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Economic analysis of the impact of a Visitor Levy in Highland

A report prepared for Highland Council

November 2025

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Executive summary

This report, commissioned by Highland Council, provides an assessment of both potential revenues and administrative costs of business compliance with a Visitor Levy of 5% of the value of overnight stays in accommodation providers under the Visitor Levy (Scotland) Act 2024.

The Fraser of Allander Institute's estimate is that a Visitor Levy would raise around £15.5 million in year 1 (assumed to be 2027-28), rising to £16.5 million by year 4 (assumed to be 2030-31). This is an estimate which accounts for behavioural responses through operators passing the tax on in full in the medium-term, as well as some demand response from consumers facing higher prices. Most of the revenue comes from short-term lets, and from high season (April to September).

The percentage charge nature of the system means that revenue is less sensitive to price changes than would be the case in a flat rate system. It also means that, when combined with inelastic demand for accommodation, the Levy is expected to raise more revenue after accounting for behavioural changes than in the static case. It is worth noting that these revenue assumptions do not rely on growth in visitor numbers, which are assumed to remain flat over the period other than a small fall in response to higher prices.

The £15.5-16.5 million estimate includes only three types of accommodation in scope of the Levy: hotels, self-catering short-term lets and rooms let in private residences for short-term stays. The exemption of all other types of accommodation means that the yield from the measure is around £2.5 million a year lower than would otherwise be the case.

Sensitivity analysis shows that revenues are relatively insensitive to different assumptions on inflation, for the reason that the Levy revenues overall are resilient to price changes: the percentage charge set-up and demand response compensate for the different assumptions on inflation. Different reasonable assumptions regarding demand responsiveness only change revenue forecasts by up to just 1%, which again demonstrates resilience of the results to changes in assumptions.

Another set of sensitivity scenarios shows that in the case of a considerable drop in the supply of short-term lets (10%) the fall in revenues would be around £1 million a year. Some of the revenue loss would be offset by increases in price from hotels, as well as some increased prices in other forms of accommodation, given that if demand remains the same – which would be expected – economic theory implies that prices would rise in the face of lower supply.

The administrative cost of compliance analysis provides a set of illustrative scenarios for businesses of different sizes. The analysis uses an internationally recognised best practice approach of calculating the full opportunity cost of compliance, including the opportunity cost of time spent complying. Costs are split into ongoing costs (for submitting each return), annually recurring costs (keeping abreast of changes and software licences) and one-off costs (implementing changes, familiarisation and testing).

The very smallest businesses (under 5 bookable units) have the largest compliance costs. It is assumed that they will mostly conduct this in-house, which will add to the time required, as they will not have dedicated finance teams. They are also most likely to need new software, which larger businesses will already use and can easily adapt.

At the other end of the scale, compliance costs will be lowest for the largest business (over 50 bookable units). Businesses of that size will have dedicated teams and complex software installed already, and will therefore be able to benefit from cost efficiencies and will not need to purchase new equipment for this change.

An illustrative scenario also shows that costs fall significantly with increased numbers of properties, but that for a single property, costs of compliance are unlikely to fall significantly below 4.5% of revenues in year 1 and 3% in year 2.

There are some limitations and uncertainties with the estimates, which are recognised and discussed in the report, including the size of the tax base and the size of the behavioural response. However, the results obtained are relatively robust to changes in assumptions, particularly due to the design of the tax as a percentage of the accommodation price.

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1. Introduction

This report, commissioned by Highland Council, provides an estimate of how much revenue might be raised from a Visitor Levy of 5% of the value of overnight stays in accommodation in the Highland Council Area (subject to relevant exemptions). This is in the scope of the Highland Council's consultation on introducing a levy under the Visitor Levy (Scotland) Act 2024. The public consultation ran from 15 November 2024 until 31 March 2025, and the Council is now considering the responses.

The analysis in this report has been independently prepared by analysts at the Fraser of Allander Institute (FAI), an independent economic research institute based at the University of Strathclyde. The team met on four occasions with Highland Council officials to:

- Get an initial steer on the needs of the Council in terms of outputs;
- Set out the modelling approach and ensure the outputs from the modelling would meet the requirements;
- Present the findings from the forecasting strand of the project;
- Present the findings from the administrative cost of compliance strand of the project.

The Council also provided the data used for calculating the tax base, including:

- An up-to-date copy of the Valuation Roll;
- An up-to-date copy of the Short-Term Lets Register;
- Data from the last two editions of the Visit Scotland accommodation survey, which provided occupancy rates, stock data and rates charged per night;
- Data from STEAM, a Global Tourism Solutions operated model which includes up-to-date data on the size of accommodation providers.

Any assumptions made subsequent to these data are the FAI's.

The FAI's approach has been to follow best practice to cost a new policy, both in terms of revenue raised and the administrative costs of compliance arising from a legal obligation.

For the former, the FAI used a methodology similar to that certified by the Office for Budget Responsibility (OBR) and to that used by the Scottish Fiscal Commission (SFC) when estimating the fiscal impact of new policies. This includes a survey of the literature (chapter 2). It establishes the tax base (chapter 3), estimated from the best available data and in line with exemptions stated by Highland Council, and lists the assumptions made. It then calculates the tax yield in a static context – that is, without behavioural responses (chapter 4).

The methodology then considers behavioural responses and how they affect the tax yield (chapter 5). This includes two responses: increases in price from the tax being passed through to consumers, and consumers reducing their quantity demanded in response to higher prices. These are standard behaviours in the literature, and the parameters are drawn from the best evidence available, while applying discretionary judgement.

There is a set of scenarios which provide sensitivity analysis (chapter 6), which include different assumptions on inflation, different consumer responses to price changes and a supply-side scenario where short-term lets operators are assumed to respond more strongly to the introduction of the Visitor Levy.

For the administrative cost of compliance (chapter 7), the FAI's approach is in line with the OECD's best practice guidance, forming a proportionate and pragmatic adaptation of the Standard Cost Model framework used by organisations such as the European Commission and HMRC. This includes modelling of one-off, annually recurring and ongoing costs of compliance, with different estimates for businesses of different sizes, reflecting specialisation, ability to outsource processing and efficiencies of scale. There is also a scenario modelling the effect on short-term let operators, which are more likely to have small numbers of bookable units and therefore are at the higher end of compliance costs. There is then a comprehensive list of the limitations of this analysis, which is transparently laid out (chapter 8).

2. Literature review

There are two key concepts that are important to understand when discussing the impact from introducing a Visitor Levy. These are the tax pass through rate and price elasticity of demand. These concepts are summarised in Table 1.

Table 1: Pass-through rate and price elasticity of demand definitions

Key Concepts	What is it?	How is it used?
Pass-through Rate	The amount of post-tax accommodation price increase as a percentage of the levy rate.	Used to determine how much of the tax is passed on to tourists in the form of higher prices, with the remainder being absorbed into business profits.
Price Elasticity	The response of demand to a change in prices. An elasticity of -0.5 means that for every 1% increase in price demand will fall by 0.5%.	If passed through to consumers, a Visitor Levy increases the prices faced by tourists. Elasticities inform us about the extent to which tourists respond to these price increases by reducing their demand.

We examine literature relevant to elasticities and pass-through rates to help inform what could drive Highland to have higher or lower elasticities and to provide a useful starting point to consider which modelled impacts of a Visitor Levy on Highland are more likely.

2.1 Accommodation price elasticity

Coenen & van Eekeren (2003) analysed domestic tourist demand in Sweden. The paper found that the accommodation price elasticity was -1.5. An elasticity of -1.5 means that the expenditure on accommodation decreases by 1.5% if accommodation prices increase by 1%.

Peng et al. (2015) applied a meta-analysis to study international tourism demand elasticities, finding an accommodation price elasticity of -0.73.

A study by Wu et al. (2011) found evidence, when comparing accommodation price elasticities of long-haul international visitors to short-haul visitors, that those who were travelling further to reach the destination were less elastic to accommodation price changes than those who only travelled short distances.

Divisekera (2010) analysed the accommodation price elasticities in Australia for international leisure and non-leisure tourists. Leisure tourists had an accommodation price elasticity of -0.82, with non-leisure tourists slightly less elastic at -0.53. This highlights the importance of accounting for the different kinds of tourism to Highland for both informing the likely range of modelling estimates as well as considering how a Visitor Levy could shift the relative demand of these different types of visitors.

Mak and Nishimura (1979) investigated the effect of a hotel room tax on the length of stay in Hawaii. They showed that length of stay was insensitive to price changes and that an increase in the room tax would not reduce arrivals in Hawaii significantly.

Collins and Stephenson (2018) examined the effects of a $5 per night hotel tax imposed by Georgia in the US in 2015. They found an implied price elasticity of demand of -0.7, where travellers altered their plans so that their overnight stays fall in states other than Georgia. This is important as it shows the importance of the availability of substitutes, in comparison to locations such as Hawaii, in driving price elasticity.

2.2 Total expenditure price elasticity

Schiff and Becken (2011) measured total expenditure price elasticities for tourism to New Zealand, finding lower elasticities for UK and US tourists (-0.40 and -0.55, respectively) and higher elasticities for Japanese tourists (-1.17). In this study, the longer the travel distance, the lower the elasticity is. This is consistent with the accommodation price elasticity literature above.

