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An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
**Hospitality and Tourism: Analysing
the Rationale for Reduced VAT**

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Séanadh

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Key Messages

- Between 2011-2018 and 2020-2023, a reduced 9 percent rate of Value Added Tax (VAT) was applied to the hospitality and tourism sector. In September 2023, the rate was restored to 13.5 percent.
- It is estimated the total Exchequer cost of applying the reduced VAT to hospitality and tourism was €3.6 billion. This includes €2.6 billion from 2011 to 2018, and €1.2 billion from 2020 to 2023.
- In 2019, it was estimated hospitality and tourism revenue was worth €9 billion, with 250,000 workers employed in the industry and around 20,000 businesses by 2022.
- The rationale for VAT reduction is to reduce consumer prices, increase demand and boost sectoral employment. Yet it is inconclusive whether this was achieved, with economic literature identifying VAT reductions boosted profit margins rather than translating into reduced consumer prices.
- VAT is a regressive form of taxation which can impact lower income households, depending on consumer demands for discretionary goods which includes hospitality and tourism.
- PBO modelling estimates increasing VAT on hospitality and tourism will generate an extra €61 million to the Exchequer in 2023 and €183 million in a full year from Irish households.
- In absolute terms, increasing VAT costs wealthier households more (€16.98 more per month) than poorer households (€2.98 more per month). Yet reduces the poorest household income by 0.25 percent per month, compared to 0.15 percent per month for the wealthiest households.
- In addition to VAT, EU states apply other tax measures to hospitality and tourism to fund the maintenance of tourism services.

1. Introduction

Hospitality and Tourism is one of Ireland's biggest indigenous sectors.¹ In 2019 it generated over €9 billion to the economy,² with an estimated 284,800 workers, and 46,000 tourism related businesses.³ Given the size and scale of the hospitality and tourism sector, it contributes to the State's finances both directly, through employment, and indirectly by income tax and taxes on the sale of goods and services, such as Value Added Tax (VAT).

However, clearly defining the hospitality and tourism sector is challenging. It is broad in its scope, including a wide range of services and activities. Ireland's hospitality and tourism sector includes both large and small firms, varying from small and medium family run enterprises (SME's) with around ten employees,⁴ to much larger multinational firms.⁵ In a broad sense, the hospitality sector may be understood as including businesses such as hotels, bars, pubs, canteens, and catering operators⁶ as well as hostels, bed & breakfasts, caravan parks, self-catering accommodation, and guest houses.

Tourism, however, is much broader and more difficult to define. The Department of Enterprise defines it as "the activity of travellers on trips outside their usual environment with a duration of less than one year and includes services for accommodation, restaurants, leisure, entertainment and transport."⁷ It has also been described as providing "amenities within localities... whether by providing attractions and activities or offering hospitality and events."⁸ This makes accurately defining hospitality and tourism challenging as there is no one size fits all definition of the sector.

A key aspect of Ireland's hospitality and tourism sector is that for much of the last decade, there was a continuous and sustained increase in the number of overseas visitors.⁹ While the sector was also subject to a more favourable rate of low taxes compared to other areas of the economy. Following the pandemic and return to international travel, a cost-of-living

¹ Tourism Recovery Taskforce, *Tourism Recovery Plan 2020-2023* (2020) pg. 5.

² Fáilte Ireland, *Key Tourism Facts 2019* (2021), pg. 2.

³ Central Statistics Office, *'Irish Tourism Sector 2019 (Tourism Satellite Account)'* (2023).

⁴ Central Statistics Office, *'Business in Ireland 2015: Small and Medium Enterprises'* (2017).

⁵ A foreign-owned multinational is defined as a company that is ultimately owned abroad and operates in more than one country. An Irish-owned multinational is a company that is ultimately owned in the Republic of Ireland and operates in more than one country.

⁶ Expert Group on Future Skills Need, *Assessment of Future Skills Requirements in the Hospitality Sector in Ireland, 2015-2020* (2015) pg. 7.

⁷ Department of Enterprise, Trade and Employment, *Focus on Tourism and Hospitality* (2020).

⁸ Tourism Recovery Taskforce, *Tourism Recovery Plan 2020 – 2023* (2020) pg. 11.

⁹ Organisation for Economic Co-operation and Development, *OECD Tourism Trends and Policies 2018* (2018), pg. 12.

crisis and increasing interest rates, this began a debate whether the sector should continue to avail of a reduced rate of tax relative to other sectors.

It is in this context, and ahead of Budget 2024, the Parliamentary Budget Office (PBO) seeks to examine the VAT rate in Ireland's hospitality and tourism sector. This note aims to:

- Explain what Value Added Tax (VAT) is,
- Present how VAT has changed over time,
- Provide a brief overview of Ireland's hospitality and tourism sector,
- Outline how much Exchequer funding VAT raises,
- Explore the distributional impacts on households of changing VAT on hospitality and tourism, and finally,
- Examine VAT in an international context.

The PBO would also like to thank the staff in the Department of Finance, who contributed to the development of this paper, as well their continued engagement and support throughout.

2. What is Value Added Tax (VAT)?

Value Added Tax (VAT) is defined as a tax payable on the sales of goods (including imports) and services, and which is paid by the final consumer,¹⁰ and is based on a percentage of the assessed value of the good or service. This means VAT is a 'consumption tax' on goods and services,¹¹ meaning it can fluctuate with economic cycles as it relies on consumer purchases. It was the third largest source of Exchequer tax receipts in 2022, providing over €18.8 billion, representing 23 percent of total tax receipts.¹² It was behind only Income Tax (€30.7 billion) and Corporation Tax (€22.6 billion).¹³

Ireland's Value Added Tax is governed by the European Union's Directive on Common System of Value Added Tax. This was introduced in 2006 to ensure a transparent and coherent taxation system between EU Member States.¹⁴ While VAT rates vary between EU member states, the Directive outlines requirements for setting national rates of VAT. This includes:¹⁵

- The Standard Rate of VAT must be at least 15 percent, but there is no maximum level,
- Member States can make use of two reduced rates of VAT. However, these must be no less than 5 percent on goods and services from a dedicated list.

The Directive provides a list, known as Annex III, of all the goods and services which Member States can apply either one or two of their reduced rates of VAT. This includes items such as pharmaceutical products, medical equipment, and cultural events.¹⁶ The Directive also allows a reduced rates for foodstuffs, restaurant and catering services (excluding alcoholic beverages), and accommodation in hotels and similar establishments (including the provision of holiday accommodation).¹⁷

The Directive has been reformed and updated since 2006 to account for changing circumstances, with an amendment in 2022 to increase the number of goods and services eligible for the reduced VAT rates from 24 to 33.¹⁸ These updates to the Directive also included two limitations for Member States regarding VAT. This included:¹⁹

¹⁰ Revenue Commissioners, '[What is VAT?](#)' (2023).

¹¹ Commission on Taxation & Welfare, '[Value Added Tax Briefing Paper](#)' (2021), pg. 3.

¹² Department of Finance, '[Value Added Tax: Tax Strategy Group - 23/08](#)' (July 2023), pg. 2.

¹³ Department of Finance, '[Stability Programme Update](#)' (2023), pg. 33.

¹⁴ European Commission, '[Taxation and Customs Union](#)' (Accessed September 2023).

¹⁵ Ibid.

¹⁶ Council of the European Union, '[Council Directive 2006/112/EC on the Common Systems of Value Added Tax](#)' (2006).

¹⁷ Council of the European Union, '[Annex III of Directive 2006/112/EC European Union Law](#)' (2006).

¹⁸ Council of the European Union, '[Council Directive \(EU\) 2022/542 Amending Directives 2006/112/EC and EU 2020/285](#)' (2022).

¹⁹ Department of Finance, '[Value Added Tax: Tax Strategy Group - 23/08](#)' (July 2023), pg. 13.

- Member States can now only apply a zero percent rate or super-reduced rate of VAT to a maximum of 7 categories.
- Member States can only use a maximum of 24 categories of goods and services to apply a reduced rate of VAT, out of the total of 33.

