Analysis of the Restoration of the 9% VAT Rate for Food Services

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Executive Summary

- The food services sector is in a commercial crisis and is undergoing substantial downsizing. This is caused by a large deterioration in its commercial model which has been generated by high general inflation, the increase in the VAT rate from 9% to 13.5% (a 50% increase) and large increases in employment-related costs which are driven by Government policy changes.

- The impact of an array of Government imposed labour cost increases is particularly stark for hospitality businesses given the labour-intensive nature of the industry.

- For hospitality food services, the average margin has dropped to an estimated post-Covid level of 1.9% of turnover compared with 7.2% in 2019.

- The food services sector is facing, and undergoing, significant downsizing, including closures, reduction in opening hours and days and more limited menus. This is bad for the Irish tourism product and, of course, for the food services sector. The quality of the food experience influences the perceptions of tourists and has an impact on repeat business and recommendations.

- Since the 9% rate of VAT was introduced in 2011, and retained for most of the period to September 2023, it has contributed to substantial growth in food services, tourism and tax revenues. This growth was interrupted by the pandemic. Between 2011 and 2019 (before the pandemic), international visitors increased by 55%, domestic trips by 62% and hospitality employment by 57%. While there has been a rebound in tourism since Covid, international incoming tourism in 2024 is still substantially below pre-pandemic volumes.

- Despite the lower VAT rate, the tax contribution of hospitality has increased substantially since 2011. This has been driven by the excellent performance of the tourism sector, culminating in the generation of record levels of taxes last year by hospitality businesses within the wider tourism industry. Net tax receipts for the sector amounted to €1.86 billion in 2023 compared with €1.16 billion in 2018, when the VAT rate was previously at 9%. This equates to an increase of between €585m to €625m in annual tax receipts for the State (excluding the additional higher levels of VAT paid during the last four months of 2023, when the 13.5% rate came into effect).

- As a result of the higher 13.5% VAT rate, it is now estimated that the annual tax take from the sector will increase to €2.33 billion this year, some €1.17 billion higher than in 2018. This equates a 100% increase in annual taxes.

- A possible negative scenario of the eventual impact of the deterioration of the food services sector is a decrease of €733 million in international tourism expenditure and a decline of €312 million in domestic tourism – a combined decline of €1.045 billion in annual tourism expenditure. International visitors would decline by 625,000 and domestic trips would decline by 1.43 million. International and national tourism nights would decline by 8.51 million. Employment would decrease by over 21,000. Tax revenue relative to the 2023 total of €1.744 billion in 2023 could drop by €174 million.

- The provision of a sufficient range, quality and availability of the food experiences for domestic and overseas visitors is a key element of Ireland's tourism and hospitality offering and for the long-term sustainable development of the wider tourism industry.

- The restoration of the 9% VAT rate would be a significant supportive measure and improve the commercial model of the sector in contrast to the several policy measures which are damaging the commercial model. It would support a large national and regional tourism industry. It would have a significant impact on operating margins.

- A low food services VAT rate is widespread internationally, and a 9% rate on hospitality food services would make Irish tourism more competitive compared with other European destinations.

- Within the wider tourism industry, hospitality related businesses directly employ 212,200 people, with 71% of hospitality employment located outside Dublin.

- Food services is not only a tourism issue. The sector provides services to the wider non-tourist population and is a significant provider of “ordinary” food products and is a cost-of-living issue.

- There are grounds for considering, on the basis of official and semi-official data, that the actual cost of restoring the lower VAT rate may be lower than the official estimate.

- Public and policy discussion of the cost of lowering the hospitality VAT rate in Budget 2025 generally considers it to be too large a proportion of the expected total €1.4 billion tax package. However, this is an imperfect way of assessing the issue. The impact on the public finances of a lower VAT rate can also be considered relative to the overall level of taxation and public expenditure and the full range of overall Budget 25 decisions. The Budget 2025 package will be €8.3 billon, total voted gross expenditure in 2025 is projected to be €105.4 billion and the projected a tax revenue is €97 billion excluding PRSI. The cost of the lower VAT rate can also be related to these much larger figures. It is a partial analysis to only relate the cost of a specific single element of the public finances to part of the net package of the budget.

- Consideration of the restoration should take account of the dynamic, multi-year, tourism-wide, economy-wide, net cost and overall public finances contexts.

1. The negative economic consequences of a declining food services sector

The food services sector is in a commercial crisis and is undergoing substantial downsizing. This is caused by a large deterioration in its commercial model due to the cumulative impact of very high levels of general inflation in recent years, changes in consumer spending due to higher cost-of-living pressures, the increase in the VAT rate from 9% to 13.5% (a 50% increase) and large increases in employment-related costs which are driven by Government policy changes. This is compounded by the slow and incomplete recovery back to pre-pandemic levels of international incoming tourism and is despite the strong initial post-pandemic performance of domestic tourism. This downsizing includes restaurant and pub closures, reduced days and hours of opening for hospitality businesses and a narrowing of the range of the food offering.