Similarly, Crouch (1994) evaluated the demand elasticities of short-haul and long-haul tourism through their meta-analysis of 80 empirical studies of international tourism demand. Crouch found the mean long-haul price elasticity to be -0.48 and the short-haul to be -0.60.

Divisekera (2003) analysed total expenditure price elasticities for international tourism, finding that demand for UK tourism by international tourists ranged from -0.51 for Japanese visitors, -0.96 for U.S. and -1.53 for New Zealand. They also highlight that demand for popular tourist destinations appear to have lower price elasticities.

Adedoyin et al. (2021) examined the effect of a tourism tax in the Maldives and found that a 10% increase in tourism tax reduced tourism demand by 5.4%.

Durbarry and Sinclair (2001) found that the demand for UK tourism was relatively elastic, finding a price elasticity of -1. The paper details the effect this elasticity has on tourism spending: “An increase of 1% in effective prices in the UK relative to competing tourist destination countries would lead to a decrease in tourism expenditure in the UK of around 1%.”

In a later study into tourist demand in the UK, Durbarry (2008) analysed the price sensitivity of tourism demand to address whether a reduction in VAT could boost UK tourism. Durbarry found elasticities of -1.5 or -2: "This implies that if UK's real effective tourism price increase by 1%, total real expenditure of tourism will fall by around 1.5 to 2%, ceteris paribus."

Additionally, in the meta-analysis of 195 articles by Peng et al. (2015), the world's average price elasticity was estimated at -1.28 – with a standard deviation of 1.82, highlighting the large volatility in elasticities across different areas. Business tourism had a much lower price elasticity of -0.35.

Overall, it appears that longer distance tourism is less price elastic than short-haul or domestic tourism, however it appears that popular tourism relationships play a part in the demand for tourism between countries.

Destination substitutes also appear to play and important role in determining sensitivity to price changes.

Anastasopoulos (1984) highlight that price elasticity is lower for more unique destinations. Sauran (1978) supports this and suggest that "sunlust" or coastal destinations are likely to be more elastic than "wanderlust" or non-coastal destinations as coastal destinations have closer substitutes.

2.3 Pass-through rate

The extent of the fall in tourist expenditure due to an increase in prices will also depend on how much of the price increase is passed through to the tourist – i.e. the pass-through rate. For example, if a Visitor Levy of £2 per room per night is applied to a hotel charging £73 per room and the price of the room only increases to £74, then £1 of the Levy is effectively directly borne by the accommodation sector, and £1 is passed on to the tourist.

Any response of tourists reducing expenditure due to an increase in prices will depend on how much of the price increase they see – i.e. it depends on the pass-through rate. Higher pass-through rates mean that more of the tax is 'exported' and the accommodation sector bears less of the Levy, but it also means that there will be a larger response from tourists.

Initially, the tax may not be passed on fully to consumers in the form of higher prices but over time, we may expect to see a greater proportion of the tax passed on as accommodation providers respond to the Levy.

Fujii, Khaled & Mak (1985) evaluated the impact of a levy on the demand for lodging in Hawaii, finding that around two-thirds of the hotel room tax was passed on to consumers whilst the remaining one-third was borne by the hotel industry.

Additionally, Bonham and Gangnes (1996) used time series analysis to assess the impact of an occupancy tax levied in Hawaii and found that the tax was almost entirely shifted onto consumers. However, they found that a 5% increase in lodging costs from the tax would only increase the total cost of a typical holiday in Hawaii by less than 1.5%.

Hiemstra & Ismail (1993) analysed the impact of room taxes on the U.S. lodging industry, finding that consumers pay around $6 out of $7 of the tax – with the lodging industry paying the remaining $1.

Similarly, Copenhagen Economics (2007) estimates (regarding a change in VAT) that the extent of pass-through is context-specific "ranging from 25% in Portugal (restaurants) to full in Finland (hotels)."

2.4 What does this mean for the analysis?

We can draw on some of the results from the research to help inform us on reasonable elasticity and pass-through rates. Domestic overnight visitors will likely respond differently to international visitors while business visitors are typically less price elastic relative to leisure visitors. Evidence also suggests that beach holidays and coastal locations are more elastic than non-coastal holiday locations.

Domestic tourists are likely to have a more elastic response to changes in accommodation prices than international tourists. This is not surprising as domestic tourists are more likely to be able to stay elsewhere, such as with family or friends, and also may be choosing a domestic holiday as a cheap alternative to going abroad and so, are more price sensitive in general.

It also highlights that short-haul international visitors are likely to have a more elastic response than long-haul visitors. Therefore, the behavioural response of tourists to a Visitor Levy may be greater for tourists originating from closer areas than those originating from areas further away.

Given the unique tourism offering Highland has it is likely that demand will be less sensitive to price changes as there will be fewer substitutes for tourists.

It is important to note that the elasticities for Highland will not be the same as those shown in the above literature. However, these studies provide a good starting point for considering what could drive Highland to be a more or less elastic destination.

3. Establishing the tax base

To estimate the tax base, we established parameters for each accommodation type. These parameters included the accommodation stock, average price, and occupancy rate for both the high and low seasons. We define the high season as 1st April-30th September and the low season as 1st October-31st March.

The following is a list of all chargeable accommodation types in Highland:

- Hotels,
- Short-term lets,
- Rooms in houses,
- Guesthouses and Bed and Breakfasts (B&Bs),
- Rented timeshares,
- Hostels
- Campsite accommodation.

Table 2: Static parameters by accommodation type for 2027/28

	Accommodation types included in the Levy			**Accommodation types excluded from the Levy**		
	Hotels	**Short-term lets**	**Rooms in houses**	**Guesthouses & B&Bs**	**Campsites**	**Hostels**
Number	186	-	-	542	108	64
Average size	16	-	-	4	6	11
Total rooms/ units	2,945	7,999	1,024	1,901	624	705
Occupancy rate (high season)	84%	56%	56%	89%	40%	76%
Average price (high season)	£171.85	£184.08	£59.00	£118.00	£42.91	£26.82
Occupancy rate (low season)	62%	36%	36%	49%	19%	47%
Average price (low season)	£87.42	£140.29	£48.27	£64.36	£42.91	£21.45

Source: FAI calculations based on Visit Scotland data provided by Highland Council

Note: figures may not sum due to rounding.

However, the Highland Visitor Levy is only applied to certain accommodation types. These are hotels, short-term lets and rooms in houses. We establish a tax base based on these eligible accommodation types using the parameters outlined in Table 2. We also provide estimates of the cost of exempting all other accommodation types using these parameters.

3.1 Accommodation stock

We used the Visit Scotland Accommodation Stock data (2023) to determine the number of businesses and average number of bookable rooms or units in hotels, guesthouse and B&Bs, hostels and campsites. The total number of bookable rooms or units was calculated by multiplying the number of businesses by the average number of rooms/units.

For other accommodation types, we used the Short-Term Lets Register to identify relevant properties. B&Bs, campsites, and serviced apartments were removed from the register to isolate short-term lets, rented timeshares, and rooms in houses.

We used the number of self-catering accommodations from the Visit Scotland Accommodation Stock data. We took the number of timeshares from the valuation roll and assumed 40% of timeshares are available to rent for 25% of the year. We included these timeshares in our short-term let accommodation stock.

The remaining entries on the register (after removing short-term lets and rented timeshares) were treated as rooms in homes rented out for short stays.

To reflect potential downtime for maintenance or closures, we applied a 5% reduction to all accommodation stock figures. For rooms in houses, a higher adjustment of 10% was applied to account for the likelihood that these are less likely to be offered year-round. The accommodation stock by accommodation type is shown in Table 2.

3.2 Average prices

Average price assumptions were informed by a range of VisitScotland data sources to estimate a high and low season average price for each accommodation type.

For hotels, we used VisitScotland's monthly data for Highland hotels covering the period from January 2023 to September 2024. To complete the 2024 dataset, we applied the observed 2023-2024 growth rate to the remaining months, allowing us to estimate seasonal average prices for 2024.

For short-term lets, we used the Visit Scotland Key Data, which provided high- and low-season average prices for short-term lets in the Highland region. These figures were originally reported in US dollars at 2023 prices. We converted them to pounds sterling and uprated them to 2025 prices, using inflation adjustments.

Price assumptions for the remaining accommodation types were informed by the prices observed for hotels and short-term lets and further cross-checked against broader accommodation price data for Scotland.

Finally, all prices were uprated to 2027/28 levels, the first year of our modelling period, using OBR inflation forecasts. The final price assumptions are presented in Table 2.

3.3 Occupancy rates

Occupancy rate assumptions were derived from the Scottish Accommodation Occupancy Surveys for the years 2022 to 2024.

First, we calculated the average high- and low-season occupancy rates by accommodation type using monthly occupancy data for by accommodation type Scotland as a whole.

We then used the total year average to calculate seasonal occupancy weights for Scotland as a whole, to estimate how to split the year total across seasons, for example, 1.15 for the high season and 0.85 for the low season. These seasonal weights were then applied to the annual average occupancy rates for the Highlands to produce high- and low-season estimates specific to the region and that accommodation type.

