Irish Hotels Federation

Opening Statement to the:

SELECT COMMITTEE ON BUDGETARY OVERSIGHT

Meeting Examining the Report of The Commission
on Taxation And Welfare

November 2022

The Irish Hotels Federation welcomes this opportunity to address the Select Committee in relation to the recommendations set out in the Report of the Commission on Taxation and Welfare.

Speaking on behalf of the 960 hotels and guesthouses throughout the country which the IHF represents, I would like to make the following observations in relation to the areas of tourism VAT and the recommendation for an accommodation tax:

First on the recommendations regarding tourism VAT - specifically, recommendation 6.8, 6.9 & 6.11:

The current 9% is the right rate for Irish tourism in the context of the EU. As can be seen in the chart included in our submission, Ireland's current 9% VAT rate is in line with our main European competitors.

Of our EU competitors, the VAT rate on accommodation is lower than 9% in nine countries, is 9% in six countries. If increased to 13.5% we would have the third highest VAT rate in Europe.

Far from being an exceptional measure, the majority of countries operate a low VAT rate on accommodation. What we see is that those countries that place a high value on tourism as part of their economy, tend to have lower tourism VAT rates.

Reduced VAT as a policy instrument - Irish tourism is highly susceptible to the global economic environment in which we operate. Economic shocks have a disproportionate impact on our industry given the discretionary nature of tourism travel and expenditure. As such the lower rate of 9% tourism VAT has acted as a highly effective and targeted policy instrument in supporting the recovery of Irish tourism and promoting an environment for long-term sustainable growth.

In response to the financial crisis, the measure supported the creation of over 65,000 new jobs across every town and county since 2011 – making the 9% VAT rate one of the most successful job-creation initiatives in modern times.

During the Covid crisis, the reintroduction of the 9% VAT was vital in supporting tourism businesses and helping them survive at a time of collapsing revenues due to lockdowns and restrictions on travel. This was the worst economic shock in living memory.

The majority of hotels, guesthouses and tourism businesses are still in recovery mode. While there was a welcome upturn in tourism this summer, businesses are now facing into very worrying headwinds with a stark economic environment and enormous uncertainty around future outlook which we see taking a toll across the global economy.

Our international competitiveness is a critical consideration in setting VAT on tourism, which should be viewed from the perspective of overseas visitors. As a consumer tax, most VAT receipts generated for the Exchequer arise from transactions made by individuals who are resident within Ireland. However, this is not the case for VAT on tourism goods and services – the vast majority of which arise from transactions by overseas visitors spending money within the Irish economy. This discretionary expenditure is highly mobile and influenced by international competition.

Any decisions around the appropriate level of VAT for Irish tourism should be made taking into account the competitive nature of international tourism and VAT rates which are applied by destinations with which we compete for overseas visitors. In this regard the 9% tourism VAT rate is a critical policy measure which supports tourism enterprises and enhances our international competitiveness. As such it should be retained as an instrument for ongoing support of our industry.

In relation to the proposed accommodation tax (Recommendation 6.12):
We do not believe that there are grounds for introducing a tourism accommodation tax given the enormous contribution that tourism already makes to the Irish economy as the country's largest indigenous employer.

Pre-Covid (2019), tourism supported over 270,000 jobs and generated revenues of €7.5 billion. In term of taxation, tourism activity already makes a substantial contribution to the exchequer, generating taxes equivalent to 23 cents for every €1 spent by tourists. In 2019, this equated to €2bn in tax revenues. This is a very substantial contribution by tourists to the cost of public goods and services.

It is also important to consider that tourism businesses including hotels, contribute directly to the funding of local authority services through payment of commercial rates and levies.

Remaining competitive is critical to the success of tourism. Any additional taxation would **make Ireland a more expensive destination** at a time when consumers are more value conscious. In terms of running a business, Ireland is already a very expensive place to operate compared to our European competitors with many cost inputs for hotels under increasing upward pressures.

Additional hotel development is also required for Ireland to realise its long-term tourism potential. The costs of construction and operating hotels are significant and considerably more expensive than commercial property or residential construction. The introduction of an additional tax risks deterring badly needed investment.

Finally, a bed tax by its very nature would likely be imposed on accommodation providers only. This would be inequitable, as Irish tourism benefits a whole range of businesses from tour companies, visitor attractions, retailers, restaurants, coach operators and many more. To specifically target one sector is unfair and will apply upward pressure on hotel prices.

In conclusion, we look forward to discussing these issues with you in further detail and addressing any questions that individual Members of the Committee may have.