The negative economic consequences of the downsizing of the food services sector are felt through three main mechanisms:

- A smaller food services sector will provide less direct, indirect and induced economic activity, less employment and less tax revenue
- A smaller more restricted food services sector will have a negative impact on the quality of the overall Irish tourism product and cause a reduction in overall tourism, especially international tourism. The provision of a sufficient range, quality and availability of the food experiences for domestic and overseas visitors is a key element of Ireland's tourism and hospitality offering and to the long-term sustainable development the wider industry. The cutting back in food service capacity and availability is a significant concern the sector not only in the short term, but, in the longer term it risks substantially altering the nature of our tourism product with potentially major negative impacts on downstream business. This will cause damage to the Irish tourism ecosystem. A significant decline in the food services sector could eventually result in declines in tourism activity across several fronts such as the type of tourist coming to Ireland, the length of stay and numbers of visitors. Food services influences the attitudes of visitors and the desire to return and to recommend Ireland as a location to visit as well as the overall image of the Irish tourism product.

- Food services is a central issue for tourism but it is also an issue for the wider population in terms of its input to ordinary living and its impact on the cost of living.

2. Food services is a cost-of-living issue and involve services to the wider population as well as being a significant tourism issue

VAT on food services and the availability and quality of products are issues for the overall population. Valued at €6.929 billion in 2023 according Bord Bia[1], the food services sector is a large and important part of the national and regional economies, the tourism industry and the social infrastructure of the country. It is a vital part of the tourism product but its impact goes well beyond tourism. The price, quality and availability of food services affect large segments of the population. Restaurant and other food services products are often wrongly seen as luxury or discretionary, and possibly occasional, items where higher prices and reduced demand would have limited consequences for the general population. That is not the case. Food services include a wide range of services such as the provision of a cooked lunch for workers, a public house carvery for an old age pensioner and a take-away pizza as well as wider hospitality and tourism related food services across restaurants, cafes, bars, hotels and guesthouses. Food services support overall tourism, quality of life, lifestyle, labour force participation and the division of labour.

3. Average household expenditure on food services is significant

According to the 2023 Household Budget Survey[2], the average household spent a total of €41.68 per week on food services. This was 4.1% of total average weekly household expenditure and compares with an average household electricity expenditure of €33.72. Total household average food expenditure was €160.93 per week, and food services was 25.9% of this.

4. Labour costs are a large element of the cost model for food services enterprises

The food services sector is an employment-intensive sector. In 2019, the latest Covid-free dataset, food services labour cost was 33.3% of turnover and 83.8% of gross value added. Food and beverages inputs accounted for 36.9% of turnover and other purchases, including energy, was 22.6%. In the year to Q1 2024 average hourly earnings in hospitality increased by 7.5% compared to 4.5% nationally.

5. Government policies significantly weaken the cost model of the food services sector

The Foley 2022 report[3] identified the negative impact of energy, food and other costs on the restaurant sector in recent years. The cost model has fundamentally deteriorated. VAT is a cost of doing business just like labour costs, energy or food ingredients. There is a very large negative change in the operating model of restaurants. In 2019 the margin was 7.2% of turnover, in the new "normal" post-Covid, even with price increases the average margin is estimated to have dropped to 1.9%. Currently, average margins are probably below that. The near term and medium-term future is bleak. An array of labour cost increases is being implemented, or are planned, by Government. These include higher minimum wage rates leading to a living wage of approximately €15 per hour by 2026. Already the sector has been hit by a 12.4% increase in the minimum wage in January 2024. Statutory Sick Pay will increase progressively. There is an additional Bank Holiday since 2023. It is expected that employer PRSI will continue to increase gradually up to 2028. However, policy could change and increase it more rapidly. A new pension auto-enrolment scheme is being introduced with an initial requirement for employers to contribute 1.5% of gross pay and this could rise to 6% within 10 years. Crowe (2024), on behalf of Failte Ireland, estimates that the long-term impact of these measures could be an increase of 31% in the labour cost of a representative restaurant/bar. This estimated increase in labour costs would take 10 percentage points from the bottom line and, on its own, more than eliminate the 2019 margin apart from the impact of the other cost increases since 2019.

