	Business/Proprietor	Tenant
TV Licence (1)	Business/Proprietor	Business/Proprietor	Tenant
Cleaning	Business/Proprietor	Business/Proprietor	Tenant
Laundry (Bedding, Towels etc.)	Business/Proprietor	Business/Proprietor	Tenant
Cleaning materials, Soaps etc.	Business/Proprietor	Business/Proprietor	Tenant
Waste disposal	Business/Proprietor	Business/Proprietor	Tenant
Garden maintenance	Business/Proprietor	Business/Proprietor	Tenant
Use of off-site plant and machinery – e.g. Ironing Machines, Carpet Cleaners, Lawnmowers	Business/Proprietor	Business/Proprietor	N/a
Sales & Marketing in traditional media and on-line	Specialist agent/ Business/Proprietor	Specialist agent/ Business/Proprietor	N/a
Booking Administration	Specialist agent/ Business/Proprietor	Specialist agent/ Business/Proprietor	N/a
Customer Care including reception and tourist information	Business/Proprietor	Business/Proprietor	N/a
Provision of food or beverage supplies	Usually only milk/tea/coffee	Usually milk/tea/coffee and other condiments	Tenant
Meals including breakfast	Business/Proprietor – Some hotels do not provide any meals.	Client	Tenant

Note (1): These items are normally excluded from the nett rent for the furnished residential property 10% "Wear and Tear" calculation.

We feel compelled to observe that the very large number of properties of which we have experience fall, by any fair measure, on the 'trade' side of the division; we cannot however have confidence that they will do so by the arcane standards of tax law and the venerable authorities on

which HMRC seeks to rely. While we understand a reluctance to adopt a tick box approach to the discriminator (least it inspire some sleight of hand or sharp practice on the part of aspirants to trading status), we must emphasise the very real concerns we have about the regulatory burden that will be placed on (mostly small) business in seeking to establish their lawful position under a new tax regime. In the absence of equity we would advocate for certainty – while maintaining resolutely our position that the national interest is best served by the abandonment of the current proposals.

We would also welcome clarification as to what consideration HMRC has given to the status of 'Holiday and other short-stay accommodation' within the UK Standard Industrial Classification of Economic Activities¹¹ in which a clear distinction is drawn between accommodation which fits the classic holiday letting criteria and 'the provision of long-term accommodation as primary residences, which is classified in Real Estate Activities (Section L).'

THE REASONS FOR THE CHANGE

VisitBritain accepts the original governmental characterisation¹² that the European Court decision requires the UK Government to provide equal treatment, either by extending the relief to British citizens with overseas property (as the temporary solution has provided) or by withdrawing the relief from everyone. We are baffled by the constantly repeated mantra that the extension of the benefit to those with overseas properties is to invite a vast outflow of visitors otherwise minded to holiday in the UK to our overseas competitor, therefore representing a grievous blow to the British tourism sector; we are unaware of any serious player in the industry who holds such a view. It appears from the guidance notes that HMRC is fond of analogies. Let us therefore offer one.

The payment of winter fuel allowance to qualifying British citizens who currently live overseas, has recently generated some headlines. As we understand it all British pensioners who were resident in the UK on their 60th birthday qualify for the allowance of £250 a year, or £400 for those over 80. It has been reported¹³ that payments are made to 64,000 such overseas residents. The government philosophically accepts that our European obligations require that such payments continue to be made, and argues cogently, and humanely, that they account for less than one per cent of all payments made; it does not for a second argue that because payments are being made to a group that some would categorise as 'undeserving' that the benefit should be withdrawn from all.

