HOTREC Study by Syntesia

Impact of Taxation on Hospitality Sector

Full Report

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Hotrec Hospitality Europe

syntesia

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ABBREVIATIONS AND ACRONYMS

ADR	Average Daily Rate
B2B	Business to Business
B2C	Business to Consumer
B&Bs	Bed and Breakfast Establishments
CIT	Corporate Income Tax
DGA	Directorate General for Agriculture
DMOs	Destination Management Organisations
DKK	Danish Krone
EEA	European Economic Area
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ETOA	European Tourism Association
EU	European Union
EUTR	EU Tourism Regulation
GDP	Gross Domestic Product
GNI	Gross National Income
GOS	Gross Operating Surplus
GVA	Gross Value Added
HOTREC	Hotels, Restaurants & Cafes in Europe
ILO	International Labour Organisation
IMF	International Monetary Fund
MICE	Meetings, Incentives, Conferences, and Exhibitions
MS	Member States
NACE	Nomenclature of Economic Activities (an EU classification)
OECD	Organisation for Economic Co-operation and Development
OTAs	Online Travel Agents
PIT	Personal Income Tax
RevPAR	Revenue per Available Room
SMEs	Small and Medium Enterprises
STR	Short-Term Rental
UNWTO	United Nations World Tourism Organisation
VAT	Value-Added Tax
ViDA	VAT in the Digital Age
WTTC	World Travel and Tourism Council

Executive Summary

Introduction – a crucial moment to assess taxation in the hospitality industry

The purpose of this study is to review the impact of taxation on the hospitality industry. It was carried out for HOTREC and covers the 27 EU Member States as well as Iceland, Norway and the UK.

"Many national HOTREC members have identified increasing VAT rates and new / higher tourism taxes as a cause of negative impacts on their businesses."

After describing recent developments and the relevant literature, the **study assessed the effects of taxation on the EU/EEA hospitality industry from a macroeconomic perspective**, including through a modelling exercise aimed at testing the impacts of different taxation scenarios. This included, for the first time, a scenario analysis that simulates the supply shocks that drastic and sudden VAT hikes can cause on an industry characterised by very thin margins. These in turn trigger chains of bankruptcies over and above traditional effects on demand. Indeed, although these very clear and deleterious impacts have led policymakers to roll back VAT increases in some countries, the existing literature on VAT barely considers the specificities of the hospitality sector.

To illustrate the specific contextual factors at play, **the study also incorporated qualitative data through three case studies**:

- Ireland: VAT changes and their impact in rural areas;
- Amsterdam: the interaction between local tourism taxes and proposed VAT increases;
- Denmark: the structural outcomes of high VAT rates.

The case studies are intended to give the reader a better understanding of how tax decisions impact this particular market and how the existing taxation paradigms (national VAT and local tourism taxes) are increasingly at odds with the realities of the urban-rural divide and tourism congestion in certain places.

A patchwork of taxes and an uneven playing field

As a starting point, it is noted that the hospitality sector is subject to a **patchwork of fiscal measures that vary between and even within countries**. Aside from general taxes, most importantly VAT and corporate income tax, it faces sector-specific levies such as tourism taxes, access charges, and parafiscal fees such as waste collection or land occupation royalties. As a labour-intensive industry employing many entry-level workers, the sector's cost structure is further influenced by non-sector-specific measures, such as changes to minimum wage levels or social security contributions (which in some countries have recently been increased for young people). Unfortunately, policy measures are taken in siloes without this holistic view of cumulative effects on recipients.

In the field of VAT, **the accommodation industry benefits from reduced VAT rates (3-15%) in all countries analysed except Denmark, the UK and (from January 2026) the Netherlands**. While for the others was already the case, Germany and Hungary implemented reduced rates following the 2008-2009 financial crisis, while Slovakia did so after COVID-19. These reductions are often explained by the aim of supporting the international competitiveness of the tourism industry, which does not receive the VAT exemption typically available to other exporters. The case of Amsterdam is extraordinary, in that from 2026 it will combine the standard VAT rate on accommodation with a tourism tax of 12.5%, adding up to ad valorem taxes of nearly 35% on hotel accommodation.

An **important distinction persists between hotels and short-term rentals (STRs)**; though theoretically taxable, many STRs fall under revenue thresholds for applying VAT or enjoy

exemptions for rental activity. This is especially distortive when hotel accommodation is subject to high VAT rates, as in Denmark. STRs are also sometimes exempt from tourism and city taxes. The upcoming VAT in the Digital Age (ViDA) reform will close the VAT loophole in the coming years and exemptions from other taxes are declining. Still, major enforcement challenges remain and hardly any evidence exists on the scale of the impact. The **tax treatment of restaurant and catering varies more widely** Policy aims to promote tourism and job creation sometimes conflict with the concerns about tax revenue, especially since the sector mainly serves domestic, non-tourism related demand.

Translated into numbers, estimated VAT revenue in the EU / EEA region amounts to EUR 22.4 billion for accommodation services and EUR 92.4 billion for food and beverage services. This adds up to about 6.5% of total VAT revenue, with the difference between sectors due to the widespread reduced rates in accommodation.

VAT rate **changes for restaurants and catering have occurred in two main phases** and been more pronounced than those for hotels. Initially, several countries implemented reduced rates to support employment following the 2008-2009 financial crisis; these rates often remained, though their levels varied over time. VAT was again adjusted to support the industry during the pandemic, but most reductions were later withdrawn due to opposition from organisations such as the IMF regarding preferential consumption taxation. However, when the IMF advocated for alignment with standard rates as part of fiscal reforms in Greece and Portugal, some such measures were later reversed to address significant impacts on businesses and employment. Ireland shifted between two reduced rates before returning to the higher rate, which is set to drop again in 2026. Currently, nine countries do not offer reduced rates for these services, although ca one third apply reduced rates for limited-service options like takeaway and delivery.

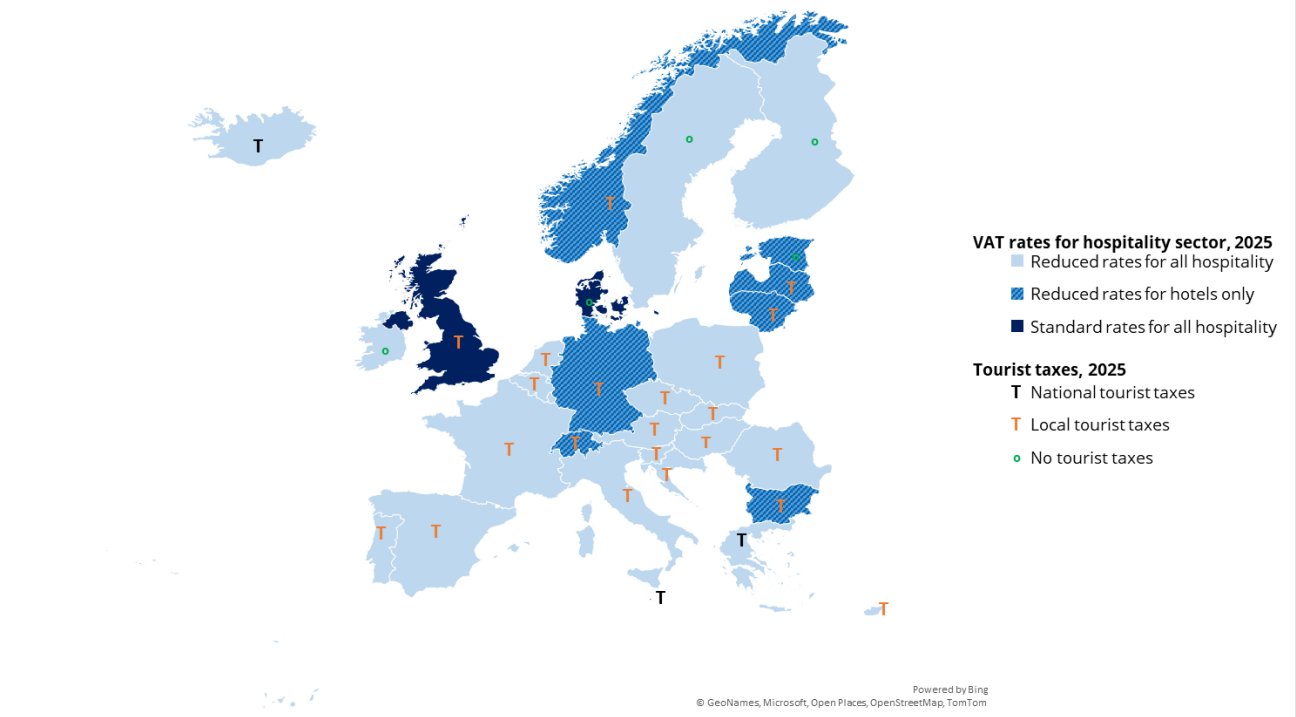
In recent years, there has been growing discourse around the notion that tax rebates for the hospitality industry may disproportionately benefit affluent consumers, while taxation itself is increasingly seen as a strategic tool for managing overtourism. These perspectives have led to unprecedented, proposals to eliminate reduced rates even for the accommodation sector, as in the case of the Netherlands mentioned above. Some have also criticised the use of distinct tax rates for hotels and restaurants, due to concerns such as the potential encouragement of tax fraud, the risk of increased tax evasion within the hospitality sector, and the challenges posed by rate arbitrage between food products and food services. However, these have entered policy discussions only sporadically and have generally remained peripheral.

Despite the use of reduced rates, **VAT brings in significantly more tax revenue than other forms of taxation**: in 2023 corporate tax accounted for less than half as much as VAT, while for accommodation, tourism taxes accounted for 28%.

“Tourism taxes are growing quickly and already worth an estimated 42% of VAT revenue in 2024. In some cities they will soon account for nearly 35% of hotel bills.”

Indeed, in cities such as Amsterdam and in Hungary, these taxes already generate more revenue than VAT itself. Social contributions and business taxes on wages account for an additional 5-10% of total VAT, and total taxation on labour is about twice this value. The combined effect of these taxes averages around twice the level of VAT (not including other production taxes for which data are not easily available).

Figure 1. VAT applied to hospitality in 2025 and tourist taxes



Limited but clear evidence of negative impacts, especially for rural regions and affordable services

Over the past 15 years, several European governments have adjusted VAT rates in the hospitality sector, based on **often patchy evidence**. Comprehensive evaluations remain limited, and much of the existing research focuses on short-term outcomes, such as price changes and employment impacts. Broader or long-term effects — on e.g. business investment, quality development, cross-sector spillovers, and contextual factors — are often not examined. There are also differences between industry stakeholders' experiences and academic publications used in policy discussions among VAT experts and tax authorities.

Additionally, **relatively few studies evaluate the original aims behind reduced rates**, such as improving international competitiveness, while official estimates of employment effects are sometimes based on unrealistic assumptions. For example, some literature indicates that demand within the industry is price inelastic, meaning that price changes would not affect international tourism flows and questioning the rationale for reduced rates.

On the other hand, some reports examine how structural characteristics of the sector, including cost structures and narrow margins, can result in supply shocks during significant VAT increases, sometimes leading to business closures or shifts towards grey market activity, as seen in countries like Portugal, Ireland, and Greece. In Amsterdam, the combined effect of high tourism taxes and VAT has not been to reduce overcrowding, which has continued to grow, but rather to squeeze the sector. Specifically, a recent 5.5% hike in tourism taxes has led hotels to cut base rates.

Some publications suggest that reduced rates predominantly advantage higher-income consumers and as such are not justified in equity terms, while analysis regarding the role of reduced rates in supporting affordability for lower-income populations remains limited. However, in labour-intensive sectors lacking significant technological innovation, reduced rates may help prevent shifts toward consumption patterns and habits favouring wealthier individuals.

Drastic impacts likely if VAT rates increased

The last part of the study modelled the impacts that could be expected from changes to VAT rates, either in terms of an increase or decrease of 1 percentage point, or a realignment to standard VAT rates. Both cases were tested for six different scenarios each of customer reactions to price increases and the willingness of companies to absorb at least part of the additional tax. The headline results can be summarised as follows:

"Economic modelling for the study indicates that a 1-point VAT increase would reduce sales in the industry by about €8 bn and see over 100,000 job losses."

The accommodation industry is slightly more sheltered than restaurants, as the share of VAT-exempt business purchasing their services is higher compared to restaurants. The impact on employment could be close to zero if perfectly "sticky" employment is assumed and costs are assumed as fixed in the short term. Due to the asymmetry of price effects, a 1-point VAT decrease could generate EUR 2.5-4 bn in additional sales and 30-50 000 more jobs.

Another scenario examined the outcomes if consumption were immune to price increases, in line with theoretical expectations of maximum tax revenue. A 1-point rise would increase VAT revenue by EUR 9 bn in 2023 prices for the EU and EEA region. Similar impacts are estimated in the opposite direction in the case of a 1-point decrease. Under a scenario of realignment with standard VAT rates, the entire so-called 'VAT policy gap' [1] would disappear, meaning additional VAT revenue of EUR 76 bn. With more realistic assumptions on elasticity (meaning increased prices would lead to decreased consumption of hospitality services), **VAT revenue would increase about EUR 7-8 bn in the first case and EUR 55-65 bn in the latter**.

"Applying standard VAT rates to the sector could have major knock-on effects from business closures and bankruptcies – nearly 1 mn job losses, equivalent to a 0.5% fall in GDP."

Indeed, the magnitude of employment effects and macroeconomic consequences represents the most persuasive evidence against such hikes; the impact in rural areas could be possibly higher and threaten about 15% of hospitality businesses. Finally, the existing literature has been used to make extrapolations on the indirect and induced impacts on the supply chain and on the hospitality industry, as part of the broader tourism ecosystem. These would double the size of the shock, to roughly 2 mn job losses and a 1% reduction in GDP.

Evidence from the case studies

Amsterdam's experience highlights the need for a balanced and coordinated approach to tourism taxation, ensuring that overall levies remain proportionate and that the fiscal objectives of national and local authorities remain compatible with basic affordability and competitiveness requirements. This is particularly so when compounded by level playing field considerations between traditional hospitality and emerging accommodation models, as is the case when taxation happens in congested urban environments. Amsterdam's aggressive fiscal measures, including a recent increase in the tourism tax from 7% to 12.5%,

[1] The VAT policy gap refers to the difference between actual VAT liability and a hypothetical scenario with standard VAT rates and perfect compliance.

were adopted in part to offset municipal budget cuts, while nationwide the VAT rate is set to increase from 9% to 21%. This illustrates how uncoordinated local taxation can distort tourism markets, leading to losses of hundreds of jobs and cannibalising municipal revenues, showing the risk of unassessed cumulative burdens conceived in isolation from each other.

Ireland shows that, in an economic environment increasingly characterised by an urban-rural divide, VAT hikes disproportionally harm rural hospitality, especially since the EU VAT rules prevent this sector from benefiting from preferential rates. This is even more so as hospitality remains one of the few remaining employment generators in disadvantaged areas. Moreover, the specifics of the sector mean that fiscal measures must not be seen in isolation from parallel interventions on the labour market and particularly those on minimum wages.

Denmark illustrates the limits of a uniform high VAT rate in a competitive single market. While urban luxury segments can tolerate high prices, rural and mid-market operators have struggled to remain competitive as customers opt for cheaper offers in neighbouring Germany and Sweden. This market distortion and structural polarisation have been further compounded by fiscal asymmetries with private rentals, making an unlevel playing field between accommodation types and reducing the sector's role in generating employment in rural / peripheral areas and among SMEs.

Concluding remarks

Based on these results, policymakers should be careful about enacting sudden sharp increases or drastic realignments with standard VAT rates for the hospitality sector, as this **could cause major job losses, reduced investment, and regional contractions, particularly for rural SMEs**. This is because of the combined effects of fixed costs composed of labour-intensive operations and thin margins that are prone to cause supply shocks. The evidence shows that excessive VAT burdens can trigger waves of business closures, shrink formal employment, and even reduce long-run tax revenues once spillover effects and the need to account for subsequent unemployment of poorly qualified workers are considered. Decision-makers often focus on the maximum tax revenue that could be generated, while ignoring the fact that reduced VAT rates work in the industry as a stabilisation tool that sustains employment, tourism competitiveness, and consumer access to affordable hospitality services. This is especially so during periods of inflation and rising input costs.

The report further urges policymakers to adopt a **holistic view of fiscal pressures on the industry by assessing the combined impact of VAT, local tourism levies, payroll-related taxes and factors affecting the cost of labour in general**. Together these show that the sector is not undertaxed but rather exceeds its fiscal weight. The study thus recommends better coordination between national and local taxation, which would in turn ensure that tourism-related levies are transparent, proportionate, and when possible reinvested into tourism development rather than used for general budgetary purposes as substitutes for local taxation. Finally, the report calls for fairer fiscal treatment of short-term rentals to support a level playing field and preserve Europe's diverse hospitality ecosystem.

1. Introduction

This document presents a study commissioned by HOTREC to Syntesia Policy & Economics on the taxation of the European hospitality industry. The study was conducted against the backdrop of recent proposals to increase VAT rates on the sector and to introduce or extend tourism taxes.

These changes have led to major concerns from HOTREC national members about the impacts of these tax changes; about half reported substantial related financial and operational challenges, including lower profit margins, higher closure rates, increased risk of bankruptcies, and uncertainty about future fiscal conditions affecting investment and planning. While tourism taxes have become a more significant source of government revenue over and above traditional VAT flows, the hospitality industry is also addressing structural issues related to tourism sustainability, the improper use of taxation to manage overtourism, and ensuring fair competition with short term rental providers that have enjoyed notable fiscal advantages over the last decade.

This study analyses the effects of taxation on the EU/EEA hospitality industry from a macroeconomic perspective. It also includes qualitative data based on three **case studies on (1) recent VAT changes in Ireland**, **(2) local taxes and proposed VAT increase in Amsterdam**, and **(3) the structural outcomes of high VAT rates in Denmark**.

After this introduction, the report is structured as follows:

- **Chapter 2** summarises key tax types, provides country comparisons, describes recent trends, and how tourism tax revenues are earmarked.
- **Chapter 3** analyses the effects of VAT rates on the hospitality industry based on a literature review and a survey of HOTREC members. It highlights impacts on employment, business performance, revenue, and investment, with a focus on SMEs and rural areas.
- **Chapter 4** analyses the sectoral and macroeconomic impact of VAT changes on the hospitality sector using Syntesia's specialised VAT model. It outlines the approach, examines effects of VAT increases and reductions, and describes the industry's role in employment and GDP.

The **Appendix 1** summarises the results of the three case studies and the **Appendix 2** reports data supportive of the graphs presented in chapter 2.