The Irish Government Economic and Evaluation Service undertook *An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland*[4] in March 2024. It concluded that under specific assumptions "a small hospitality business could see a policy-driven increase in its payroll costs for 2024 (relative to 2023) of 6.6%. This projected increase is closer to 19.4% by 2026. In overall terms, this equates to an increase of 14.5% and 36.7% by 2024 and 2026, respectively (when the full impact of the transition to a Living Wage is accounted for). It noted that there would be a high impact on the hospitality sector and a low impact on several sectors such as Information and communications and public administration. Power (2024)[5] estimates that the State-induced measures would increase the hospitality payroll costs by €456 million in 2024 and €1.4 billion by 2026.

6. International tourism has not yet fully recovered from Covid

International inward tourism has not fully recovered from the pandemic–related decline. According to CSO inbound tourism data[6], the number of overseas visitors with at least one overnight was 9.36 million in 2019. In 2023 (on a different data collection system), the number was 6.26 million. The 2023 foreign overnight visitors total is only 67% of the 2019 level. The 2023 number of nights is only 73% of the 2019 level. Total expenditure in 2023, despite the high inflation of recent years, is only 6.7% higher than 2019. Excluding fares, the increase is 6.6%. Average stay increased from 7.5 nights to 8.2 nights. The tourism industry is still coping with the substantial negative effects of Covid.

The first half of 2024 (January to July) shows a mixed picture. The period showed a significant improvement in the number of visitors on the same period in 2023 but still falls short of the pre-pandemic performance. In addition, the number of nights was unchanged compared with 2023. While visitor numbers increased by 12.6%, this was largely offset by an 11.3% decrease in the average length of stay. Figures indicate that expenditure by overseas visitors increased by 18.7% between the first half of 2024 and the first half of 2023. However, international inward tourism will still be below the pre-Covid volume at the end of 2024, which is a significant challenge for hospitality food services businesses given the enormous increases in the cost of doing business since 2019.

July (the latest month available) was a particularly worrying month with a small increase in visitors of 0.8% compared with July 2023 but a decline in nights of 6.2%.

Domestic tourism in 2023[7] has improved on its 2019 position with an increase in trips, nights and expenditure and continued to grow between Quarter 1 2023 and Quarter 1 2024. Quarter 1 is the latest data available from the CSO.

7. Small and micro firms: Employment decline and closures are the recent stories

The restaurant sector is mainly comprised of small and micro businesses. 76.8% of hospitality enterprises have under 10 persons employed. Small businesses face particular operational difficulties in a difficult commercial operating environment.

The latest CSO Labour Force Survey employment data refer to food and beverage services. Food services is not separately available. Food and beverages is a large sector, directly employing over 124,000 people. While food and beverage services employment has increased by 1.1% since 2019, in the most recent year (to June 2024) employment has decreased by 2.7%. Meanwhile total employment within the wider economy increased by 2.7% according to the Labour Force Survey.

The Restaurants Association of Ireland estimates that 612 restaurants, cafés and other food led businesses have closed since the VAT rate increase last September[8]. During the normally busy summer months (June-Aug), some 115 outlets alone closed. These are gross closures and do not take into account new openings. The PwC Restructuring Update Q1 2024 notes that hospitality had the highest business failure rate in Q1 2024 (failures per 10,000 businesses) of the sixteen identified sectors in the report.

8. Failte Ireland Summer 2024 Tourism Barometer: bad news for the food services sector

The latest Failte Ireland Tourism Barometer[9] published in September 2024 confirms that the food services sector is in difficulty. When asked about the volume of business in summer 2024 compared with the same period in 2023, 68% of food and drinks businesses experienced a decrease (17% were the same as 2023 and 15% were higher than in 2023). 64% of food and drinks enterprises had a lower turnover in summer 2024 than in 2023. Profitability has been decimated, 84% of food and drinks enterprises had lower profitability in summer 2024 than in 2023 (10% had no change and 6% had an increase). In terms of expectations for the rest of 2024, 69% of food and drinks enterprises expected a weaker performance than in the equivalent period of 2023 (22% expected the same and only 9% expected an improvement). 53% of restaurants said they had nothing to be positive about. Rising costs, especially payroll, was identified as a major concern by 88% of restaurants.

This negative story is also evident from an August 2024 survey of 730 hospitality businesses[10] carried out on behalf of the sector. Almost all (96%) say they have been negatively impacted by the 13.5% VAT rate, with 68% saying it is having a very negative impact on their business (4% say it is having no significant impact). 77% had a very negative or negative outlook for the next year. 91% said profitability on food sales was down significantly or down while 8% said it was the same as last year. 46% cut back on opening hours, 26% cut back on number of days per week and 59% cut back on the range of food offered. The value of food sales was down by 9% on average compared with the same period of 2023 and average expectations for the rest of the year was a decline of 12%.

9. The reduced food services VAT rate is widely operated internationally; 13.5% rate is not competitive. A rate of 9% is.