In our submission this is a more apposite analogy than the purported parallel of the shopping mall operator who is treated exclusively as a property investor and who is therefore suffering discrimination which was tabled at the February 4th meeting between HMRC and industry representatives, including ourselves. We have found government and HMRC's vacillation on the ancillary reason for the proposed repeal unhelpful in seeking to respond to the consultation, since we are unsure whether the intention is to bring about a level playing field with 'other residential landlords', as suggested by the Minister of State at the Scotland Office on 25 November 2009¹⁴, or

¹¹ Section I 55.20

¹² See answer to Parliamentary Question 293438, Hansard 19 October 2009

¹³ *The Times* February 16 2010 'Winter fuel bonanza for 64,000 ex-pats in Europe'

¹⁴ Hansard 25 November 2009, answer to Parliamentary Question 300130

with 'bed and breakfast accommodation' as suggested by the Financial Secretary to the Treasury in reply to a topical question on 15 December 2009.¹⁵

We note that despite repeated requests, both in Parliament^{16 17} and at face-to-face meetings with HMRC we remain in the dark as to the identity of the residential landlords (or their representative body) who have sought reform of the type proposed.

In any event we think that the 'fairness' criteria is of limited use, as it apparently serves to treat all forms of serviced accommodation in an identical way. Many would argue that there is a stateable case that self-catering accommodation, particularly in the upper register of quality assessment, provides services at least equivalent to, and often exceeding those provided in limited-service budget lodges and hotels of the roadside-stop variety; we would accordingly appreciate guidance as to whether such enterprises should also now be treated as property investment businesses. We are aware that there are issues relating to the definition of a 'dwelling', and to an indicator of qualification dependent on provision of onsite resident/overnight concierge or reception services, and would posit that it is not clear that in a multiple-building enterprise a receptionist is 'in legal occupation' of outposts of the lodge in a more demonstrable way than the owner of a self-catering complex who occupies one of the discrete units of the business. It appears to us that the proposals are fraught with danger.

THE COMPETITIVE IMPERATIVE

Recently, the World Economic Forum (WEF) in association with the World Travel and Tourism Council (WTTC) has begun to assess the competitiveness of countries as tourism destinations using a similar approach to that used in its long established National Competitiveness Index developed with Professor Michael Porter of Harvard Business School.

Britain performs strongly overall – being rated 6th out of 130 nations – despite receiving low ratings in a number of important areas. It is rated fourth in the world for its cultural assets, as well as for its air infrastructure. Britain comes 90th in the world, however, in terms of 'affinity for tourism', and 127th in terms of price competitiveness. Addressing this dissonance is a key aim for VisitBritain.

The two most significant destinations for UK residents who holiday overseas, as identified by the International Passenger Survey, are Spain and France. The extent of high-density, mass-market accommodation (including vast apartment complexes providing self-catering accommodation) to serve sun, sea and sand tourism in Spain are quite distinct from the more diffuse arrangements which prevail in France, and which therefore provide a better comparator for the UK. We therefore think it appropriate to flag up the tax treatment of self-catering accommodation within the French tax system.

¹⁵ Hansard 15 December 2009, answer to Parliamentary Question 306869

¹⁶ Hansard 16 December 2009, answer to Parliamentary Question number 310266

¹⁷ Hansard 13 January 2010, answer to Parliamentary Question 307292

France

The tax situation for rented furnished accommodation is set out in Article 90 of the *Finance Law 2009* (n° 2008-1425 of 27 December 2008) and Article 15 of the second Finance Law 2009 (n° 2009-431 of 20 April 2009) regulating the fiscal regime for rented furnished accommodation.¹⁸ These laws amend the General Tax Code, including 39 G, 50-0, 151 and 156, which are relevant for the laws applying to rented furnished accommodation.

Under French law, furnished lets are considered as a commercial activity and taxed under the Bénéfices Industriels et Commerciaux rules which comprises three sub-regimes; micro-BIC, régime réel simplifié and régime normal.

The micro-BIC is aimed at those with a lower income, and simplifies record-keeping requirements and other formalities. It is, subject to certain exclusions and following the enforcement of the Loi de Finances 2009 (2009 French Finance Act), applicable to individuals whose rental income falls below €32,000. The net taxable is calculated as 50 per cent of the gross income and there is no requirement to prepare formal accounts, although a level of record keeping is expected. The 50 per cent abatement is supposed to cover all expenses pertaining to the letting activity.

Previously, and for income earned up to 31 December 2008, the threshold is €76,300 and the abatement is 71 per cent (i.e. leaving a net taxable of 29 per cent).