The study draws on several methods and sources of evidence:

1) **Desk research.** Information was obtained from reports provided by associations, position papers, and academic articles, as well as from Eurostat data and publications.
2) **Consultation with HOTREC members.** Data and information were systematically gathered from the participating members through written submissions ensuring comprehensive coverage of all topics relevant to the study. This was complemented by interviews in the selected countries to inform the case studies.
3) **Economic modelling.** A partial-equilibrium model[2] was used to evaluate how tax policies affect specific sectors by linking prices, demand, supply, and tax revenue. The estimates rely on supply-demand relationships and the influence of VAT on business margins. In particular, a simulation of the supply-side shocks that have affected the industry in the past when drastic VAT hikes were enacted has been done to complement what is usually available in the VAT scenario literature.

[2] Partial-equilibrium models identify the direct impacts on a sector that can be expected from a policy change once equilibrium has been re-established. Chapter 4 provides more detail on the specifics of the model applied.

The **scope of the study** is on the hospitality sector. For the purposes of research, **a statistical definition of the hospitality industry was used** comprised of NACE codes 55 and 56. NACE Code 55 covers hotels, motels, guesthouses, campsites, youth hostels, as well as businesses such as short-term holiday lets that are not considered part of the industry strictly speaking. Code 56 include restaurants, cafés, bars, pubs, catering, as well as mobile food services that are differently represented as hospitality industry across the different countries.[3]

[3] It is worth noting that some restaurant/catering services are provided also by hotels but are not always separately identifiable from a statistical viewpoint within code 55 activities, even if taxed separately. Similar considerations apply for alcoholic beverages in restaurants.

2. Overview of Taxation in the Hospitality Sector

2.1 Types of Relevant Taxes

The hospitality industry is subject to a layered structure of taxation that combines general tax instruments, sector-specific levies, and other parafiscal charges.

General Taxes. VAT is the main consumption tax applied to hospitality transactions.

- Many countries apply reduced VAT rates to both **accommodation services** and **restaurant/catering services.** Some apply a reduced VAT rate only to accommodation.
- **Alcoholic beverages**[4] are typically excluded from the reduced rate and taxed at the national standard VAT rate.

Profits from hospitality operations are subject to **corporate (CIT) or personal income taxes (PIT)** for sole traders/partnerships. Together with contributing wage-related taxes, the labour-intensive hospitality businesses face ordinary payroll-related charges: employer social security contributions, unemployment insurance, and sometimes sectoral wage-earmarked levies.[5] Being a labour-intensive industry with many entry-level workers, the hospitality sector is heavily impacted in its cost structure also by non-sector specific measures like **horizontal changes in the level of minimum wages**, as recently proposed for instance in Ireland or Croatia or by increases in social security contributions as in Sweden.

Specific Tourism Levies. Many European cities and regions impose **per-night or ad-valorem tourist taxes**, typically collected by accommodation providers on a visitor or room basis. Their **extreme heterogeneity** is compounded by exemptions, caps, seasonal rates, or adjustments based on accommodation type, and explicit objectives of managing congestion[6] or funding local services. As specific tourism levies become more sophisticated and a major source of fiscal revenue nationally and locally, they increasingly interfere with price setting strategies and disproportionally contribute to the industry's fiscal burden as compared to other sectors, particularly when proceeds are not reinvested for tourism development. Only Austria so far has introduced at the State level a fee, the *Interessentenbeitrag* that is also charged to companies in economic sectors that benefit from tourism other than the accommodation industry.

Most of these tourism taxes have a basic element of "regulatory design" – meaning they aim to regulate or differentiate tourism flows either by 1) type or rating of accommodation, 2) locality or district, 3) seasonality (sometimes the summer season is more expensive), 4) length of stay (the tax is no longer due after a given number of nights) or, 5) demographics (e.g. children stay for free). The regulatory design often reflects the political motivations for implementing the tax (such as dispersal across areas, seasons or visitor segments). Despite of all this, **evaluations and data on the actual impact of taxes and tax designs on the attainment of these policy objectives are often surprisingly limited**.

[4] Member States are required to have a single standard rate of value added tax of not lower than 15%. Besides this standard rate, they may also apply one or two reduced rates of VAT, not lower than 5% with, however, some exceptions. The reduced rates may only apply to the supplies, which are listed in Annex III of the VAT Directive including accommodation and restaurant services but cannot apply to alcoholic drinks.

[5] Sectoral wage-earmarked levies ensure there is dedicated funding for training, welfare, and sometimes income smoothing in low-demand periods. They usually amount to less than 1% of total payroll costs.

[6] Access taxes, such as entry fees or day-visitor charges, are being tested in areas with overtourism but remain challenging to enforce except in isolated locations like islands or certain resorts, though they are more easily applied to cruise passengers. Airport passenger taxes cannot be classified as "tourism levies" due to free movement principles, as they apply to all travellers including both visitors and residents.

Other Taxes. Hotels, restaurants, and bars are subject to **property taxes**. Although these are charged on the owners of the buildings, it has become increasingly common (e.g. in France) for owners of commercial premises to pass on the tax to commercial tenants. Alcoholic beverage sales incur EU excise duties, which are incorporated into retail prices. The impact of these taxes on alcohol varies considerably across countries. In certain Northern or Central European countries, VAT on alcoholic beverages can represent approximately 30–40% of the total VAT revenue generated by restaurants because the price of alcohol already incorporates very high excises. In others wine is excise-free so incidence is much lower. Hospitality businesses must also comply with a range of **parafiscal charges**, including local environmental levies such as waste collection and wastewater fees, signage fees, terrace or public-space occupancy charges, music copyright or performing rights levies, television licence or broadcasting-related fees where televisions are provided, as well as hygiene inspection fees. Comprehensive data on these ancillary fees is not currently published although they exist and could be made available.[7]

Differences with Short Term Rental / Home Restaurants. The hospitality industry operates under **different tax rules than short-term rentals (STRs) or home restaurants** marketed on platforms. Hotels are subject to VAT, while "hotel-like" STRs are in theory taxable as well, but many hosts qualify for VAT exemptions until they surpass national revenue thresholds. A study carried out with 2019 data for the European Commission[8] estimated the total value of the accommodation ecosystem managed by platforms at EUR 43.2 billion in the EU, i.e. some 18.8% of the total accommodation market. Some of these services (e.g. B&B) are generally considered as potentially taxable for VAT purposes except when SME exemptions apply, while pure apartment rentals, often but not always[9] remain outside the scope of VAT.

In that year, VAT revenue collected from platforms totalled EUR 3.6 billion, corresponding to an effective tax rate of 9%. The envisaged implementation of the 'deemed supplier' regime[10] together with the removal of exemptions for these services was projected to increase EU-wide VAT revenue by approximately **EUR 528 million in 2025**, rising to **EUR 748 million by 2032**. Since the values used for estimates at that time were superseded by subsequent market developments, **it can now be estimated that the VAT due with the reform is roughly 1% of the EU total for the hospitality industry and some 5% of that for the accommodation industry at current values**. Hotels and restaurants are generally subject to corporate income tax whereas STR hosts and home restaurant operators may benefit from simplified or flat-rate personal tax regimes, exemptions from personal income tax, or special deductions, as seen in Denmark. Very few cumulative estimates of STR fiscal advantages exist. A notable exception is Croatia, where the total fiscal and parafiscal burden on the commercial accommodation sector was calculated at 32% of gross revenue, compared to 1-5% for STRs, alongside a government pledge to increase this to 8.5% in the future. This is why reduced VAT rates have also increasingly appeared as a tool to narrow the fiscal gap with STR operators.

[7] Eurostat provides information on production taxes within the hospitality sector net of sectoral subsidies. Significant differences among Member States in reporting reduced VAT rates as subsidies hinder data comparability and significance. Data on taxes only gross of subsidies are recorded but not published.

[8] Economisti Associati - VAT in the Digital Age – The VAT Treatment of the Platform Economy, Vol 2 Final Report, DG TAXUD, 2021.

[9] In Austria, the letting of residential property is taxed at a reduced rate. In Czechia, the letting of residential premises for less than 48 hours is also excluded from the VAT exemption; in Lithuania, the exclusion applies to rentals shorter than 2 months. Malta does not apply exemption for the short-term rental (less than 30 days). In Belgium, certain short-term rental supplies are excluded, but the exemption still applies when the supplier is a natural person not using the building for his/her economic activities

[10] The EU ViDA reform effective March 2025 introduces a rule requiring platforms to collect and remit VAT on short-term stays (30 nights or fewer) when the host would not otherwise do so; implementation begins July 2028 with full compliance by January 2030. Member States can set their own criteria and may exempt small-enterprise hosts from this platform rule.

Sometimes **STRs are also exempted from tourism and city taxes**. This is because in practice they are not bound to comply with registration requirements (e.g. Austria, Slovakia) or because STRs are legally exempt (e.g. Iceland and some municipalities in Belgium). Most cities and countries, especially in Northern Europe, implement equivalent tourism tax rates for fairness purposes (e.g., the Netherlands, Germany). However, variance in the tax burden often results from weaker enforcement for STRs, particularly those not registered or listed on online platforms, but this is difficult to estimate. It is also frequently reported that poor enforcement of tourism/city taxes goes together with personal income tax evasion.[11] There are indeed a few cases in southern Europe where some jurisdictions impose higher taxes on STRs, citing growing concerns about unfair competition with hotels,[12] but this remains the exception.

STRs are also seldom exposed to the same array of parafiscal obligations as hotels. Notably, **property taxes and waste-management fees** serve as significant, though often overlooked, contributors to fiscal and parafiscal disparities. In both cases hotels are typically assessed as "commercial property," incurring rates that may be two to three times higher than those applied to residential properties in the same vicinity. In contrast, STRs are commonly taxed under residential property frameworks if registered as dwellings, even when being used professionally for tourist accommodation. In certain country settings (e.g. Hungary, Romania, Slovenia) parafiscal charges such as health and safety fees, are reported as another notable source of fiscal advantages for STRs on formal hotel businesses.

2.2 Country Comparisons and Recent Trends

VAT. Most European countries (excluding Denmark and the UK and, from January 2026, the Netherlands) offer reduced VAT rates for accommodation services, with most also applying these rates also to restaurants and catering. **Ten countries (DK, NO, BG, LV, LT, EE, DE, CH, MT, UK) still use standard VAT rates for restaurants**. Germany, Belgium, and Switzerland provide reduced rates for take-away and delivery only. In all European countries restaurants and catering generally account for the bulk of hospitality VAT revenue, influencing policy. When below-standard VAT rates rise, businesses can face margin pressures even if the policy is not specifically aimed at them but is part of a broader revision of reduced rates — e.g., Greece raised hotel VAT from 6.5% to 13% in 2015; Austria increased accommodation VAT from 10% to 13% in 2016 but reversed this in 2018 out of concerns for the competitiveness of the industry. The Netherlands also moved its reduced rate from 6% to 9% in 2019, and from 2026 it will apply standard VAT of 21% to accommodation. Such instances have been lately increasing. Recent hikes include Ireland (9% to 13.5%, 2023), Romania (5% to 9% in 2023, then 11% in 2025), Czechia (10% to 12% in 2024 with beer/soft drinks at the standard 21%), Estonia (9% to 13% by 2025) and Finland (from 10% to 14% in 2025). Switzerland increased its special rate on accommodation from 3.7% to 3.8% in 2024.

Reduced VAT rates are frequently implemented to enhance **tourism competitiveness**, as decreased taxation on accommodation and restaurant services can increase a destination's attractiveness. Countries with substantial tourism sectors, including those with diversified economies such as

[11] Johannes Ross, Vera Rocha, Tom Grad, Jörg Claussen The Hidden Costs of the Platform Economy: Tax Dishonesty by Airbnb Hosts" (Rockwool Foundation, 2024). The researchers analysed 26,663 Airbnb listings tied to about 22,000 hosts in Copenhagen and surrounding areas between 2017 and 2019. They estimate that approximately 339 million DKK of rental income was not reported to tax authorities within their sample during that period. When extrapolated to the entire Copenhagen Airbnb market, the unreported income potentially reaches 658 million DKK in total. A related analysis (by Marcel Garz, 2023) evaluating the Airbnb-Danish Tax Authority (SKAT) data-sharing agreement—starting July 1, 2019—found that enforced transparency reduced host listing propensity by 14% and increased listing prices by 11%.

[12] For instance, in Paris, STRs may face a tax of 1–5% of the price while Barcelona/Catalonia places tourist apartments (HUTs) in a separate tax category. In Greece, the Climate Resilience Fee is structured so that a luxury STR might pay less than a hotel, whereas a small STR could be taxed more than a one-star hotel.

Germany,[13] have adopted reduced VAT rates on accommodation to support inbound tourism. Similarly, **Slovakia** and **Hungary** introduced reduced rates within the hospitality industry to explicitly promote tourism and mitigate the impact of inflation on the sector's international competitiveness. Slovakia decreased its standard rate to a reduced 10% in 2023 and further lowered it to 5% in 2025. Hungary had a "high" 18% reduced rate then lowered it from 18% to 5% in 2020. Iceland, conversely, offers a case of using VAT increases to deliberately cool down an overheating tourism market. After a tourism boom in the 2010s, Iceland's government moved to **eliminate the special reduced VAT for tourism**. In 2016 the reduced rate was raised to 11% (from 7%), and officials announced a plan to **apply the full standard VAT (then 24%) to most tourism services by 2018,** which was then abandoned.

Restaurants are labour-intensive industries that often employ low-skilled and entry-level workers. **Reduced VAT rates have been used to boost demand for labour in the economy**, particularly in the aftermath of the 2008 global financial crisis as seen in **France (2009), Belgium (2010), Sweden (2012), and Finland (2010).** [14] Elements of labour-demand support can also be found in the recent decision of **Slovakia** of cutting rates.

The **International Monetary Fund (IMF) has consistently expressed reservations regarding reduced VAT rates**, including those applied to the hospitality sector. In its fiscal policy guidance, the IMF aligns with the Danish model, advocating for broad tax bases and a single standard VAT rate. The rationale provided includes concerns that reduced rates diminish the VAT tax base and lower government revenue. This advice was first followed then reversed in both **Portugal and Greece** following their fiscal crises. Spain simply increased the reduced rate from 8% to 10% in 2012. The Fund accepted temporary tax reductions during the pandemic but argued that permanent cuts are inefficient and distortive. After the pandemic, the IMF recommended ending these reduced rates as sectors recovered — a suggestion adopted by the **Baltic States and Bulgaria**. Austria and Belgium shifted from ultra-reduced to reduced rates, and Germany restored its pre-pandemic restaurant rate in 2024, even if it seems likely to reverse this decision.

"Reduced VAT rates are frequently implemented to enhance tourism competitiveness, as decreased taxation on accommodation and restaurant services can increase a destination's attractiveness."

In the context of restaurants and catering, foreign tourist expenditure typically makes up a smaller proportion than in accommodation, indicating that decisions are informed mainly by **domestic social and distributive considerations**. Most EU countries that now apply a standard rate are characterised by below average ratios in the share of consumption of these services among the first and the fifth income quintile of the population, which can be considered as a rough proxy of uneven consumption patterns of restaurant/catering services across the population, while Denmark and Germany appear to have been mainly motivated by fiscal considerations. This distribution by quintile indicator appears, however, also less significant in countries heavily dependent on tourism as a source of income (e.g. Cyprus, Italy).

[13] In 2010, Germany established a 7% VAT rate on accommodation (referred to as the *Mövenpick Tax*) to align costs with other EU member states and is currently considering it for restaurant services.

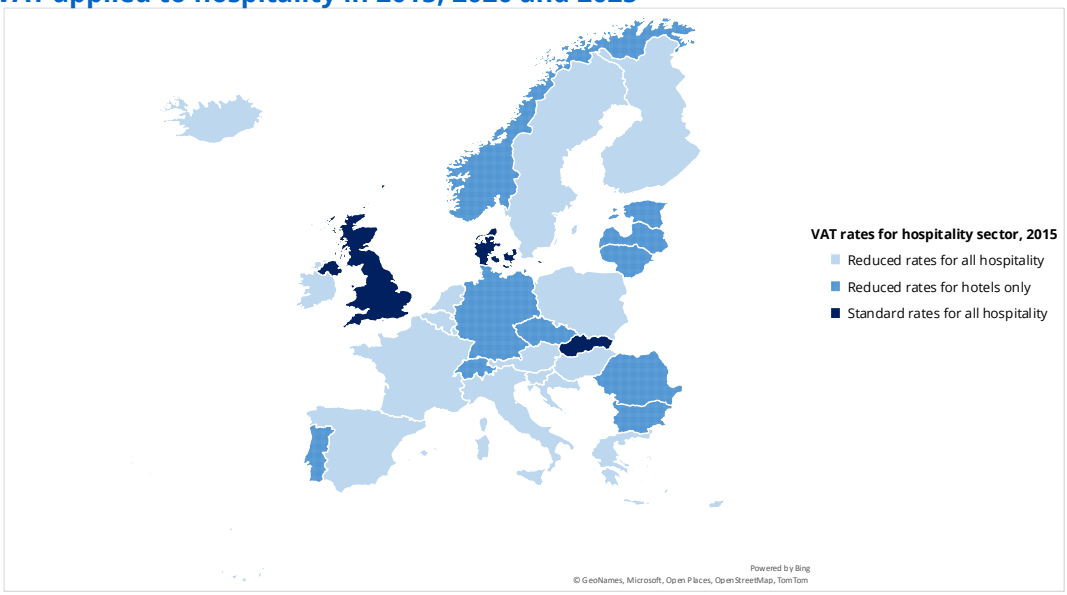
[14] To boost employment and competitiveness, Sweden cut restaurant VAT from 25% to 12% in 2012, while Finland lowered it from 22% to 13% in 2010 (raising it later to 14%). Also, Iceland offers an 11% reduced VAT rate for restaurants and accommodation as part of tourism promotion strategy. Norway instead has kept its standard VAT rate for restaurants.