The large majority of EU countries operate reduced VAT rates for the restaurant and food services sector. The key issue should be to have a competitive rate. As of January 2024 seven of the other 26 EU countries had restaurant rates which were above 13.5%. Nineteen of the 26 other countries were below the Irish rate of 13.5%. Ireland with 13.5% had a higher restaurant VAT rate than, for example, France, Italy and Spain.

10. Other indirect taxes on food services are relatively high in Ireland

Alcohol is a substantial element of turnover in certain food services enterprises and is subject to excise tax and the standard rate of VAT. Ireland's standard Vat rate is relatively high by EU and UK standards. Of the 28 countries, Ireland's rate of 23% is exceeded by only six countries. In addition, some of the EU countries apply lower Vat rates than the standard on specific elements of alcohol sales. On the indicator which is the average of the beverage rates, Ireland is the second highest behind Finland. Fifteen EU countries do not charge excise on wine.

11.Trying to keep prices low

In the year to July 2024, the food services price increased by 7.1% compared to an overall inflation rate of 2.2%. This reflected the continuing cost pressures and the unavoidable necessity of increasing price to survive. However, the sector resisted this previously. In the year to July 2023 the food services price increase was almost the same as general inflation, 6.4% compared to 5.9%. In the year to July 2022 the food services price increased by 6.1% compared to a much higher overall inflation rate of 9.2%.

12. Food services and other hospitality enterprises generate substantial tax revenue: tax revenue increased over the long-term

Even with the 9% VAT rate the hospitality sector is a substantial contributor to the Exchequer. 2018 was the last full year before Covid in which the 9% VAT operated. In 2018, total tax receipts from accommodation and food and beverage services was €1.159 billion[11] or 2.7% of total tax receipts. This excludes excise and PRSI. Excluding corporation tax, to remove the effect of the multinationals, hospitality's share of total tax receipts was 3.1%. 2023 was primarily on the 9% VAT rate (collections in November were on the 13.5% rate and the other five collections were on 9%). In 2023, hospitality's share of tax receipts excluding excise and PRSI was 2.5%. Excluding corporation tax, the share was 3.1%. Hospitality tax receipts in 2023 were €1.864 billion. Between 2018 and 2023, allowing €80 million for the effect of the reintroduction of the 13.5% rate in September 2023, the hospitality sector has generated an additional €625 million tax receipts. In effect, inflation along with growth, has partly paid for the 9% VAT rate. Even if €120 million is allowed for the end of 2023 VAT rate increase, the 2023 tax yield would be €1.744 billion and the 2018/2023 increase would be €585 million. The exact addition revenue from September due to the higher VAT rate is not known, but allowing for the figures above, the 2018-2023 revenue increase overall allowing for the 13.5% impact was between €585 million and €625 million.

The longer-term trend in hospitality tax receipts since 2011 is shown in Table 1. The key point is that tax revenue from hospitality has increased since the VAT rate was reduced because of volume and price increases. The VAT reduction on hospitality encouraged increased output and employment which, along with price increases, significantly increased the tax yield despite the lower VAT rate.

Table 1 Accommodation and food and beverages services, net tax receipts 2011 to 2023, € million[11]

Year	Net VAT internal	PAYE +USC	Self-employed	Corporation tax	Total hospitality
2011	590.82	183.14	33.13	25.55	**837.76**
2012	509.86	225.26	37.01	31.65	**807.24**
2013	506.86	228.01	43.53	31.17	**813.17**
2014	522.09	252.06	50.25	42.41	**871.82**
2015	572.72	260.02	34.43	57.54	**927.73**
2016	614.54	272.39	52.61	83.6	**1036**
2017	651.26	288.98	49.39	93.26	**1095.86**
2018	661.2	315.58	53	118.61	**1159.11**
2019	902.65	320.49	52.25	120.6	**1411.28**
2020	363.92	142.59	36.28	43.94	**594.1**
2021	291.1	242.5	43.64	71.77	**670.12**
2022	754.01	408.21	57.2	150.33	**1395.86**
2023	1010.34	510.79	66.01	261.48	**1864.19**
2023	*930.34 *(estimate excluding impact of increase to 13.5% in Sept 2023, €80 million*	*510.79*	*66.01*	*261.48*	***1784.19**
2023	*890.34 *(€120 million adjustment for end 2023)*	*510.79*	*66.01*	*261.48*	***1744.19**

Source. Revenue database. Notes. Total includes capital gains tax

The hospitality VAT rate was reduced to 9% from 13.5% in July 2011, was increased to 13.5% from January 2019, was decreased to 9% from November 2020 and was increased to 13.5% from September. 2010 data are unavailable. 2020 and 2021 are significantly affected by Covid. 2022 is partly affected by Covid. From 2011 to 2018, VAT receipts from hospitality increased from €590.82 million to €661.2 million but overall hospitality tax receipts increased from €837.6 million to €1159 .11 million. Most of 2023 was on the 9% VAT rate.