We repeated this for each accommodation type, working from the total Scotland occupancy data for that accommodation to high and low season occupancy rates. The occupancy rate estimates for each accommodation type for 2027/28 are presented in Table 3.

4. Calculating the static yield

The calculation of the static tax yield follows a structured approach using the parameters presented in Table 2, which outlines the key inputs for each accommodation type.

The Highland Visitor Levy will only be applied to hotels, short-term lets and rooms in houses, so we estimate the static yield from eligible accommodation and the static cost of exemption for other accommodation types.

4.1 Static yield from eligible accommodation

Using the parameters for eligible accommodation types, we estimate total demand, expenditure, and tax revenue for both the high and low seasons. Table 3 illustrates the steps in these calculations, using hotels as an example. Appendix 1 provides similar tables of the static calculations for short-term lets and rooms in houses.

Table 3: Static calculations for hotels in 2027/28

High Season (Apr-Sep)	Total room nights	2,945 rooms x 84% x 182 nights	= 452,244
	Total expenditure	Total room nights x £171.86	= £77,719,992
	Tax Yield	**Total expenditure x 5% x 90%**	**= £3,497,400**
Low Season (Oct-Mar)	Total room nights	2,945 rooms x 62% x 183 nights	= 335,386
	Total expenditure	Total room nights x £87.42	= £29,320,184
	Tax Yield	**Total expenditure x 5% x 90%**	**= £1,319,408**
	Total Tax Yield	**£3,497,400 + £1,319,408**	**= £4,816,808**

Source: FAI calculations

Note: figures may not sum due to rounding.

The calculation proceeds in three steps. First, we calculate the total demand for accommodation. This is the total number of bookable units available multiplied by the occupancy rate and the total number of nights in the high season.

Next, we calculate the total expenditure for that accommodation. This is the total room nights demanded multiplied by the accommodation price per night.

Finally, we calculate the tax yield. A 5% tax rate is applied to total accommodation expenditure to estimate the gross tax revenue. To account for refunds due to national legislation exemptions, medical exemptions, and non-compliance, we reduce the gross yield by 10% to derive the net tax yield.

The same calculations are repeated for the low season using the corresponding parameters. The high- and low-season yields are then summed to obtain the annual tax yield for each accommodation type.

Finally, total tax revenue for the year is calculated by aggregating the annual yields across all eligible accommodation types. Table 4 presents the resulting total revenues for the financial years 2027/28 to 2030/31. We estimate a static tax yield of £15.4m in the first year of introduction, 2027/28. The static tax yield is expected to increase year on year, with an estimated yield of £16.4 in year 4, 2030/31.

Table 4: Total static tax revenues for all eligible accommodation types, 2027/28 – 2030/31

	2027/28	2028/29	2029/30	2030/31
High Season	£10,588,811	£10,800,629	£11,016,617	£11,236,924
Low Season	£4,820,825	£4,917,261	£5,015,595	£5,115,895
Total Revenue	**£15,409,635**	**£15,717,890**	**£16,032,212**	**£16,352,819**

Source: FAI calculations

Note: figures may not sum due to rounding.

4.2 Static cost of accommodation exemptions

We use the same calculation method outlined in Table 3 for hotels to estimate the static cost of exempting other accommodation types from the Levy. These accommodation types are guesthouses and B&Bs, hostels and campsites.

Table 5 presents the yearly static cost of these exemptions. We estimate an additional static tax revenue of £2.4m could be raised in the first year of introduction, 2027/28, from exempt accommodations. This is also expected to increase year on year, increasing to £2.6m in year 4, 2030/31.

Table 5: Total static cost of accommodation exemption for all eligible accommodation types, 2027/28 – 2030/31

	2027/28	2028/29	2029/30	2030/31
High Season	£1,849,367	£1,886,362	£1,924,085	£1,962,562
Low Season	£593,668	£611,977	£617,653	£630,005
Total Revenue	**£2,443,035**	**£2,498,339**	**£2,541,738**	**£2,592,567**

Source: FAI calculations

Note: figures may not sum due to rounding.

5. Behavioural response and estimated post-behavioural yield

We have modelled the behavioural responses to the introduction of an accommodation tax. The behavioural effects are incorporated in two stages, as summarised in Table 6.

Table 6: Behavioural responses to an accommodation tax

	What is it?	How it affects tax revenue?
Behaviour 1	Price increases due to tax being passed on to consumers	We assume a certain level of the tax will be passed onto consumers through higher prices and the rest will be absorbed into business profits. If there is a 75% pass through rate on a 5% tax, then prices will increase by 3.75%.
Behaviour 2	Demand falls due to the increase in price.	The amount demand falls by depends on the price elasticity of demand. If we assume a price elasticity of demand of -0.75 this means for every 1% increase in price, the quantity demanded decreases by 0.75%.

5.1 Behaviour 1 – tax passed through into higher prices

We assume that accommodation providers will pass some, or all, of the new tax on to consumers through higher prices. The extent of this pass-through depends on market conditions and competitive dynamics.

Based on evidence from the literature, we assume a 75% pass-through rate in year 1 (2027/28), rising to 100% from year 2 onwards. This implies that a 5% accommodation tax will result in a 3.75% price increase in 2027/28, and a 5% price increase from 2028/29 onwards.

This first behavioural adjustment affects only the price parameter within our model. Table 7 presents the resulting change in eligible accommodation prices for 2027/28, after applying a 75% pass-through rate.

Table 8 then shows the estimated tax yield following this initial behavioural adjustment for hotels. Appendix 2 provides the same calculations for short-term lets and rooms in houses.

The yield is higher than the static (no-behavioural) estimate, as prices are higher while demand has not yet adjusted. However, this is not the final yield, as we also need to account for the second behavioural response – the reduction in demand.

Table 7: Static and behaviour 1 model parameters for eligible accommodation in 2027/28 with 75% tax pass-through rate

	Hotels		Short-term lets		Rooms in houses	
	Static	**Behaviour 1**	**Static**	**Behaviour 1**	**Static**	**Behaviour 1**
Number	186	186				
Average size	16	16				
Total rooms	2,945	2,945	7,999	7,999	1,024	1,024
Occupancy rate (high season)	84%	84%	56%	56%	56%	56%
Average price (high season)	£171.85	***£178.30***	£184.08	***£190.98***	£59.00	***£61.21***
Occupancy rate (low season)	62%	62%	36%	36%	36%	36%
Average price (low season)	£87.42	***£90.70***	£140.29	***£145.55***	£48.27	***£50.08***

Source: FAI calculations based on Visit Scotland data provided by Highland Council

Note: figures may not sum due to rounding.

Table 8: Behaviour 1 calculation and results comparison to static modelling for hotels in 2027/28

		Behaviour 1		**Static**
High Season (Apr-Sep)	Total room nights	2,945 rooms x 84% x 182 nights	= 452,244	452,244
	Total expenditure	Total room nights x ***£178.30***	= £80,634,491	£77,719,992
	Tax Yield	**Total expenditure x 5% x 90%**	**= £3,628,552**	**£3,497,400**
Low Season (Oct-Mar)	Total room nights	2,945 rooms x 62% x 183 nights	= 335,386	335,386
	Total expenditure	Total room nights x ***£90.70***	= £30,419,691	£29,320,184
	Tax Yield	**Total expenditure x 5% x 90%**	**= £1,368,886**	**£1,319,408**
	Total Tax Yield	**£3,628,552 + £1,368,886**	**= £4,997,438**	**£4,816,808**

Source: FAI calculations

Note: figures may not sum due to rounding.

5.2 Behaviour 2 – quantity demanded reduced due to higher prices

The second behavioural effect captures the reduction in accommodation demand resulting from higher prices. The extent of this response is determined by the price elasticity of demand, which measures how sensitive demand is to price changes.

Drawing on the literature, we assume a price elasticity of demand of -0.75 in our central scenario. This means that for every 1% increase in price, the quantity demanded decreases by 0.75%.

This behavioural response reduces the total number of room nights demanded, which in turn affects the total tax yield. Table 9 shows these calculations for hotels in 2027/28. The model uses the higher prices from Behaviour 1 (Table 7) as the input. Appendix 2 provides the same calculations for short-term lets and rooms in houses.

In 2027/28, prices rise by 3.75%, and with a price elasticity of -0.75, the resulting decrease in total room nights is calculated and shown in the "Total room nights" rows of Table 9.

The total tax yield for behaviour 2 (after both adjustments) is the final post behavioural tax revenue raised. The final post-behavioural tax yield remains higher than the static estimate, as the revenue gained from higher prices outweighs the reduction in revenue caused by lower demand. This is a product of the fact that the Levy is set as a percentage of price, which when combined with inelastic demand, means that a price rise leads to **more** revenue even after accounting for a fall in demand.

Table 10 presents the final, post-behavioural tax revenue estimates across all eligible accommodation types for the financial years 2027/28 to 2030/31. They estimate a post-behavioural tax revenue of £15.5m in the first year, 2027/28. This revenue is expected to increase year on year, with an estimated yield of £16.5m in year 4, 2030/31.