Where Member States were applying VAT rates before January 1991 that were below the Directives minimum requirement, these rates could be retained as a derogation to the Directive.²⁰ This derogation allowed Ireland to retain a zero percent VAT and super-reduced rate of 4.8 percent VAT.²¹ Yet EU states could not apply the lower rates to new goods and services not charged at that rate in 1991, while where VAT rates subsequently increased, the exempt rates of VAT could not be reapplied. While certain categories are also exempt from VAT, including transport, water, education and financial services.²²

2.1. VAT in Ireland

At present, Ireland operates with several rates of VAT, which are applied to different types of goods and services (Table 1). This includes both pre-1991 VAT rates and rates in line with the EU Directive. The Standard Rate of VAT is 23 percent of the value of goods or services purchased, this rate applies to around 46 percent of all goods and services sold and represents around 64 percent of total VAT receipts.²³

Ireland's two Reduced VAT Rates are set at 13.5 percent (from 2003) and 9 percent only established in 2011.²⁴ These account for 44 percent²⁵ and 0.5 percent of goods and services purchased respectively and comprise 36 percent and 0.3 percent of total VAT receipts.²⁶ A pre 1991 super-reduced VAT rate of 4.8 percent is a historic exemption which applies to livestock registered by farmers, while a pre-1991 zero percent VAT rate accounts for around 10 percent of goods and services purchased.²⁷

It is important to note, while Ireland's Standard VAT Rate is the joint fourth highest in the EU, it is the only country which applies a zero percent VAT to certain goods under its derogation, including food, books and children's shoes.²⁸ Yet the VAT applied to goods and services can change depending

²⁰ Council of the European Union, [Council Directive 2006/112/EC on the Common Systems of Value Added Tax Ch 4, Article 110](#) (2006).

²¹ Department of Finance, [Selected VAT Issues: Tax Strategy Group – TSG 16/04](#) (2016) pg. 2.

²² Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) pg. 4.

²³ Revenue Commissioners, [Budget 2024 Revenue Ready Reckoner](#) (August 2023) pg.27.

²⁴ Revenue Commissioners, ['Historical VAT Rates'](#) (Accessed 21 Sept. 2023).

²⁵ This assumes that sectors which temporarily availed of the 9 percent rate will retain the 13.5 percent rate of VAT from the 1st September 2023 and the 1st November 2023.

²⁶ Revenue Commissioners, [Budget 2024 Revenue Ready Reckoner](#) (August 2023) pg.27.

²⁷ Ibid.

²⁸ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) p.78.

on policy decisions and may occur during the budgetary estimates process. Certain areas, such as the hospitality, tourism and energy sectors are recent examples where the VAT applied was temporarily reduced.

Table 1: Ireland's VAT Rates

VAT Type	Rate (%)	Details
Standard Rate	23%	Applies to all goods and services that do not fall into reduced rates, including alcohol, petrol, tobacco, diesel, cars, hardware.
Reduced Rate	13.5%	Includes home heating oil and solid fuels, construction, housing, labour intensive services and general repairs and maintenance. Hospitality and tourism, including hotel and holiday accommodation, restaurants, and entertainment services fall under this category since September 2023.
Reduced Rate	9%	Includes newspapers and sporting facilities. Some sectors operate provisionally under this rate ²⁹ including Gas and electricity (until 31 October 2023).
Flat Rate Refund	5%	Applied for farmers who are not registered or required to register, compensating flat-rate farmers for VAT they incur on farming costs without having to register.
Super-Reduced rate	4.8%	Applied specifically for agriculture on livestock by registered farmers.
Zero Rate	0%	Applied for most food items, books, children's clothes and shoes, oral medicines and installation of solar panels on private dwellings.
Exempted VAT	NA	Transport services, supply of water, provision of education, financial services, medical services and charity services.

Source: Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023). and [Revenue website on VAT rates database](#). The Revenue website has a database for further consultation on which VAT corresponds to a certain activity. Revenue Commissioners, March 2023.

The rationale behind reducing VAT on specific goods and services is to lower the final cost for consumers, make goods more accessible and help stimulate demand.³⁰ However, temporary reductions in VAT can be challenging, as businesses may not pass on the cost of the reduced level of taxation. This means using VAT as a policy mechanism to stimulate demand can create difficulties due to the uncertainty whether reductions to VAT are ultimately passed on to consumers. The Commission on Taxation and Welfare noted that for this reason, reducing VAT should not be used as counter cyclical measure to support the economy, and instead goods currently on 9 percent VAT should increase over time to 13.5 percent.³¹

²⁹ Revenue Commissioners, '[What are VAT rates?](#)' (2023).

³⁰ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022).

³¹ Ibid. pg. xxv.

2.2. Timeline of Hospitality and Tourism VAT Changes

Following the 2008 Irish financial crisis and EU-IMF bailout programme, the Irish economy entered a severe economic recession, that resulted in cutbacks to public spending, significantly reduced tax revenue and increasing unemployment. In an attempt to stimulate consumer demand, generate employment and boost consumer confidence, the Government announced the Jobs Initiative in 2011.

The initiative identified that hospitality and tourism was very labour intensive but had the potential to generate significant economic returns for the Exchequer. In response the Government introduced a new targeted measure in 2011 involving a “new temporary second reduced rate of VAT at 9 percent.”³² The purpose was to reduce the cost of goods and services in the hospitality sector, boost tourism, and stimulate employment in the sector. The new reduced VAT rate was to “apply mainly to restaurant and catering services, hotel and holiday accommodation and various entertainment services such as admissions to cinemas, theatres, museums, fairgrounds, amusement parks and sporting facilities. In addition, hairdressing and printed matter such as brochures, maps, programmes and newspapers will also be charged at the new rate.”³³

Initially, this VAT measure was time bound and only intended to operate for 30 months, between July 2011 and end 2013. It was estimated to cost €120 million in 2011, and €350 million for 2012 and 2013,³⁴ a total of €480 million. However, the reduced 9 percent VAT was retained in subsequent budgets from 2013 and 2018.³⁵ Yet, in 2013 a review by the Dept Finance found inconclusive evidence the reduction in VAT was passed onto consumers or generated additional employment in the sector.³⁶

In 2018, a subsequent review by the Dept Finance estimated the 9 percent VAT for the hospitality and tourism sector was estimated to have cost the Exchequer over €2.6 billion in tax forgone since its introduction.³⁷ While reimposing the 13.5 percent VAT to the sector would generate over €520 million in 2018 alone.³⁸ The report concluded spending on hospitality and tourism is more responsive to changes in income and economic cycles than changes to price or VAT, given it is discretionary spending.³⁹ It suggested increasing hospitality and tourism VAT would not impact

³² Department of Finance, *Jobs Initiative* (May 2011) p.8.

³³ Ibid. p.8.

³⁴ Ibid. p.8.

³⁵ Department of Finance, *Review of the 9% VAT Rate - Analysis of Economic and Sectoral Developments* (2018) p.1.

³⁶ Ibid. p.18.

³⁷ Ibid. p.35.

³⁸ Ibid. p.2.

³⁹ Ibid. pg. 5.

consumption, resulting in Budget 2019 reimposing 13.5 percent VAT on the tourism and hospitality sector. This measure was estimated to raise €466 million for the Exchequer in 2019 and €560 million for a full year.⁴⁰

In 2020, following the outbreak of the Covid-19 pandemic, a range of urgent public health measures were implemented to limit the spread of the virus between people. Given the customer facing nature of the hospitality and tourism sector, it was one of the most vulnerable sectors to be impacted by the public health measures. It was estimated that revenue from the sector fell by €5 billion between 2019 and 2020, while employment was expected to fall by up to 200,000 in 2020.⁴¹

In response to the sector's challenges, in 2020 the Government established a dedicated Tourism Recovery Taskforce (TRT) comprising representatives from the tourism and hospitality sector to develop recommendations to aid the sector. The TRT's recommendations included reintroducing the 9 percent VAT for the hospitality and tourism sector with immediate effect.⁴² As in 2011, the rationale with reimposing the lower rate of VAT for the hospitality and tourism sector was to reduce consumer prices, stimulate demand and promote competitiveness of the sector internationally. In addition to this measure, the hospitality and tourism sector received a range of other Government support measures which included:

- The Employment Wage Subsidy Scheme
- The Covid Restrictions Support Scheme
- Covid-19 Pandemic Unemployment Payment
- Covid-19 Business Loans
- Covid-19 Credit Guarantee Scheme
- Trading Online Voucher Scheme
- Business Financial Planning Grant
- Waiving of Local Authority rates
- Waiving licence fees for street furniture for hotels, restaurants, pubs etc.

⁴⁰ Department of Finance, [Budget 2019: Tax Policy Changes](#) (2018) pg. 5.

⁴¹ Department of Enterprise, Trade and Employment, [Focus on Tourism and Hospitality](#) (2020) pg. 4.

