9% VAT and Reduced Employers PRSI
IHF Briefing Paper for Ministers, TDs and Senators

- Jobs created in accommodation and food services + **15,200** (CSO – Q2 2011 v Q2 2013)
- Tourism in Early but fragile Recovery
- Budgeted Cost €350m – Actual Cost (est.) €90m
- NET GAIN to exchequer after employment BOOST
- Overseas visitor value satisfaction restored (Fáilte Ireland Visitor Attitudes Survey 2013)

The Irish Hotels Federation (IHF) strongly believes that the VAT and PRSI initiatives of 2011 should be retained on a permanent basis or on a minimum commitment of five years. These Government Jobs Initiative measures are successful. Tourism and the hotel sector have responded with increased output and employment. Their termination would have direct adverse economic effects and would significantly diminish confidence in the industry. The objective of this briefing paper is to outline the impact of the lower VAT rate on the hotel sector and the wider tourism industry. It also takes into account the reduction in the PRSI rate.

Economic stimulation measures such as the VAT and PRSI reductions are needed alongside public financial adjustment measures. Ireland is close to recession and just as in 2011 the current situation requires growth friendly measures. The reduction in the VAT rate has resulted in **lower prices**, **increased economic output** and **increased employment** in the hotel sector and wider tourism industry. It has improved the **international competitiveness** of Irish hotels and generated additional benefits through other economic impact mechanisms. In view of its economic success, as identified in this briefing paper (and in other research findings) and the continuing weak domestic and international economic environment and the economic potential of tourism, the 9% VAT and lower PRSI rates should be retained in budget 2014.

Tourism Growth in Ireland (4.6% increase in overseas visitor trips to Ireland since 2011) has to come from increased market share in our key markets. The lower VAT and PRSI rates improve the **international competitiveness** of our tourism product and thereby help drive growth in market share. The effect of the announcement, in 2011, was an immediate enhancement of international awareness of the already improving value for money proposition of the Irish tourism product despite the increase in key input costs. Fáilte Ireland's annual Visitor Attitudes Survey 2013 demonstrates that Ireland is providing value for money to overseas visitors at rates not seen for over a decade and is now receiving net positive ratings across all key markets – even in the challenging British market.

Price Reductions and Employment Growth have been confirmed in recent assessments[1] on the impact of the 9% reduced VAT rate. The most recent CSO employment data, published in end August shows that there was a net increase in direct employment in accommodation and food services of 15,200 jobs, or 13.3%, between Quarter 2 2011 and Quarter 2 2013 from 114.4k persons to 129.6k persons. An earlier IBEC analysis covering the period to Quarter 4 2012 found that when all the sectors affected by the VAT and PRSI reductions are included and when the retention of jobs is included, the effect of the jobs initiative was 25,000 jobs. When the multiplier effect of these jobs on the overall economy is considered the overall impact of the Jobs Initiative was **35,000 jobs**.

[1] IHF(2013), ITIC (2013) and O'Connor, the Department of Finance (2013) and IBEC (2013)

Tax Revenue Foregone from the introduction of the 9% VAT rate was originally estimated at €350m in a full year. Even before allowing for the stimulatory effects of the 9% VAT rate on tourist spending and employment, it looks like the budgetary cost of the measure as it applies to tourism-related products and services is about €90m. When the resultant boost to employment is accounted for, the cost to the Exchequer is further reduced and may in fact become a **net gain**.

The impact of lower hospitality VAT rates has to be assessed also in the context of later tax increases in other elements of the tourism package such as the very large alcohol excise increases in Budget 2013 (20% to 41%). The 41% increase in wine excise has had a particular effect on restaurants. In addition, the main VAT rate was increased from 21% to 23% from January 2012. Beverages constitute 18% of hotel revenue on average.

Comparative Tourism VAT rates in Europe indicate that the 9% rate in Ireland is not especially low. This is partly because the corresponding VAT rates have been reduced in a number of competitor countries in recent years, including France and Germany, each at 7%, while other major tourism destinations already have low rates e.g. Portugal 6%, Greece 6.5% and Spain and Italy both at 10%. Were tourism services to become subject to the 13.5% rate again, Ireland would revert to having one of the highest VAT rates on hotels in the EU, exceeded only by the UK and a handful of non-prime tourist destinations.

LOWER VAT AND PRSI RATES IMPROVE COMPETITIVENESS, GROW EMPLOYMENT AND HELP TOURISM RECOVER.