Table 9: Behavioural response calculation and results comparison to static modelling for hotels in 2027/28

		Static	Behaviour 1	Behaviour 2	
High Season (Apr-Sep)	Total room nights	452,244	452,244	***=452,244 x (1+3.75%) x -0.75***	= 439,525
	Total expenditure	£77,719,992	£80,634,491	Total room nights x *£178.30*	= £78,366,646
	Tax Yield	**£3,497,400**	**£3,628,552**	Total expenditure x 5% x 90%	**= £3,526,499**
Low Season (Oct-Mar)	Total room nights	335,386	335,386	***=335,386 x (1+3.75%) x -0.75***	= 325,953
	Total expenditure	£29,320,184	£30,419,691	Total room nights x *£90.70*	= £29,564,137
	Tax Yield	**£1,319,408**	**£1,368,886**	Total expenditure x 5% x 90%	**= £1,330,386**
	Total Tax Yield	**£4,816,808**	**£4,997,438**	**£3,526,499 + £1,330,386**	**= £4,856,885**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 10: Post behavioural tax revenues across all eligible accommodation types, 2027/28-2030/31

	2027/28	2028/29	2029/30	2030/31
High Season	£10,676,913	£10,915,386	£11,133,669	£11,356,317
Low Season	£4,860,935	£4,969,506	£5,068,885	£5,170,251
Total Revenue	**£15,537,848**	**£15,884,892**	**£16,202,554**	**£16,526,568**
Pass through rate	*75%*	*100%*	*100%*	*100%*
Price elasticity of demand	*0.75*	*0.75*	*0.75*	*0.75*

Source: FAI calculations

Note: figures may not sum due to rounding.

5.3 Post-behavioural cost of accommodation exemptions

We use the same calculation outlined in Table 8 and Table 9 for hotels to estimate the post-behavioural cost of exempting other accommodation types from the Levy. These accommodation types are guesthouses and B&Bs, hostels and campsites.

Table 11 presents the post-behavioural cost of these exemptions. We estimate an additional post-behavioural tax revenue of £2.5m could be raised in the first year of introduction, 2027/28 from exempt accommodations. This is also expected to increase year on year, increasing to £2.6m in year 4, 2030/31.

Table 11: Post behavioural cost of accommodation exemption for all eligible accommodation types (2027/28 – 2030/31)

	2027/28	**2028/29**	**2029/30**	**2030/31**
High Season	£1,864,754	£1,906,405	£1,944,528	£1,983,414
Low Season	£598,607	£611,977	£624,216	£636,698
Total Revenue	**£2,463,362**	**£2,518,382**	**£2,568,744**	**£2,620,113**
Pass through rate	*75%*	*100%*	*100%*	*100%*
Price elasticity of demand	*0.75*	*0.75*	*0.75*	*0.75*

Source: FAI calculations

Note: figures may not sum due to rounding.

6. Sensitivity analysis

We have run a number of scenarios to provide sensitivity analysis. This is crucial in order to understand how robust our estimates are in the central scenario relative to the assumptions we have made.

Table 12 below summarises the assumptions we make in each of the scenarios. The two scenarios on higher and lower inflation provide a 'ready reckoner' for the effect of a 0.5 percentage point difference in inflation relative to the central assumption, which is taken from OBR forecasts. In both cases, we hold the price elasticity of demand at -0.75 as in the central scenario to isolate the inflation effect.

The more inelastic and more elastic demand scenarios are drawn from our assessment of the literature. In all cases demand is inelastic, in line with our findings, but we vary the extent to which it is so. In those cases, we hold inflation assumptions constant at 2%, again to isolate the demand effect.

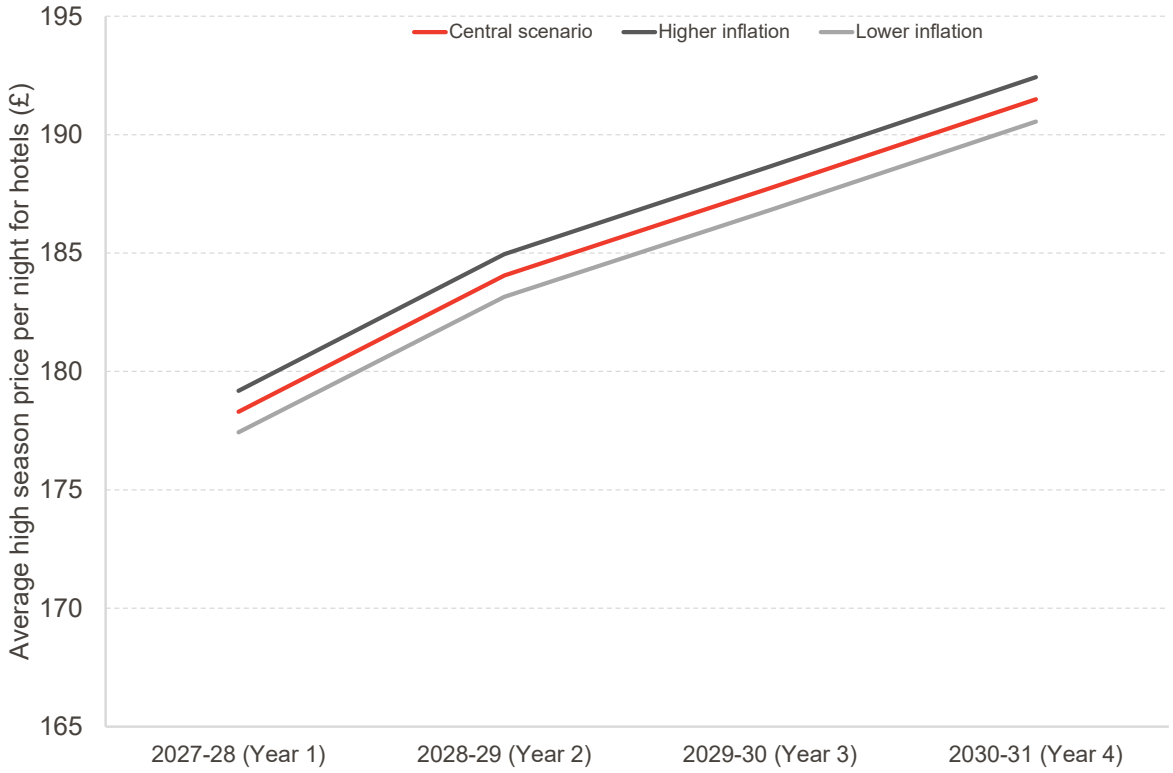
Table 12: Assumptions about inflation and price elasticity of demand in each of the scenarios considered

	Central	**High inflation**	**Low inflation**	**More inelastic demand (Highland more attractive)**	**More elastic demand (Highland less resilient)**
Inflation rate	***2.0%***	*2.5%*	*1.5%*	*2.0%*	*2.0%*
Price Elasticity of Demand (PED)	***-0.75***	*-0.75*	*-0.75*	*-0.5*	*-0.85*

6.1 Inflation scenarios

Chart 1 illustrates the size of the difference that the 0.5 percentage point intervals in inflation makes to hotel room prices per night in high season. This is an illustration of the effect – this is replicated across all eligible types of accommodation, across both high and low season, in order to calculate the effect of the inflation scenario on tax yield.

Chart 1: Example of high-season hotel prices per room per night under each of the inflation scenarios



Source: FAI calculations based on Visit Scotland data provided by Highland Council, OBR

Table 13 below shows the assumptions used across the inflation scenarios for hotels, in both the high and low season. Appendix 3 provides the same calculations for short-term lets and rooms in houses.

The difference is relatively small between scenarios – around 0.5% higher yield in the higher inflation scenario than in the central scenario, and around 0.5% lower in the lower inflation scenario.

Table 13: Summary of the assumptions and calculations under each inflation scenario for hotels in year 1, 2027-28

Hotels (2027-28, Year 1)	Central scenario	Higher inflation	Lower inflation
Number	186	186	186
Average size	16	16	16
Total rooms	2,945	2,945	2,945
Occupancy rate (high season)	84%	84%	84%
Average price (high season)	£178.30	£179.18	£177.43
Occupancy rate (low season)	62%	62%	62%
Average price (low season)	£90.70	£91.15	£90.26
High season yield	£3,526,499	£3,543,924	£3,509,349
Low season yield	£1,330,386	£1,336,960	£1,323,916
Tax yield	**£4,856,885**	**£4,880,884**	**£4,833,266**
Difference relative to central scenario	-	£23,999	-£23,619
Difference relative to central scenario (%)	-	0.5%	-0.5%

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 14 summarises the results across the different types of accommodation. The main takeaway of these results in that a 0.5 percentage change in the rate of inflation changes revenue by around £80,000 a year.