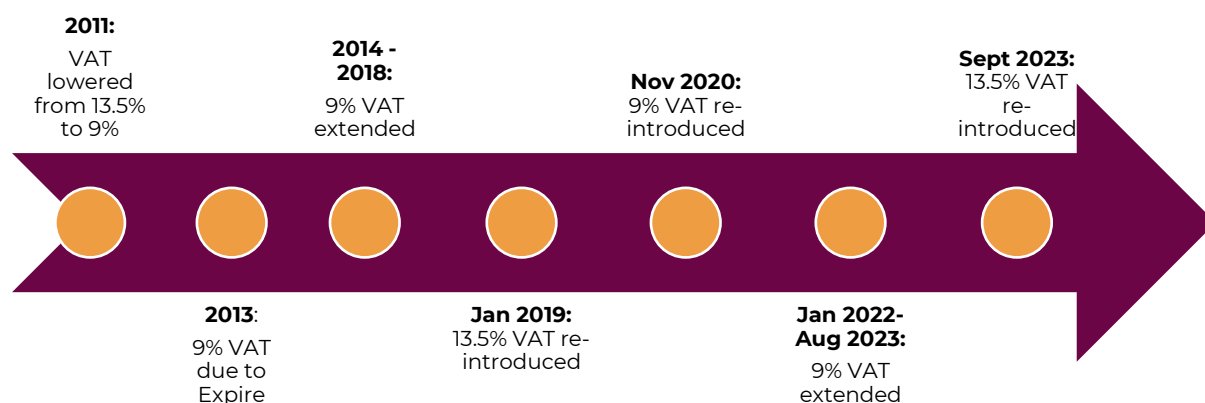
⁴² Tourism Recovery Taskforce, [Tourism Recovery Plan 2020-2023](#) (2020) pg.10.

2.3. Present Situation

Following the TRT's recommendation, in 2020 the Government announced a temporary reduction in VAT for the hospitality and tourism sector from 13.5 percent to 9 percent, from 1st November 2020 to end December 2021. This reduction was estimated to cost €400 million.⁴³ In 2021 the temporary reduction was extended to end August 2022, at an estimated cost of €250 million. In 2022, the reduction rate was extended again until end February 2023 at an estimated cost of €250 million.⁴⁴ Finally, in 2023 the reduced VAT was again extended until end August 2023, at an estimated cost of €300 million.⁴⁵ From September 2023, VAT on the hospitality and tourism sector was reinstated at 13.5 percent, the first time since 2020. Figure 1 presents the timeline from 2011 to 2023 of changes to VAT relating specifically to the hospitality and tourism sector.

Over the last decade, from July 2011 to August 2023, the 9 percent VAT applied to the hospitality and tourism sector has been in place for a total of 124 months. While in contrast, the 13.5 percent rate has only been in place for 22 months between January 2019 and November 2020. The reduction in VAT is estimated to cost over €3.6 billion since 2011, comprising €2.6 billion from 2011 to 2018, and €1.2 billion from November 2020 to August 2023.⁴⁶

Figure 1: Timeline of VAT Changes 2011 to 2023



⁴³ Department of Finance, [Budget 2021: Tax Policy Changes](#) (2020) pg. 5.

⁴⁴ Seanad Éireann, '[VAT Rate for Tourism and Hospitality Sectors: Statements](#)' (October 2022).

⁴⁵ Dáil Éireann, '[Tax Code](#)' (March 2023).

⁴⁶ Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) p.9.

3. Hospitality and Tourism in Ireland

Hospitality and tourism are Ireland's largest domestic sectors,⁴⁷ which are highly labour-intensive, employing a substantial number of workers across all regions in a variety of businesses. As the sector is dispersed across the State, it also generates indirect spin off benefits to other sectors of the economy, including transport, agricultural produce, and retail.

This section provides an overview of employment in the hospitality and tourism sector, outlines the challenges the sector faced due to the Covid-19 pandemic, and outlines some of the concerns which have been raised by the sector.

3.1. Employment

In 2022, it was estimated there were around 250,000 workers and 20,000 businesses in the hospitality and tourism sector.⁴⁸ However, this is down slightly from the estimated 265,000 workers in the sector in 2019.⁴⁹ This suggests while the sector may not have fully recovered since the pandemic, it is currently employing around 94.3 percent of the total number of workers as it did pre-pandemic.

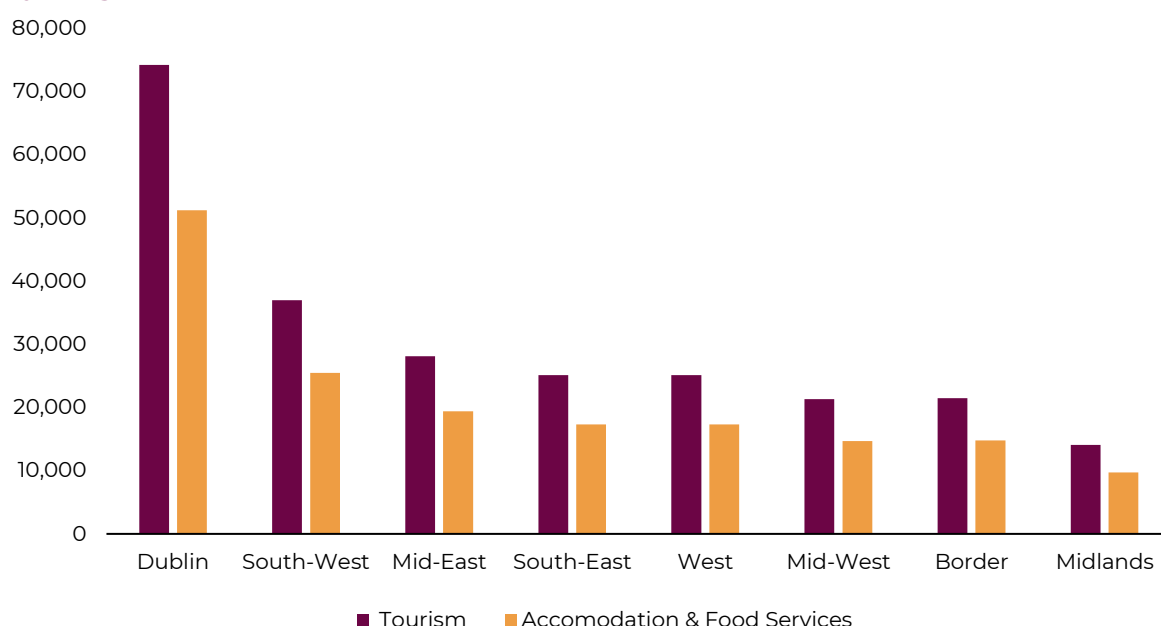
Figure 2 presents CSO and Irish Tourism Confederation data on employment for both the tourism sector and accommodation and food services activities in Irish regions for Q3 2022. In total, the data suggests there are 246,000 employed in the tourism sector, and 170,000 employed in the hospitality and food services sector. Overall, hospitality and tourism employment is largely concentrated in Dublin, with over 125,000 workers, followed by the South-West (63,000), Mid-East (48,000) and South-East (42,000). As a result, this demonstrates Dublin accounts for the single largest portion of the State's hospitality and tourism employment, comprising over 30 percent of workers. Compared to 15 percent in the South-West, 11 percent in the Mid-East, 9 percent in both the Mid-West and Border region, and 6 percent in the Midlands. From this, it is evident the eastern regions of Ireland comprise over half (52 percent) of all workers in the State employed in hospitality and tourism.

⁴⁷ Tourism Recovery Taskforce, [Tourism Recovery Plan 2020-2023](#) (2020) pg. 13.

⁴⁸ Joint Committee on Tourism, Culture, Arts, Sport and Media, [Developing Rural Tourism: Discussion](#) (May 2023).

⁴⁹ Irish Tourism Industry Confederation (ITIC), [Year End Review 2019 & Outlook for 2020](#) (2019).

Figure 2: Accommodation and Food Services and Tourism Employment by Region (Q3 2022)



Source: Central Statistics Office (CSO) and [The Economic Rationale for Extending the 9% VAT Rate Beyond 28th February 2023](#), Irish Tourism Industry Confederation, 2023.

Figure 3 provides a comparison of Accommodation and Food Service employment for regions between Q2 2019 and Q2 2023, during the busy summer period for Irish tourism. Again, this shows Dublin accounts for the largest number of workers employed in the sector in both years. This is followed by the South-West, Mid-East, and Border regions. Between 2019 and 2023, the areas which experienced the largest reductions in workers employed included the Border (18 percent), Midlands (17 percent) and Dublin (14 percent). However, during this time other regions increased the number of workers employed in accommodation and food services. This includes the West (1 percent), Mid-East (8 percent) and South-East (27 percent).

