Budgetary Oversight Committee

November 23rd 2022

Discussion in relation to Chapters 6,7, 8 and 14 of the Commission on Taxation and Welfare Report

Opening statement from Eoghan O'Mara Walsh, CEO of the Irish Tourism Industry Confederation

Opening Statement

Thank you for the invitation to speak to you today on this important matter. The Irish Tourism Industry Confederation (ITIC) is the main representative body for all tourism and hospitality stakeholders in Ireland across the public and private sectors. We represent carriers, accommodation providers, hospitality operators, visitor experiences and activity operators amongst many other tourism businesses.

As committee members will know tourism and hospitality is the country's largest indigenous industry and biggest regional employer. There are 20,000 businesses in the sector, the vast majority SMEs, and latest CSO figures suggest that about 260,000 people work in the industry, 70% of which are in regional Ireland.

Tourism was walloped during Covid as no international visitors – the mainstay of the tourism economy – came to our shores for a 2 year period. Thankfully the Government recognised this and stepped in with a number of very important measures including the wage subsidy scheme, Covid restrictions support scheme, and Business Continuity grants.

Since Covid restrictions were lifted earlier this year the tourism industry has rebounded strongly and we anticipate that 2022 will bring circa 75% of pre-pandemic international visitors to the country which is very encouraging. However there is widespread concern about the months and years ahead as energy costs, softening demand, and global economic challenges all point to a difficult period. ITIC is estimating a dip in tourism performance next year compared to this year so the recovery will stall. The situation is further complicated by Government's over-reliance on tourism accommodation bed stock to house Ukrainian refugees and asylum seekers. 22% of all tourism beds nationally are contracted to Government at this point, that figure rises to 26% if you exclude Dublin. If this situation continues, and indeed worsens, into next year there will be no tourism beds in tourism towns up and down the country and thus no tourism activity, meaning job losses and business closures. Tourism operators are prepared to play their part but they cannot be asked to be the primary accommodation provider to the detriment of a broad industry.

I'm here today to talk about the Commission on Taxation and Welfare report and particularly tourism and hospitality aspects of it which seem to relate to Chapter 6. Much of the report pertains to other areas but there are some specific recommendations that are relevant to the tourism sector. Some of Chapter 6 relates to the tourism Vat rate of 9% and the Commission argues that this should be increased to 13.5% as it is scheduled to do on February 28th. ITIC's view is that the 9% rate is the correct Vat rate for the tourism sector and puts us on an even keel with our European competitors, the vast majority of whom have tourism Vat rates at this level or indeed lower. To increase the Vat rate would make us one of the most expensive tourism destinations across the EU, would damage our competitiveness and would add further cost to the system at the very time that industry is dealing with escalating costs elsewhere.

An increase in the Vat rate would also be inflationary by its nature with IBEC estimating that it would add 0.5% to the national inflation rate at a time when Government should be trying to curb prices, not add fuel to a raging fire.

Economist Jim Power has recently completed a report, which I will happily share with Committee members, in which he makes the conclusive economic argument for the extension of the 9% Vat rate.

The Commission's report states that a temporary Vat reduction should not be used as a short-term stimulus. ITIC would argue that Vat at 9% should be seen as a long-term measure for the tourism and hospitality industry and certainly should be kept in place until full recovery to pre-pandemic levels is secured.

Recommendation 6.12 refers to the introduction of an accommodation tax. This is something that ITIC does not agree with as it would further damage our value proposition. Eurostat figures prove that Ireland is an expensive place in which to run a tourism and hospitality business with labour 32% and electricity 60% above the EU average, and Ireland having the 2nd highest excise tax and 2nd highest borrowing costs across the EU. To add a bed tax to this formula would only depress demand.

Fáilte Ireland, the National Tourism Development Authority, using econometric modelling, estimate that for every €1 a tourist spends, 23c is returned to the exchequer in direct tourism-related taxes and we think that this is enough. A bed tax would be bad for business, full stop.

The Commission's report is extensive and comprehensive and if there are other tourism-related issues that I have missed I am happy to answer them. To finish I would like to re-emphasis that tourism is a key economic sector for the country and should be supported and protected particularly during these turbulent times. Competitiveness is key and any tax increases would retard our recovery, depress demand, and affect employment and regional economic balance.

Thank you for your time and I am happy to answer any questions that Committee members might have.