Table 14: Results under each inflation scenario by type of eligible accommodation

	2027-28 (Year 1)	2028-29 (Year 2)	2029-30 (Year 3)	2030-31 (Year 4)
Hotels				
Central scenario	£4,856,885	£4,965,366	£5,064,662	£5,165,943
Higher inflation	£4,880,884	£4,989,686	£5,089,500	£5,191,278
Lower inflation	£4,833,266	£4,941,006	£5,039,846	£5,140,632
Short-term lets				
Central scenario	£10,250,112	£10,479,052	£10,688,609	£10,902,357
Higher inflation	£10,300,760	£10,530,379	£10,741,029	£10,955,824
Lower inflation	£10,200,265	£10,427,643	£10,636,238	£10,848,938
Rooms in houses				
Central scenario	£430,851	£440,474	£449,283	£458,268
Higher inflation	£432,980	£442,632	£451,486	£460,515
Lower inflation	£428,756	£438,314	£447,082	£456,022
Total				
Central	**£15,537,848**	**£15,884,892**	**£16,202,554**	**£16,526,568**
Higher inflation	**£15,614,624**	**£15,962,697**	**£16,282,015**	**£16,607,618**
Difference from higher inflation to central scenario	**£76,776**	**£77,804**	**£79,461**	**£81,050**
Lower inflation	**£15,462,286**	**£15,806,963**	**£16,123,166**	**£16,445,592**
Difference from lower inflation to central scenario	**-£75,562**	**-£77,929**	**-£79,388**	**-£80,976**

Source: FAI calculations

Note: figures may not sum due to rounding.

6.2 Price elasticity of demand scenarios

One crucial assumption regarding the effect of the Visitor Levy is the extent to which consumers will respond to higher prices. As discussed in Chapters 2 and 5, this is the main channel through which visitor numbers adapt to the Levy being passed through by businesses.

In our central scenario, we assume a price elasticity of demand – or PED, the percentage change in quantity demanded in response to a 1% change in price – to be -

0.75. This is a judgement based on the literature and the characteristics of tourists visiting Highland, as well as the location itself.

However, this is very much a judgement, and it is therefore important to test how sensitive our revenue forecasts are to different plausible assumptions. For that, we have run two scenarios:

- One using a more inelastic PED of -0.5. This would imply that tourists see Highland destinations as more inherently attractive destination than we assumed in our base case;
- And one using a more elastic PED of -0.85. This would imply that Highland tourism is less resilient to price increases than we have originally assumed, and would result in a larger fall in quantity demanded in the face of higher prices including the Levy.

In all these cases, demand is assumed to be relatively price inelastic (that is, between 0 and -1). This implies that visitor numbers fall less than proportionally relative to the percentage price increase. This is something that we see as justified given the literature and the unique nature of Highland as a destination.

Table 15 summarises the effect of the different assumptions regarding the PED on total room nights booked in Highland. In year 1, we assume only 75% pass-through, and therefore the quantity effect is more limited. Beyond that, the more inelastic demand scenario would mean 1.3% more room nights demanded by tourists than the central scenario, and the more elastic demand scenario would 0.5% fewer.

Table 15: Total room nights demanded for eligible accommodation under different scenarios for PED

	Central scenario	More inelastic demand	More elastic demand
Year 1			
Total room nights	2,249,417	2,271,116	2,924,278
Difference relative to central scenario	-	21,699	-8,679
Difference relative to central scenario (%)	-	1.0%	-0.4%
Subsequent years			
Total room nights	2,227,719	2,256,650	2,216,146
Difference relative to central scenario	-	28,931	-11,573
Difference relative to central scenario (%)	-	1.3%	-0.5%

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 16 below summarises the results of the PED scenarios. Beyond year 1, this would imply an additional £210,000 in revenue a year if demand proved to be more resilient to the extent we have assumed, whereas the less resilient scenario would mean around £80,000 a year fall in revenue relative to the central scenario.

Table 16: Results under each PED scenario by type of accommodation

	2027-28 (Year 1)	2028-29 (Year 2)	2029-30 (Year 3)	2030-31 (Year 4)
Hotels				
Central scenario	£4,856,885	£4,965,366	£5,064,662	£5,165,943
More inelastic demand	£4,903,736	£5,029,851	£5,130,437	£5,233,034
More elastic demand	£4,838,145	£4,939,572	£5,038,352	£5,139,107
Short-term lets				
Central scenario	£10,250,112	£10,479,052	£10,688,609	£10,902,357
More inelastic demand	£10,348,987	£10,615,144	£10,827,422	£11,043,946
More elastic demand	£10,210,561	£10,424,616	£10,633,084	£10,845,721
Rooms in houses				
Central scenario	£430,851	£440,474	£449,283	£458,268
More inelastic demand	£435,007	£446,195	£455,118	£464,219
More elastic demand	£429,189	£438,186	£446,949	£455,887
Total				
Central	**£15,537,848**	**£15,884,892**	**£16,202,554**	**£16,526,568**
More inelastic demand	**£15,687,731**	**£16,091,190**	**£16,412,977**	**£16,741,199**
Difference from more inelastic to central scenario	**£149,883**	**£206,297**	**£210,423**	**£214,631**
More elastic demand	**£15,477,895**	**£15,802,374**	**£16,118,385**	**£16,440,716**
Difference from more elastic to central scenario	**-£59,953**	**-£82,519**	**-£84,169**	**-£85,852**

Source: FAI calculations

Note: figures may not sum due to rounding.

6.3 Supply-side response from short-term lets and rooms in houses

We have also modelled a scenario in which there is an additional supply-side response. This is based on the fact that short-term lets have lower barriers to exiting the market than other types of accommodation, as operators can more easily decide not to take any further bookings. This is unlike, for example, hotels, which employ large numbers of people and would not simply be able to exit the market at once.

We therefore explore the sensitivity of the revenues of the Visitor Levy to a scenario in which 10% of short-term lets and rooms in houses are no longer let out. This is a large supply response, and should not be seen as a prediction as to whether anything of this magnitude would happen; rather, it is an illustration of the extent to which this affects revenues collected.

Table 17 shows how many fewer room nights would be purchased by tourists in this scenario. We model this in 2028/29, when we assume the full price will be passed onto consumers. Given that short-term lets make up roughly half of all room nights, the effect on total supply would be a fall of around 5%.

Table 17: Effect on room nights of a supply-side response scenario, 2028/29

Total room nights	Central scenario	Supply-side response scenario
Short-term lets	1,302,819	1,172,537
Rooms in houses	166,806	150,126
Combined number of room nights	1,469,625	1,322,663
Difference from central scenario	-	-146,963
Difference from central scenario (%)	-	-10%
Room nights across all accommodation types in Highland	2,933,764	2,786,802
Difference from central scenario	-	-146,963
Difference from central scenario (%)	-	-5%

Source: FAI calculations

Note: figures may not sum due to rounding.

However, there is a question as to what would happen to prices in the face of a 5% fall in supply. There is no reason why a fall in supply should lead to a fall in demand – these are two distinct processes, which are related but not intrinsically linked.

If demand remains the same, economic theory implies that prices would rise in the face of lower supply. It is difficult to know exactly how much this effect would be, but a reasonable assumption would be a 5% increase in price in response – essentially matching the percentage fall in supply.

Assuming this applies across all accommodation types (regardless of eligibility or exemption from the Levy), we then apply the -0.75 price elasticity of demand to estimate how tourists would react to an increase in price. Prices will increase by 5% for non-eligible accommodation, and by 10% for eligible accommodation (5% price increase and 5% tax pass through). This allows us to then estimate how many room nights would be purchased at the new price.

Table 18: Effect on room nights of a supply-side response scenario with a price increase and a demand response

Total room nights	Central scenario	Supply-side response scenario	Supply-side response with price increase and a demand response
Short-term lets	1,302,819	1,172,537	1,124,569
Rooms in houses	166,806	150,126	143,984
Combined number of room nights	1,469,625	1,322,663	1,268,554
Difference from central scenario	-	-146,963	-201,071
Difference from central scenario (%)	-	-10%	-14%
Room nights across all accommodation types in Highland	2,933,764	2,786,802	2,675,203
Difference from central scenario	-	-146,963	-258,561
Difference from central scenario (%)	-	-5%	-9%

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 18 shows the results. A scenario of this kind – which, as mentioned before, would be a large supply response, and should therefore not be seen as a prediction but rather an illustration – would reduce levy revenues by around £1 million a year.

Table 19 shows these revenue effects by eligible accommodation type. Large falls in revenue would come from short-term lets and rooms in houses, as those are the types of accommodation in which we are modelling exits from the market. However, as a result of the *ad valorem* levy and the inelastic demand, the increase in price would lead to **more** revenue from hotels, which would offset just less than 5% of the fall in revenue.

Table 19: Results under a supply-side response scenario with an increase in price and demand response by type of accommodation

	2027-28 (Year 1)	2028-29 (Year 2)	2029-30 (Year 3)	2030-31 (Year 4)
Hotels				
Central scenario	£4,856,885	£4,965,366	£5,064,662	£5,165,943
Supply-side response with price increase and a demand response	£4,895,576	£5,000,349	£5,100,345	£5,202,340
Difference from central scenario	£38,691	£34,983	£35,683	£36,396
Short-term lets				
Central scenario	£10,250,112	£10,479,052	£10,688,609	£10,902,357
Supply-side response with price increase and a demand response	£9,298,590	£9,497,594	£9,687,524	£9,881,252
Difference from central scenario	-£951,522	-£981,459	-£1,001,085	-£1,021,105
Rooms in houses				
Central scenario	£430,851	£440,474	£449,283	£458,268
Supply-side response with price increase and a demand response	£390,855	£399,220	£407,203	£415,347
Difference from central scenario	-£39,996	-£41,254	-£42,079	-£42,921
Total				
Central	£15,537,848	£15,884,892	£16,202,554	£16,526,568
Supply-side response with price increase and a demand response	£14,585,021	£14,897,163	£15,195,072	£15,498,938
Difference from central scenario	**-£952,827**	**-£987,730**	**-£1,007,482**	**-£1,027,629**

Source: FAI calculations

Note: figures may not sum due to rounding.