This suggests that in the accommodation and food sector, employment increased in some regions while simultaneously decreasing in others. This potentially reflects other ongoing factors such as the housing crisis or cost of living. Yet according to the CSO, between 2019 and 2023 the overall reduction in workers in the accommodation and food services sector was 4,300 workers, or 2.4 percent.

Figure 3: Employment in Accommodation and Food Services by Region, 2019 and 2023

Source: CSO Labour Force Quarterly Survey 2019 and 2022, <https://data.cso.ie/table/QLF07>.

3.2. Impact of COVID-19

In 2020, the global pandemic presented many significant challenges for the wider hospitality and tourism sector. As with many other sectors of the economy, these challenges included adhering to public health restrictions, job losses in the sector, additional expenses to re-open business (compliant under health measures) and temporary or permanent closures due to lack of footfall.⁵⁰

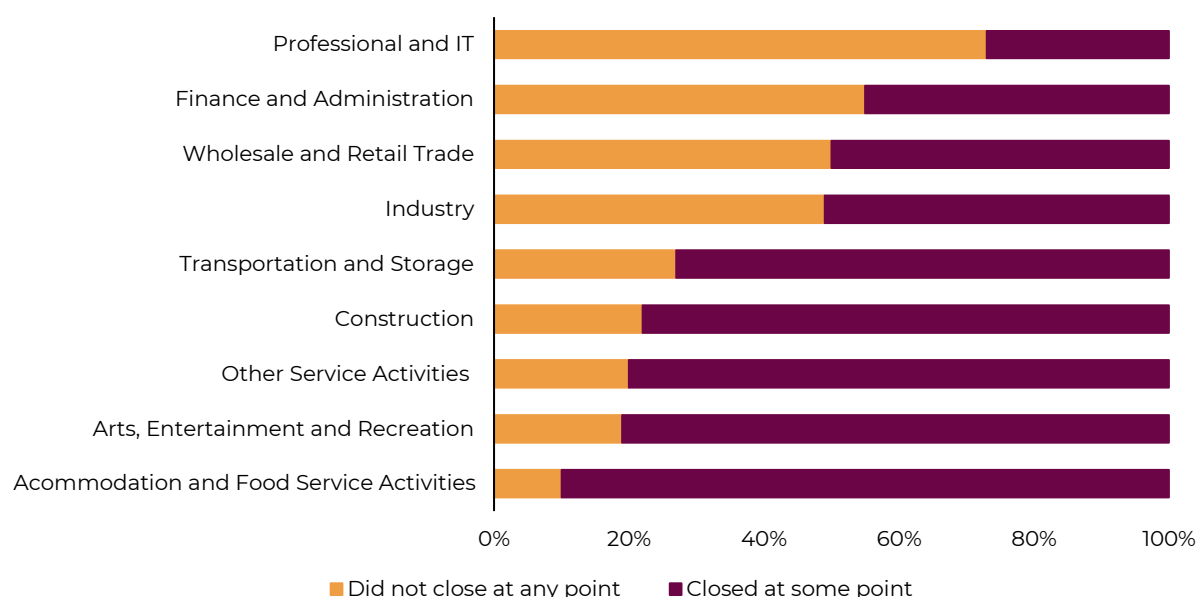
Figure 4 shows the percentage of businesses, by sector, affected by closure at some stage during 2020. No industry was unaffected by closures during the pandemic, however certain sectors which could avail of remote working, such as IT or Finance, experiencing closure rates of up to 27 and 45 percent respectively. However, the Accommodation and Food was most heavily impacted by closures, with almost 90 percent of firms closing at some point in 2020. While tourism related businesses, under Arts, Entertainment and Recreation experienced an 81 percent closure rate. This shows how the pandemic had a disproportionate impact on the Hospitality and tourism sector, compared to other industries. Two thirds of businesses in the Services sector identified Government restrictions as their reason for closure, while one third identified reduced demand.⁵¹ Yet, as noted in Section 2.2., a wide range of Government supports and initiatives were provided to compensate for closures, and offset the

⁵⁰ Joint Committee on Tourism, Culture, Arts, Sport and Media, *Report on the impact of covid-19 on the Hospitality and Entertainment sectors* (2021).

⁵¹ CSO, '*Business Impact of COVID-19 on SMEs 2020: Business Closures*' (2021).

financial impacts, including warehousing debts, wage subsidy schemes, and waving of local authority rates for businesses.

Figure 4: Closure status of businesses by sector in 2020



Source: [Closure status of businesses by sector in 2020](#), Central Statistics Office (CSO).

As a result of these sectoral closures, it was estimated around 180,000 workers in the tourism sector either lost their job or were at risk of losing their job in 2020.⁵² This disproportionately impacted younger workers, as almost 50 percent of those employed in tourism were under the age of 35, compared to 33 percent across the general workforce.⁵³ While as a result of the pandemic, the revenue raised by the sector was projected to fall from an estimated €9 billion in 2019⁵⁴ to €5 billion by 2020.⁵⁵ This shows the range of social and economic consequences which occurred as a result of the closure of the hospitality and tourism sector during the pandemic.

3.3. Sectoral Concerns

Following the pandemic, the hospitality and tourism sector outlined several issues regarded as key challenges, which pressured businesses into increasing prices to protect profit margins.⁵⁶ The sector has called for the permanent reintroduction of 9 percent VAT to alleviate these pressures and assist the consumer, as increasing VAT to 13.5 percent would not be possible to absorb by the business.⁵⁷ The issues identified to justify reduced

⁵² Tourism Recovery Taskforce, [Tourism Recovery Plan 2020-2023](#) (2020) pg. 13.

⁵³ Ibid. pg. 19.

⁵⁴ Ibid. pg. 41.

⁵⁵ Department of Enterprise, Trade and Employment, [Focus on Tourism and Hospitality](#) (2020).

⁵⁶ Irish Tourism Industry Confederation, [The Economic Rationale for Extending the 9% VAT Rate Beyond 28th February 2023](#) (2022) pg. 3.

⁵⁷ Ibid. pg. 16.

VAT include, high energy costs, softening demand, labour market challenges, increased cost of inputs and lack of hotel capacity.⁵⁸

Impact of Covid-19

The sector has argued, while there was a strong rebound in activity as restrictions were eased, the sector is still struggling to fully recover following the Covid-19 pandemic during 2020 and 2021.⁵⁹ These challenges include permanent closures of businesses in the industry, increasing operating costs and issues with recruitment and retention of staff in the sector, which is argued has had “very damaging regional impacts”⁶⁰ on rural towns and regions reliant on tourism. While due to increased costs, there is pressure on businesses to increase prices to survive. Yet a business survey noted 53 percent reported “substantially higher” visitor numbers in 2023 compared to 2022, while 81 percent of hotels said average room yield had increased or remained the same,⁶¹ while 61 percent reported increased or the same level of profitability in 2023 compared to 2022.⁶²

Increased Cost of Inputs

The increased cost of living following the Russian invasion of Ukraine increased the cost of inputs, such as energy and other raw materials for the sector. This has resulted in challenges for hospitality and tourism due to volatility in the energy markets and sharp cost increases for all businesses and households.⁶³ This followed EU sanctions on Russia, which provided 23 percent of crude oil and 43 percent of coal imports to the EU in 2020.⁶⁴ Sanctions also impacted other inputs, such as food supplies. Together, these increases in the cost of inputs would affect the hospitality and tourism resulting in price increases to remain cost neutral.

However, in August 2023 the Consumer Price Index (CPI) increased by 6.3% compared to the year before, indicating increases to the average price of goods and services. Price increases in the hospitality and tourism sector rose at a faster rate than the CPI. This includes Restaurants and Hotels (7.3 percent) and Food and Non-Alcoholic Beverages (8.2 percent).⁶⁵ The Dept. Finance and Commission on Taxation⁶⁶⁻⁶⁷ noted consumer spending on

⁵⁸ Ibid. pg. 3.

⁵⁹ Irish Tourism Industry Confederation, [The Economic Rationale for Extending the 9% VAT Rate Beyond 28th February 2023](#) (2022) pg. 3.

⁶⁰ Ibid. pg. 9.

⁶¹ Fáilte Ireland, [Tourism Barometer - Strategic Research and Insight](#) (2023) pg. 16.

⁶² Ibid.

⁶³ European Central Bank, [The impact of the war in Ukraine on euro area energy markets](#) (2022).

⁶⁴ Ibid.

⁶⁵ CSO, [Consumer Price Index August 2023](#) (2023).

⁶⁶ Department of Finance, [Review of the 9% VAT Rate - Analysis of Economic and Sectoral Developments](#) (2018).