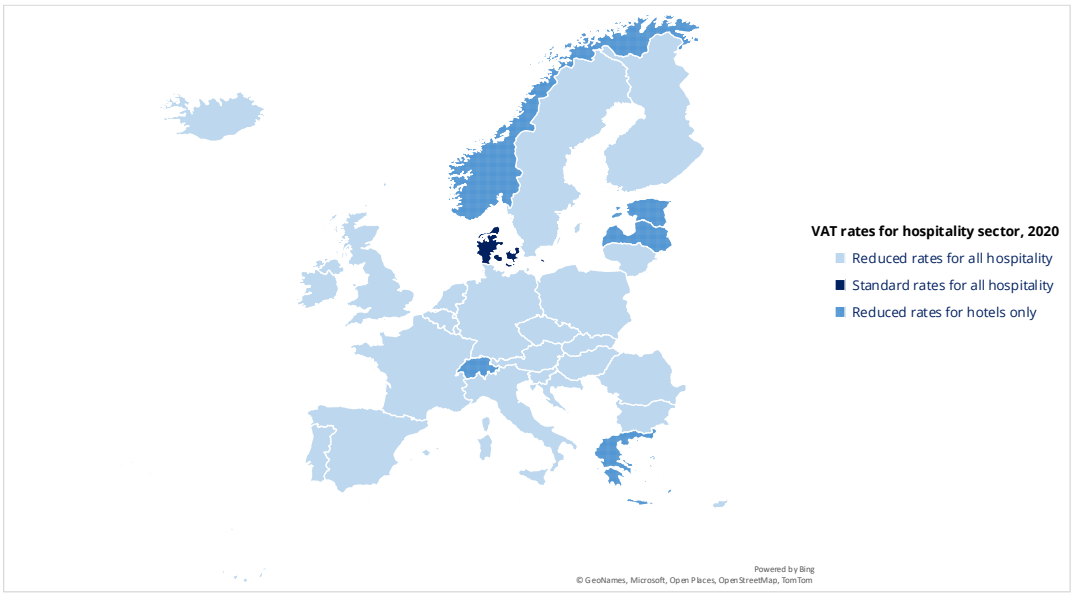
Restaurants and catering services are traditionally considered as **high-risk for VAT fraud** due to cash payments and a prevalence of SMEs and family businesses. **VAT Gap studies regularly identify hospitality/food services as problematic for under-reporting**. Some suggest that lowering restaurant VAT rates could reduce evasion by shrinking the tax wedge and encouraging formal turnover. It is also maintained that reduced VAT rates for **restaurants and catering** may be justified because dining out represents a close substitute for home-prepared meals, for which the ingredients are not subject to VAT. A reduced rate could help align the tax difference between home cooking and restaurant meals. This issue is especially relevant for take-away and delivery services, where service provision is less significant. This perspective was notably discussed during **Finland's 2010 debate on VAT reductions**, alongside arguments about reducing undeclared work in catering, **as well as in Greece when the hike was rolled back.** In other respects, this aspect has remained marginal in policy discussions.

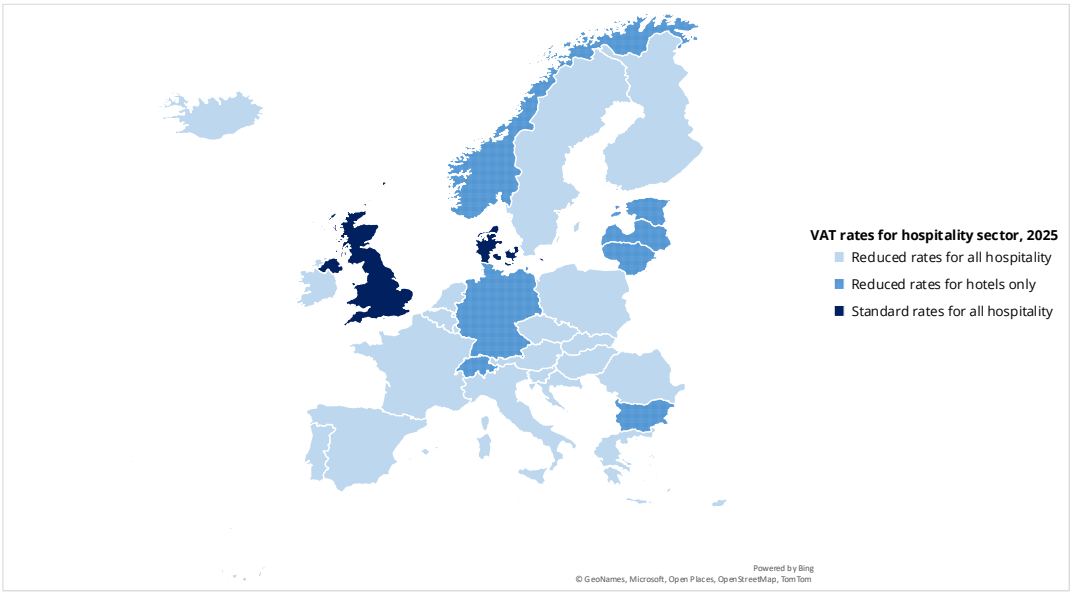
Applying varied VAT rates to accommodation and catering is complex, particularly when hotels bundle both services. Most tax authorities reject the practice of having separate rates for the two activities due to fraud risks and administrative burdens. When separate VAT rates apply to accommodation and meals, each must be clearly itemised, which is straightforward with separate bills but difficult for inclusive packages.[15] Others are less concerned about that. Some countries, like Belgium and Portugal, use intermediate rates for restaurants different from those used for accommodation. Germany, Belgium, Switzerland, and Cyprus vary VAT depending on take-away or dine-in sales, while France and Portugal base rates on consumption location. Recent changes in beverage VAT in the Czech Republic add further complexity to multi-rate taxation frameworks. Figure 2 below presents VAT in the hospitality industry in three reference years: 2015 (before COVID), 2020 (during COVID) and 2025 (after COVID).

[15] In Malta, meals served to hotel guests in the hotel's own restaurant receive a reduced VAT rate, whereas the same meal sold to non-guests is subject to the higher standard rate for catering. This distinction results in different tax treatment for similar food and service, based solely on whether the customer is staying overnight in the hotel.

Figure 2. VAT applied to hospitality in 2015, 2020 and 2025







Source: authors' elaborations based on taxes in Europe database

Tax authorities in **France, Switzerland, and the Netherlands have recently proposed ending reduced VAT rates for the accommodation sector**, due to fiscal shortfalls and efforts to move toward a single-rate model like in Denmark. While France and Switzerland did not proceed with this initiative, the Netherlands adopted the measure, which will take effect from January 2026. Meanwhile, Germany announced plans to introduce reduced VAT rates for restaurants also starting in January 2026. VAT revenue from leisure tourism is mainly influenced by reduced rates, while business tourism and MICE (meetings, incentives, conferences and exhibitions) also depend on **VAT refund and deduction policies.**[16] Significant restrictions remain in countries like France, Spain, the Netherlands, Belgium, Denmark, Portugal, Greece, and Poland. Moreover, the presence of VAT-exempt businesses in the economy, which are unable to deduct input VAT, further contributes to "hidden" VAT revenue from the hospitality industry, at times for sizeable amounts. There are countries where restrictions to VAT deductions for businesses contribute a sizeable amount of VAT revenue, on average representing some 6% of the total. VAT on restaurants is also on average four times higher than on hotels.

When considering only the VAT paid by final consumers, hospitality VAT revenues total approximately **EUR 117 billion**[17] (of which EUR 6 billion is paid by businesses that cannot deduct it), representing **6.5% of total VAT receipts** (see figure below).[18] This demonstrates that, on average, hospitality constitutes a significant portion of VAT bases, aligning closely with its share of household consumption. Seven **countries with particularly high reliance** on hospitality VAT include Malta (23%), Greece (17%), Croatia (13%), and Spain (12%). A subsequent group of **high-share countries** comprises Cyprus (11%), Portugal (9.8%), Italy (8.6%), and Ireland (8.2%), where hospitality contributes roughly one-tenth of VAT collections.

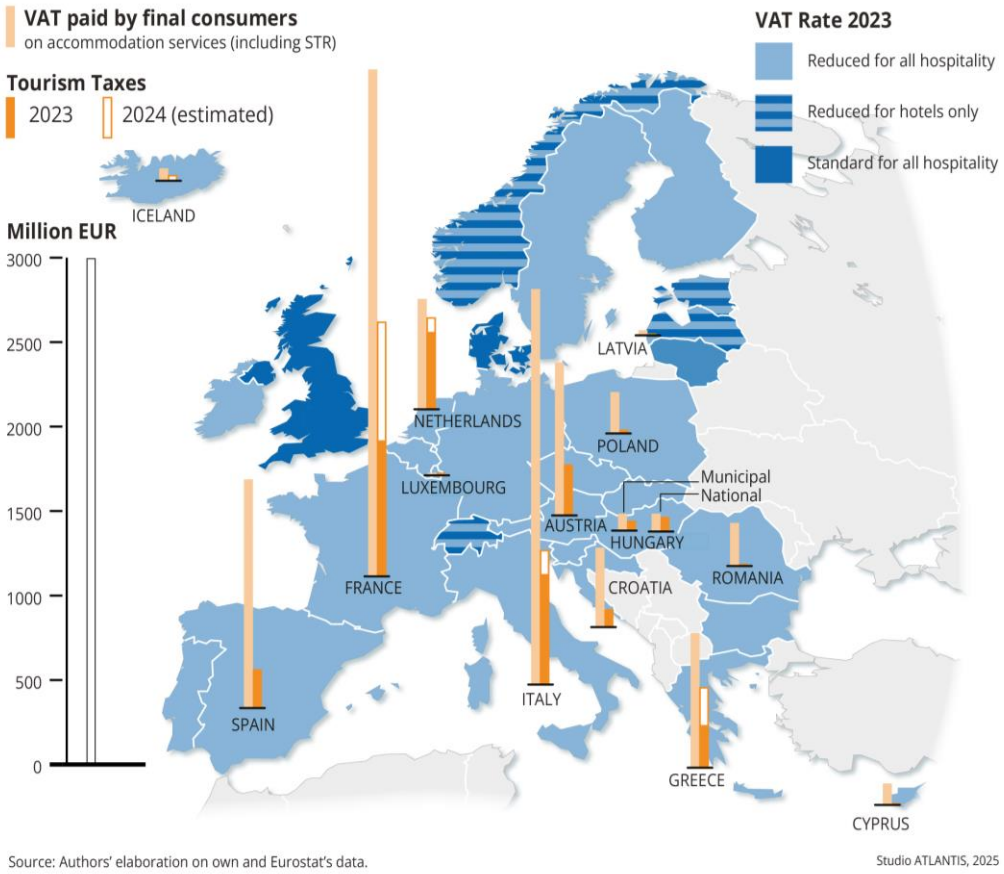
For Portugal and Cyprus, these figures underscore the central role of tourism in their tax base; whereas, for Italy and Ireland, the substantial contribution reflects both significant international tourism and robust domestic spending on restaurants and accommodation. Conversely, **low-share countries** such as Luxembourg (1.1%), Romania (3.7%), Slovakia (2.9%), Lithuania (3.2%), Germany (4.8%), and to some extent Sweden (5.2%), record relatively modest hospitality VAT contributions. In Luxembourg, the limited domestic consumer base and the predominance of other VAT sources — particularly cross-border digital and financial services — account for its minimal hospitality footprint. In Romania and Lithuania, lower VAT compliance within the tourism sector and the prevalence of other goods and services decrease hospitality's relative significance. While Germany's absolute revenues from hotels and restaurants are considerable, they are overshadowed by VAT collections from its broader economy. Most **other Member States** fall near the EU average (5–7%), including Belgium (6.1%), Estonia (6.0%), the Netherlands (5.7%), and France (6.0%), suggesting more balanced consumption patterns. Both Austria (7.6%) and Hungary (7.3%) approach but remain somewhat below high-share status.

[16] Article 176 of the VAT Directive allows EU states to limit deductions for "luxury and entertainment expenses," often affecting restaurant and hotel costs. These restrictions in hospitality are generally stable due to historical reasons but may change, often becoming less restrictive following CJEU rulings or more stringent as anti-avoidance measures. The main blocked items—meals, entertainment, and staff accommodation—rarely change, though definitions, exceptions, and administrative practices evolve.

[17] European Commission: Directorate-General for Taxation and Customs Union, Center for Social and Economic Research (CASE), Oxford Economics, Syntesia, Bonch-Osmolovskiy, M. et al., VAT gap in the EU – 2024 report, Poniatowski, G.(editor), Publications Office of the European Union, 2024, https://data.europa.eu/doi/10.2778/2476549

[18] Supportive data are reported in Appendix 2.

Figure 3. Sources of VAT payments related to hospitality services and their providers in 2023 (mn EUR)



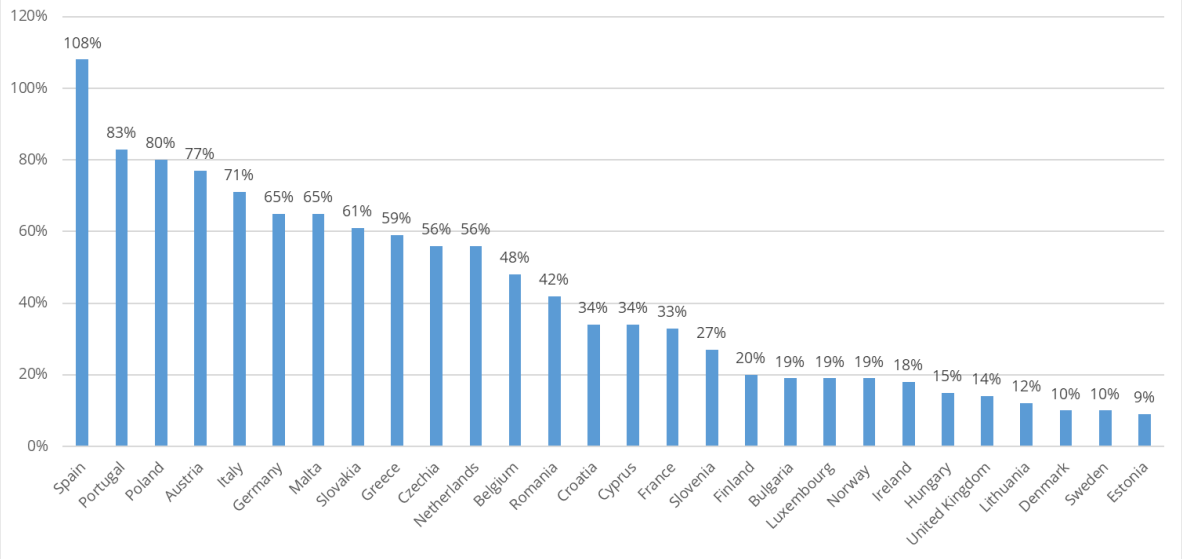
Key Insights

- Total VAT Revenue from hospitality services amounted in 2023 to EUR 117 billion, of which some EUR 6 billion "hidden VAT", i.e. non-deductible VAT paid by businesses.
- Hospitality accounts for 6.5% of total VAT receipts on average and double or even three times that share in tourism-dependent countries in the Mediterranean.
- Food catering and restaurants account for over the 80% of VAT revenues also partly because they can benefit less of reduced rates.
- The weight of non-deductible VAT on the total is particularly high in Belgium, Denmark, Finland, France, the Netherlands, Poland and Slovenia where it reaches from twice to four times the European 5% average.
- In most cases besides Belgium, this higher weight depends on higher proceeds from specific sectoral limitations to the right of deduction rather than the size of VAT exempt activities. Sectoral limitations are also a notable source of hidden VAT also in Spain, Portugal or Greece, but their final impact on total sectoral VAT revenue is watered down by the importance of tourism there.

Corporate Income Tax. In hospitality, VAT and corporate income tax (CIT) are closely linked through their effects on pricing, demand, and profits. Higher VAT can raise prices, reducing sales and CIT liabilities,

while lower VAT may boost demand and expand the CIT base. Since CIT applies to net profits after costs, **changes in VAT policy directly affect profitability and tax payments**. The figure below compares VAT and CIT revenues in hospitality, showing that higher VAT rates tend to broadly correlate with lower CIT collections, and vice versa. The 0.49 CIT/VAT ratio is also broadly in line with the economy-wide average, where CIT usually makes up only 7–9% of tax revenues versus some 20% for VAT. Possible drivers of specific country values include higher profitability of large hotel chains, resorts, and integrated tourism businesses and for Austria the apparent strong profitability in family-run alpine tourism. In some cases, certain **CIT contributions that are tiny compared to VAT in hospitality** are explained by **low statutory CIT rates** (e.g. Hungary 9%, Ireland 12.5% until 2024) or conversely by high statutory VAT rates (e.g. Denmark).

Figure 4. CIT Revenue Flows in the Hospitality Industry in 2023 (mn EUR)



Source: authors' estimates based on own VAT models. CIT values are overestimated because they have been calculated on a tax base inclusive of depreciation.

Key Insights

- Descriptively, countries applying reduced VAT rates for hospitality tend to display higher CIT-to-VAT revenue ratios for the sector than countries applying standard rates. This suggests that, in these countries, a comparatively larger share of the tax burden on the hospitality sector arises from income taxation rather than consumption taxation.

- However, this association must be interpreted with caution. The CIT/VAT ratio is influenced by multiple factors—such as CIT regimes, profitability, sectoral composition, and compliance levels. On the basis of the available data, it is not possible to infer a strong causal relationship or to conclude that reduced VAT rates are systematically "compensated" by higher corporate income taxation in the hospitality sector because they allow higher margins.

Tourism Taxes. Tourism taxes or city taxes are sector-specific levies usually affecting only the accommodation industry and imposed on visitors. Five[19] European countries have not introduced any kind of tourism taxation yet, particularly in Northern Europe although most of them have been discussing this possibility, namely **Denmark, Estonia, Sweden, Finland and Ireland**. In Ireland talks have already started to introduce a tax in the Dublin area while Sweden has been debating the introduction of tourism taxes nationally.[20] Estonia has postponed their possible introduction until 2027. These levies are generally charged by local or regional governments on visitors staying in paid accommodation. Implementation modalities vary greatly. Rates can be modulated by person or by room and by type of accommodation and eventually be tiered to star rating (as common in Italy or France) or be uniform for all.

They may also vary by location (centre vs. outskirts), season or even envisage event surcharges, as well as numerous exceptions (visitors for health or business purposes, minors, persons with disabilities, etc). **In most cases, the tax is to be collected from the tourist and shown as a separate line on the invoice.** In some systems, however, the hotel can choose to absorb the tax rather than itemising it for the guest. In these cases, the tax is legally levied on the accommodation provider (not on the tourist), who may or may not pass it on through higher room prices. Flat rates charged on hotels and not on tourists also apply in France where a 'flat-rate' tourist tax on the amount of which is payable in total by the establishment can be enforced by some municipalities.