7. Administrative cost impacts

This chapter outlines the methodology used to estimate the administrative cost associated with the Levy. The analysis provides an illustrative calculation rather than a prediction of actual costs. Estimates are derived under a consistent set of standardised assumptions and are presented to demonstrate the potential scale of administrative costs for businesses of different sizes.

This is an approach in line with international best practice, and is adapted from the OECD's Regulatory Compliance Cost Assessment framework in order to be applicable and proportional to the size of the administrative cost being calculated.

This is also the approach used by the European Commission and the UK Government, both of which use standard cost models. These are designed to use a comparable set of costs for adapting to new administrative regulations, as well as ongoing and recurring costs. For example, HM Revenue and Customs publishes a set of Tax Information and Impact Notes (TIINs) alongside changes to tax policy at each fiscal event, which calculate the impacts on businesses and civil society organisations and is based on its Standard Cost Model.

The administrative cost calculations included below are therefore based on that framework, although in a simplified manner and with cost and time estimates based on FAI research and judgements. This is a full opportunity cost calculation, in the sense that it accounts for both actual expenditure and the implicit value of time spent complying with the obligation of the Visitor Levy and so will be larger than 'out of pocket' costs. The assumptions are listed transparently, and the methodology would be easily adaptable for different assumptions that could reasonably be made.

7.1 Overview of administrative costs

To estimate the total administrative cost, the associated costs are disaggregated into three core types:

1. Ongoing costs

Ongoing costs represent the recurring operational effort required to administer the Levy.

These include:

- Labour time spent completing and submitting returns.
- Opportunity costs from alternative work not undertaken due to administrative requirements.

These costs are split between internal, where the administrative work is done in house by the owner or by a finance team in the business, and external, where the work is outsourced to a professional accountant.

2. One off costs

One-off costs occur only at the point the tax is first introduced.

They include:

- Setting up administrative systems and software.
- Registration and onboarding activities.
- Time spent familiarising staff with new processes, testing the system, and adjusting internal workflows.

These costs tend to be higher for non-specialists – particularly staff in small businesses without access to dedicated finance teams or external providers.

3. Recurring annual costs

Recurring annual costs arise once per year and include:

- Time spent keeping up to date with legislative changes or new requirements.
- Annual software licence fees or system updates.

These costs are typically higher for small businesses, which often lack specialised staff and must purchase software already used routinely by larger operators.

7.2 Business size effects

Administrative costs differ significantly with business size. To reflect this variation, businesses are grouped into four categories:

- Under 5 bookable units
- 5-15 bookable units
- 16-50 bookable units
- 50+ bookable units

Most short-term lets and individual rooms within homes fall within the smallest category. Hotels vary more widely in size and typically fall within the other groupings.

Assumptions regarding the proportion of administrative tasks completed internally versus externally are made for each group. These internal/external workload assumptions are summarised in Table 20.

Table 20: Business operating assumptions by business size

Business size	Business operating assumptions
Under 5 bookable units	Manual processing. Probably small enough to mostly conduct the work in-house.
5-15 bookable units	Probably large enough to outsource to bookkeepers and have some existing software.
16-50 bookable units	Relatively larger. Will have some finance function and existing integrated software.
50+ bookable units	Larger businesses, with existing software and in-house finance staff.

Source: FAI calculations

7.3 Ongoing costs

Ongoing costs reflect the recurring operational effort required to administer the Levy.

Table 21 presents the parameters used to calculate ongoing costs for each business size group.

Table 21: Ongoing cost parameters and calculation

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Hours per return	7 hours	5 hours	3 hours	2 hours
Internal (%)	70%	50%	75%	90%
External (%)	30%	50%	25%	10%
Internal cost	£30 per hour	£30 per hour	£30 per hour	£30 per hour
External cost	£80 per hour	£80 per hour	£80 per hour	£80 per hour
Internal cost per return	£210	£150	£90	£60
External cost per return	£560	£400	£240	£160
Weighted average cost	**£315**	**£275**	**£127.50**	**£70**

Source: FAI calculations

Hours per return is the number of hours it takes to process each individual tax return. The percentage splits between internal and external processing of the tax revenues are determined based on the assumptions outlined in Table 20.

The internal cost per hour is £30. This is calculated as 20% over the assumed employment costs of £25 per hour and reflects the opportunity cost of spending time on the returns. The external cost per hour is £80, which is within the range of the hourly cost of accountant fees.

The internal cost per return assumes all the return is processed internally, so applies the £30 per hour cost to all hours required to process one return, e.g., 7 hours multiplied by £30 for businesses with under five bookable units. The external cost per hour calculation does the same but assumes all the return is processed externally, so applies the £80 per hour cost to all hours required to process one return.

The weighted average cost is then calculated taking weights based on the internal and external percentage assumptions and applying them to the sum of the internal and external cost per returns. For example, for businesses with under five bookable units the weighted average cost is equal to 70% of £210 plus 30% of £560.

As shown in Table 21 the cost per return is highest for the smallest businesses, and the cost falls as you move across the size groupings. This is because smaller businesses have less ability to outsource processing tasks to an external accounting specialist and are unlikely to have an in-house financial team with existing knowledge and software.

7.3.1 Frequency of processing

The ongoing costs will vary depending on how frequently returns are submitted to Highland Council.

Tax returns will be processed once per quarter, totalling in four collections per year. This processing frequency will increase the ongoing costs as because staff or external provider time must be paid more often.

The following formula shows how we account for the processing frequency in calculating ongoing costs. The processing frequency parameter is equal to 4 for quarterly processing.

$$Ongoing\ cost = weighted\ average\ cost\ per\ return * processing\ frequency$$

Table 22 outlines the ongoing cost calculation for quarterly processing.

Table 22: Ongoing cost calculation for quarterly processing

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Weighted average cost	£315	£275	£127.50	£70
Weighted average cost with quarterly processing	*£315 x 4*	*£275 x 4*	*£127.50 x 4*	*£70 x 4*
	£1,260	**£1,100**	**£510**	**£280**

Source: FAI calculations

However, businesses that only operate seasonally will only process returns twice per year if they are only operating for six months of the year. We include an experience factor parameter to the ongoing costs calculations for these businesses. This reflects

increased time required when returns are processed infrequently so there are less efficiency gains from learning. We add a $+1/5$ time adjustment for businesses processing returns twice a year.

The ongoing cost calculation accounting for experience is presented in the following formula:

$$Ongoing\ cost = weighted\ average\ cost\ per\ return * processing\ frequency * experience\ factor$$

Table 23 outlines the parameter and calculations for this scenario.

Table 23: Ongoing cost calculation for seasonal businesses

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Weighted average cost	£315	£275	£127.50	£70
Weighted average cost for seasonal businesses	*£315 x 2 x 1.2*	*£275 x 2 x1.2*	*£127.50 x 2 x 1.2*	*£70 x 2 x 1.2*
	£756	**£660**	**£306**	**£168**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 22 and Table 23 show that while more frequent returns reduce the time required per return due to greater familiarity, they also increase the total annual cost because staff or external provider time must be paid more often. Therefore, administration costs are cheaper for the seasonal businesses processing returns twice a year as the savings from fewer submissions exceed the additional time required due to staff having less practice.

7.4 One-off costs

One-off costs reflect the labour time and system set-up effort required when the Levy is introduced for the first time.

These include setting up administrative systems, completing documentation, registration costs and time spent testing and learning the new systems and administrative processes.

The assumptions used for these calculations are presented in Table 24.

Small businesses incur disproportionately higher one-off costs as they are less likely to have financial expertise or dedicated software. Larger operators generally have established systems and trained staff, resulting in lower initial adjustments.

Table 24: One off cost parameters and calculation

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Hours learning	8 hours	5 hours	3 hours	2 hours
Documentation	4 hours	2 hours	1 hour	1 hour
Setting up system	6 hours	4 hours	3 hours	2 hours
Registration and testing	2 hours	1 hours	1 hours	1 hours
Familiarisation	4 hours	2 hours	2 hours	2 hours
Total	24 hours	14 hours	10 hours	8 hours
Cost per hour	£30 per hour	£30 per hour	£30 per hour	£30 per hour
Total labour cost	**£720**	**£420**	**£300**	**£240**

Source: FAI calculations

7.5 Recurring annual costs

Recurring annual costs occur once per year and include the time spent understanding legislative or procedural updates and annual licence fees for new software.

Parameters used in the calculation of recurring annual costs are shown in Table 25.