⁶⁷ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022).

hospitality and tourism is discretionary and depends on income levels rather than the price of goods. As consumer income has fallen due to the cost-of-living crisis, this reduces demand for spending on the sector.

Labour Market Challenges

The sector outlined the current strength of the labour market has posed challenges for hospitality and tourism, due to increased operating costs from paying higher wages. The Irish Fiscal Advisory Council (IFAC) outlined the current labour market is operating above normal capacity with an exceptionally tight labour market⁶⁸ impacting all sectors and industries. The PBO identified that hospitality and construction sectors were the worst impacted by Covid-19, with over 46,800 workers leaving the accommodation industry since businesses reopened post- pandemic.⁶⁹ However, it is important to note these labour shortages are not unique to one sector of the economy, with many industries experiencing shortages. Labour intensive industries, such as the hospitality and tourism sector, are therefore more likely to be adversely impacted by labour shortages and its associated knock on impacts.

Accommodation Shortage due to Ukraine War

The war in Ukraine was highlighted as posing challenges given the State's reliance on the sector to provide temporary accommodation to both Ukrainian refugees and asylum seekers.⁷⁰ The sector outlined the reliance has reduced availability of accommodation for tourism purposes and leading to increased prices for remaining accommodation.⁷¹ The sector argues this shortage, particularly outside Dublin, directly affects other tourism related activity providers, such as visitor attractions, and resulted in an expected €1 billion loss in revenue in 2023.⁷² Furthermore, it is argued the shortage from accommodating Ukrainian refugees and asylum seekers is also reducing job vacancies in rural area which are heavily dependent on tourism and hospitality to provide jobs.⁷³ However, it is important to note any tourism accommodation housing refugees was provided voluntarily and are compensated by the State in return.

⁶⁸ Irish Fiscal Advisory Council, [Fiscal Assessment Report](#) (June 2023) pg. 5.

⁶⁹ An insight into the labour market from 2019-2022. Parliamentary Budget Office (PBO), 2023.

⁷⁰ Irish Tourism Industry Confederation, [Irish Tourism: Impact of Ukraine Conflict](#) (2022).

⁷¹ Ibid.

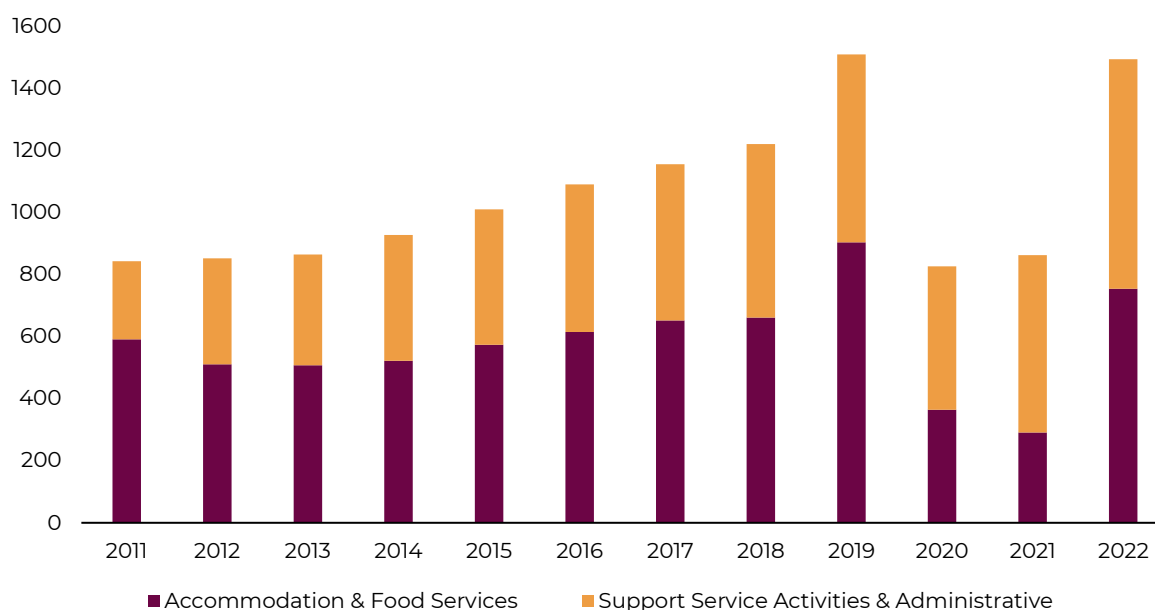
⁷² [Challenges Facing Providers of Tourist Accommodation in Ireland: Discussion](#). Joint Committee on Tourism, Culture, Arts, Sport and Media, March 2023.

⁷³ Irish Tourism Industry Confederation, [Irish Tourism: Impact of Ukraine Conflict](#) (2022).

4. Trends in VAT Revenue

The income generated by VAT on hospitality and tourism has fluctuated over time, in line with economic cycles. Increasing during good times and falling during downturns, yet since 2011 the income from VAT has been increasing annually. Figure 5 shows that VAT from the accommodation and food sector was generally higher than tourism related businesses, classified under the support service activities, with the only exceptions being 2020 and 2021, during the Covid-19 pandemic.

Figure 5: Hospitality and Tourism VAT receipts 2011 to 2022



Source: [Revenue net receipts per sector](#). Revenue Commissioners, 2023.

Note: Figures measured in millions. Support Service Activities and Administrative includes Tourism related activities.

In 2011 when the VAT applied to hospitality and tourism was first set at 9 percent, it generated around €0.84 billion for the Exchequer. Income from VAT increased slowly over the following years as the economic recession abated, and between 2012 and 2018, VAT on the hospitality and tourism is estimated to have generated an average of €1.02 billion annually.

In Budget 2019, the VAT rate was increased to 13.5 percent, which generated an estimated income of €1.5 billion to the Exchequer. Following the onset of the Covid-19 pandemic in 2020, VAT returns from the sector collapsed, with only €0.86 billion generated by 2021. After the reopening of all economic sectors in 2022, income from VAT rebounded strongly to €1.49 billion, the second highest level over the last decade.

As part of Budget 2024, Revenue estimated that retaining the 9 percent VAT for the hospitality sector⁷⁴ alone would cost the Exchequer €0.765 billion.⁷⁵ While the Department of Finance estimated the total cost in 2024 of extending the reduced VAT to all sectors is estimated at €0.789 billion (Table 2).

Table 2: Estimated Cost (€m) of Retaining Reduced VAT for Hospitality and Tourism

Sector	Jan-Feb 2024	Mar-Apr 2024	May-June 2024	Jul-Aug 2024	Sep-Oct 2024	Nov-Dec 2024	Total Cost
Accommodation Only	20.9	22.2	27.3	33.4	30.3	25.4	159.5
Food & Catering Services Only	83.7	92.8	97.9	97.9	96.2	100.8	569.3
All Entertainment	4.0	4.0	4.0	4.0	4.0	4.0	24.0
Hairdressing Services	6.0	6.0	6.0	6.0	6.0	6.0	36.0
Total Cost per VAT Period	114.6	125.0	135.2	141.3	136.5	136.2	788.8
Total Cumulative Cost	114.6	239.6	374.8	516.1	652.6	788.8	788.8

Source: Department of Finance

Note: Figures are measured in millions of euros. Figures for November/ December 2024 would be assigned to January/February 2025, as VAT is collected in the following VAT period. 'Entertainment' includes a range of areas, but the largest factors include cinemas and theatres, as well as museums, fairgrounds, amusement parks and sporting facilities.⁷⁶

⁷⁴ This comprises accommodation, catering, hairdressing, cinemas and theatres.

⁷⁵ Revenue Commissioners, [Revenue Ready Reckoner – Pre Budget 2024](#), August 2023, pg. 28.

⁷⁶ Department of Finance, [Jobs Initiative](#) (May 2011) p.8.

5. Current Discussion

The Government introduced the 9 percent VAT as a time bound measure in 2011 and again in 2020. Throughout much of the last decade, this measure has been extended, such as during the pandemic to allow businesses a transition period and to avoid adding pressure on the sector while inflation was high.⁷⁷ As Ireland's economic circumstances have evolved substantially since 2011 and the height of the pandemic, it is appropriate to consider the applicability of reduced VAT to the sector⁷⁸ in the context of Budget 2024. While hospitality and tourism returned to the 13.5 percent rate in September 2023,⁷⁹ there has been considerable discussion on the rate of VAT which should be applied to the sector.

