9 REASONS WHY THE 9% VAT RATE HAS TO GO

July 2011 – VAT on hotels and restaurants is ‘temporarily’ cut from 13.5% to 9%.

Seven years later it’s still in place.

It should now go back to 13.5% Here’s why:

1. Business is booming

The Government has described Gross Operating Surplus (GOS) as a percentage of turnover as a ‘measure of the profitability for an enterprise’[1].

Eurostat data shows that GOS as a percentage of turnover in *Accommodation and Food* has more than recovered from the crisis years, and has risen from 1.4% in 2012 to 10% in 2015. Given the price increases over the past three years, it is likely that it has risen further since 2015.

Gross Operating Surplus in Accommodation and Food, 2008-2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Turnover (million euro)	10,212	10,724	9,047	9,223	9,040	9,079	9,750	9,374	10,140
GOS (million euro)	282	-621	-314	-100	123	421	706	939	n/a
GOS as % of Turnover	2.8%	-5.8%	-3.5%	-1.1%	1.4%	4.6%	7.2%	10%	n/a

Source – Eurostat

600 LARGE FIRMS, OR 3% OF ALL FIRMS, ACCOUNT FOR OVER 40% OF TURNOVER

2. Larger firms are doing best of all

600 large firms (i.e. those with 50 or more workers) who make up 3% of all firms accounted for over 40% of the total turnover, worth €3.9 billion, in 2015.

This included just 30 very large firms (i.e. 0.16% of all firms) who accounted for nearly 12% of turnover, worth nearly €1.1 billion, between them.

1 Answer by Minister for Jobs, Enterprise and Innovation to Dail written question 24454/13, 22 May 2013.

Accommodation and Food Services by employment class size (2015)							
Size of firm (no. employed)	0-1	2-9	10-19	20-49	50-249	250+	Total
No. of firms	6,327	8,514	1,819	1,088	558	30	18,336
Turnover (million euro)	500	2,000	1,276	1,717	2,805	1,076	9,373.5
% of total turnover	5.3%	21.3%	13.6%	18.3%	29.9%	11.5%	100%
Average turnover per firm	79,026	23,488	701,484	1,578,125	5,026,882	35,886,666	511,207
Employees	5,296	36,730	24,273	32,459	53,294,	18,170	170,222

Source – Eurostat

3. It's not benefiting customers

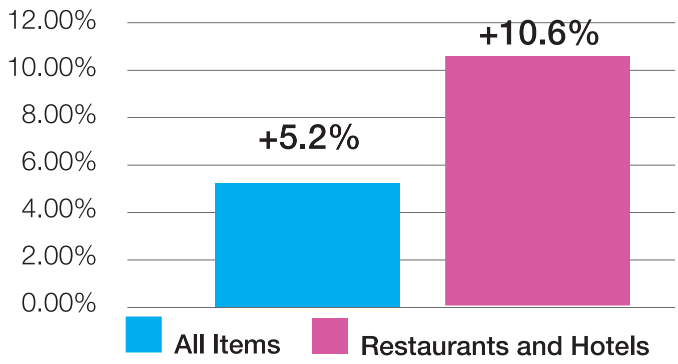
The Programme for a Partnership Government (May 2016) commits the Government to retaining the reduced rate 'providing that prices remain competitive.[2]'

This isn't happening. Prices in *restaurants and hotels* have risen by over **twice the rate** of all items since 2010.

The National Competitiveness Council points out that Irish restaurant and hotel prices were **20% above** the EU-28 and the Euro Area **averages** in 2016.

The Department of Finance points out that of the cities surveyed by Trivago in 2016 Dublin was the **10th most expensive** for hotel prices in the world and the **4th most expensive** in the UK and Ireland [4].

CSO Consumer Price Index, 2010-2017



Source - CSO

4. It was responsible for just 1-in-8 of new jobs - Indecon

Lobbyists for the retention of the reduced rate repeatedly suggest that it has been almost entirely responsible for the increase in jobs in *Accommodation and Food* since 2011.

It is the case however that the general economic recovery and initiatives such as The Gathering in 2013, launch of The Wild Atlantic Way in 2014 and the launch of Ireland's Ancient East in 2016 have been more important.

The 2017 Indecon report for Fáilte Ireland estimates that just **4,800** of the 38,400 increase in employment by the end of 2016 in sectors benefiting from the reduced rate, or 1-in-8, were due to the reduction[5].