As with one-off costs, recurring annual costs are higher for the smallest businesses. This is because they will be the most likely to need to purchase software already used by medium and large businesses and have limited internal financial capability, requiring more time to review legislative changes.

Table 25: Recurring annual cost parameters and calculation

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Keeping abreast	*£30 x 2 hours*	*£30 x 1 hour*	*£30 x 1 hour*	*£30 x 1 hour*
	£60	£30	£30	£30
Software	£100	£0	£0	£0
Total	**£160**	**£30**	**£30**	**£30**

Source: FAI calculations

7.6 Total Cost

The total cost in year one is calculated as:

$$Total\ cost\ (Year\ 1) = ongoing\ cost + one\ off\ cost + annual\ recurring\ cost$$

For year 2 and subsequent years, the one-off cost no longer applies, so total cost is calculated as:

$$Total\ cost\ (Year\ 2\ onwards) = ongoing\ cost + annual\ recurring\ cost$$

These calculations are presented in Table 26. Total costs fall after year 1 because one-off set-up costs do not recur. Table 26 also show that costs are lower for larger businesses.

Table 26: Year 1 total cost calculations for each frequency scenario

	Under 5 bookable units	5-15 bookable units	16-50 bookable units	50+ bookable units
Total cost (Year 1)	*£1,260 + £720 + £160*	*£1,100 + £420 + £30*	*£510 + £300 + £30*	*£280 + £240 + £30*
	£2,140	**£1,550**	**£840**	**£550**
Total cost (Year 2 onwards)	*£1,260 + £160*	*£1,100 + £30*	*£510 + £30*	*£280 + £30*
	£1,420	**£1,130**	**£540**	**£310**

Source: FAI calculations

Note: figures may not sum due to rounding.

7.7 Short-Term Lets Scenarios

Additional analysis has been conducted for short-term lets as these are most likely to involve only a single booking unit and therefore face comparatively higher administrative costs. We have focussed on owners of one, two and three short-term lets to illustrate the cost savings for owners of multiple bookable units as a single return covers all bookable units within the business.

Table 27 presents the revenue calculations for high- and low-season bookings in year 1 and year 2 for an owner of one short-term let. These figures reflect the accommodation provider's retained share of the final price, after VAT and the Visitor Levy have been deducted.

Table 27: Revenue calculation for one short-term let in year 1 and year 2

	Price ex VAT and ex VL	Occupancy rate	Nights	Revenue
Year 1				
High season	£152	56%	*182 nights x 56%*	*£152 x 102 nights*
			102 nights	**£15,492**
Low season	£116	36%	*183 nights x 36%*	*£116 x 66 nights*
			66 nights	**£7,642**
Total revenue				**£23,134**
Year 2				
High season	£156	56%	*182 nights x 56%*	*£156 x 102 nights*
			102 nights	**£15,900**
Low season	£119	36%	*183 nights x 36%*	*£119 x 66 nights*
			66 nights	**£7,840**
Total revenue				**£23,739**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 28: Cost as a share of revenues for two short-term lets in year 1 and year 2

		Year 1	Year 2
One short-term let	**Revenues**	£23,134	£23,739
	Admin cost	£2,140	£1,420
	Cost as a share of revenues	*£2,140 / £23,134*	*£1,420 / £23,739*
		9.3%	**6.0%**
Two short-term lets	**Revenues**	*£23,134x 2*	*£23,739x 2*
		£46,268	£47,478
	Admin cost	£2,140	£1,420
	Cost as a share of revenues	*£2,140 / £46,268*	*£1,420/ £47,478*
		4.6%	**3.0%**
Three short-term lets	**Revenues**	*£23,134x 3*	*£23,739x 3*
		£69,402	£71,218
	Admin cost	£2,140	£1,420
	Cost as a share of revenues	*£2,140 / £69,402*	*£1,420/£71,218*
	Cost as a share of revenues	**3.1%**	**2.0%**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 28 shows the administrative cost as a share of revenue for owners of one, two and three short-term lets. The cost as a percentage of revenue is higher in year 1 as revenues increase in year 2 and costs fall.

In our calculation revenues increase in proportion to the number of short-term lets owned, but administrative costs remain the same because a single return covers all bookable units within the business. As a result, the admin cost declines as the number of units increases.

For an operator with one short-term let, costs could reach nearly 10% of revenues in year 1, falling to around 6% in year 2. This reduces for owners of two short-term lets, and further again for owners of three short-term lets, where costs are 3% of revenues in year 1 and 2% in year 2.

In practice, administrative effort is likely to rise when more short-term lets are owned, as additional properties generate more transactions and are more complex to manage. However, this additional time is unlikely to rise proportionately because of learning and efficiency gains, and so this element has not been quantified in the calculations.

7.8 Occupancy rate impact on administration cost

A further scenario was modelled for a short-term let with occupancy assumed at 100%, to test how far administrative costs as a share of revenue could fall if occupancies were maximised. Table 29 and Table 30 provide the associated revenue the administrative cost calculations under this assumption.

Table 29: Revenue calculation for one short-term let in year 1 and year 2 at 100% occupancy

	Price ex VAT and ex VL	Occupancy rate	Nights	Revenue
Year 1				
High season	£152	**100%**	182 nights x ***100%***	£152 x 182 nights
			182 nights	**£27,664**
Low season	£116	**100%**	183 nights x ***100%***	£116 x 183 nights
			183 nights	**£21,228**
Total revenue				**£48,892**
Year 2				
High season	£156	**100%**	182 nights x ***100%***	£156 x 182 nights
			182 nights	**£28,392**
Low season	£119	**100%**	183 nights x ***100%***	£119 x 183 nights
			183 nights	**£21,777**
Total revenue				**£50,169**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 30: Cost as a share of revenues for one short-term let in year 1 and year 2 at 100% occupancy

		Year 1	Year 2
One short-term let	**Revenues**	£48,892	£50,169
	Admin cost	£2,140	£1,420
	Cost as a share of revenues	*£2,140/£48,892*	*£1,420/£50,169*
		4.4%	**2.8%**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table 30 shows that even under the unrealistically high assumption of 100% occupancy, the administrative cost does not fall below 1% of revenue under any scenario. Costs still represent nearly 5% of revenues in year 1, falling to around 3% in year 2.

It is important to note that these percentages reflect the cost relative to revenues, not profits. While the calculation does not account for business expenses, administrative costs will still reduce overall profit margins.

Overall, the analysis shows that administrative costs vary significantly by business size, processing frequency, and occupancy levels, with the smallest operators facing proportionately higher costs. These indicative calculations provide a basis for understanding the scale of potential impacts under different scenarios.

8. Limitations and uncertainty with the analysis

The estimates in this report provide and illustrative example of the potential tax revenues and administration costs for businesses from the introduction of a Visitor Levy in Highland.

There are several limitations with this analysis which mean the forecasts should be taken as an indication of the potential size of impact, rather than a certain prediction.

8.1 Accommodation parameters

A central limitation of this analysis relates to the data used to inform the accommodation parameters in the revenue forecasts. We rely primarily on VisitScotland data for Scotland and Highland to estimate accommodation stock, average prices, and occupancy rates. This data is survey-based and represents only a sample of the accommodation sector, rather than administrative data covering the full population of businesses. As a result, the analysis assumes that these samples – often drawn at the Scotland-wide level – accurately reflect the characteristics of accommodation providers in Highland.

Available price data for accommodation relate to 2023 and 2024 and include some values provided in US dollars. These have been converted to pounds sterling and then uprated to the starting year of 2027/28 using the OBR inflation forecasts. Prices throughout the forecast period to 2030/31 have also been uprated using OBR projections. Any deviation in future inflation from these forecasts would affect the price assumptions and therefore influence the estimated revenue generated by the Visitor Levy. We have provided scenario analysis for future inflation rates to capture the potential effects of this deviation in inflation rates.

No single data source provides comprehensive coverage of all accommodation types in Highland. We therefore combine several sources – VisitScotland's 2023 Accommodation Stock data, the Short-Term Lets Register, and the 2023 Valuation Roll – to construct our accommodation stock estimates. These sources use different methodologies and are not necessarily directly comparable. In addition, we apply a 5–10% adjustment to account for downtime or temporary closures throughout the year. If, in practice, accommodation is unavailable for more or less time than assumed, the resulting tax revenues could differ from those presented in this report.

8.2 Behavioural responses

Another source of uncertainty relates to assumptions about behavioural responses. The literature informs our assumptions around the pass-through of the Levy from

accommodation providers to consumers, as well as the extent to which demand may change in response to any resulting price increases.

These parameters are subject to judgement as estimates in the literature vary depending on study design, context, and sample, and there is no directly comparable case to draw upon. As a result, we cannot be certain that the behavioural responses used in the modelling fully reflect how visitors and providers in Highland will react in practice.

To reflect this uncertainty, we include scenario analysis for price elasticity of demand, illustrating how revenues may change under stronger or weaker demand responses to higher accommodation prices. Nevertheless, these scenarios remain assumption-driven, and actual behavioural responses may differ once the Levy is implemented.