This section examines some of the key areas surrounding the rationale for and against reducing VAT, including price reduction, need to broaden the tax base and alternative methods to tax the sector if VAT is reduced.

5.1. Price Reduction

The Commission on Taxation and Welfare outlined the economic theory for reducing VAT is that it is a quick solution for an economic downturn, but which is not recommended as a short-term measure.⁸⁰ In addition, the theory states by reducing taxes on goods and services, the reductions are passed onto consumers automatically in the form of price reductions to help stimulate demand. While VAT on the sector reduced, it is questionable whether reduced prices or increased demand were achieved.

As noted by the Commission on Taxation and Dept. Finance in recent years, there is limited evidence VAT achieves price reductions for consumers and is instead used to protect profit margins of businesses.⁸¹ This is supported by international literature which examined who benefited from reductions in taxes such as VAT.⁸² Where the prices of discretionary items, such as hospitality and tourism, are reduced, such as from VAT reductions, the evidence suggests this is a regressive measure, with lower income households paying a higher percentage of household income relative to higher income households.⁸³

⁷⁷ [Tax Code Debate](#), Dáil Éireann, July 2023.

⁷⁸ Department of Finance, [Review of the 9% VAT Rate - Analysis of Economic and Sectoral Developments](#) (2018) pg. 1.

⁷⁹ [Tax Code Debate](#), Dáil Éireann, July 2023.

⁸⁰ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) pg. 110.

⁸¹ Ibid. pg. 109.

⁸² Benzarti, Youssef & Carloni, Dorian. (2019) Who Really Benefits from Consumption Tax Cuts? Evidence from a Large VAT Reform in France. *American Economic Journal: Economic Policy*. 11.

⁸³ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) pg. 110.

5.2. Broadening the Tax Base

Changes to VAT are important to consider in the context of ensuring the State has a broad tax base, and to reduce overreliance on limited income sources, such as Corporation Tax and Income Tax. In 2021, these two sources alone accounted for 62 percent of Exchequer income.⁸⁴ The Commission on Taxation and international bodies, such as the OECD, also identified Ireland's need to broaden the tax base, which may involve reforming Ireland's VAT rates,^{85,86} which accounted for 23 percent of the State's income in 2021.

The Commission recommended the Exchequer should broaden the tax base by narrowing the scope of sectors availing of the reduced VAT rates, such as the 9 percent VAT. It also identified gradually increasing the 9 percent VAT to 13.5 percent and increasing the 13.5 percent of VAT over time.⁸⁷ This would stabilise Exchequer revenue raised from VAT, and see sectors like hospitality and tourism subject to 13.5 percent VAT. This was recommended on the basis Ireland uses the reduced and zero rates more than any other EU Member State, which offers the potential to generate revenue if reduced rates were increased or applied to fewer sectors.⁸⁸ However, the Commission on Taxation caveated that, depending on the good or service, simply increasing the reduced rate of VAT will not deliver a progressive distributional pattern, as lower income households may still require compensation.⁸⁹

Currently Ireland applies a zero percent VAT rate to the maximum number of permitted categories, and a reduced rate to 19 out of 24 of permitted categories.⁹⁰ The Dept Finance noted that by retaining widespread lower rates of VAT for sectors, this limits the scope to provide further targeted interventions to alleviate ongoing cost of living issues.⁹¹

5.3. Alternative Taxation Proposals

There were calls to apply VAT differently across the country in hospitality and tourism sector,⁹² with the rationale to create a better regional balance, by decoupling the VAT applied between rural areas and the capital.⁹³ This was proposed on the basis hospitality and tourism in Dublin may charge higher prices based on their proximity to external events, such as festivals,

⁸⁴ Parliamentary Budget Office, [Pre-Budget 2023 PBO Commentary](#), 2022, pg. 7.

⁸⁵ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) p.108.

⁸⁶ OECD Economic Surveys, [Ireland 2018](#).

⁸⁷ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) p.108.

⁸⁸ Ibid. p.7.

⁸⁹ Ibid. p.108.

⁹⁰ Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) p.3.

⁹¹ Ibid. p.10.

⁹² [Tax Code Debate](#), Dáil Éireann, January 2023.

⁹³ [VAT Rate for Tourism and Hospitality Sectors: Statements](#), Seanad Éireann, October 2022.

international concerts, and sporting events, which rural businesses would be unable to avail of.⁹⁴ While, the industry states, decoupling VAT would account for hospitality and tourism in Dublin having better access to a wider pool of workers compared to businesses in rural regions. There have also been calls from the sector to separate the VAT applied between hospitality and accommodation, compared to restaurants over the medium to longer term.⁹⁵

Should VAT on the sector be reduced again at some stage in the future, the Commission on Taxation and other EU countries offer alternative taxation methods for the hospitality and tourism industry to raise Exchequer income to fund public services. The focus on taxing this sector specifically is due to the additional pressure on public services and infrastructure which tourism generates.⁹⁶

Some countries apply an 'Occupancy Tax', placed on short term stays in paid accommodation through a charge per person or per night⁹⁷ and in addition to VAT. The rationale is to ensure tourists contribute to ongoing maintenance and provision of infrastructure and services, such as electricity, waste and water services and public transport, which they benefit from in the form of a 'user pays principle'. Currently, 18 EU member states apply this tax, including Portugal, France and Spain, while Ireland is one of 9 EU states who does not apply this levy. This alternative levy for hospitality and tourism ranges from an average €0.40 to €2.50 per night across EU states, up to the highest charge of €7.50 per night in Belgium.⁹⁸

6. Distributional Impact of VAT Changes

Consumption taxes, such as VAT on goods and services, are noted to be regressive taxes, as they have disproportionate impacts on lower income socio-economic groups.⁹⁹ This occurs because lower income households have higher expenditure patterns relative to household income than more affluent households.¹⁰⁰ As a result, increasing taxes such as VAT can negatively impact poorer households, but this depends on the goods consumed. In recent years, certain VAT reductions¹⁰¹ were on discretionary

⁹⁴ [Challenges Facing Providers of Tourist Accommodation in Ireland: Discussion](#). Joint Committee on Tourism, Culture, Arts, Sports and Media, March 2023.

⁹⁵ Irish Independent, [Government considering splitting VAT rates for hotels and restaurants in 'medium to long term' | Independent.ie](#) (2023).

⁹⁶ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022), pg. 111.

⁹⁷ European Commission, [Tourism-related taxes across the EU](#).

⁹⁸ Ibid.

⁹⁹ Department of Finance, [Review of the 9% VAT Rate - Analysis of Economic and Sectoral Developments](#) (2018) pg. 30.

¹⁰⁰ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) p.87.

¹⁰¹ Other VAT reductions include on solar panels, newspapers, and gas and electricity.

areas, such as leisure, tourism and hospitality, where there is a strong relationship between expenditure levels and disposable income available.¹⁰² This means as income increases, households will consume more of these goods, and vice versa.

While reducing VAT has the advantage of being a 'shovel ready' measure that is quick and easy to implement, in 2012 and 2023 it was identified the reduction was not always be passed on to customers, and instead can be used by to support businesses profit margins.¹⁰³⁻¹⁰⁴ As the rationale for VAT reduction is to reduce prices, by not reducing prices it disproportionately impacts poorer households by requiring them to pay higher proportion of their income for consumption. In 2023, the Department of Finance noted reduced VAT "is both regressive and very costly, and that this cost represents a transfer from the taxpayer to the sectors which it covers."¹⁰⁵

For the hospitality and tourism sector, the Department of Finance identified that when VAT was reduced, the first- and second-income quintiles (i.e. the poorest 40 percent of households cumulatively) experienced negative or zero change to their expenditure, while quintiles three to five (i.e. richest 60 percent of households) increased expenditure, with the largest increase amongst the highest quintile.¹⁰⁶ This suggested reducing VAT to 9 percent on discretionary areas such as hospitality, was highly regressive and benefited the highest income households more than lower income households.¹⁰⁷

Figure 6 shows the impact of increasing VAT on the hospitality and tourism sector from 9 percent to 13.5 percent across household income decile. These estimates are derived from the PBO's internal indirect tax model, which uses data from the Household Budget Survey 2015-2016,¹⁰⁸ to model the incidence of indirect taxes. In the exercise, we assume households do not change their expenditure patterns in response to a change in the VAT rise. The Household Budget Survey is a survey of private Irish households and as a result, will not capture the share of expenditure accruing from international tourism. We model the VAT increase as applied to the following expenditure items:

¹⁰² G.I. Crouch, H. Oppewal, T. Huybers, S. Dolnicar, J.J. Louviere, and T. Devinney (2007). "Discretionary Expenditure and Tourism Expenditure: Insights from a Choice Experiment." *Journal of Travel Research*, Vol. 45(3), pp. 247-258.