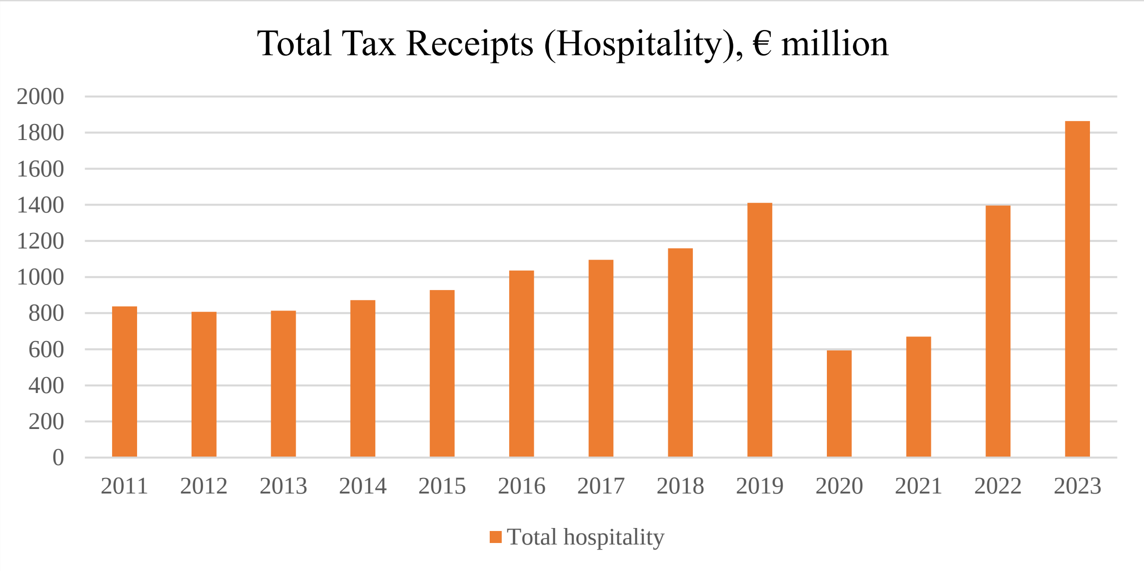
Over the long-term between 2011 and 2023 (with 2023 adjusted by €80 million) to reflect the end of year increase to 13.5%, the tax yield from hospitality increased by €946.43 million or 113% despite the existence of the lower 9% rate. On the assumption of €120 million for the end 2023 adjustment, the increase is €906.43 million between 2011 and 2023 or 108%. Over the period in which the lower VAT rate was dominant the hospitality sector delivered an additional €906.4 million. Tax receipts from the sector did not decrease because of the VAT rate decrease. Between 2011 and 2023 receipts from hospitality more than doubled. The hospitality receipts increase was 108.2% compared to 197.8% for total receipts. Excluding corporation tax, the hospitality increase was 82.5% compared to 136% for overall receipts. Hospitality VAT receipts increased by 50.7% over the 2011-2023 period when the lower rate was in force.

Table 2 Hospitality tax yield compared with total tax yield 2011 to 2023, € million

	2011	**2011**	**2023**	**2023**	**% increase**	**% increase**
	Hospitality	Total	Hospitality	Total	Hospitality	Total
Total tax revenue	837.6	25,215	1,744 (having excluded €120 million for the impact of the VAT increase in September 2023)	75,092	108.2%	197.8%
Total less corporation tax	812.21	21,715	1,482.52	51,250	82.5%	136.0%
VAT	590.82	8,663	890.34	18,907	50.7%	118.3%

Source. Revenue Commissioners Database. Data as in table on net receipts by sector. Excise and PRSI are not included.

Chart 1 illustrates the long-term increase in tax receipts from the hospitality sector, 2011 to 2023



The Covid years 2020, 2021, and a small part of 2022, exhibit a decrease in total tax receipts from the hospitality sector. 2023 has a large year-on-year increase of €468m, of which approx. €120m was due to the increase in the rate of VAT which came into effect in September of that year. International tourism has not yet regained its pre- Covid level. Consequently, in the absence of the pandemic it is likely that, even with a continuation of the lower VAT rate, total hospitality receipts would be higher in 2023 than actually occurred with the higher international contribution exceeding a likely lower domestic contribution.

The higher 13.5% rate has been operational since September 2023 and continues to draw resources from the hospitality sector over 2024. The Tax Strategy Group estimates a full annual hospitality sector cost of the 9% VAT rate of €764 million. Total hospitality tax receipts were €1.864 billion in 2023. Allowing for the last VAT payment in 2023 being on the 13.5% and an overall drop in revenue due to the lower level of hospitality activity of 5%, the 2024 hospitality tax receipts would be about €2.329 billion. This is an increase of €465 million of a tax burden on the sector which is facing a very difficult economic environment in 2024 compared to 2023. Higher prices in 2024 would push up VAT receipts apart from the increase in the rate but that is not included in the above €465 million additional tax burden.

