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RESEARCH NOTE 33 **THE TAX ON HOLIDAYS ABROAD**

With hard-working people saving all year round for a well-deserved holiday abroad, few of us are aware of just how much of our holiday money goes straight into the hands of the taxman. Most simple but important purchases made inside Britain before going on a holiday, such as clothes for adults or hair cuts for all the family, are subject to VAT, while travel insurance purchases are hit by Insurance Premium Tax and budget flights by Air Passenger Duty. As the summer holiday season draws near, new calculations by the TaxPayers' Alliance reveal just how heavy a burden the taxman places on rest and relaxation:

- Based on a representative basket of holiday goods, the total UK tax bill on Britons holidaying abroad is almost **£1.5 billion**, or over **£30 for each** of the 45 million holidays abroad taken by British residents each year and equivalent to a low-cost return flight to Europe (before Air Passenger Duty is added on).
- A **family of four** travelling to **Florida** this summer will face an average **tax bill of over £200** on their holiday purchases in the UK, equivalent to having to take an extra child along.

The table below shows the tax charged on a selection of typical pre-holiday purchases:

Table 1: Tax charged on examples of holiday essentials

Item	Tax charged
Economy flight to Florida	£40.00
Budget flight to Malaga	£10.00
Budget family travel insurance	£4.23
£20 bottle of aftershave/perfume	£2.98
Hair cut	£2.23
Summer dress from Primark	£1.79

Matthew Elliott, Chief Executive of the TaxPayers' Alliance, said:

"The credit crunch and soaring food and fuel costs are making it harder than ever for people to afford a well-deserved summer holiday abroad. Instead of hiking taxes on flying, Gordon Brown and Alistair Darling should give us all a tax break."

Sources and methodology

Holidays abroad by UK residents: In 2006, the latest year for which data is available, there were 45.3 million trips abroad classified as “holiday” taken by UK residents in 2006.¹ 37 million of these trips were by air, of which 29.1 million were to Europe (short-haul) and 7.9 million outside Europe (long-haul).² Of the total of 45.3 million holidays, 41.9 million were taken by people over 16, and 3.4 million by children under 16.³

Pre-holiday spending in the UK: Purchases made in the UK before going abroad were divided into three categories: air tickets, travel insurance, and other goods and services:

- For air tickets, the relevant tax (Air Passenger Duty) is a fixed charge, so it was not necessary to estimate the amount spent.
- For travel insurance, a basic family package (excluding ski/extreme sports cover) for 10 days in Europe was used to estimate a per person cost. 10 days was used as it is the average duration of holidays abroad.⁴ The insurance cost is likely to be an underestimate given that travel insurance for destinations outside Europe is generally more expensive, although the minority of holidaymakers who chose not to purchase travel insurance will to some extent offset this.
- Spending on the other goods and services was estimated by using a representative basket of pre-holiday purchases, for adults and for children.⁵ It was assumed that purchases were made from lower-cost stores, such as Matalan or Primark, meaning that the cost of the basket of goods is likely to be an underestimate.

Tax: Air Passenger Duty: To calculate the amount of APD paid on holidays abroad, it was not necessary to estimate the amount spent on flights, as APD is a fixed charge. The relevant data is the number of short-haul and long-haul flights, given above. It is assumed that all flights are economy class, rather than business or first class, which are levied at a higher rate. APD is only charged once for every holiday abroad by air, as it is not levied on flights returning to the UK.⁶

¹ Office for National Statistics, 'Travel Trends 2006: data and commentary from the International Passenger Survey', 2008, Table 3.03

² Office for National Statistics, 'Travel Trends 2006: data and commentary from the International Passenger Survey', 2008, Table 5.01

³ Office for National Statistics, 'Travel Trends 2006: data and commentary from the International Passenger Survey', 2008, Table 5.10. Totals reduced by proportion of holidays in total trips.

⁴ Office for National Statistics, 'Travel Trends 2006: data and commentary from the International Passenger Survey', 2008, Table 3.05

⁵ The cost of the basket of goods we used is similar to surveys carried out by, for example, American Express Insurance, which found that the average Briton spent £120 before going on holiday

<http://www.nemo-loans.co.uk/uk-loans-blog/2006/08/brits-large-holiday-spend-could-be.html>

⁶http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?nfpb=true&pageLabel=pageExcise_InfoGuides&propertyType=document&id=HMCE_CL_001170#P1_33

The calculation is therefore straightforward. 29.1 million holidays by air are taken in Europe each year. Multiplied by the current £10 APD charge gives an APD bill of £291 million. 7.9 million holidays by air are taken outside Europe each year. Multiplied by the current £40 APD charge gives an APD bill of £315 million. The total APD bill is therefore £606 million.

Table 2: Air Passenger Duty charged on holidays abroad

	Short Haul	Long Haul
Tax paid per flight	£10.00	£40.00
Number of flights	29,132,000	7,875,000
Total tax paid	£291,320,000	£315,000,000
Total APD	£606,320,000	

Tax: Insurance Premium Tax: IPT is levied on all sales of travel insurance, at the higher rate of 17.5 per cent.⁷ The basic insurance package of £7.10 per person, multiplied by the 45.3 million holidays, gives a total travel insurance spend, inclusive of tax, of £322 million. The IPT tax bill is therefore £48 million.

Tax: VAT: VAT is levied on most goods and services at 17.5 per cent. Relevant to holiday spending, only books and children's clothes are totally free of VAT, while insurance is not liable for a VAT charge but is caught by Insurance Premium Tax at the same 17.5 per cent rate (see above).⁸ Based on a representative basket of pre-holiday purchases, VAT-able spending per adult, including clothes, hair cuts, toiletries and sun lotion, was estimated to be around £130, while VAT-able spending per child was estimated at around £11, due to children's clothing being free of VAT. Multiplied by the 41.9 million adult trips and 3.4 million trips by children under 16, gives a total spend of around £5.5 billion for a total VAT bill of £820 million.

Table 2: Holiday spending liable for VAT and higher-rate IPT and amount of tax charged, goods for which spending on children is liable

	Adults	Children
Sun tan lotion	£4.00	£4.00
Summer dresses	£12.00	£0.00
Sarong	£9.00	£0.00
Razors	£5.99	£0.00
Wax	£5.00	£0.00
Shaving foam	£3.99	£0.00
Toothpaste	£2.00	£2.00
Aftershave/perfume	£20.00	£0.00
Deodorant	£5.00	£0.00

⁷http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_InfoGuides&propertyType=document&id=HMCE_CL_001224#P1_37

⁸<http://www.hmrc.gov.uk/vat/vat-introduction.htm#4>

	Adults	Children
Travel insurance	£7.10	£7.10
Hair cut	£15.00	£5.00
Session on a sun bed	£4.50	£0.00
Spend per person	£93.58	£18.10
Tax paid per person (at 17.5%)	£13.94	£2.70
Number of people	41,900,000	3,400,000
Total tax paid	£583,978,353	£9,165,521

Table 3: Holiday spending liable for VAT and amount of tax charged, goods for which spending on children is exempt

	Adults	Children
Pairs of shorts	£6.00	£6.00
T-shirts	£21.00	£6.00
Swimming costume	£10.00	£5.00
Pairs of flip flops	£2.00	£4.00
Trousers	£4.99	£4.99
Spend per person	£43.99	£25.99
Tax paid person (at 17.5%)	£6.55	£0.00
Number of people	41,900,000	3,400,000
Total tax paid	£274,516,005	£0

Total tax: The total tax bill of £1.5 billion is a sum of the Air Passenger Duty, Insurance Premium Tax and VAT bills.

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