Estimate of Employment Impact of VAT reduction (2011-2016)	
Dublin	1,100
South-West	1,000
East and Midlands	700
West	600
South-East	500
Shannon	500
North-West	400
Total	**4,800**

Source – Indecon (2017)

2 Government of Ireland (2016) Programme for a Partnership Government, p.46.
3 National Competitiveness Council (June 2018), Cost of Doing Business in Ireland 2018, p.68.
4 Department of Finance (25 July 2017), Selected VAT issues – Tax Strategy Group – TSG 17/06.
5 Indecon International Economic Consultants. Impact of the VAT Reduction on Irish Tourism and Tourism Employment, 30 June 2017

5. It goes to a low-paying sector

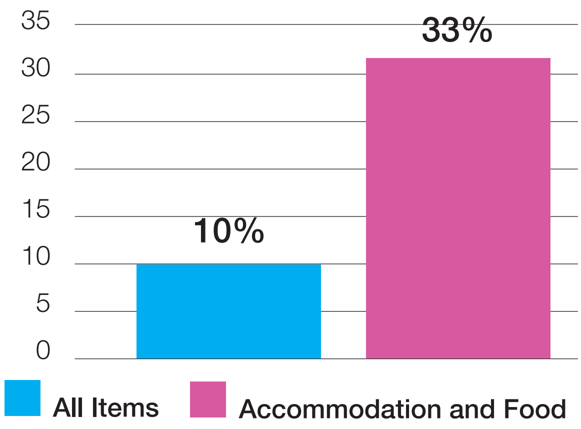
While profits have rebounded since 2011, *Accommodation and Food* remains a low-paying sector.

Average total earnings stood at just under €16,900 in 2011, down from €18,100 in 2008, and continued to just under €16,100 in 2013. They had risen to €17,600 by 2017, up 4.3% on 2011 levels, but still 2.7% below 2008 levels.

One-third (32.9%) of all employees in *Accommodation and Food* reported earning the National Minimum Wage (NMW) or less in 2016 [6]. While employees in *Accommodation and Food* account for just 1 in 13 of all employees, they make up 1-in-4 of all employees earning the NMW or less.

Low wages depress purchasing power across the wider economy as well as income tax, PRSI and USC receipts. It also increases demand for income support such as the Working Family Payment, the Housing Assistance Payment and medical cards. These represent further taxpayers' subsidies to low-paying employers, who continue to refuse to engage with the system of Joint Labour Committees established by the Oireachtas.

Proportion of employees earning the National Minimum Wage (or less)



Source - CSO

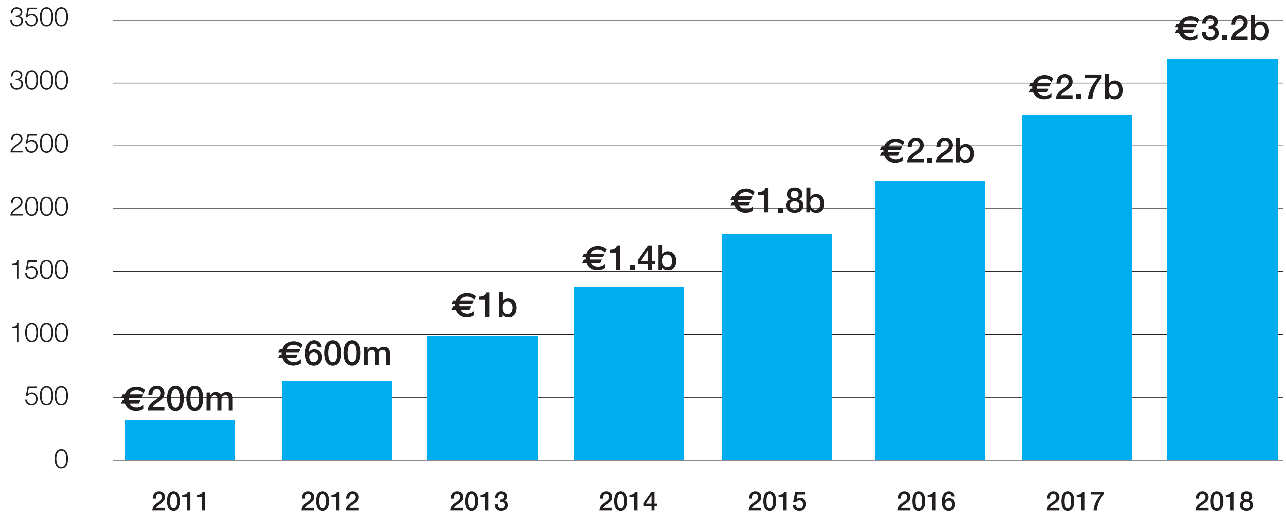
6. It costs over €500 million a year

When introducing the reduced rate in 2011, the Government estimated that it would cost €880 million over its planned 2½ year application [7].

The actual cost has been much greater. The Revenue Commissioners put the cumulative cost at €3.2 billion over 2011-2018, and the annual cost at €500 million a year.