The supply side reaction is also difficult to judge. It is not known how accommodation providers will respond to the introduction of the Levy or whether some may choose to exit the market. The design of the Levy – applying only to certain types of accommodation – creates a differential treatment between providers. This may cause substitution effects as visitors shift towards non-levied accommodation and may also influence provider decisions regarding tax pass-through or exiting the market.

We include a supply-side scenario in which some short-term let providers and households offering rooms exit the market, to illustrate the potential impact of such a response on revenues. Beyond this, we do not model differential demand or supply responses across accommodation types, as these effects are difficult to quantify and there is insufficient data to support robust assumptions. If, in reality, these responses vary by accommodation type, the revenues raised from the Visitor Levy could differ from those presented in this analysis.

8.3 Administration cost assumption

The administration cost analysis also provides illustrative estimates rather than predictions of actual costs. These estimates are judgement based are intended to indicate the potential scale of administrative burdens for businesses of different sizes, rather than offer definitive values. The analysis is based on full economic costs, which incorporate opportunity costs alongside direct financial costs. While this approach provides a more comprehensive measure of the cost for businesses, opportunity costs are inherently more difficult to quantify, adding further uncertainty to the parameters used.

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Appendices

Appendix 1: Calculating the static yield

Table A1.1 and Table A1.2 show the static yield calculations for short-term lets and rooms rented in houses. These calculations follow the same method presented in Table 3 for hotels.

Table A1.1: Static calculations for short-term lets in 2027/28

High Season (Apr-Sep)	Total room nights	7,999 rooms x 56% x 182 nights	= 822,353
	Total expenditure	Total room nights x £184.08	= £151,374,756
	Tax Yield	**Total expenditure x 5% x 90%**	**= £6,811,864**
Low Season (Oct-Mar)	Total room nights	7,999 rooms x 36% x 183 nights	= 531,225
	Total expenditure	Total room nights x £140.29	= £74,525,941
	Tax Yield	**Total expenditure x 5% x 90%**	**= £3,353,667**
	Total Tax Yield	**£3,497,400 + £1,319,408**	**= £10,165,531**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table A1.2: Static calculations for rooms in houses in 2027/28

High Season (Apr-Sep)	Total room nights	1,024 rooms x 56% x 182 nights	= 105,290
	Total expenditure	Total room nights x £59.00	= £6,212,153
	Tax Yield	**Total expenditure x 5% x 90%**	**= £279,547**
Low Season (Oct-Mar)	Total room nights	1,024 rooms x 36% x 183 nights	= 68,015
	Total expenditure	Total room nights x £48.27	= £3,283,313
	Tax Yield	**Total expenditure x 5% x 90%**	**= £147,749**
	Total Tax Yield	**£3,497,400 + £1,319,408**	**= £427,296**

Source: FAI calculations

Note: figures may not sum due to rounding.

Appendix 2: Estimating behavioural responses

The first behavioural effect captures the increase in price from accommodation owners passing on the tax to consumers through prices. Table A2.1 and Table A2.2 show the estimated tax yield following this initial behavioural adjustment for short-term lets and rooms in houses. These calculations follow the same method presented in Table 8 for hotels.

The second behavioural effect captures the reduction in accommodation demand resulting from higher prices. The extent of this response is determined by the price elasticity of demand, which measures how sensitive demand is to price changes.

Table A2.3 and Table A2.4 show the estimated reduction in demand for total room nights and the tax yield impacts for short-term lets and rooms in houses. These calculations follow the same method presented in Table 9 for hotels.

Table A2.1: Behaviour 1 calculation and results comparison to static modelling for short-term lets in 2027/28

		Behaviour 1		Static
High Season (Apr-Sep)	Total room nights	7,999 rooms x 56% x 182 nights	= 822,353	822,353
	Total expenditure	Total room nights x ***£190.98***	= £157,051,310	£151,374,756
	Tax Yield	**Total expenditure x 5% x 90%**	**= £7,067,309**	**£6,811,864**
Low Season (Oct-Mar)	Total room nights	7,999 rooms x 36% x 183 nights	= 531,225	531,225
	Total expenditure	Total room nights x ***£145.55***	= £77,320,664	£74,525,941
	Tax Yield	**Total expenditure x 5% x 90%**	**= £3,479,430**	**£3,353,667**
	Total Tax Yield	**£4,031,725 + £1,520,985**	**= £10,546,739**	**£10,165,531**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table A2.2: Behaviour 1 calculation and results comparison to static modelling for rooms in houses in 2027/28

		Behaviour 1		Static
High Season (Apr-Sep)	Total room nights	1,024 rooms x 56% x 182 nights	= 105,290	105,290
	Total expenditure	Total room nights x ***£61.21***	= £6,445,108	£6,212,153
	Tax Yield	**Total expenditure x 5% x 90%**	**= £290,030**	**£279,547**
Low Season (Oct-Mar)	Total room nights	1,024 rooms x 62% x 183 nights	= 6,8015	6,8015
	Total expenditure	Total room nights x ***£50.08***	= £3,406,438	£3,283,313
	Tax Yield	**Total expenditure x 5% x 90%**	**= £153,290**	**£147,749**
	Total Tax Yield	**£293,537 + £155,143**	**= £443,320**	**£427,296**

Source: FAI calculations

Note: figures may not sum due to rounding.

Table A2.3: Behavioural response calculation and results comparison to static modelling for short-term lets in 2027/28

		Static	Behaviour 1	Behaviour 2	
High Season (Apr-Sep)	Total room nights	822,353	822,353	=822,353 ***x (1+3.75%) x -0.75***	= 799,224
	Total expenditure	£151,374,756	£157,051,310	Total room nights x *£190.98*	= £152,634,242
	Tax Yield	**£6,811,864**	**£7,067,309**	Total expenditure x 5% x 90%	**= £6,868,541**
Low Season (Oct-Mar)	Total room nights	531,225	531,225	***=531,225 x (1+3.75%) x -0.75***	= 516,284
	Total expenditure	£74,525,941	£77,320,664	Total room nights x *£145.55*	= £75,146,020
	Tax Yield	**£3,353,667**	**£3,479,430**	Total expenditure x 5% x 90%	**= £3,381,571**
	Total Tax Yield	**£10,165,531**	**£10,546,739**	£6,868,541+ £3,381,571	**= £10,250,112**

Source: FAI calculations.

Note: figures may not sum due to rounding.

Table A2.4: Behavioural response calculation and results comparison to static modelling for rooms in houses in 2027/28

		Static	Behaviour 1	Behaviour 2	
High Season (Apr-Sep)	Total room nights	105,290	105,290	***=105,290 x (1+3.75%) x -0.75***	= 102,329
	Total expenditure	£6,212,153	£6,445,108	Total room nights x *£61.21*	= £6,263,840
	Tax Yield	**£279,547**	**£290,030**	Total expenditure x 5% x 90%	**= £281,873**
Low Season (Oct-Mar)	Total room nights	68,015	68,015	***=68,015 x (1+3.75%) x -0.75***	= 66,102
	Total expenditure	£3,283,313	£3,406,438	Total room nights x *£50.08*	= £3,310,632
	Tax Yield	**£147,749**	**£153,290**	Total expenditure x 5% x 90%	**= £148,978**
	Total Tax Yield	**£427,296**	**£443,320**	£3,526,499 + £1,330,386	**= £430,851**

Source: FAI calculations

Note: figures may not sum due to rounding.

Appendix 3: Inflation scenarios

Inflation scenarios capture the sensitivity of tax revenue estimates to changes in inflation rates. Table A3.1 and Table A3.2 show the assumptions used across the inflation scenarios for short-term lets and rooms in houses, across both high and low season. These calculations follow the same method presented in Table 13 for hotels.

Table A3.1: Summary of the assumptions and calculations under each inflation scenario for short-term lets in year 1, 2027-28

	Central scenario	Higher inflation	Lower inflation
Total rooms	7,999	7,999	7,999
Occupancy rate (high season)	56%	56%	56%
Average price (high season)	£190.98	£191.92	£190.05
Occupancy rate (low season)	36%	36%	36%
Average price (low season)	£145.55	£146.27	£144.84
High season yield	£6,868,541	£6,902,480	£6,835,139
Low season yield	£3,381,571	£3,398,280	£3,365,126
Tax yield	**£10,250,112**	**£10,300,760**	**£10,200,265**
Difference relative to central scenario	-	£50,648	-£49,847
Difference relative to central scenario (%)	-	0.5%	-0.5%

Source: FAI calculations

Note: figures may not sum due to rounding.

Table A3.2: Summary of the assumptions and calculations under each inflation scenario for rooms in houses in year 1, 2027-28

	Central scenario	Higher inflation	Lower inflation
Total rooms	1,024	1,024	1,024
Occupancy rate (high season)	56%	56%	56%
Average price (high season)	£61.21	£61.52	£60.92
Occupancy rate (low season)	36%	36%	36%
Average price (low season)	£50.08	£50.33	£49.84
High season yield	£281,873	£283,266	£280,502
Low season yield	£148,978	£149,715	£148,254
Tax yield	**£430,851**	**£432,980**	**£428,756**
Difference relative to central scenario	-	£2,129	-£2,095
Difference relative to central scenario (%)	-	0.5%	-0.5%

Source: FAI calculations

Note: figures may not sum due to rounding.

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