13. Long-term increase in food and beverages services employment and tourism since the lower VAT rate in 2011

Alongside the long-term increase in taxation receipts, which is shown in Section 11 is the growth in hospitality employment. These figures reinforce the positive performance of the sector alongside the lower VAT rate. In 2011 food and beverages employment was 78,200. By 2019 this had grown to 132,000, an increase of 69.6%. Covid had a negative impact on food and beverages employment and the level dropped to 119,000 in 2022. It increased to 129,000 in 2023 but dropped to 125,000 in 2024 in response to the negative costs and VAT situations. The Q2 2024 level is lower than Q2 2019. Accommodation employment is currently higher than in Q2 2019 and is also higher than Q2 2023. Some 71% of hospitality employment is located outside Dublin.

Domestic tourism in 2023 has improved on its 2019 position and also has a substantial growth since 2011 when the lower VAT rate of 9% was introduced. Trips increased by 62% between 2011 and 2019. Nights grew by 51% and expenditure grew by 52%. Growth continued up to 2023 and the 2023 level exceeds the 2019 level, unlike the international tourism sector.

The number of overnight overseas visitors increased by 55% between 2011 and 2019. As already discussed, the 2019 level has not yet been realised after the Covid decline.

14. Possible scenarios for food services in the face of a weakened commercial model

Costs have increased. Prices can be increased to compensate, but this reduces demand and reduces the market. Profits could be reduced to absorb the costs but margins are too low to do this and still remain viable. If margins are low, or loss-making, enterprises will close. Of course, enterprise productivity and efficiency should be maximised but this will not be sufficient. In the absence of supportive measures there will be a downsizing of the sector, a restructuring within the now smaller sector from more expensive services to cheaper services and a narrowing of the offer range. Downsizing will include reduced opening hours and fewer days open as well as full closures. It is informative to examine what happened the food and drinks services sector in the financial collapse period. In Quarter 1 2007 the sector employed 89,000 people and this declined to 73,100 in Quarter 1 2012 after which it started to increase. The 2012 figure was 82% of the 2007 figure. The 2007/2012 decline was mainly due to demand insufficiency while the 2024 issue is mainly inadequate profitability at prices acceptable to the market. A repeat of the 2007/2012 decline could see almost 23,000 jobs lost. The question is, in a period of close to full employment in an economy with 2.704 million jobs, do policymakers care about such a decline?

15. Scenarios of impact on international tourism of the likely decline in the food services sector

The scale of the tourism sector is shown below. Much of the food services sector depends on "ordinary" demand for products as well as serving the tourism sector. There are several different measures of tourism employment such as the LFS, the satellite accounts, the administrative source for employees, hospitality employment and the Business Sector source. The satellite accounts refer to tourism specific employment and tourism industry employment. There are substantial size variations in the different measures. In the following exercise we use the employees total from the administrative source. This is much lower than the wider measure of tourism related employment. The full negative impact of a diminished food services sector on tourism will not occur immediately. It may take time to be fully felt as awareness of the impact on tourist attitudes takes effect. We are unfortunately confident that it will have a negative impact. The scale and timing of the negative impact is uncertain. We identify the consequences of two negative impact scenarios, a 5% decline and a 10% decline in overall tourism. This is not a prediction of what may happen but identifies the broad possible scale of the negative economic effect on reasonable scenarios given the uncertainty of the size of the negative impact.

Table 3 Impact on the economy of tourism decline scenarios of 5% and 10%

	2023	Reduction due to impact of 5% decline	Reduction due to impact of 10% decline
International tourism expenditure	€7.33 billion	€366 million	€733 million
International tourism visitors	6.25 million	313,000	625,000
International tourism nights	51.12 million	2.56 million	5.12 million
Domestic expenditure	€3.12 billion	€156 million	€312 million
Domestic trips	14.3 million	715,000	1.43 million
Domestic nights	33.97 million	1.7 million	3.4 million
Total tourism expenditure	€10.45 billion	€522 million	€1.045 billion
Employees CSO (September 2023)	212,000	10,600	21,200

Source. Author's calculations.

In the 10% decline scenario there would be a decrease of €733 million in international tourism expenditure and a decline of €312 million in domestic tourism – a combined decline of €1.045 billion in annual tourism expenditure. International visitors would decline by 625,000 and domestic trips would decline by 1.43 million. International and national tourism nights would decline by 8.51 million. Employment would decrease by over 21,000. A pro rata tax revenue reduction relative to the accommodation and food and drinks total of €1.744 billion in 2023 would be €174 million. A wider definition of tourism and indirect and induced impacts will increase the overall negative economic impact

These outcomes refer to the tourism impact. "Ordinary" non-tourist demand for food services would decline in addition to the above.