ICTU first called for the abolition of this measure in Budget 2017. Had this been done, the Government would have had an additional €500 million a year to invest in 2017 and in 2018. This would have been enough to build 2,500 social homes and to double investment in childcare.

Cumlative cost of the reduced VAT rate



Source – based on Revenue Commissioners estimates

6 CSO (26 April 2017) QNHS – National Minimum Wage estimates. This is also probably an under-estimate given that a further 13% of respondents did not state their earnings.

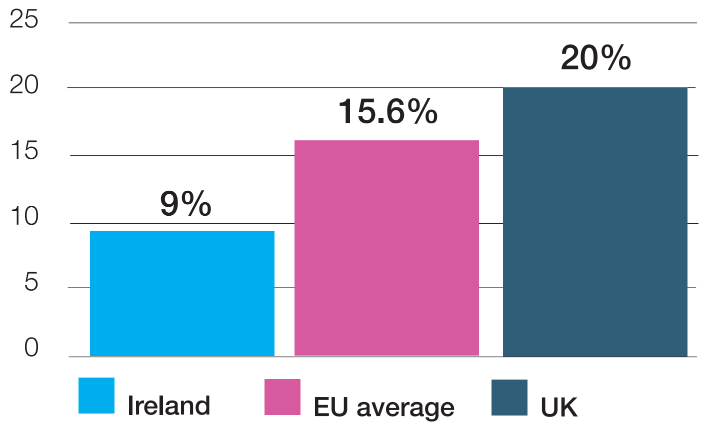
7 Government of Ireland (May 2011) Jobs Initiative

7.It's less than half the UK rate and one of the lowest in Europe

Ireland's reduced rate is less than **half the 20%** rate that applies in the UK while the Department of Finance points out that Ireland's rate is the **5th lowest for restaurants** and the **8th lowest for hotels in the EU** [8].

The number of overseas visitors to the Republic has risen from 6.5 million in 2011 to 9.9 million in 2017, up 52%. Over the same period, the number of overseas visitors to Northern Ireland has risen from 1.9m to 2.7 million, a rise of 42%, highlighting that there's much more to tourism than VAT.

Vat rates for Hotels and Restaurants



Source – Indecon (2017)

8. It generally doesn't lower prices

A 2014 Deloitte Report for Fáilte Ireland of the impact of the reducted rate found a 'pass-through' to prices of around 50% in all sectors except accommodation, where the evidence was 'inconclusive'.

Finland reduced VAT from 22% to 13% for restaurants in 2010. The Finnish *VATT Institute for Economic Research* later found limited pass-through and no significant impact on turnover.

Sweden reduced VAT for restaurants from 25% to 12% in 2012. The Swedish *National Institute of Economic Research* later found a very small impact on employment and questioned the efficiency of the cut given the revenue forgone.

France reduced VAT on restaurants from 19.6% to 5.5% in 2009. The French *Council of Mandatory Contributions* later found that the cut had had little effect on prices and had made the tax system more regressive [10].

Analysis of data compiled by the tourism industry's World Travel and Tourism Council does not indicate a clear link between VAT rate and employment. Taking a narrow definition of tourism employment, the WTTC estimates that 1.9% of all jobs in Ireland are tourism-related whereas in Denmark, where the tourist industry pays a 25% VAT rate, 2.2% of all jobs are tourism-related.

9. It's not the right response to Brexit

'*There is still no systematic process for evaluating the costs and benefits of reduced VAT rates. This is in contrast with the regular reviews of other tax expenditures. However, in the context of the budgetary process, the Department of Finance released a report on selected VAT issues, including the rate of VAT for hotels and restaurants. The report found that bringing the 9 % VAT rate back to the standard reduced rate of 13.5 % would generate additional revenue of EUR 626 million. Despite this, and the fact that hotels and restaurants are performing strongly, the government has decided to keep the reduced VAT rate as a buffer for the sector against the weakness in sterling, which increases the cost of holidaying in Ireland for British tourists*'. **European Commission, March 2017**.

While Brexit does have negative implications for tourism, it is the case that the increase in the number of visitors coming from other countries is compensating for the (relative) decline in the proportion coming from Britain. In 2008, 3.9 million (i.e. 49%) of the 7.8 million visitors to Ireland came from Britain but in 2017, 3.7 million (37%) of the 9.9 million visitors came from Britain.

Furthermore, 60% of visitors from Britain are repeat visitors, over 40% are visiting family and friends and one in twenty was born in Ireland. It is by no means conclusive that these visitors are influenced by VAT rates.

8 Department of Finance, Selected VAT Issues. Tax Strategy Group – TSG 17/06, 25 July 2017.

9 Deloitte (2014) Analysis of the Impact of the VAT reduction on Irish Tourism and Tourism Employment

10 UK House of Commons Library. VAT on tourism. Briefing Paper, Number 6812, 17 May 2018