¹⁰³ The Commission on Taxation and Welfare, *Foundations for the Future* (2022), pg. 109.

¹⁰⁴ Department of Finance, *Selected VAT Issues. Tax Strategic Group (TSG)*, 2012, pg. 4.

¹⁰⁵ Department of Finance, *Value Added Tax: Tax Strategy Group - 23/08* (July 2023) pg. 9.

¹⁰⁶ Department of Finance, *Review of the 9% VAT Rate - Analysis of Economic and Sectoral Developments* (2018) p.30.

¹⁰⁷ Ibid.

¹⁰⁸ An uprating procedure adjusts household income, real consumption, and consumer prices to be in 2023 levels.

- Take-away food,
- Meals eaten away from the home e.g., restaurants,
- Accommodation in the Republic of Ireland,
- Package holidays in the Republic of Ireland,
- Hairdressing services,
- Catering services, and
- Room hire.

Overall, the distributional impacts of increasing VAT on the sector are quite low, with relatively minimal impacts on all households. As noted by the Dept Finance, the VAT increases result in poorer households paying a larger percentage of household income, relative to wealthier households, while in absolute terms, wealthier households pay a higher total amount of money. These results show that by increasing VAT, the poorest income decile will pay an additional 0.25 percent of their monthly income, compared to the richest income decile paying an additional 0.15 percent per month. In absolute terms, the poorest income decile is estimated to pay an additional €2.98 euro extra per month, compared to an additional €16.5 per month for the richest income decile.

Figure 6: Impact of VAT Changes (per month) on Household Income Deciles



Source: PBO's indirect tax model, based on the 2015/2016 Household Budget Survey.

Note: Figures are measured as percentages and spending on a monthly basis. Deciles are based on equivalized household income- with the Irish national equivalence scale applied.

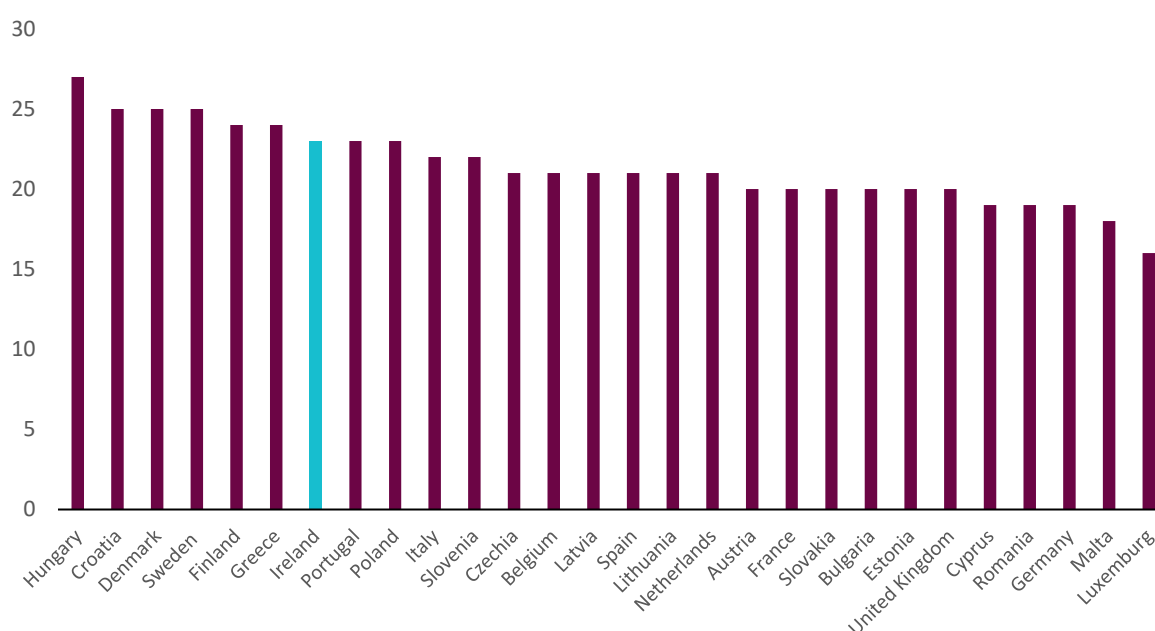
Overall, the PBO estimates by applying the 13.5 percent VAT to the hospitality and tourism sector it will generate an additional €183 million to the State on a full year basis, from Irish households. While by reinstating this rate of VAT for the remainder of 2023, it is estimated to raise around €61 million from Irish households. These results complement the previous literature on the economic and social impacts of changing VAT.

7. International Context

As noted in Section 2, EU member states must set their VAT rates in line with the EU VAT Directive (Table 3). Currently, Ireland's Standard Rate of VAT is 23 percent, the seventh highest in the EU, behind Hungary (27 percent), Croatia, Denmark and Sweden (25 percent), and Finland and Greece (24 percent) (See Figure 7).

Despite Ireland's comparatively high Standard Rate of VAT in the EU, it is important to note Ireland is the only EU country to apply zero percent VAT to a wide range of essential goods and services (e.g., food, water and books)^{109,110} as well as reduced VAT rates to an extensive range of economic activity relative to other EU Member States.¹¹¹ Given Ireland's extensive use of zero and reduced rates for essential goods and services, this necessitates higher VAT elsewhere to compensate for the reductions.

Figure 7: EU and UK Standard Rates of VAT



Source: Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) p.22.

Ireland opted to apply one of its reduced EU VAT rates (13.5 percent) to the hospitality and tourism sector. (Figure 8). While the Department of Finance noted at 13.5 percent "Ireland has the fourth highest reduced VAT rate in Europe,"¹¹² this does not include Denmark which does not apply any

¹⁰⁹ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) pg. 393.

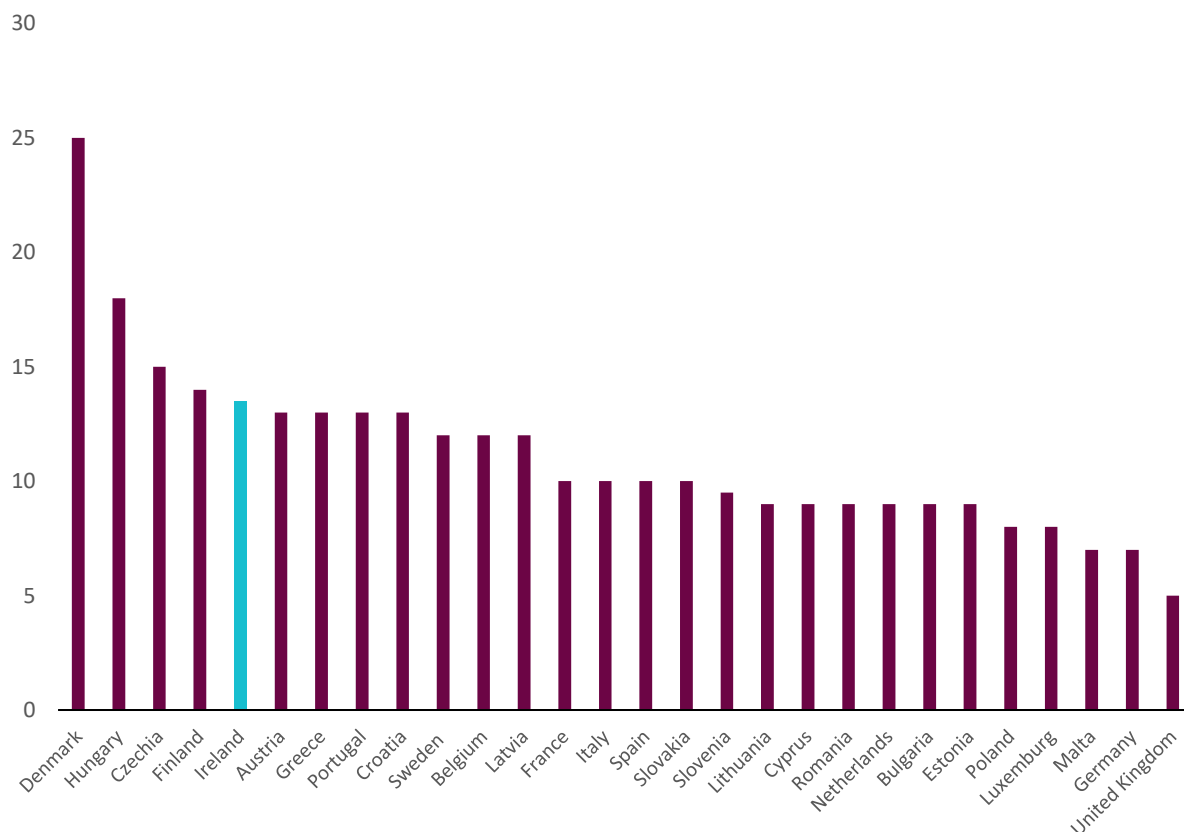
¹¹⁰ Portugal applied a zero percent rate for food as a temporary measure in April 2023 Portugal to extend zero VAT rate on basic food until end 2023 | Reuters.