16. Cost of restoring the 9% rate of VAT for food services

The post Budget 2024 Revenue Ready Reckoner estimates that the cost of extending the 9% rate for a full year for hospitality (catering and accommodation only) was a substantial €704 million. In pre-Budget talks with officials in 2023, a figure of €750 million was referred to, of which 80% would be food services. On the assumption of a food services share of 80%, and using the Revenue estimate, the cost of retaining or restoring the 9% VAT rate for food services would be €563 million. The detailed calculation of the cost of the measure has not been published but appears to conflict with other official and semi-official data on the size of the food services sector. Broadly speaking, the cost of the lower VAT measure represents 4.5% of the sectors turnover. A cost of €563 million would suggest a food services turnover at the lower VAT rate of €12.5 billion. Details of the precise calculation of the official estimate have not been published up to recently. However, a recent answer to a parliamentary question (PQ) provides some details. It notes that as Revenue does not require traders to separately identify the VAT yield from specific activities, it is not possible to estimate the cost of the measure by tax information alone.

To calculate the cost estimate, Revenue uses both taxpayer returns and third party macro-economic data provided to Revenue by the Central Statistics Office (CSO) which contains a detailed breakdown of Personal Consumption Expenditure across a range of expenditure items. To estimate the relevant consumption for a future year, Revenue grosses up the latest available data using a combination of CSO price indices, taxpayer returns and Department of Finance macroeconomic forecasts. The answer states that the…" *estimated total consumption within the food services sector not subject to the 0% or*

23% rate of VAT is currently estimated to be €12 billion (VAT exclusive) in 2024. The full year VAT yield by applying the reduced rate of VAT (13.5%) to this consumption is estimated at €1.6 billion. The full year VAT yield by applying the second reduced rate of VAT (9%) to this consumption is estimated to be just under €1.1 billion. The full year cost is the difference between these estimates, currently €545 million". This estimate is also referred to in the Tax Strategy Group papers[12] for Budget 2025. The full cost for the total hospitality sector is estimated by the official sources to be €764 million compared to the €545 million for food services.

This estimate of the value of food services is very different to, and much larger than, the published Bord Bia estimate of turnover in the food services sector. As already referred to, Bord Bia estimates the size of the food services sector in 2023 at €6.929 billion or an estimated/projected €7.6 billion in 2024. All of this would not be on the lower hospitality VAT rate but we make the conservative assumption that it is all on the low rate. The difference between the two hospitality VAT rates is 4.5% of turnover. This would imply a difference in revenue from the two rates of €312 million for 2023. Assuming a 10% increase in turnover in 2024 would increase the cost of the lower VAT rate to €343 million.

The consumption data referred to in the answer to the PQ is probably from the national accounts data, some details of which are published. Table NA022 from the CSO reports a 2023 consumption level of €21.996 billion for restaurants and hotels which is divided between accommodation services €1.924 billion and €20.071 billion for catering services. Assuming a food services increase of 10% for 2024, the total sector would be about €22.078 billion of which about 54% would be on the lower VAT rate or €12 billion.

The equivalent national accounts consumption figures for 2019 from the CSO are restaurants and hotels €15.964 billion, accommodation €2.323 billion and catering services €13.641 billion.

However, the CSO publishes detailed turnover and other data on the component sectors of the hospitality industry in its Business Sectors database. The latest data refer to 2021 and are Covid influenced. The 2019 data are the latest non-Covid year. The figures for 2019 for turnover were accommodation €4.6 billion, beverages €2.7 billion and food services €5.3 billion. On assumptions of food shares of 30% in accommodation, 25% in beverages and 90% in food services, there is a 2019 food total of €6.835 billion which is much lower than the CSO national accounts estimate of €13.641 billion for catering services. The entire accommodation and food and beverages sector from the Business Sectors source for 2019 is €12.597 billion which is lower than the national accounts data for catering services alone.

With 90% (we assume) of this €6.835 billion on the lower rate, this would generate a difference of €277 million between the two rates. Even with 100% of the food on the lower rate, the difference would be €308 million. Assuming a 35% increase between 2019 and 2024, the cost of the lower VAT rate in 2024 would be €374 million to €416 million.