Federal countries such as Germany, Austria, Belgium, and Spain typically grant their local governments substantial autonomy in designing tourism taxes, resulting in considerable heterogeneity across regions. In contrast, **nations like France[21] and Italy operate under a national reference framework** that specifies which municipalities may levy them, outlines applicable exemptions, and establishes limits on both tax rates and total amounts — often including caps on the period or volume of revenue collected. **Four fully standardised national schemes have emerged**, two of which were implemented as recently as 2024. These nationwide models feature uniform application akin to VAT, serving as broad-based consumption taxes but differing in their calculation and methods of communication.[22] Such standardised schemes have raised equity and fairness concerns (e.g. in Greece), as they tend to **apply equivalent tax rates to both tourism-intensive destinations and less-visited peripheral areas.**

The first national scheme was introduced in Malta back in June 2016 as an *Eco-Contribution on Accommodation*. The tax is of EUR 0.50 per person per night, capped at EUR 5 per person per stay and does not apply to minors. In January 2024 Greece enacted what is now called the *"Climate Resilience Fee,"* complementing the municipal 0.75% "sojourn tax". This is a nationally mandated tax, whose rates vary by period of the year, accommodation type, star rating, and season. In parallel, also Iceland reinstated a national accommodation tax on overnight stays exempting STRs. Cyprus has also been recently discussing the possible introduction of a national tourism tax. Hungary is a special case in that it complements a loose national reference framework (the Local Tax Act) authorising municipalities to levy

[19] In mid-2025, Norway's parliament passed legislation enabling municipalities to levy a tourist tax of up to 3% on overnight stays in areas particularly affected by tourism. The rate may be adjusted seasonally

[20] See Makrologik. When the guest pays more than the bill - The local impact of tourism and alternative financing models to strengthen municipalities' work with a growing tourism industry. June 2025.

[21] The French system envisages a rate applicable per person and per night between 1% and 5% of the cost per person of the night. The general council can then introduce an additional tax of 10% of the tourist tax collected in the department via the local authorities. A regional tax has been introduced in some regions to finance local public establishments linked to transport. These are additional taxes of 34% to the tourist tax. In the Ile-de-France region, an additional tax of 200% of the tourist tax was introduced on1 January 2024 to finance the public body Ile-de-France Mobilités.

[22] In most jurisdictions tourism taxes are not required to be included in the advertised online price (a notable exception is Luxembourg 3% tourism charge) in the same way as VAT, but the rules depend heavily on whether the tax is legally considered due by the visitor or the establishment. The charge is however be disclosed clearly before purchase is completed and this is the prevailing practice.

tourism per night taxes with a 4% national tourism development contribution (*turizmusfejlesztési hozzájárulás*) functioning as a VAT surcharge applied to all goods and services benefiting from the reduced 5% VAT rate in the hospitality sector, with the exception of facilities where food is not consumed onsite.[23]

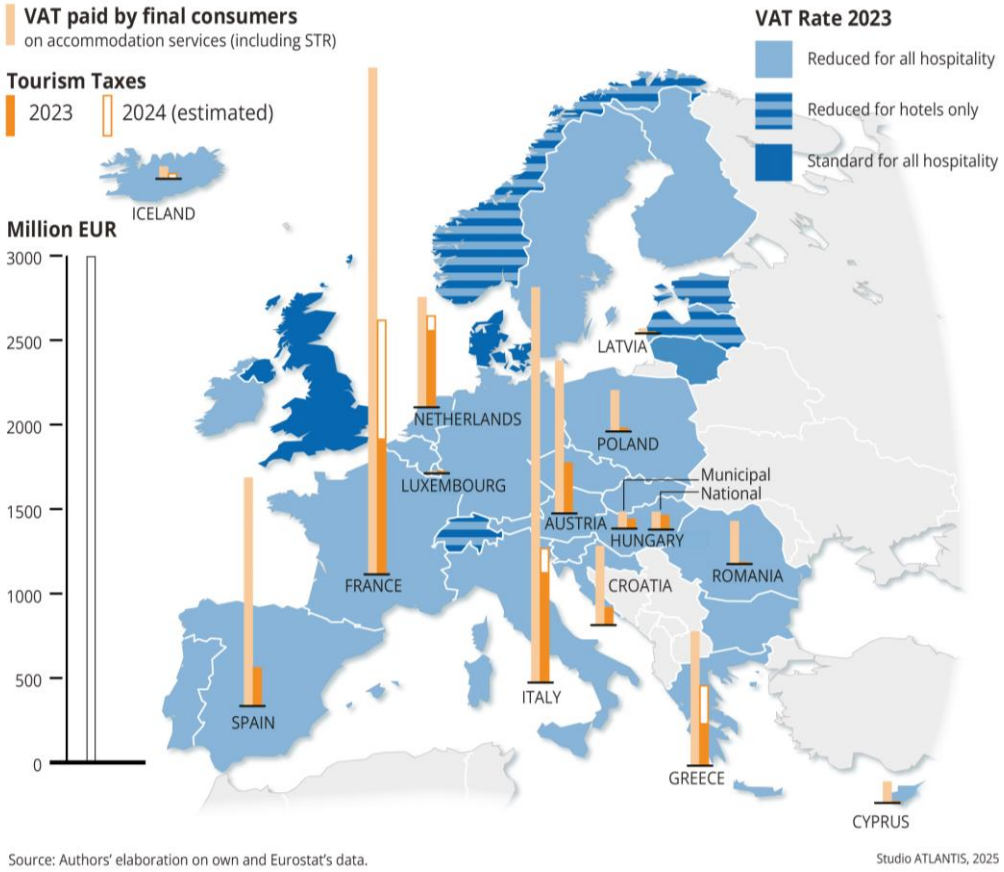
Access taxes, also referred to as *day-trip taxes*, *entry fees*, or *visitor levies*, are charges imposed for entering a destination without an overnight stay. These differ from tourist or city taxes, which apply to overnight visitors. Pilots for access taxes began in 2024 in Venice and small Italian islands, and were introduced in Svalbard, Norway in 2025, supporting by the feasibility of monitoring compliance in such locations. Overnight tourists are generally exempt from access taxes and instead pay tourism-related taxes. In other regions, access taxes may only be applied to cruise passengers who disembark or enter ports, such as in Iceland. Similar models are under consideration in areas including Formentera (Spain), Zermatt (Switzerland, potentially the first inland example), and the Canary Islands.

The figure below[24] presents a comparison between the final consumer component of VAT liability and reported data on tourism taxes for 2023. As shown, tourism taxes at the national level averaged approximately 25% of the VAT rate for the accommodation industry, which amounts to about 2.5% of the service's base value, but are rapidly trending towards 45%. In Amsterdam, tourism taxes represent 12.5% of the room price exceeding VAT. Cities such as Athens, Rodi, Heraklion, and Thessaloniki have higher relative rates, with Berlin following at 7.5%. In major Italian tourist cities, charges typically range from EUR 6 to EUR 8, comparable to those in Barcelona and Paris. These rates are lower than typical surcharges in the United States, where VAT, however, is not applied.

[23] Federalberghi in Italy has proposed replacing the current tourism tax with another VAT-based “city tax” that in selected locations carves out part of the VAT paid by the hospitality industry to municipalities. This is also the position of the Swedish industry, which would like to avoid the introduction of tourism taxes in the Country by eventually devolving part of the hospitality industry VAT to affected municipalities.

[24] Supporting data are reported in Appendix 2.

Figure 5. Comparison between VAT paid by final consumers on accommodation services and revenue from tourism taxation in selected[25] European Countries



*The national contribution in Hungary was not levied in the first trimester of 2023 and does not cover take-aways and alcoholic beverages. Local sources on Italy report EUR 703 mn in 2023. Source for France: Rapport de l'Observatoire des finances et de la gestion publique locales 2024. Data on Spain are available for Catalunya and Balearic Islands

Key Insights

- When cumulated statistics are available, data show that in 2023 total tourism taxation already reached some 28% of VAT in the accommodation industry and was heading towards over 40% in 2024 with notable increases in major tourism destination countries.
- There are instances where the amount of tourism taxes is already higher than VAT revenue from the accommodation industry either locally (Amsterdam) or nationally (Hungary).

Across Europe, tourism taxes have broadened in geographical scope and intensity. On rates, the menu has diversified beyond per-night flat fees to increasingly include percentage-of-room-price models that – unless cashed at the front-desk - have a potential to further multiply prices by means of cumulated effects on commission fees. On revenues, collections have surged with the tourism rebound and wider coverage: Italy's municipal stay taxes kept rising across most municipalities in 2024 well beyond the EUR 700 mn threshold and is bound to reach an estimated EUR 1.2 bn in 2025 because of the Jubilee surcharge. France has also experienced double growth rates in collected revenue towards an estimated EUR 1.5 bn because of the Olympics. Greece targets roughly EUR 500 million per year from the new

[25] Not all European Countries (particularly the federal ones) send data on their revenue from tourism taxes to Eurostat and these typically appear with a two-year delay. So, the latest available ones refer to 2023 and therefore tend to be outdated in this fast-moving field.

Climate Resilience package — illustrating a clear post-pandemic trend toward using visitor-specific charges as a substitute for VAT as revenue comes close to a 30% of VAT revenue. The revenue from tourism taxes in Iceland has also skyrocketed by an estimated ten times, following the introduction of the national scheme. **All in all, in 2023 tourism taxes in the selected sample amount to 25% of VAT, but with notable cases like the Netherlands, France and Greece pointing towards 60-80%. In Hungary, the peculiar double mechanism already makes the revenue from tourism taxes higher than VAT in accommodation.** Italy also appears headed in this direction. The overall trend in 2024 is towards 40%.

2.3 Use of Revenue from Tourism Taxes

Tourism tax revenue allocation varies by country and region, depending on local priorities and legal frameworks. Typically, these funds support tourism infrastructure, but uses differ widely and industry involvement is limited — **only eleven HOTREC national associations report participation in earmarking decisions**. There is no statistical data to measure trends or how proceeds are used. **Although these taxes often aim to fund tourism development, this is becoming less common, and practices vary significantly**.

In Austria, statutory regulations concerning regional tax revenue provide detailed guidelines regarding the allocation of funds, with outcomes depending on whether chambers of commerce, destination management organisations (DMOs), or municipalities are designated as beneficiaries. Municipalities frequently allocate these resources toward critical local infrastructure enhancements — such as road and pavement renovations — to ensure tourists have reliable access to essential amenities. This allocation highlights **the intricate connection between tourism-related taxes and broader local infrastructure development**. In Croatia, tourist tax revenue is distributed among local tourist boards, the national Croatian Tourist Board, and municipalities, primarily for the promotion of cultural and heritage tourism. Likewise, in Belgium, municipalities may allocate tourism tax proceeds to both general municipal budgets and targeted investments in tourism-specific initiatives, such as marketing and infrastructure improvements. This adaptable framework enables local governments to address both immediate municipal needs and broader, long-term objectives related to tourism development.

In France, proceeds from the tourist tax used to be primarily allocated to promoting tourism within local municipalities, focusing on the protection and management of natural areas that attract visitors. **However, the last increase in Paris was used to fund transport projects within the framework of the "Grand Paris" programme, with little tourism-related consideration**. Iceland's approach to tourism tax revenue has evolved over time. Initially designed to support the development and preservation of tourist destinations, such as national parks, the Bed Night Tax was intended to fund the maintenance of these areas. However, following the enactment of the Public Financial Management Act in 2015, earmarking tax revenues became prohibited, and all funds are now directed into the general state budget, without specific allocation to tourism-related projects but through negotiations with government.

The scale of the funds involved also influences earmarking practices. In Lithuania, the somewhat limited revenue generated from bed taxes is primarily used to enhance local tourism infrastructure and local businesses are involved in earmarking funds. These funds help support promotional campaigns to attract tourists and initiatives designed to make destinations more appealing. Poland, though it doesn't have precise figures on the allocation of tourism tax revenue, uses climate fees (a type of tourism tax) to contribute to the expansion of tourism infrastructure, focusing on sustainable growth.

In Italy, municipal tourist taxes (*tassa di soggiorno*) go directly into city budgets and according to the law should be aimed to promote tourism. However, operators have **complained about a lack of transparency in reporting the uses of these funds and many large cities now openly declare transport infrastructure and waste collection as eligible**. In the Balearic Islands, the *Impuesto de*

Turismo Sostenible ("eco-tax") finances environmental projects, water management, heritage preservation, and housing for seasonal workers. In Catalonia, tourist taxes also support local services and heritage sites, beyond tourism marketing.

Germany *Kurtaxe* or *CityTax* revenues go into general city budgets, covering services like public cleaning, transport, and infrastructure maintenance that indirectly benefit tourism. The Netherlands takes a similar approach, as tourism tax revenue is not necessarily reinvested into tourism infrastructure. Although some municipalities allocate a portion of the funds toward improving local amenities or promoting tourism, **much of the revenue is absorbed into the general budget, with no legal obligation to spend it on tourism development.**

Finally, in Switzerland, tourism levies are paid directly to municipalities, which have the discretion to determine how to allocate the funds without any commitment to develop tourism or involve the industry. Generally, **these revenues are invested in tourism infrastructure, such as public transport systems, benefiting both residents and tourists**. This system empowers municipalities to directly shape their local tourism offerings and infrastructure development based on the needs of their communities.

Most recent tourism tax increases have not particularly been well received by the industry because tax revenues have not been necessarily used for tourism-promotion purposes and stakeholders have been less and less involved in the related decision-making process. General/unallocated uses are becoming more prevalent together with a certain broad understanding of what is considered "tourism-promotion". For example, in France revenue from the higher tourist taxes helps finance Île-de-France Mobilités, the regional transport authority. In Greece the Climate Resilience Free is to support the general budget and in Italy the understanding of tourism promotion given to the Jubilee surcharge has been very broad and municipalities often do not report the use made of funds.

The prevailing trend across Europe also seems to be a shift from using funds mostly for promotion and DMOs toward using them for sustainability projects, as overtourism and climate impacts have become pressing issues. This "green earmarking" trend is possibly strongest in Southern Europe. In large cities tourism taxes increasingly fund the general services — waste collection, security, transport — seen as necessary to manage tourist pressure on residents. This spurs higher transparency demands, as both stakeholders and residents increasingly want clarity on how revenues are spent. With post-COVID budget pressures, municipalities rely more heavily on these taxes, leading to higher rates and broader application.

A growing number of big European cities (and a few national frameworks for specific segments) are opting for ad-valorem visitor taxes — i.e., a share of the room price — rather than flat per-person or per-room fees. It is not universal (many places still use flat fees), but the urban trend is clear. Examples include Amsterdam (NL) where since 2024 the tourist tax is 12.5% of the overnight rate (ex-VAT), Berlin (City Tax 7.5% of the net room price from 1 Jan 2025) Vienna the Ortstaxe is 3.2% of the accommodation payment (calculated on a defined base that excludes VAT and breakfast). Hamburg does not apply a pure percentage, but the tax is explicitly tied to the room price. Finally, France (for non-classified stays/most STRs): since a 2017 reform, municipalities must apply a 1%–5% ad-valorem *taxe de séjour* (capped) to unrated or unrated-pending accommodations — hotels that are officially rated still use flat per-person amounts. Many countries, such as Portugal, Greece, Spain, and Belgium, still use flat per-person or room charges. Policymakers weigh progressivity and the inflation-proof revenue of ad-valorem taxes against the simplicity of flat fees. Ad-valorem taxes are seen as fairer since they scale with price — high-end stays pay more — while flat fees can be regressive.

However, for the same reason ad-valorem systems are less effective for controlling overtourism. Their advantages include automatic revenue increases with inflation and compatibility with dynamic pricing and platform collection (e.g., France's 1–5% tax for unrated hotels/STRs). Percent-based taxes

depend on reported room prices, which suits online travel agents (OTAs) and platforms. Headcount-based taxes require accurate guest counts and can build on tourist registration systems.

Box 1. Tourism Tax in Amsterdam

Amsterdam has become one of Europe's most heavily visited cities, welcoming over 20 million tourists each year, far surpassing its 900 000 residents. This intensity of tourism, combined with rising daily visits and cruise passengers, has created structural overcrowding in the city centre. In response, the municipality has shifted from a promotional approach to a regulatory one, introducing unprecedented caps on overnight stays, restrictions on STRs, and limits on hotel permits. If implemented the cap would translate into a 60% occupancy rate and as such has been legally challenged. Yet, despite these efforts, forecasts suggest overnight stays will remain above 22 million in 2024 and could exceed 26 million by 2026. In this context, tourism taxation has become both a congestion management tool and a key fiscal lever.

Amsterdam was the first Dutch city to introduce a tourist tax in the 1970s. Initially structured as a flat per-person, per-night charge, it was transformed in 2007 into an ad valorem levy set at 5% of the accommodation price. By 2019, the rate rose to 7%, alongside measures to regulate short-term rentals. In 2024, Amsterdam moved into a uniform 12.5% of the room rate (excluding VAT) for all hotels, B&Bs, and holiday rentals, with fixed rates for campsites and cruise passengers (EUR 14.50 per visit). This is the highest rate in Europe and, combined with the reduced VAT on accommodation (9%), the effective tax burden approaches the standard VAT rate. When standard VAT rate is introduced in 2026, this will become the highest overall level of taxation in Europe at over 33%.

Notably, revenue from the tourism tax is already higher than VAT. While this maximises revenue, it raises concerns about affordability and competitiveness, particularly in the budget and SME segments of the market. Unlike many cities that differentiate by star category, zone, or season, Amsterdam's levy is consistent across the board. The approach also reflects practical limitations, since hotel classification is voluntary in the Netherlands. Enforcement against unlicensed or overstaying STR operators remains difficult, undermining fairness, and no reliable estimates of non-compliance are available.

Tourism taxation has become increasingly important in Amsterdam's municipal finances. In 2024, the city expected to collect EUR 245 million from the tourist tax, accounting for nearly 45% of all tourism taxation in the Netherlands. This represents about 12% of Amsterdam's own-source revenues, ranking alongside property tax and parking fees. The hospitality industry contributes close to 15% of own revenues when property taxes and restaurant levies are included. Yet, these funds are not earmarked for tourism promotion but used to cover general municipal costs. This reflects a fiscal as well as regulatory rationale: municipalities face a looming "ravine year" in 2026, when central government transfers will be cut, leaving them reliant on local taxes to maintain services. Tourist taxes, by targeting non-residents, shift the burden away from local households.

The 2024 increase to 12.5% produced a limited pass-through to consumers. Despite the higher levy, international tourism rose by about 5%, and occupancy rates continued to grow. Hotels absorbed most of the tax hike through base rate reductions, cutting rates by around 3% to preserve volumes. This implies a pass-through rate of only 5–10%. The result was a decline in profitability (RevPAR down 2–4%), illustrating pressure on operators' margins. Elasticity estimates suggest that leisure demand is relatively price-sensitive (-1.0 to -1.3), making volume preservation critical.

Going forward the planned national VAT increase on accommodation from 9% to 21% in January 2026 will compound these pressures- One preliminary estimate foresees hotel turnover falling by EUR 110-120 million, profits dropping by a third, and 500 jobs at risk in Amsterdam along. This will also result in a decrease of tourism taxation revenue of some EUR 10 mn. The impact is expected to be most severe for affordable and family-run establishments, which are more price sensitive and less able to absorb additional costs.

