

# WHY THE REDUCED VAT RATE MUST GO!

We lose millions every year because the highly-profitable Tourism and Hospitality sector pays a low rate of VAT. Here's six reasons why we need to stop subsidising wealthy companies.



## 1. BUSINESS IS BOOMING! THERE IS NO EVIDENCE OF A PROFIT SQUEEZE

The Services Index measures Gross Value Added on sales minus costs, adjusted for inflation. This index shows that 'GVA' increased by over one third in accommodation and 42% in food services relative to mid-2011. Hotel room occupancy rates are up across the sector. Dublin rates are among the highest in Europe, with revenue per available room up 16% year on year.

## 2. THE REDUCED VAT RATE HAS NOT BENEFITED THE CONSUMER

This reduced VAT rate is subsidising companies who continue to increase prices for customers. Since 2013, prices in major sectors effected by the 9% VAT rate have grown faster than overall inflation. Brexit threat does not appear to be forcing businesses in these sectors to lower prices due to competition or reducing profits.

## 3. THE STATE HAS LOST €2.2 BILLION IN REVENUE SINCE THE RATE WAS INTRODUCED

The needs of citizens should be prioritised over a subsidy to profitable business owners. The Department of Finance has estimated that the cost to the Exchequer between 2011 and 2016 was €2.2 billion. This subsidy is not affordable, when Ireland underspends €3 billion approximately in areas such as housing, childcare, education and health. Money is needed, immediately, to address the housing crisis and prevent homelessness which has been brought on by sustained underinvestment in Local Authority delivery of Social Housing.

## 4. JOBS, GROWTH & FACTS

The table below compares to CSO job numbers prior to the reduction of VAT and the latest jobs figures in the Accommodation and Food Services sector. Employment in the

| Employment    | Q1 2010 | Q1 2017 |
|---------------|---------|---------|
| Employed      | 131,100 | 152,000 |
| Employees     | 113,000 | 139,000 |
| Full-Time     | 80,000  | 89,000  |
| Part-Time     | 51,000  | 62,000  |
| Self-Employed | 15,800  | 12,300  |

sector only began to increase significantly from the first quarter of 2013 - a year and a half after the introduction of the reduced VAT rate. The jobs growth can be more closely tracked to general macroeconomic developments.

## 5. LOW PAY

Low Pay is endemic in the sector and wages are stagnant. Accommodation and food services are the sectors with the highest rates of low pay with nearly 75% of workers earning €400 per week or less. Workers are not seeing the benefits of this subsidy - employers in the sector are. Stagnant low wages can have effects elsewhere; increased purchasing power supports jobs throughout the economy. Employers continue to ignore the JLC System.

## 6. NO THREAT TO SMALL FIRMS

The threat a rate rise poses to small firms is overstated. The VAT threshold can be raised so smaller businesses are not affected. The table below shows average turnover by firm employment numbers. This shows that over half of total

| Number employed.             | From 0 to 1 person | From 2 to 9 persons | From 10 to 19 persons | From 20 to 49 persons | From 50 to 249 persons | 250 + persons  |
|------------------------------|--------------------|---------------------|-----------------------|-----------------------|------------------------|----------------|
| Total Turnover in Millions € | 592.4              | 2,018.10            | 1,311.10              | 2,293.40              | 2,630.90               | 904.1          |
| Number of Firms              | 17,790             | 8,420               | 1,760                 | 1,038                 | 529                    | 25             |
| Average Turnover €           | €33,299.61         | €239,679.33         | €744,943.18           | €2,209,441.23         | €4,973,345.94          | €36,164,000.00 |

number of firms in the industry employ 0-1 workers. They earn only 6% of sector turnover, averaging €33,000 per annum.

Given that VAT registration is mandatory at turnover above €37,500, the average small firm is unaffected by any change. The majority of revenue in the sector goes to firms with relatively high average turn-over. Two-thirds of revenue accrues to companies with average turnover of €2million and account for 5% of firms.

The majority of the benefit of the reduced VAT rate is accrued by a small number of firms with high average turnover. The data illustrates that a large proportion of the savings attributed to the reduced VAT rate (9%) going to firms that just don't need it.