Our estimate suggests the cost may be less than the official figure, but of course, we are open to correction. Of course, the larger is the expenditure on food services, the larger is the VAT revenue and the greater is the monetary cost of restoring the lower rate. In 2023, the net VAT receipts (Revenue receives VAT payments and also makes repayments of VAT) for the hospitality sector was €1,010 million. Some of this, such as alcohol, would have been on the standard rate. We assume 80% was on the lower rate. The last payment of the 2023 year would have been on the 13.5% rate and we assume an additional €80 million was due to the increased rate. This would result in an estimated food services total VAT receipt for 2023 on the 9% rate for the full year of €582 million. Bringing this 9% rate to 13.5% would generate an additional €291 million. To bring the 2023 impact to 2024 we increase the cost by 10%. This results in an estimated cost of applying the 9% rate to food services, instead of the 13.5% rate, of €320 million.

The Revenue estimate is based on data, some of which, only it has access to and should be regarded as solid and robust. Our estimates may be missing some, unknown to us, aspect of cost arising from gross and net receipts of VAT and repayments and receipts of VAT. The main difference between the estimates is the estimated size of the food services sector and the element of it subject to the lower VAT rate. However, our alternative estimates, which also use official and semi-official data, indicate a lower, but still substantial, gross cost.

Between July 2011 and August 2023, the lower rate has existed, except for almost two years, without damaging the overall public finances or preventing a substantial increase in tax revenue from the hospitality sector.

The above cost estimates are gross costs. The net cost of reinstating the 9% rate of VAT for food services would be lower due to the tax revenue from jobs which are saved and premises which remain open and would otherwise close. The lost tax revenue associated with 10k job losses (those who lose restaurant jobs and do not find alternative employment) would be about €100 million including indirect and induced effects.

It is argued by policymakers that the annual cost of having the rate of VAT at 9% for food services is too high in both absolute and relative terms. In absolute terms it is officially between €545 million and €600 million. In relative terms it is argued that that would take too large a proportion of the total available for tax reductions in a particular year. For example, Budget 25 has provision for a tax package of €1.4 billion before any provision in Budget 25 for additional taxes or higher rates. It is argued that this gives little scope for a lower hospitality VAT rate for food services, the cost of which could absorb over €600 million. However, we would argue that this is only a partial analysis. The impact on the public finances of a lower VAT rate can also be considered relative to the overall level of taxation and public expenditure and the full range of overall Budget 25 decisions. Budget 2025 will be based on a total package of €8.3 billon, which is composed of a tax package of €1.4 billion and an expenditure package of €6.9 billion. The cost of the lower VAT for food services can be considered in light of the overall €8.3 billion package. A different approach could have allocated an additional €600 million (adjusted for 2025) to the tax package, bringing it to €2.0 billion. and reduced the expenditure package to €6.3 billion. The relatively large share of the reduction of the total tax package absorbed by the lower hospitality rate is a direct results of budgetary decisions already made and is avoidable.

Total voted gross expenditure in 2025 is projected to be €105.4 billion which is an increase of €6.9 billion or 6.9%. The reduced VAT rate cost of €600 million could have been accommodated by a lower 2025 expenditure total of €104.8 billion instead of €105.4 billion. The April 2024 Stability Programme update projected a tax revenue of €97 billion excluding PRSI. The cost of the lower VAT rate can also be related to this figure. The cost is less daunting when compared with €97 billion. It is only a partial analysis to relate the cost of a specific single element of the public finances to part of the net package of the Budget. The same issue would arise with any large individual element of the public finances being related to the change associated with an annual budget.

17. Why restore the 9% rate of VAT for food services?

The rate of VAT on food service is a cost-of-living issue affecting many people. Food services matter greatly to tourism but also to the wider population. The sector has a large employment and economic impact regionally and nationally, employing over 124,000 people (food and beverages services). Its commercial model has been decimated by labour cost increases and input cost inflation, much of it caused by Government policies. These policies are socially desirable and the issue should be how to both sustain the sector and improve the position of workers. The future looks bleak based on the current approach. The sector is in trouble as shown by objective analyses, employment declines, industry surveys, closures and a relatively weak 2024 performance. We argue that there are grounds for expecting that the cost of restoring 9% rate of VAT for food services might be less than official estimates.

The 9% rate of VAT has contributed to major economic and tourism gains, increased employment and regional development since its introduction in 2011.

Even with VAT at 9%, the sector contributes significantly to the Exchequer. In the absence of measures such as a restoration of the 9% rate of VAT, the sector will experience a significant decline with many direct closures and job losses and additional indirect negative economic effects. Overall tourism will decline if the food services element is weakened. VAT at 9% helps consumers, food service enterprises and improves tourism competitiveness. It helps the sector deal with cost increasing policy measures and assists the implementation of these policies. The key issue is whether the likely negative future for food services is a concern to policymakers in a period of almost full-employment and national employment growth or whether a significant downsizing will be allowed to proceed without the introduction of a supportive measure such as the restoration of the 9% rate of VAT.

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