Amsterdam's experience highlights the need for a balanced and coordinated approach to tourism taxation, ensuring that overall levies remain proportionate and that the fiscal objectives of national and local authorities remain compatible with basic affordability and competitiveness requirements. This is particularly so when compounded by level playing field considerations between traditional hospitality and emerging accommodation models, as is the case when taxation happens in congested urban environments. Amsterdam's aggressive fiscal measures, also adopted to offset municipal budget cuts, illustrate how uncoordinated local taxation can distort tourism markets. Indeed, the expected VAT hike to 21% could cost hundreds of jobs and cannibalise municipal revenues, showing the risk of unassessed cumulative burdens conceived in isolation from each other.

3. Business Impacts and Stakeholder Evidence

3.1 Impacts of Variation in VAT Tax Rate

The hospitality sector accounts for roughly 3% of the European GDP but for a higher share of employment and about 1 in 20 jobs (over 11 million direct jobs), with a workforce skewed toward young and lower-skilled workers. Unlike manufacturing, these services and jobs cannot be offshored, so their benefits remain local. Tourism is an export industry that is consumed on the spot but cannot benefit from standard export VAT exemptions including the special VAT refunds foreseen for international tourists. Over the last 15 years, numerous EU governments have experimented with VAT rate changes in hospitality, providing a rich if sometimes contradictory evidence base on their impacts.

Robust evaluations of these experiences are scarce.[26] Most studies narrowly focus on short-term metrics (particularly price pass-through and the vexed question of their asymmetry[27] or immediate job creation counts by means of various types of – at times possibly contradictory - counterfactuals). These often ignore broader or longer-term effects, business investment, quality improvements, or cross-sector spillovers, as well as the other context factors influencing outcomes. It is actually the complex interplay of contextual factors (seasonality, economic cycles, parallel changes in costs, etc.) that makes it extremely difficult to isolate the true impact of VAT variations. **As a result, findings can diverge, and industry experience often tells a different story than academic models.**

Impact on Tourism Competitiveness. While reduced taxation is intended to sustain a country's share of international arrivals by moderating price levels and shaping the value-for-money proposition compared to competing destinations, this aspect has received limited attention in the economic literature so far. The 2017 European Commission study on the impact of taxation on tourism competitiveness indicates that empirical evidence supports the argument for lower taxes on tourists to enhance the competitiveness of tourist destinations and assist local tourism sectors; **however, such analyses remain relatively uncommon.**[28] Accommodation typically represents approximately 25-30% of a tourist's budget, with restaurants and bars accounting for an additional 20-25%. So, even minor tax-related price changes in the hospitality sector may influence destination choice, trip duration, and on-site expenditure. International tourism demand is generally understood as price elastic (meaning consumption is highly price-sensitive), with WTTC/UNWTO analyses often citing elasticities between –0.7 and –1.3 for Europe. The 2017 Commission study observes that price competitiveness significantly affects EU tourism performance, reporting elasticities around –1.1 for short-haul European tourists and up to –1.3 for long-haul visitors. According to the OECD, international tourism demand is also price-elastic, with estimated values around –0.7 to –1.0 for accommodation.[29] This suggests that VAT increases, when reflected in consumer prices, can alter tourism demand, particularly among price-sensitive groups such as youth, families, or international package tourists, as noted by industry operators.

[26] Bundestag's Research Service (Wissenschaftliche Dienste), in a review of the *Mövenpick-Steuer* (the 2010 reduction of hotel VAT from 19% to 7% in Germany, explicitly acknowledged that the measure had never been properly evaluated and that available evidence was scant and contradictory.

[27] Insights from VAT studies indicate that incomplete and asymmetric pass-through might be typical throughout the economy: prices do not consistently decrease when VAT is reduced but often increase when VAT is raised. MF, 2015, "Estimating VAT pass through", International Monetary Fund Working Paper, WP/15/214, available from: https://www.imf.org/external/pubs/ft/wp/2015/wp15214.pdf. Benzarti, Y., D. Carloni, J. Harju and T. Kosonen (2018), What Goes Up May Not Come Down: Asymmetric Incidence of Value-Added Taxes, No. w23849. National Bureau of Economic Research. Clément Carbonnier, 2005. "Is Tax Shifting Asymmetric? Evidence from French VAT reforms, 1995-2000," PSE Working Papers halshs-00590719, HAL.

[28] The Impact of Taxes on the Competitiveness of European Tourism, PwC, for DG GROW, 2017.

[29] OECD 2014, *Tourism Trends and Policies*

Conversely, some government estimates, such as those relating to Ireland in the case study below, **report international tourist flows as price *inelastic* (meaning not sensitive to price changes)**. In Slovakia, following a notable VAT reduction in accommodation, a detectable increase (some 10%) in domestic nights was observed[30] which would align with the elasticities above also for internal tourism, although the effect was concurrent with the introduction of tourism vouchers and limited analysis was conducted regarding the longer-term impact on international inbound flows.

An example of **differing perspectives between industry data and academic literature, as cited in policy documents,[31] concerns the German 2010 case**. The sole academic study[32] evaluating the impact on prices one year after the VAT reduction found that the VAT cut was not reflected in guest prices[33] and therefore did not affect demand. However, corporate reports for investors in the same year noted that the VAT reduction alleviated room oversupply in Germany and contributed, at least partially, to a 15% increase in occupancy rates in 2010. ADR data presented at the HOTREC 2024 conference in Budapest indicate an increase in ADR terms, which slowed down over time but remained notable until 2016. A significant effect on the occupancy rate is also documented, with values consistently above 70% since the implementation of the rebate. Isolating the impact of VAT rebates from other influencing factors remains challenging; for example, using the proportion of international inbound tourists to Europe visiting Germany as a proxy for the rebate's intended policy goal, the share increased by 7% in 2010, by 9% after two years, and showed an even larger rise over four years. Another aspect often neglected is that even when reductions are not fully passed through, **retained resources tend to finance refurbishments, service upgrades, marketing, and capacity — improving the price–quality ratio** that underpins long-run destination competitiveness.

Impact on Employment and Wage Levels. Hospitality is highly labour-intensive and "employment-sticky," meaning businesses try to retain staff even in downturns. When costs spike (e.g. a VAT hike), firms often absorb the hit through lower margins rather than immediate layoffs, because the number of clients often remain the same together with their spending gross of tax. Over time, though, persistently higher tax burdens can stifle job creation and eventually lead to closures or hiring freezes. Conversely, VAT relief can enable hiring spurts as demand and business confidence improve. The impact of changes in taxation levels has been measured either as the fiscal cost of creating a job (i.e. the forfeited fiscal revenue needed for each job created) or through a combination of estimates of the price elasticity of demand with labour-output elasticity (i.e. the elasticity of labour demand with respect to output demand). According to OECD and ILO studies, **employment-output elasticity in hospitality is relatively high because of the labour-intensive, low-capital nature of the sector**. Typical ranges may vary from 0.5 to 0.9: a 10% increase in demand (tourist nights, restaurant turnover) can lead to about 5–9% increase in jobs.

Hospitality has high fixed labour needs (chefs, cleaners, receptionists, waiters) so when demand rises, extra staff are usually needed, generating an elastic employment response. However, because productivity and overtime can absorb part of the demand change, **elasticity rarely hits 1.0**. In rare crisis[34] and recovery periods (e.g. 2008, COVID-19): elasticity can exceed 1.0 because employment

[30] IFP Poukážte sa, prosím! Ekonomické zhodnotenie rekreačných poukazov a zníženej DPH na ubytovanie, June 2023 https://ifp.sk/poukazte-sa-prosim/

[31] The Bundestag's research service (2019) quoted this result, concluding that the VAT cut did not lower room rates, and this is what entered the VAT policy debate ever since.

[32] Wagner, Weber & Gegenwarth (2014). "Wird die Umsatzsteuer überwälzt? Eine empirische Studie der Preispolitik im deutschen Hotelgewerbe." Arqus Discussion Paper, No. 179, Arbeitskreis Quantitative Steuerlehre (arqus), Berlin. https://www.econstor.eu/bitstream/10419/105337/1/812326520.pdf

[33] This was based on a database of 3131 hotels whose prices were drawn from the Michelin guide.

[34] In Portugal the VAT hike following the economic crisis triggered a fall in hospitality employment roughly proportional to output declines during VAT increases (elasticity close to 0.8–1.0).

cuts/hires are used as the main adjustment channel, but reported values usually are in the 0.6-0.9 range[35] reflecting different propensities in the different national labour markets for recourse to entry-level workers.

While tourism-related elasticities have been extensively studied, there is a lot more uncertainty on the functioning of domestic markets. **The range of estimates made for elasticity of demand for restaurants / catering services ranges from –0.3 to –0.8**, with much heterogeneity also depending on the degree to which dining out is considered customary in each culture.

A recently appearing body of literature[36] drawing from the Finnish[37] and Swedish[38] experiences quite radically claims that **elasticity of demand in restaurants would be close to zero, i.e. that the level of prices barely influences consumption**. These results, however, are heavily influenced by both the duration of the period of observation and the methodology chosen to build the counterfactual. Another evaluation[39] carried out in Sweden with another methodology on a longer period has come, in fact, to a completely different estimate of demand elasticity in restaurants of around –0.7, with stronger effects on consumption among youth and low-income diners. As shown below, a demand elasticity to price of -0.6 was estimated in Ireland. Countries where dining out is more of a cultural norm and less substitutable with home production are considered as more inelastic and possibly in the -0.2 - -0.5 range. A recent Court of Auditors[40] evaluation in France found an estimated elasticity of demand of around –0.4.

The same evaluation was overly critical of the fiscal costs of the measure because the cost per job created was calculated at EUR 175 000–262 000, compared to EUR 34 000–42 000 for standard social security contribution reductions; this would make a VAT rebate a very inefficient tool for job creation. The Court's calculation however refers to the entire fiscal cost of the EUR 3.3 bn yearly rebate, while it was agreed that one third[41] of it would be allocated to labour and most of it went into wage increases. Therefore, a fairer representation of the original intentions of French policymakers would be a cost per job created of some **EUR 58 000-87 000**. This under the assumption that the Court's methodology to estimate the counterfactual impact at 6 000-9 000 additional jobs is correct, as the Ministry reports much higher

[35] OECD (2018), "OECD Employment Outlook" notes that *"employment in accommodation and food services responds more strongly to output fluctuations than in most other sectors, reflecting its high labour intensity"* (elasticities in the range 0.6–0.9 are cited across OECD countries). ILO (2015), "Employment Relationships in Tourism and Hospitality" emphasises that *"tourism-related services display some of the highest employment-to-output elasticities in the economy, often close to unity in developing and developed economies alike."* European Commission (2017), "Study on the Competitiveness of the EU Tourism Sector" (DG GROW) finds that hospitality employment reacts proportionally to fluctuations in tourism demand, citing employment-output elasticities of 0.7–0.9 for hotels and restaurants in EU countries.

[36] See also Ván, Bálint and Olah, Daniel (2018): Does VAT Cut Appear on the Menu? The Consumer Price Impact of Hungarian VAT Decreases of 2016-2017. Published in: Public Finance Quarterly, Vol. 63, No. 3 (October 2018): pp. 355-375. and Kozponti Staisztikal Hivatal *A fogyasztói árak alakulása 2018-ban* on the Hungarian experience or WIFO Wirkungen der im Zuge der COVID-19-Krise reduzierten Mehrwertsteuersätze Erfahrungswerte aus rezenten Reformen – June 2021and https://open.overheid.nl/documenten/d64342c1-d54d-4238-b8e4-5b9bdc67aeb3/file on Significant APE Impactanalyse BTW-Verhoging Logies Ondernemers en Grenseffecten.

[37] Jarkko Harju Tuomas Kosonen Restaurant VAT cut: Cheaper meal and more service? Vatt Working Papers 52, Government Institute for Economic Research Helsinki 2013

[38] T Jarkko Harju and Tuomas Kosonen The inefficiency of reduced VAT rates: Evidence from restaurant industry. Government Institute for Economic Research July 18, 2014

[39] https://visita.se/app/uploads/2025/06/Nar-gasten-betalar-notan-turistskatterapporten-250624.pdf

[40] Court de Comptes (2024), Réponses des administrations, organismes et personnes concernés la situation et les perspectives des finances publiques, https://www.ccomptes.fr/fr/documents/70672

[41] This policy was implemented via a unique "contrat d'avenir" agreement: industry leaders committed that one-third of the VAT windfall would go to lower prices for consumers, one-third to employees (via new hires and pay raises), and one-third to business margins/investment. Indeed, wages and working conditions improved: unions and employers negotiated a new mandatory health insurance for hospitality workers, a +5.5% increase in minimum wages, a one-time €500 bonus, and two additional paid days off.

figures (52,700 additional jobs) that would make the industry the top job creator in France in the period. **These figures are comparable to those found elsewhere in Europe**. The cost per job created would be in the region of EUR 69 000 in Ireland if only direct jobs are considered.

Overall, **reduced VAT has proven to be a quick lever for job creation in hospitality during economic downturns and recovery periods**. Countries that implemented sizable VAT cuts in this sector all observed employment growth often significantly above economy-wide trends in subsequent years although there are major methodological disagreements in disentangling the specific impact of VAT from other concurrent factors. These jobs typically provide entry-level opportunities for young and low-skilled workers, amplifying the social benefits. Moreover, agreements like France's showed that part of the VAT savings can be consciously directed to increasing wages and improving working conditions. **On the flip side, when VAT is increased sharply, evidence suggests employment greatly suffers e.g. Portugal's 2012 VAT hike (from 13% to 23%) coincided with significant job losses in restaurants and rising unemployment in the sector**. The lack of automatic productivity gains in hospitality means higher taxes generally strain employers' ability to maintain or grow payrolls. Taken together, the prevailing evidence and on-the-ground business testimony support the industry's view that lower VAT rates help sustain and create jobs, whereas high VAT puts acute pressure on hospitality employment. Policymakers should thus weigh the social costs of potential job losses (and forgone job growth) when considering raising consumption taxes on this sector.

Impact on Tax Revenue, VAT Compliance and the Grey Economy. In the short run, cutting VAT in the hospitality sector reduces government VAT receipts. Some of that lost revenue may be partially offset if the tax cut stimulates extra consumer spending. **Price elasticity, however, should be unrealistically high for a tax hike to be self-defeating or a tax cut self-rewarding when assessed in static terms.** However, the true "backfire" threshold of a VAT change can come from substantial compliance/evasion response as the effective base shrinks well beyond price effect, for substitution to untaxed options (e.g., self-catering, home cooking), and most importantly, for massive firm exit / bankruptcy flows with capacity permanently removed and **massive unemployment**. All these are causes for the tax base to collapse via non-price margins, not just price sensitivity. **This is particularly so when VAT changes are compounded by parallel shocks in levels of per capita income or cost of labour/fixed inputs**. This is because consumption of hospitality services is overly elastic to income levels and cost structures tend to be poorly equipped to dealing with changes in level of spending as they depend on the number of clients and not their consumption levels.

Possibly the most famous example of these unorthodox dynamics is **what happened in Greece when, amid the fiscal crisis, government hiked VAT on restaurant and catering services from 13% to 23%**, a huge increase intended to raise revenue. The short-term result was increased prices for consumers who were undergoing decreased income levels and a sharp hit to the restaurant industry. Many eateries struggled to absorb the tax — thousands of restaurants closed during 2011–2012 as Greeks cut discretionary spending and businesses could not remain profitable. The government also found that **VAT compliance plummeted**: at the 23% rate, many restaurants under-reported sales or operated off-book to avoid the tax,[42] thus eroding the base. Realising the policy was counterproductive, Greece reversed course in August 2013, reducing VAT on catering back down to 13%. This led to a remarkable rebound: restaurant closures halted (the net decline in restaurant numbers went from 4 500 in 2012 to roughly zero after the tax cut). According to data from Greece's General Accounting Office, the *loss in VAT revenue from the rate reduction was far smaller than expected* – only about EUR 9 million per month, which was one-third of the forecast loss. This implies that improved compliance and higher sales largely offset the lower tax rate. The sector's stabilisation also had broader benefits: after losing ca. 30 000 jobs during the high-VAT period, the restaurant association projected 10 000 new jobs would be created following the tax cut. In sum, Greece's experience illustrates that under the wrong circumstances an excessive VAT

[42] Artavanis, Nikolaos. (2015). The Effect of the VAT Rate on Tax Evasion: Evidence from the Restaurant Industry in Greece. SSRN Electronic Journal. 10.2139/ssrn.2585147. Standard rating was then reintroduced from 2015 to 2020.

increase can backfire – beyond a certain point, it fuels tax evasion and business failures, yielding less revenue than anticipated.[43]

As mentioned before, **Portugal's 10 percentage-point jump also led to severe impacts on restaurants' profitability – and resulted in a massive increase in business closures and a tripling of bankruptcy likelihood for restaurants**. The contraction of the sector likely undermined total long-run tax collection – with fewer businesses and lower profits, revenue from corporate tax and labour taxes fell, and even VAT revenue may have been lower than it would have been with a more moderate rate. A few years later, as noted, Portugal decided to restore the 13% rate on restaurant food in 2016, implicitly acknowledging that the high VAT was too onerous for the sector.

"Portugal's 10% jump also led to severe impacts on restaurants' profitability – and resulted in a massive increase in business closures and a tripling of the chances of bankruptcy for restaurants"

Assessing the ultimate impact of a change in the VAT rate is a complex exercise going beyond an immediate arithmetical effect on tax receipts from that sector. If VAT is cut, the sector's financial position improves in the short term – leading potentially to **increased output and employment at the margin**, but these adjustments take some time. The Cutvatcampaign in the UK estimated a fiscal breakeven after five years if the country had moved from a standard VAT rate to a 5% reduced one.[44] When VAT is raised, VAT changes can significantly influence businesses' profitability and their capacity to invest and hire.[45]

This has knock-on effects for the wider economy and future tax revenues beyond what a linear model purely based on price elasticities can calculate **because effects can be non-linear beyond a certain sectoral resilience capacity**. The catastrophic surge in bankruptcies in Portugal's case exemplifies this. Each business closure is fiscally relevant – a closed business pays no VAT, no income tax, and its employees no longer pay income tax or social contributions. As reported in the case study on Ireland below, tax hike for revenue raising purposes may triggers a massive wave of business closures or bankruptcies. A **spillover of VAT policy onto employment taxes** is evident although insufficient to compensate for the VAT revenue: if jobs are cut, income tax and social security contributions fall, and **governments may have to spend more on unemployment benefits**. It is the latter element that can eventually tilt the balance. Profit-based taxes (corporate income tax) are also influenced. A lower VAT giving higher margins may result in higher taxable profits for hospitality firms, meaning more corporate tax paid.