¹¹¹ The Commission on Taxation and Welfare, [Foundations for the Future](#) (2022) pg.107.

¹¹² Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) pg. 6.

reduced VAT rates, and instead applies a 25 percent Standard Rate of VAT to all goods and services. Other EU states with a higher rate of reduced VAT than Ireland include Hungary (18 percent), Czechia (15 percent) and Finland (14 percent). While Ireland's upper reduced VAT is marginally higher than other EU countries, including Austria, Greece, Portugal and Croatia at 13 percent, and Sweden, Belgium and Latvia at 12 percent.

Figure 8: EU and UK 'Upper' Reduced rate of VAT (%)



Source: Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023).

Note: Denmark does not apply any reduced rate of VAT, and instead applies the Standard rate of 25 percent to all goods and services. Where countries only have one reduced VAT rate and no second reduced rate, they are represented using their singular reduced VAT rate.

Ireland's second reduced rate of VAT is currently 9 percent. During the Covid-19 pandemic, many EU countries, such as Ireland, Austria, Lithuania and Czechia, introduced temporary VAT reductions to support specific economic sectors such as accommodation, restaurants and other tourism activities and stimulate consumption.¹¹³

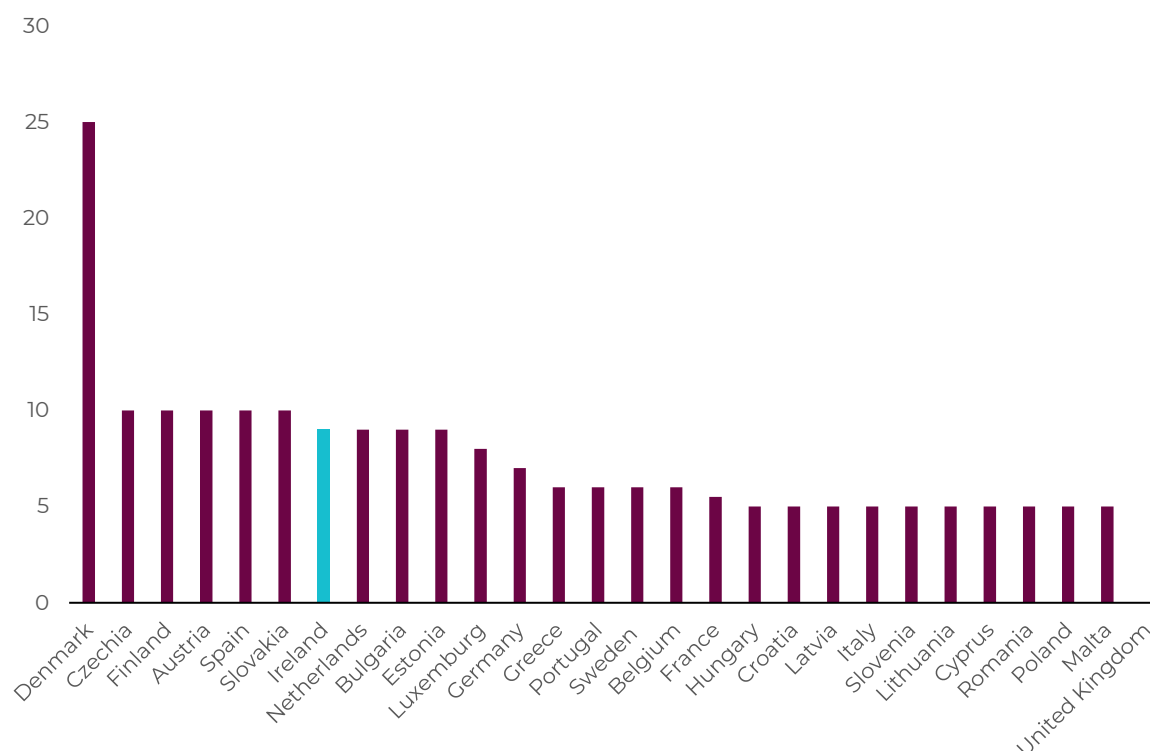
However, not all EU countries apply two reduced rates. Denmark only applies a Standard Rate of VAT (25 percent) to all good and services (including hospitality and tourism), while other countries avail of the one reduced VAT rate. This includes Bulgaria, Estonia, Germany, Luxembourg, Spain, Slovakia, the Netherlands and the UK. This means upper VAT rates

¹¹³ OECD, [Consumption Tax Trends 2022](#), 2022.

levied on certain goods and services, including for hospitality and tourism sectors, can range from 7 percent to 25 percent across the EU.

Excluding Denmark, Ireland's VAT rate of 9 percent is the joint-second highest in Europe, along with three states, and with five EU countries applying a higher VAT of 10 percent. The UK previously applied a reduced VAT of 5 percent to hospitality and tourism, but which was reverted to the Standard Rate of 20 percent in April 2022.¹¹⁴

Figure 9: EU and UK Lower Reduced rate of VAT



Source: Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023).

Note: Denmark does not apply any reduced rate of VAT, and instead applies the Standard rate of 25 percent to all goods and services. Where countries only have one reduced VAT rate and no second reduced rate, they are represented using their singular reduced VAT rate.

¹¹⁴ Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) p.6.

8. Conclusion

Ireland has largely applied a reduced 9 percent VAT to the hospitality and tourism sector since it was introduced as a ‘temporary’ measure in 2011. The rationale behind the reduction was to reduce consumer prices, increase consumer demand and thereby stimulate employment in the sector. After several extensions to the measure, the higher 13.5 percent VAT was briefly introduced between 2019 and 2020, before being subsequently reduced as a temporary Covid-19 business support measure.

Yet the economic circumstances underpinning the VAT reduction have changed significantly following the economic recession and Covid-19 pandemic. Ireland is operating at full employment, above its normal capacity constraints, along with higher than usual rates of inflation. As a result, the Department of Finance, Commission on Taxation, and other international bodies have consistently warned the economic rationale for applying 9 percent VAT to the hospitality and tourism sector is no longer justified. They outlined VAT is inherently regressive, and reducing VAT does not automatically translate into lower prices for lower income households. Instead given the discretionary nature of hospitality and tourism, reductions in VAT benefit higher income households more.

Subsequent reforms to the VAT applied to goods and services must have a robust, economic rationale to justify any changes. Furthermore, while increasing VAT is one method to tax Ireland’s largest indigenous industry, other methods from across the EU, provide alternative methods to generate an income stream from hospitality and tourism to invest in developing and maintaining the State’s infrastructure used by tourists.

While ahead of Budget 2024, it is worth noting that while VAT on hospitality and tourism was increased to 13.5 percent in September 2023, it is estimated, because of the reduction in VAT from 2011 to 2018, and 2020 to 2023, the cost of Exchequer revenue forgone totalled €3.6 billion. The PBO estimates that increasing VAT for the sector will generate an additional €183 million annually from Irish households (excluding international tourism), and €61 million for the remainder of 2023.

Appendices

Table 3: EU and UK VAT Rates 2023

Country	Standard VAT	Reduced VAT (Upper)	Reduced VAT (Lower)
Austria	20	13	10
Belgium	21	12	6
Bulgaria	20	9	-
Croatia	25	13	5
Cyprus	19	9	5
Czechia	21	15	10
Denmark	25	-	-
Estonia	20	9	-
Finland	24	14	10
France	20	10	5.5
Germany	19	7	-
Greece	24	13	6
Hungary	27	18	5
Ireland	23	13.5	9
Italy	22	10	5
Latvia	21	12	5
Lithuania	21	9	5
Luxemburg	17	8	-
Malta	18	7	5
Netherlands	21	9	-
Poland	23	8	5
Portugal	23	13	6
Romania	19	9	5
Slovakia	20	10	-
Slovenia	22	9.5	-
Spain	21	10	-
Sweden	25	12	6
United Kingdom	20	5	-

Source: Department of Finance, [Value Added Tax: Tax Strategy Group - 23/08](#) (July 2023) p.6 and p.22.

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