It is important to note that eligibility for the micro-BIC regime is not only based on gross turnover, but also on the ownership structure of the property and whether the owner is TVA (VAT) registered.

Finally, properties which are classed as gîtes ruraux, chambres d'hôtes and meublés de tourisme are not subject to the new limit for 2009, but instead are able to declare under the micro-BIC when the gross income is under €80,000 per annum, and will benefit from the old abatement of 71 per cent.

For income above the threshold, or for those people who are not able to benefit from the micro-BIC, the *Régime Réel Simplifié* applies. This regime allows the gross rental income to be reduced by the real expenses of the activity, including mortgage interest, depreciation, maintenance, repair and running expenses, management costs, insurance, property taxes and so on, but requires the preparation of simplified French accounts and has increased filing requirements.¹⁹

IMPLICATIONS FOR JOINED-UP GOVERNMENT

VisitBritain is concerned that the proposals undermine many aspects of government policy in other areas and that, in addition to jeopardising the competitiveness of the UK tourism industry, they sit in opposition to the stated aims of a number of current initiatives.

¹⁸ Loi de Finances 2009 (LOI n° 2008-1425 du 27 décembre 2008 de finances pour 2009, 26 July 2009)

¹⁹ <http://www.french-property-news.com/french-property-renting-out-your-french-property--141418>

A mature industry

In the field research we conducted on the implications of the changes, by meeting with owners around the country we were very struck by the age profile of many of the operators we visited. In discussions with them it became apparent that a high proportion of operators had inverted a significant proportion – in some cases all but the state component – of their pension pots in acquiring and operating self-catering enterprises.

Our impression was verified by the response received to this Parliamentary question –

To ask the Chancellor of the Exchequer what estimate he has made of the number of owners of furnished holiday letting properties who are over the state retirement age. [310262]

Mr. Timms: An estimated 16,000 individuals over state retirement age owned properties used for furnished holiday lettings in 2007-08.²⁰

Since the answer to the previous question, and the statistic in common circulation, suggests that there are around 60,000 recipients of FHL relief, this clearly suggests that the impact of the changes will be disproportionately felt by this older group.

In other areas of policy the government has been eager to promote the merits of self-employment to mature entrants, and it appears that tourism is one area where the target group has embraced the vision set out in DWP's document *Building a society for all ages* which promises to

Develop a fully joined-up package of support, both in terms of finance and advice, for people aged over 50 considering self-employment or social enterprise. This will be achieved by building on the work of JobcentrePlus and Business Link and working with the Regional Development agencies, PRIME (the Prince's Initiative for Mature Entrepreneurs) and the private sector, including Bank of America, PRIME's key corporate partner.²¹

VisitBritain believes that this group plays a particularly valuable role within the self-catering estate, bringing vast areas of life experience to bear in their business operations, being particularly focused on securing community engagement for their enterprises, embracing a strong customer service ethic and being sensitive to the needs of visitors of all age and mobility profiles.

For that reason we are also concerned by the proposals regarding restrictions on the payment of pension contributions.

Farming outlook

In the aftermath of the 2001 Foot and Mouth Disease Outbreak, the government was instrumental in promoting a scheme to encourage farmers to diversify their operations. One aspect of this was the augmented availability of Farm Diversification Grants. The Government has been pleased to

²⁰ Hansard 25 January 2010 Question 310262

²¹ Department for Work and Pensions *Building a Society for All Ages* Implementation Plan Clause 16

promote this and to present the entry of farmers in receipt of such funds into the self-catering industry²² as a success story.

We understand from the answer to a Parliamentary Question²³, that HMRC does not hold information on recipients of Farm Diversification Grants, as these are administered in England by the RDAs. Nevertheless, it is generally understood that a significant number of these have been made either to convert existing farm buildings or to facilitate new-build self-catering development within the curtilage of farms. We understand further that local authorities often attach covenants restricting use to such developments, restricting their use to holiday lettings²⁴, and that requests for change of use from self-catering to residential dwelling are often declined.^{25 26} We also note from a parliamentary answer that approximately 2500 of the 60,000 claimants of FHL also declare income from farming²⁷.