Additionally, if high VAT pushes businesses into the informal economy (undeclared cash sales to avoid VAT), those undeclared profits also escape income taxes. The **hospitality sector has historically been prone to cash transactions and under-reporting**, especially when tax rates are high. A complex point often raised by industry stakeholders is that **lowering VAT can shrink the grey economy** by reducing

[43] https://www.ekathimerini.com/economy/164125/tax-rate-cut-in-catering-sector-has-paid-off/#:~:text=Before%20the%20VAT%20rate%20change%2C,now%20gone%20down%20to%20zero

[44] https://committees.parliament.uk/writtenevidence/76713/html/#:~:text=Under%20EU%20law%2C%20VAT%20on,almost%20twice%20the%20EU%20average.

[45] In Germany, despite the hotel VAT rate being slashed from 19% to 7%, the government's VAT intake from the hotel industry *rose* from €3.42 billion (2009) to €3.49 billion in 2015. In other words, six years into the reform, the Treasury collected more VAT from hotels at 7% than it had at the higher rate. A similar pattern occurred in Ireland: by 2018 the reduced 9% VAT was bringing in roughly €200 million more per year from tourism businesses than the old 13.5% rate had yielded in 2011. These outcomes suggest that tax base growth can compensate for rate cuts to a significant extent.

the incentive for tax evasion. In Finland, for example, policymakers partly justified the 2010 restaurant VAT reduction (22% down to 13%) as a way to **"level the playing field" with untaxed home cooking and curb under-the-table restaurant sales.** More recently, **Slovakia in 2024 explicitly decided to *reverse* a planned VAT hike and instead implement a cut to 5% for hospitality**, recognizing that jumping from a 10% reduced rate to 23% risked driving many transactions further into the shadow economy. Despite the IMF and European Commission maintain that **reduced rates are ineffective** against evasion and that there is **no clear link** between lower rates and reduced VAT gaps over time also because these are very rarely assessed at the sectoral level,[46] it is a fact that countries with large general VAT compliance gaps often have reduced rates in place for hotels and restaurants—possibly out of the belief that otherwise this would further worsen the gap.

Impact on Business Margins, Closures, and Market Entry. VAT changes can dramatically influence profit margins for hospitality businesses, which in turn affects their viability (risk of closures) and the attractiveness of the sector for new entrants. In an industry where profit margins are traditionally thin (often in the single digits for restaurants), **a tax increase can literally erase the bottom line**. For example, when Portugal raised restaurant VAT by 10 percentage points, researchers found that operating profits in the sector fell by 8.7% on average. This plunge in profitability was stark: by comparison, during the worst year of the global financial crisis, profits had dipped only by 1%. The VAT hike's impact was thus an order of magnitude more severe on margins than the recession itself. With margins evaporating, businesses had little cushion, and many slid towards insolvency. In Portugal's case, the rate hike led to a "massive increase" in inactive or bankrupt firms – the share of restaurants going inactive jumped to 8–9% (of all firms) in the year after the tax change, up from 2–3% normally. Statistically, the likelihood of a firm going under tripled post-VAT hike.

Conversely, **VAT reductions tend to relieve pressure on margins, improving business stability and lowering the risk of closure**. In France, it was estimated that the 2009 VAT cut for restaurants helped reduce the number of bankruptcies in the sector by 17% relative to trend. Roughly 18 000 enterprises (and 30 000 jobs) were saved from failure, according to the national statistics institute's assessment. In Belgium, industry voices similarly noted that the 2010 VAT cut "contributed to the economic resilience" of hospitality firms, helping them stay afloat during a challenging recovery. Austria offers another example: after maintaining a low 10% VAT for decades, Austria briefly hiked VAT on lodging to 13% in 2016, but the move was widely criticised as contributing to deteriorating hotel profitability. By 2018, the government reversed course and restored the 10% rate, explicitly to support the competitiveness and solvency of tourism businesses. The quick policy U-turn acknowledged that even a 3 percentage-point margin loss was hurting an industry operating on tight margins.

A favourable tax environment does not just keep incumbents afloat – it can encourage new entrants and entrepreneurship in the hospitality field. **Lower VAT improves the potential return on investment in opening a restaurant or hotel, thus attracting new businesses**. The Swedish government's evaluation of the 2012 VAT cut found evidence of hundreds of new restaurants entering the market. Specifically, about 490 additional firms were estimated to have started up thanks to the reform's improvement of profit margins and market demand. Similarly, in Germany, industry surveys after the 2010 hotel VAT cut indicated growing investor interest in the hotel sector; both domestic chains and international brands accelerated plans to open new locations, particularly in mid-sized cities where the tax savings improved feasibility. In Ireland, the period of the 9% VAT saw a boom in new restaurant openings and expansions – by 2015 the number of restaurants had grown about 16% compared to 2011, a trend attributed partly

[46] Slovakia is a notable exception. Its last analytical estimate of the tax gap in the accommodation and catering sector dates back from 2018 when it was set at 57%. i.e. four times higher than the national average. There is no assessment of whether this has reduced following the recent VAT cuts. See Slovakian Ministry of Finance - *Subsidy Spending Review Final Report*, February 2023.

to the hospitable tax rate making the sector more attractive for entrepreneurs (alongside recovering consumer spending).

Impact on Investment Levels. Investment is often one of the first casualties when businesses face financial strain. High operating costs, including taxes, can lead entrepreneurs to postpone or cancel capital investments to keep day-to-day operations afloat. Conversely, a reduction in tax burden can free up resources to reinvest in the business. **One major challenge in this area is that official evaluations often did not measure investment outcomes after VAT changes.**[47]. While anecdotal and survey evidence (and some proxies like fixed asset values) indicate higher investment post-tax-cuts, hard data is sometimes missing. For policy design, this suggests future tax changes should be accompanied by data collection on business investment behaviour. Nonetheless, the pattern from multiple countries' experiences is consistently demonstrates how VAT relief tends to spur higher capital expenditure in hospitality, whereas VAT increases can lead to deferred or cancelled investments (with potential long-run damage to quality and competitiveness).

The clearest example comes from Germany's VAT cut on hotel stays in 2010. Prior to the reform, German hotels had suffered years of under-investment – on average, properties were investing less each year than the value of their assets' depreciation, meaning the hotel stock was slowly deteriorating in quality. In 2009, for instance, the average hotel invested only about EUR 90 000 in capital improvements (per establishment). After the VAT was lowered to 7%, this changed dramatically. In 2010 the average investment per hotel jumped to EUR 119 000, and in 2011 it surged to EUR 243 000 – nearly triple the pre-cut level. By 2011, for the first time in years, the industry as a whole was investing more in new assets than the value of assets wearing out, effectively halting the net deterioration of facilities and sparking a renewal cycle.

Hotels directed these funds primarily into **renovating and modernising guest rooms and purchasing new machinery and equipment** (e.g. energy-efficient kitchen appliances, IT systems). According to the German Hotel Association (IHA), the VAT cut was the "initial spark" that enabled this investment wave. The result was **tangible quality improvements** – by a few years later, German hotels had improved their price-to-quality ratings in international benchmarks, suggesting the tax-fuelled investments paid off in competitiveness. So High VAT not only drains funds that could go into upgrades, but can also *change business strategy* in undesirable ways. When taxes are high, hoteliers and restaurateurs often feel they **"must keep prices competitive by forgoing investments"** – essentially choosing not to renovate or innovate so they can absorb the tax and keep prices low enough for customers. When hospitality businesses invest, it doesn't only benefit them – there's a **positive spillover to other sectors like construction, furnishings, and technology suppliers**. Germany's VAT cut, for instance, led to a mini-boom for hotel furniture and fixture suppliers in 2010–2011, as evidenced by strong sales in that niche and more jobs in shopfitting and contracting companies. The **multiplier effect** of investment is discussed more in the next section, but it's worth noting here that **governments can recoup some tax revenue through higher activity in these related sectors** – e.g. more construction work leads to more income tax and VAT from those activities. Indeed, Germany's hotel VAT cut was estimated to have indirectly boosted tax receipts from supplier industries, at least partly offsetting the initial revenue loss.

Economic Spillovers and the Tourism Multiplier. Tax policies impacting hospitality can have ripple effects far beyond the sector's immediate boundaries. Tourism economics literature often cites that every job in tourism **creates about 1.5 indirect or induced jobs** in the broader economy.[48] A competitive hospitality sector supported by lower VAT helping keep prices attractive can draw in more

[47] France's big 2009 VAT cut agreement explicitly envisioned one-third of benefits going into business investment, but the official follow-up studies mainly tracked prices and employment, **not systematically assessing how much new investment occurred**. The French Court of Auditors acknowledged this, noting that this had been never properly evaluated.

[48] UNWTO Tourism Highlights, various editions.

tourists, who then spend money on more than just hotels and restaurants. Spillovers concern local stores, guides, museums, transportation, and other leisure activities. **Hospitality VAT cuts have positive knock-ons for the entire destination. Austria's tourism towns** see similar dynamics; by keeping VAT low, Austria aims to sustain its competitive edge in alpine tourism – which then sustains local craft shops, ski schools, etc., in addition to hotels. In Hungary and Slovakia, the push to 5% VAT is partly to **increase tourism receipts overall**, counting on the multiplier – more visitors will boost everything from urban transit use to events attendance. An estimate of this impact, however, requires, that the tourism-related component of the hospitality industry added value is kept separate from the rest, a feature found only in some national economic accounts.

Another impact is through more traditional supply chain and local sourcing effects. What makes these impacts peculiar is that hotels and restaurants are often deeply embedded in local supply chains made of SMEs. A family hotel might source bread from the local bakery, hire local musicians for entertainment, or contract a local laundry – all those linkages mean that **improving hotel revenues can directly translate to more business for local SMEs**. So, a VAT cut that raises a hotel's occupancy will likely increase its procurement from suppliers. Conversely, Portugal's restaurant crisis after the 2012 VAT hike hurt not only eateries but also farmers and fisherman who lost restaurant clients, as well as food wholesalers (some of whom reported a surge in unpaid invoices or business closures down the chain). This shows the **interconnected nature of the hospitality ecosystem** – a reason industry advocates argue that supporting hospitality yields **broader economic benefits** than one might assume by looking at hospitality GDP alone.

This is because tourism/hospitality purchases a variety of inputs (food ingredients, linens, cleaning services, etc.) and because employees spend their earnings on other local goods and services. For example, when a restaurant hires more staff and serves more diners thanks to a VAT cut, its increased orders to food wholesalers support agricultural producers and distributors, and its new employees spend their pay on housing, groceries, transport, etc., stimulating those sectors. In Ireland's case, the **56 000 total jobs** attributed to the 2011 VAT cut included **18 800 indirect jobs in the wider tourism economy** (on top of 37 600 direct in hospitality). A thriving hospitality sector can also indirectly support sectors like **construction and real estate** (through hotel development and higher property utilization) and **manufacturing** (through demand for equipment, furnishings, etc.).

While the concept of spillovers and multipliers is well-recognised, **quantifying the precise impact of a VAT change on other sectors is challenging**. Many studies stop at measuring direct effects (prices, sector employment) and perhaps some supplier employment, but they **rarely capture induced spending effects or long-term shifts in destination competitiveness**. For example, if a VAT cut allows a country to attract significantly more foreign tourists over a decade, the benefit to industries like airlines or shopping malls may be huge but not straightforward to attribute. Isolating that effect amid currency fluctuations and other factors has rarely been attempted due to data and methodological hurdles. Nonetheless, qualitatively, **stakeholders consistently report positive spillovers**. Regional economies heavy in tourism see broad upticks when hospitality is thriving: more local artisan sales, more transport usage, greater cultural event attendance, etc. Conversely, in periods when hospitality was hit by tax hikes or economic crises, entire local economies (e.g. Greek islands in 2011 or Portuguese towns in 2012) felt the downturn ripple through all businesses. As a proxy, it can be said that a VAT policy that increases tourist spending in hospitality by, say, EUR 100 million could induce a total GDP boost of roughly EUR 150-160 million – with additional jobs and tax revenues in multiple sectors.

Box 2. Irish Case Study on VAT Roll-back in Hospitality

Tourism and hospitality account for about 4% to Ireland's Gross National Income and over 280 000 jobs, playing a vital role in regional economies. Yet, VAT rates have impacted the sector's competitiveness, with Ireland's rate rising from 12.5% to 13.5% in 2005– significantly above Northern Ireland's 5%. Fiscal concerns prevented reductions, and restricted VAT input deductions complicated business until partial relief for conferences was introduced in 2007.

In response to the global downturn, the 2011 Jobs Initiative cut the tourism VAT rate to 9%, generating around 31 000 new jobs and a 9% rise in overseas visitors within two years. This mainly concerned larger businesses, as 76% of B&Bs were not VAT-registered.

The 2018 Department of Finance's review found employment growth by of 30%-41% from 2011 to 2016, but mostly in entry-level roles, with declining median pay and more uneven wage distribution. Consumption rose 36%, but this was also due to higher household incomes, as prices showed lower elasticity. Hospitality productivity dropped 4.3% compared to a 47% national increase, and unit labour costs in the sector rose by 14%. Impact on foreign demand was minimal, with North American tourists deemed largely insensitive to price and Dublin hotels often at capacity. These findings led to the withdrawal of the 9% VAT rate in 2019 on grounds of limited additionality and potential deadweight costs; although the reduced rate was temporarily reinstated from 2020 to 2023 because of the COVID 19 epidemics.

A 2023 inquiry reassessed the policy. Evidence showed VAT rebates did not significantly reduce consumer prices but did increase profit margins. Modelling indicated that raising VAT back to 13.5% would hit more heavily on low-income households in relative terms, even if wealthier households bore higher absolute costs. Compensation measures were recommended. The Parliamentary Budget Office projected 8 500 job losses over two years; industry groups warned of double this impact once suppliers were included.

Importantly, the debate revived calls for regional VAT differentiation to address urban-rural differences, but EU rules require uniform reduced rates. Tourist occupancy taxes in Dublin were proposed instead. Sectoral differentiation, favouring SMEs like restaurants and cafés over hotels, was also discussed. Tax authorities opposed multiple VAT rates due to compliance issues, though future changes remain possible.

The return to 13.5% VAT combined with rapid cost inflation, placed exceptions strain on the sector. After minimum wage hikes pushed pay to EUR 13.50, labour costs now account for over 40% of hotel-restaurant expenses. Energy prices are 30% higher than the EU average and food inflation, especially a 19% jump in beef prices, further squeezed margins. Many restaurants cut portions, hours, and menu items. Restaurant and café closures jumped to 577 from just 18 the previous year; hospitality insolvencies were up 88% in H1 2024. Each closure costs an estimated EUR 1.36 million in lost economic output, possibly negating revenue gains from higher VAT.

Surveys confirmed the impact: 91% of businesses reporting lower profitability, 77% a negative outlook, and 68% directly blaming VAT increases. Average food sales fell 9%, while operating costs rose 16%. Hotels also suffered, with national occupancy rates dipping from 76% in 2023 to 74% in 2024 and a projected EUR 100 million drop in business bookings for 2025. Foreign visitors spent EUR 19.6 billion in 2023, including EUR 10.6 billion on restaurants. Government forecasts warned of a potential 6.75% decline in overnight stays linked to VAT. The European Tourism Association (ETOA) survey in 2025 confirmed competitiveness concerns: hotel prices had risen over 35% since the pandemic, dining costs remained high, and Ireland's value-for-money ranking deteriorated relative to European competitors.

Dublin has weathered the increase better, maintaining steady occupancy. Rural counties face sharper challenges, with closures threatening the diversity of Ireland's tourism offer. High costs, VAT uncertainty, and declining value perceptions risk shifting tourist flows to alternative destinations. Ireland's 2023 VAT increase has disproportionately harmed restaurants, cafés, and rural hotels, accelerating closures, job losses, and margin pressures amid already high labour, energy, and food costs. While urban hotels remain resilient, the broader sector's competitiveness is weakening. Regional imbalances are widening, and Ireland risks losing ground against European destinations with lower hospitality VAT. Stable, equitable, and targeted taxation policies remain essential to protect small businesses, sustain employment, and maintain Ireland's attractiveness as a tourism destination.

Ireland's experience shows that in an economic environment increasingly characterised by a growing urban-rural divide, VAT hikes disproportionally harm rural hospitality which would require a level of flexibility that is not currently possible in implementing VAT. This is even more so as hospitality remains one of the few remaining employment generators in marginal areas. Moreover, in an industry where labour is a major cost centre, fiscal measures cannot be seen in isolation from parallel interventions on the labour market and particularly those on minimum wages.

3.2 Vulnerable Segments in Rural Areas and Uneven Burden for SMEs

Rural hospitality businesses – country hotels, village pubs, stays, etc. – are typically SMEs that rely on domestic tourists or niche visitor segments. Events such as weddings often represent a significant share of turnover, with accommodation and restaurant services jointly provided. **VAT changes can have disproportionate effects on these businesses and their communities**.

Small rural operators often have limited financial buffers. A VAT increase can directly eat into their profits if they avoid raising prices, or it can force price hikes that deter customers. For example, in the Netherlands, research in 2025[49] found that a proposed VAT hike on accommodation from 9% to the standard 21% **would cause profit losses of up to 80% for about 900 small family-run hotels in border regions**. These hotels, which have mostly leisure guests, would see their already thin margins nearly wiped out. The Dutch hotel association warned this *drop in profitability could make bankruptcies likely*, especially in villages where such hotels are key to the local economy. This case vividly shows how a sharp tax rise threatens the survival of rural hospitality SMEs.

Rural businesses often compete either with urban centres for domestic tourists or with nearby regions across national borders. **A VAT disparity can skew this competition**. In the Dutch example, those small hotels would compete with hotels just across the border in Belgium and Germany where VAT on lodging is only 6% and 7% respectively. Such tax differences (9% vs 6% or a potential 21% vs 7%) mean a traveller's stay can be significantly cheaper just a few kilometres away, drawing business away from higher-VAT areas. Similar dynamics have been observed elsewhere in Europe: for instance, in the past Portuguese border restaurants struggled against Spanish counterparts because Portugal's restaurant VAT was 12% while Spain's was 7%, *plus* Spain allowed businesses to deduct VAT on hospitality expenses (unlike Portugal). This made Portuguese eateries notably more expensive, diverting customers to Spain.[50] In general, when one country or region raises VAT on tourism, neighbouring areas with lower taxes often benefit from a shift in visitors – a clear market distortion caused by tax policy.

High VAT can also encourage locals to vacation abroad instead of at home, which especially hurts rural domestic tourism. A long-running argument in the UK was that the 20% VAT on UK hospitality (almost *double* the European average) made domestic holidays pricier and less attractive, contributing to Britons choosing foreign trips.[51] Industry groups claimed that cutting VAT to 5% for hospitality would not only boost domestic travel and job creation but even *pay for itself* through greater economic activity and tax revenue in the long run. Indeed, when Ireland dramatically cut its VAT on hotels and restaurants from 23% to 10% in 1986, it reversed a decline in tourism: Irish holidaymakers started favouring domestic destinations over foreign trips, and by 1991 Irish tourists spent more at home than abroad. This illustrates how lowering VAT can recapture domestic tourism spending that would otherwise "leak" to other countries.

Today both the UK and Denmark are characterised by a very high share of outbound domestic tourists and this also used to apply for Slovakia in Central Europe. It is not generally possible to implement a special VAT rate for rural or remote areas. The Isle of Man saw a tourism boost after it slashed VAT on accommodation from 17.5% to 5%, suggesting that lower prices worked in attracting more visitors also in remote areas with limited accessibility. In the Netherlands a study calculated that for every EUR 1 less spent on rural hotels, local restaurants, shops and suppliers lose another EUR 0.60 in revenue, illustrating the ripple effect on rural economies.

[49] https://hotelvak.eu/en/industry/koninklijke-horeca-nederland/profit-loss-of-up-to-80-for-hotels-in-border-region-due-to-vat-increase/#:~:text=Koninklijke%20Horeca%20Nederland%20,profits%20of%20up%20to%2080.

[50] The example was mentioned in Copenhagen Economics, Study on reduced VAT applied to goods and services in the Member States of the European Union DG TAXUD, 2007 Final report.

[51] https://committees.parliament.uk/writtenevidence/76713/html/

Box 3. Denmark's High VAT and the Rural Hospitality Market

Denmark's 25% standard VAT, with no reduced rate for tourism services, makes it one of Europe's most heavily taxed tourist destinations. Unlike many other countries, Denmark has not adjusted its VAT to support the hospitality sector, which affects both urban and rural competitiveness. Copenhagen officials in 2023 debated a new local tourist tax, with critics arguing that additional costs could further harm Denmark's appeal, as tourists already face high VAT and no meal deductions. Rural areas, dependent on domestic and neighbouring visitors, struggle particularly with these price disadvantages. The booming coastal tourism is largely based on cottage rentals.

In Germany, the VAT on hotel accommodation is 7%, while in Sweden it is 12%. Rural Danish hotels near the German border encounter challenges resulting from Denmark's 25% VAT rate: maintaining higher prices may discourage customers, while reducing base rates to compensate for the tax can lower profit margins. These circumstances affect competitiveness. This effect is somehow amplified by platforms using maps for price comparison. The high VAT rate in Denmark has contributed to changes in tourism patterns, such as German bus tours limiting their stays in Denmark to one night before traveling to Sweden or Germany, Swedish wedding guests choosing accommodation in Malmö and commuting to events, and companies selecting Berlin over Denmark for conferences due to differences in VAT and meal expense policies. Additionally, Danish families may visit Sweden or Germany for dining and short trips, especially in border regions where substitution effects are observed.

Rural areas in Denmark are especially affected by the country's high 25% VAT, which puts domestic SMEs at a competitive disadvantage compared to Germany (7%) and Sweden (12%), making Danish services up to 18% more expensive. Industry participants say this tax hampers margins, innovation, and investment, with Danish businesses facing obstacles to growth unlike their neighbours, who benefit from reduced VAT rates supporting sectors like tourism. The high VAT also increases seasonal revenue swings, as competitors offer cheaper off-season deals while Danish operators must keep prices high year-round.

A specific issue in Denmark concerns the non-deductibility of input VAT on meals. This rule significantly increases the overall cost of hosting conferences, business meetings, and corporate events, where catering services are an essential component of the package. For event organisers and international associations choosing among potential destinations, the inability to recover VAT on meals can represent a decisive factor when comparing costs across countries. The result is that Denmark is placed at a competitive disadvantage in the conference and events market, which is highly sensitive to total price. Other countries, where input VAT on meals is deductible under certain conditions, are perceived as offering better value for money, thereby attracting organisers and international delegates even if their VAT is high as in Germany.

The VAT system gives an advantage to private short-term rentals, which enjoy a DKK 33,500 annual exemption compared to hotels that must charge the full 25% VAT. As a result, private holiday home rentals are widespread in rural Denmark, often offered by individuals not required to collect VAT. Renting cottages and self-catering is typically cheaper for tourists than staying at hotels or eating out, due to the VAT included in hotel and restaurant prices. This trend can put rural hotels and restaurants at a disadvantage, shift consumer spending to alternatives that contribute less tax and local employment and may have led to more hospitality investment in urban areas while rural regions see fewer large hotel projects Tourism in Denmark is concentrated in a few municipalities, mainly urban areas and resorts. High VAT has shifted the market toward luxury niches like Michelin restaurants and boutique hotels, while mid-range and family options have declined. Danish schools prefer Swedish hotels for cost reasons. Rural operators are highly at risk, with estimates that "60% of Danish hotels and restaurants would die within 2 years" of a crisis without VAT reform.

Denmark illustrates the limits of uniformly high VAT rates in a competitive single market. While urban luxury segments can endure high VAT, rural and mid-market operators, particularly when close to borders, bear the consequences in terms of losing guests to neighbouring countries. This market distortion and structural polarisation have been further compounded by fiscal asymmetries with private rentals that result in an unlevel playing field between accommodation types and reduce employment generation effects in rural/peripheral areas and among SMEs.

4. Modelling Insights: Sectoral and Macroeconomic Effects

4.1 Impact of Taxation on the Sector

Scenario analysis: VAT changes

This section estimates how changes in VAT rates could affect key economic variables in the hospitality sector – namely sales, profit margins, wages and government revenues. We start from a **2023 baseline,** based on Eurostat input/output tables. According to these data, the hospitality industry generated about **EUR 1 006 billion in net sales,** contributing **EUR 114.9 billion in VAT revenue** after accounting for deductible expenses. This corresponds to an **effective tax rate of roughly 11.4%. Net wages** amount to **EUR 256.3 billion**, and the sector's "gross operating surplus" (a macro-level proxy of EBITDA[52]) is about 20% of sales. Building on this baseline, we model two types of VAT changes:

Scenario 1: Small, uniform VAT changes

We simulate the impact of a **universal 1 percentage point change in the VAT rate applied, in terms of both an increase or a decrease**. To capture different possible market reactions, we test a range of **demand elasticities** (i.e. how strongly consumers react to price changes, including as an extreme case where demand remains unaffected, i.e. fully "price inelastic") and **pass-through rates** (the share of VAT changes actually passed on to final prices). One scenario also differentiates between **tourists and domestic consumers**, recognising that tourists are usually more sensitive to price differences.

Scenario 2: Alignment with standard VAT rates for the sector

We then simulate a more substantial policy shift: **aligning the reduced VAT rates currently applied to the sector with standard national VAT rates.** For this set of scenarios, we again vary assumptions on how consumers will react and pass-through rates, and **we also introduce, for the first time, a simulation of a supply-side shock**. This shock reflects the possibility that drastic tax increases push firms with very low margins out of the market. The most severe scenario ("doom scenario") mirrors the situations reported in some countries where VAT increases have led to waves of closures and bankruptcies. In this version of the model, business exits are represented as a strong negative supply reaction, which is only partially compensated by surviving operators in the short run.

Breakdown of scenarios assessed

In total, we examine **14 scenarios:**[53] **8** for the 1% VAT and **6** for VAT rate equalisation, as summarised in Table 1 overleaf. These scenarios are designed to show the ***range* of possible effects**, not to predict any single outcome. This is necessary because empirical evidence on price elasticity in hospitality is inconsistent and highly context-dependent, for instance the relative weight of tourism in the local economy, for which the above-mentioned "doom scenario" has been built. Insight from interviews and survey responses helped us identify which scenarios are more relevant in practice. In tourism-intensive countries, demand is likely to behave closer to the **more elastic** scenarios (similar to Scenarios 1a and 2e, moving toward 2f for highly specialised regions). In countries with less tourism, more moderate

[52] GOS are closer to EBITDA as they include profits, corporate taxes, depreciation, investments, imputed rents, and the return to self-employment. In hospitality, a big share of the sector is owner-operated restaurants and cafés, so their labour income as self-employed is booked as "mixed income." This inflates the margin compared to net profit after wages, taxes, interest, etc. The grey economy can further distort this figure as turnover can be understated, but value added and GOS are often corrected upwards using balancing items. The 22% gross operating surplus in the baseline is higher than trade reporting figures, which place the average EBITDA of "businesses" around 18% for many European portfolios, and 13% for restaurants, with a wide spectrum of values by segment

[53] All data are reported here for the EEA and UK as a whole.

reactions (combinations of Scenarios 1a, 1b, 1d or Scenario 2a) appear more realistic, with rural areas showing more vulnerability to supply-side pressures (closer to Scenario 2e).

Table 1. Main Features of the Fourteen Scenarios Considered

	Subtype	Elasticity of demand from 0 to -1[54]	Pass-through between 80%-100%
Scenario 1: **1 pp VAT change**	1a increase	High customer reaction	High
	1b increase	Moderate customer reaction	Partial
	1c increase	No reaction	High
	1d increase	High customer reaction	Partial
	1e increase	Moderate customer reaction	Partial
	1f increase	Varies for tourists vs. domestic consumers	High
	1g decrease	Very moderate reaction	High
	1h decrease	Moderate customer reaction	High
Scenario 2: **Alignment to standard VAT rate**	2a	High customer reaction	High
	2b	Moderate customer reaction	High
	2c	No reaction	High
	2d	Moderate customer reaction	Partial
	2e	Doom scenario	High
	2f	Extreme doom scenario	High

Source: authors' elaborations

In this study, we use a tool called a **"partial equilibrium model."** In simple terms, this model helps us estimate what would happen to the hospitality sector if VAT were changed. It looks only at a small part of the economy— the two sectors concerned—rather than trying to model every sector at once. Because it focuses on a limited number of sectors, the model can describe very precisely how taxes affect prices, demand, business revenues and customer behaviour in hospitality. Unlike full economy-wide models, it does not try to measure wider knock-on effects (for example, long-term impacts on wages, investment or tourism flows). For this reason, we will combine its results with those of a review of literature on multipliers which can capture these broader effects. The model allows us to estimate impacts not only on total turnover, but also on profit margins, fiscal revenue for Governments and other key economic variables that matter for hospitality businesses (wages, employment levels).

[54] 0 denotes perfectly inelastic demand, meaning that changes in price have no effect on quantities purchased. An elasticity of -0.3 is considered very moderate, -0.5 moderate, and -1 is high, involving a change in quantities exactly proportionate to any changes in price.

Effects on Turnover and Business Viability: Likely Reduction of EUR 8 billion in sales for 1 pp VAT increase

Table 2. Change in Net Sales in the Different Scenarios (mn Euro in 2023 prices)

	Hotel sales	Restaurant sales	TOTAL	Hotel in %	Restaurant in %	Total in %
Scenario 1a	-1 772	-6 287	-8 059	-0.7%	-0.8%	-0.8%
Scenario 1b	-888	-3 150	-4 038	-0.4%	-0.4%	-0.4%
Scenario 1c	0	0	0	0.0%	0.0%	0.0%
Scenario 1d	-1 772	-6 287	-8 059	-0.7%	-0.8%	-0.8%
Scenario 1e	-1 064	-3 777	-4 841	-0.4%	-0.5%	-0.5%
Scenario 1f	-1 734	-6 095	-7 829	-0.7%	-0.8%	-0.8%
Scenario 1g	+539	+1 913	+2 453	+0.2%	+0.3%	+0.2%
Scenario 1h	+899	+3 192	+4 091	+0.4%	+0.4%	+0.4%
Scenario 2a	-15 672	-47 343	-63 015	-6.5%	-6.2%	-6.3%
Scenario 2b	-8 031	-24 176	-32 207	-3.3%	-3.2%	-3.2%
Scenario 2c	0	0	0	0.0%	0.0%	0.0%
Scenario 2d	-9 529	-28 731	-38 261	-3.9%	-3.7%	-3.8%
Scenario 2e	-22 943	-69 548	-92 491	-9.5%	-9.1%	-9.2%
Scenario 2f	-36 065	-110 055	-146 120	-14.9%	-14.4%	-14.5%

Source: authors' elaborations

Key Insights

- In the most likely scenarios, a 1 pp increase in the VAT rate will result in EUR 7-8 billion reduced sales across Europe.
- A similar VAT decrease of 1pp would translate into EUR 2.5-4 billion increased sales. The relatively muted customer response to the price change.
- A sudden alignment to standard VAT rates can be expected to lead to a decrease in sales in the region of EUR 30 to 40 bn. The drop could even reach as high as EUR 90 bn if supply-side shocks are factored in.

The simulations on turnover in 2 above estimate how turnover responds to elasticity assumptions and effective pass-through. Hotels experience slightly less impact than restaurants from a 1 percentage point increase in their VAT rate (i.e. a 0.7% decrease in turnover vs a 0.8%). This is **because a larger proportion of hotel turnover involves business customers that can deduct VAT and so de facto bear no VAT regardless of the rate**. The most relevant part of restaurant turnover spared by the increase is alcohol, because this is already standard rated. When elasticity is set at -1 (scenarios 1a and 1d), gross sales for hotels remain at EUR 264.3 bn and for restaurants at EUR 856.7 bn, matching the baseline. This means demand decreases in line with the price increase, resulting in no change in gross sales. Consumers operate within fixed budget constraints, allocating only a set amount for spending and adjusting quantities accordingly. With elasticity –1, the effective economic burden is absorbed by quantity adjustments, so VAT revenues and net-of-VAT sales compensate each other.

The pass-through assumption does not affect turnover when elasticity is –1, and scenarios 1a and 1d therefore produce identical results. If operators absorb part of the VAT increase, their profit margins change, but **net sales do not**, because total expenditure by consumers remains constant under unit elasticity. With an elasticity of –0.5, the reduction in net sales is smaller—roughly **half** of what would occur under an elasticity of –1. In this case, hotels experience a turnover loss of around EUR 0.9–1.05 billion, depending on the degree of pass-through, while restaurants face a decrease of approximately EUR 3.2–3.8 billion. These variations, about **0.5% of annual turnover**, are small enough to be difficult to

distinguish from normal year-to-year economic fluctuations. The same logic applies to a 1-percentage-point decrease in the VAT rate: the resulting increase in turnover would also be so small that it would be hard to separate from normal cyclical movements, amounting to EUR 0.5 – 0.9 billion for hotels and EUR 1.9-3.2 billion for restaurants.

The zero-elasticity scenario (1c), while considered unlikely, suggests that net sales remain constant relative to the baseline, with the VAT increase being absorbed in full by gross sales. In this case, pass-through is assumed to be 100%, as it would not be rational for operators to act otherwise in an inelastic market.[55]

As restaurant elasticity is generally considered to be higher than that of hotels, if a 1 percentage point increase were enacted in reality, a combination of scenario 1a for restaurants and either scenario 1b or 1d for hotels could be expected. This is estimated to lead to a total turnover reduction of approximately EUR 7.0-8.0 billion. In fact, if one considers that hotels are much more responsive to tourism demand, then scenario 1f and scenario 1a are in practice similar for them. It is thus fair to conclude that a total impact in the region of EUR 8.0 billion is also more likely if tourism-related effects are considered.

In contrast, the Scenario 2 simulations illustrate the consequences of more substantial VAT increases. As shown, **the estimated reductions quickly escalate into several percentage points of industry revenue.** For instance, Scenario 2a implies a contraction of EUR 63 billion (–6.3%), while the most severe case, scenario 2f, would imply catastrophic losses of EUR 146 billion (–14.5%), which is roughly one-seventh of annual sector turnover.

The figures also confirm that restaurants are more affected, due to the larger share of their customer base made up of private consumers who cannot deduct VAT. In Scenarios 2b and 2d — arguably the most plausible mid-range assumptions — turnover losses remain between EUR 32 and EUR 38 billion (–3.2% to –3.8%). In scenarios where the narrow profit margins typical of the hospitality industry **accelerate business closures, the total reduction in turnover can range from some EUR 90 to 150 bn; in reality this might be at the low end of the impact**. This remains the most likely estimate for economies heavily characterised by tourism flows, with Scenario 2c again acting as a theoretical benchmark: a zero-elasticity assumption implies unchanged net sales and thus represents the upper bound for raising tax revenue.

The step from Scenario 2b/d to Scenario 2e/f is particularly instructive, as it highlights how the compounding effects of high elasticity and full pass-through with a supply shock can multiply turnover losses, pushing the industry into contractions of nearly a tenth or more of gross sales.

Similar considerations apply to business viability, expressed in terms of available GOS. The values are slightly amplified compared to the changes in sales and so the impact is always more than proportional and particularly so for the 2e scenario. This is in line with interviewees reporting a 16% margin squeeze following a 4.5% VAT hike in Ireland due to the limited possibility of reducing variable costs. For reference, the COVID pandemic showed that a 10% decline in turnover led to insolvency risks for 20–30% of SMEs in the hospitality sector due to how tight the margins tend to be. With typical net margins around 3–6%, a 1% reduction in the margin could increase exit risk by 5–10%. The impact of a 1% VAT rate decrease remains in the EUR 0.5-1 billion range of increased margins.

[55] This example is included both due to its citation as an extreme case in the VAT literature on Sweden and Finland and because it represents the maximum potential revenue gain from a VAT increase when consumption patterns do not change in terms of quantities purchased.

Table 3. Change in Net GOS as a proxy of EBITDA in the Different Scenarios (mn Euro in 2023 prices)

	Hotel GOS/ EBITDA	Restaurant GOS/ EBITDA	TOTAL	Hotel in %	Restaurant in %	Total in %
Scenario 1a	-401	-1 364	-1 765	-0.7%	-0.8%	-0.8%
Scenario 1b	-201	-684	-884	-0.4%	-0.4%	-0.4%
Scenario 1c	0	0	0	0.0%	0.0%	0.0%
Scenario 1d	-401	-1 364	-1 765	-0.7%	-0.8%	-0.8%
Scenario 1e	-237	-814	-1 052	-0.4%	-0.5%	-0.5%
Scenario 1f	-404	-1 343	-1 747	-0.7%	-0.8%	-0.8%
Scenario 1g	+122	+415	+537	0.2%	0.3%	0.2%
Scenario 1h	+203	+693	+896	0.4%	0.4%	0.4%
Scenario 2a	-3 684	-11 552	-15 236	-6.7%	-7.1%	-7.0%
Scenario 2b	-1 888	-5 905	-7 793	-3.4%	-3.6%	-3.6%
Scenario 2c	0	0	0	0.0%	0.0%	0.0%
Scenario 2d	-2 209	-6 970	-9 178	-4.0%	-4.3%	-4.2%
Scenario 2e	-5 391	-16 954	-22 345	-9.8%	-10.5%	-10.3%
Scenario 2f	-8 576	-27 084	-35 660	-15.5%	-16.7%	-16.4%

Source: authors' elaborations

Key Insights

- Changes in margins are slightly amplified in each scenario compared to the impacts on sales.
- In the most realistic scenarios, this means a VAT increase of 1 pp can lead to a EUR 1.7 bn loss.
- The 1 pp reduction scenarios are expected to generate small increases in margins.