Our field research also made it clear to us that those enterprises which include a farming component are at the forefront of those which will be most adversely affected by the restrictions on off-setting losses from self-catering against profit from other parts of the business, and from the draconian proposals regarding the timing of application of reliefs around Inheritance Tax. We are aware of an imaginative scheme to create a café in a remote glen, funded from the sale and roll over of a Capital Gain from a self-catering cottage – a project which would have generated jobs in – and enhanced the sustainability and quality of life of – a deeply rural community, which is completely undermined by the present proposals.

We are concerned that the abandonment of projects of this sort, and the likely sale of properties when the relief is removed, will decimate the self-catering estate, particularly in remote rural areas, and in the sort of coastal towns that have been the focus of much government regeneration effort. On sale, such properties are likely to revert to being private second homes, with lower occupancy than when operated as FHL businesses, and reduced business for the shopkeepers, cleaners, and tradesmen of the surrounding area. The decline in turnover of visitors will also impact adversely on neighbouring serviced accommodation – particularly on hotel bars and restaurants – undermining their long-term viability –as well as on visitor attractions. We cannot see that this in any way fits with the government's commitment to 'rural proof' its policies.

We would invite you to respond substantively to the parliamentary question²⁸ which sought to ascertain what modeling had been undertaken on the likely consequences of the proposals for remote and rural areas and regional economies, and in the absence of such modeling would ask you once again to re-examine the issue in light of the Tourism Alliance's calculation that the

²² Government Office for the South East Press Release 28 August 2005

<http://www.gos.gov.uk/gose/news/newsarchive/313346/>

²³ Hansard 13 January 2010 Question 310267

²⁴ See for example Case 09/03194/COU Minutes of Newton Abbott Town Council Planning Committee 3/11/2009

<http://www.newtonabbot-tc.gov.uk/local-council/council-meetings/173-plng-cttee-03-11-09>

²⁵ See for example Case MA/04/1285 Report of Maidstone Borough Council Planning Committee 26/8/2004 page 39

http://www.maidstone.gov.uk/pdf/040826_planning_report.pdf

²⁶ See for example appeal PPA-330-2000 from decision of Orkney Islands Council to Scottish Directorate of planning and environmental appeals <http://www.dpea.scotland.gov.uk/Documents/qJ9703/J90822.pdf>

²⁷ Hansard 14 December 2009, answer to Parliamentary Question 306005

²⁸ Hansard 13 October 2009, Question 293437

withdrawal of just 10 per cent of properties would result in the loss of over £200 million of tourism spend in rural and coastal areas, with the consequent loss of £4500 jobs.

BROKERING A SOLUTION

From the outset VisitBritain has been sympathetic to the argument that the most plausible and equitable solution to this problem would be to increase the threshold by raising the eligibility criteria by requiring owners to achieve occupancy for 15 weeks per annum.

We support the Tourism Alliance and others in their analysis, and accept that, because tourism in the UK is much less seasonal and temperature-driven than in many European destinations, our season is longer. Those who are genuinely operating holiday lets as a commercial enterprise – the people who are actually contributing to the development of our visitor economy – will manage to achieve occupancy at 15 weeks, and should – in our view – continue to receive the relief. The happy correlative of this is that our sunshine-dependent competitors enjoy much shorter seasons, meaning that most UK citizen owners of foreign properties will not meet the higher threshold. The concerns expressed – that a UK relief would be used to fund a rash of Spanish swimming pool building and be used to lure prospective holidaymakers overseas – appear to us to be deeply unpersuasive.

At the very minimum we would ask that there be a moratorium on implementation while proper modeling is conducted and a genuine dialogue commenced with the industry, preparatory to the launch of trial of at least one (but ideally for two) years of the increased eligibility criteria. Only if such an experiment resulted in the consequences HMRC has posited, should the changes outlined in the current proposals be re-considered for implementation. To seek to implement the changes from April 2010 would, in our view, be to jeopardize much of the progress UK tourism has made in recent years, and to undermine the international competitiveness of the industry.