4.2 Sectoral Contribution to the Economy

Hospitality is a significant employer in Europe, responsible for almost 13 million jobs

This section examines the wider economic impacts that could be expected under the different scenarios. To set the scene, it is first important to understand the role hospitality plays as a centre of employment in Europe as reported in Table 4 below.

Table 4. Direct and indirect (first order) employment of HOTREC industry (2023)

	Direct employment		Indirect employment	
	Accommodation	Food and beverage services	Hotels	Food and beverage service s
Austria	131 978	191 274	29 659	
Belgium	28 886	164 360	5 448	27 753
Bulgaria	45 508	99 370	26 321	
Croatia	44 998	75 333	7 157	6 086
Cyprus	25 120	31 729	6 472	
Czechia	37 408	141 411	8 330	19 665
Denmark	27 433	129 361	9 917	
Estonia	7 316	19 410	3 099	
Finland	11 894	69 658	20 214	
France	288 048	1 093 794	205 520	
Germany	538 789	1 673 905	133 593	
Greece	198 982	504 125	69 567	
Hungary	33 932	130 829	13 149	22 123
Ireland	76 756	157 903	7 731	
Iceland	7 474	12 628	972	
Italy	325 346	1 316 265	216 169	
Latvia	6 387	25 864	5 163	
Lithuania	11 222	42 054	1 143	3 847
Luxembourg	3 422	20 626	643	
Malta	10 273	15 146	3 643	
Netherlands	100 042	438 859	69 855	
Norway	33 868	83 762	8 386	
Poland	84 992	240 675	43 770	
Portugal	137 266	307 851	68 736	
Romania	56 182	155 661	12 214	19 054
Slovenia	15 785	28 353	8 559	
Spain	369 634	1 293 898	216 289	
Sweden	62 299	191 787	58 778	
EEA	**2 734 347**	**8 705 303**	**1 360 715**	

Source: authors' elaborations on Eurostat data.

Key Insights

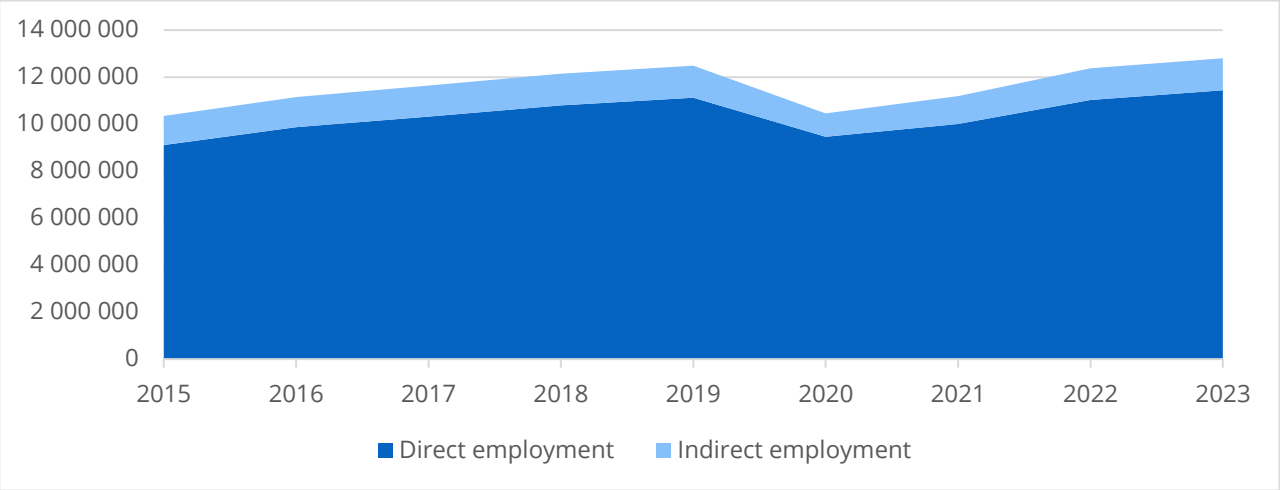
- Indirect employment in the supply chain is estimated at some 11% of direct employment, bringing the number of total jobs supported by the hospitality industry in Europe close to 12 800 000 units.

In 2023, the hospitality industry provided employment to more than 11.4 million individuals, with over three quarters working in restaurants and catering, and the remainder employed in the accommodation sector. This accounts for about 5% of total employment within the EEA region. Another 2.2 million employees were reported in the UK where they account for some 7% of waged labour. Given that the industry's value added is primarily labour-based and input purchases represent a relatively small

proportion of costs, indirect employment — defined as first-order effects generated directly at industry suppliers — resulted in an additional 1.3 million jobs upstream. These jobs are also split between accommodation services and food and beverage services. Indirect employment represents 11% of direct employment and less than 1% of overall employment in the region. Most indirect employment associated with the hospitality industry is linked to the broader tourism ecosystem rather than to contributions from the value chain itself.

As shown in the figure below, both direct and indirect employment levels have recovered from the COVID-19 crisis and now exceed 2019 pre-pandemic levels, maintaining an upward trend over the past decade which confirms the industry as one of the largest direct and indirect job creators, in countertendency compared to other industries that have generally been facing reductions in employment. The situation differs in the UK, which has seen 200 000 recent job losses due to an increase in social security contributions and rising labour costs in general.

Figure 6. Total employment in the hospitality industry in the EEA since 2015 (units)



In 2023, employment within this sector generated approximately EUR 256 billion in net wages, with the average monthly salary reported at EUR 1 570. This data underscores the significant presence of part-time and entry-level roles. Additionally, employers' wage taxes and social contributions amounted to roughly EUR 53.6 billion, constituting about 21% of net wages. As illustrated in Table 5 below, **the scenarios with a general realignment of VAT rates are expected to have significant macroeconomic implications**, potentially resulting in a reduction of 300 000 to 1 000 000 jobs—or between 3% and 10% of total employment — and up to 1 500 000 jobs lost under the most severe scenario (2f). This could equate to a maximum 0.5% decrease in the overall regional employment level. It is worth noting that the UK and its labour would not be affected by any realignment towards the standard rate because they already apply the maximum rate, so all the impact described below refers to the EU + EEA region. A 1pp decrease in VAT rate is expected to generate a total 30 to 50 000 jobs.

Table 5. Change in Wages in the Different Scenarios (mn Euro in 2023 prices and units)

	Hotel wages	Restaurant wages	TOTAL	Hotel employment units	Restaurant employment units	Total employment units
Scenario 1a	-437	-1 614	-2 051	-23 981	-88 569	-112 550
Scenario 1b	-219	-809	-1 028	-12 018	-44 394	-56 412
Scenario 1c	0	0	0	0	0	0
Scenario 1d	-437	-1 614	-2 051	-23 981	-88 569	-112 550
Scenario 1e	-258	-962	-1 221	-14 158	-52 790	-67 003
Scenario 1f	-421	-1 544	-1 964	-23 103	-84 728	-107 776
Scenario 1g	+133	+491	+624	+6 016	+21 763	+27 779
Scenario 1h	+222	+819	+1 041	+10 117	+36 562	+46 679
Scenario 2a	-3 735	-11 134	-14 869	-204 961	-610 986	-815 947
Scenario 2b	-1 913	-5 681	-7 594	-104 977	-311 749	-416 726
Scenario 2c	0	0	0	0	0	0
Scenario 2d	-2 233	-6 704	-8 937	-122 537	-367 887	-490 424
Scenario 2e	-5 470	-16 369	-21 840	-300 170	-898 260	-1 198 485
Scenario 2f	-8 541	-25 748	-34 289	-468 693	-1 412 940	-1 881 633

Source: authors' elaborations

Key Insights

- The impact of a 1 pp VAT change lies in the region of some 50 000 – 100 000 jobs, and is likely closer to the lower bound (jobs gained) for a rate decrease and to the higher bound for a rate increase (jobs lost).
- The scenarios modelling an alignment to VAT standard rates would lead to estimated employment losses of around 400 000 – 800 000 units, but once supply-side effects are considered, these can reach as high as 1 200 000 units.

The tax revenues generated by aligning with standard rates would amount to largely equivalent lost wages and social contributions due to the expected supply-side shocks

A 1 percentage point increase in the VAT for the hospitality industry is estimated to generate approximately EUR 8-9 billion in additional tax revenue across Europe or a parallel decrease in case of a 1 percentage point drop (see Table 6 below). The increase is offset by a reduction in social contributions of about EUR 200-400 million, which could potentially double as there is also a parallel reduction in taxes paid by workers. This compensation effect is lower and to the tune of some EUR 130-220 billion in a VAT decrease.

The VAT rate alignment scenarios generally indicate a positive outcome for tax administrations, even under more extreme assumptions. As can be seen, the decision to roll back a VAT increase is explained less by fiscal considerations, than by broader "macroeconomic factors". When there is a supply shock most of the VAT revenue in fact is accompanied by drastic, almost equivalent, reduction in the level of wages and employment that largely exceeds the reduction in fiscal revenue from labour and so is largely "paid for" by a parallel contraction in GDP. Scenario 2c describes the current VAT policy gap, i.e. the total amount of VAT revenue forgone because of the decision to grant reduced rates. Also, in this case the impact of the scenarios 2 does not apply to the UK or Denmark, since these already apply standard rates for the entire accommodation industry.

Table 6. Impact on Revenue in the Different Scenarios (mn Euro in 2023 prices)

	Hotel VAT	Restaurant VAT	TOTAL VAT	Hotel contributions	Restaurant contributions	Total contributions
Scenario 1a	1 772	6 287	8 059	-89	-338	-427
Scenario 1b	1 875	6 712	8 587	-45	-169	-214
Scenario 1c	1 978	7 138	9 117	0	0	0
Scenario 1d	1 772	6 287	8 059	-89	-338	-427
Scenario 1e	1 855	6 629	8 485	-53	-202	-254
Scenario 1f	1 773	6 309	8 083	-86	-325	-410
Scenario 1g	-1 926	-6 917	-8 843	+27	+103	+130
Scenario 1h	-1 891	-6 769	-8 660	+45	+172	+217
Scenario 2a	15 672	47 343	63 015	-735	-2 231	-2 966
Scenario 2b	17 228	52 156	69 384	-376	-1 138	-1 515
Scenario 2c	18 867	57 182	76 049	0	0	0
Scenario 2d	16 943	51 239	68 182	-440	-1 343	-1 783
Scenario 2e	14 195	42 733	56 928	-1 077	-3 281	-4 357
Scenario 2f	11 507	34 263	45 770	-1 679	-5 153	-6 832

Source authors' elaborations

Key Insights

- Additional tax revenues for governments can be estimated at around EUR 8-9 billion for 1 pp VAT increase, while the total VAT policy gap lies at EUR 70 – 75 billion.
- This estimate decrease to EUR 55 billion once supply-side shocks are considered. However, lost wages and social contributions would amount to EUR 25 billion and some EUR 35-40 billion if total impact on the economy is considered.

The Total Induced and Indirect Impact on the Economy is Roughly 1.6 Times the Taxation Impact on the Sector.

To come to a more comprehensive assessment of the overall economic impact of taxation of the hospitality industry we have carried out a review of literature. Results show that the tourism ecosystem as a whole, of which the hospitality industry is a part, is widely recognised for its potential to generate high economic spillovers and induced macroeconomic effects, which can in turn contribute significantly to economic growth.[56] [57] This is due to the sector's ability to drive demand across various other industries, create jobs, and stimulate economic growth through indirect channels. Tourism generates demand not only for tourism-related services (such as entertainment and transportation) but also for products and services from other sectors. Tourists *per se* are believed to spend from 40% to 60% of their budget outside of accommodation when on holiday/on a visit. Some EU countries, such as Austria,[58]

[56] Silvia Emili & Federica Galli, 2023. "Spatial and cross-sectoral input spillover effects: the case of the Italian tourism industry," Journal of Productivity Analysis, Springer, vol. 59(3), pages 243-258, June.
[57] Faber, Benjamin and Gaubert, Cécile, Tourism and Economic Development: Evidence from Mexico's Coastline (January 2018). CEPR Discussion Paper No. DP12644
[58] https://unstats.un.org/unsd/trade/events/2017/manila/presentations/day2/08%2011-30%20Peter%20Laimer.pdf

Estonia,[59] Germany,[60] and Spain,[61] have published reports estimating the indirect and total impacts of tourism. However, these reports lack a common set of methodological guidelines, which means that the results are not perfectly comparable (but as shown in Table 7 below, still mostly consistent). Additionally, the Tourism Satellite Accounts (TSA), which are the best source of information on structural characteristics of tourism sector, are not currently a part of the standard reporting requirements for EU Member States to Eurostat, and their publication is limited. This leads to significant gaps in data availability.

More comprehensive data (although with limited information on the methodology used) can be found in World Travel and Tourism Council (WTTC) "Economic Impact" reports. The latest one, published in 2023[62] associates EUR 787.1 billion with the Travel and Tourism industry's direct contribution to GDP — equivalent to 3.4% of GDP, while the total contribution, which includes the wider effects from investment, the supply chain, and induced income impacts, was estimated at EUR 2 044.4 billion in 2023 (about 8.8 % of total GDP). This ratio of direct to total economic contributions provides a useful benchmark and suggests that the broader economic effects of the hotel and restaurant sector most likely follow a similar pattern.

Table 7. Economic contribution (direct and indirect) of Travel and Tourism industry in Europe (EUR bn, 2023)

	EUR bn	% of total (where relevant)
Direct contribution to GDP	787.1	3.4
Total contribution to GPD	2 044.4	8.8
Direct contribution to employment	15 564	4.1
Total contribution to employment	36 308	9.4
Visitor exports	570.7	-
Domestic spending	1 165	-
Capital investment	190.8	-
Government collective spending	154.4	-
Imported goods from indirect spending	-272.2	-
Induced	431.3	-

Source: World Travel and Tourism Council – "Travel and Tourism Economic Impact 2023"

An alternative approach to estimating the wider economic contribution of tourism to GDP has been proposed by Figini, P., & Patuelli, R. (2022). They developed a methodology based on Input-Output tables and TSA, with clear instructions on how to follow the algorithm. However, as mentioned earlier, a key limitation of this method is the limited availability of TSA data, which restricts the model's application to only a few countries (or requires some far reaching simplifications). Because of that, the authors applied their model exclusively to three European countries: Czechia, Italy, and Portugal.

Table 8 below presents the estimates derived from their model, alongside data produced by national statistical agencies from Austria, Estonia, Germany, and Spain. It is important to note that this approach

[59] https://andmed.stat.ee/en/stat/majandus__rahvamajanduse-arvepidamine__satelliit-arvepidamine__turismi-arvepidamine/RAS0004

[60] https://www.bundeswirtschaftsministerium.de/Redaktion/EN/Publikationen/wirtschaftsfaktor-tourismus-in-deutschland-lang.pdf

[61] https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736169169&menu=ultiDatos&idp=1254735576863

[62] https://assets-global.website-files.com/6329bc97af73223b575983ac/647df6373ea1c1794b25c2a1_EIR2023-EuropeLCU.pdf

calculates only the indirect impact on Gross Value Added (GVA) and Employment (as shown in Table 9), and does not attempt to estimate the induced macroeconomic effects (which makes it narrower than the approach by WTTC).

Table 8. Direct and indirect impact of Tourism industry on Gross Value Added in selected counties

Country	Direct impact (million EUR)	Share of direct impact in GVA	Indirect impact (million EUR)	Share of indirect impact in GVA	Total impact (million EUR)	Share of total impact in GVA
Austria	20 017	5.8%	5 038	1.5%	25 055	7.3%
Czechia*	4 338	2.7%	6 918	4.7%	11 256	7.7%
Estonia	845	4.8%	435	2.5%	1 279	7.3%
Germany	105 300	3.9%	76 100	2.8%	181 400	6.7%
Italy*	87 873	5.9%	65 114	4.4%	152 987	10.3%
Portugal*	11 120	7.1%	6 292	4.0%	17 413	11.1%
Spain	66 502	7.0%	40 712	4.4%	107 214	11.4%

Source: Figini, P., & Patuelli, R. (2022). Estimating the economic impact of tourism in the European Union: Review and computation. Journal of Travel Research, 61(6), 1409-1423. *(Czechia, Italy and Portugal based on calculations by Figini, P., & Patuelli, R., using data for 2015; other countries based on national calculations published between 2017-2021).

Despite the limitations, the results of the analysis are broadly consistent with those of the WTTC. Specifically, the indirect economic effects in these countries fall within a similar range as the direct economic contributions, supporting the idea that the indirect impacts of tourism (and narrower, hotels and restaurants sector) on the economy are substantial and comparable to the direct effects – both in case of GVA and Employment.

Table 9. Direct and indirect impact of Tourism industry on employment in selected counties

	Direct employment	Indirect employment	Total employment
Czechia			
Inbound tourism	149 204	127 054	276 258
Domestic tourism	96 588	82 263	178 850
Total tourism	**245 792**	**209 317**	**455 108**
Italy			
Inbound tourism	1 072 796	381 828	1 454 624
Domestic tourism	1 275 424	501 450	1 776 874
Total tourism	**2 348 220**	**969 970**	**3 318 190**
Portugal			
Inbound tourism	261 645	131 484	393 129
Domestic tourism	99 175	46 141	145 316
Total tourism	**360 820**	**177 625**	**538 445**

Source: Figini, P., & Patuelli, R. (2022). Estimating the economic impact of tourism in the European Union: Review and computation. Journal of Travel Research, 61(6), 1409-1423.

The sources above broadly coincide in estimating the hospitality industry as responsible for 70%-73% of tourism related jobs, and tourism is estimated to have a broader multiplying effect on the economy, amounting to 2.3 of employment and 2.6 of GDP. So, the specific multiplying effect of the hospitality industry is in the region of some 1.6 for employment, of which 0.1 is given by indirect first order effects;

and 1.87 of GDP, of which 0.28 is given by indirect upstream industries[63] in the value chain and the rest from the broader effects on the tourism ecosystem.

These figures can be used to estimate the **induced impact on the economy from a change in VAT rates**. Table 10. below depicts these impacts, as measured in employment terms.

Table 10. Impact of a Change in VAT Rates on the Economy including Induced and Indirect Effects on Employment (units)

	Direct	Indirect	Induced	TOTAL
Scenario 1a	-112 550	-11 255	-56 275	-180 080
Scenario 1b	-56 412	-5641.2	-28 206	-90 259
Scenario 1c	0	0	0	0
Scenario 1d	-112 550	-11 255	-56 275	-180 080
Scenario 1e	-67 003	-6700	-3 3501	-107 204
Scenario 1f	-107 776	-10 777	-53 888	-172 441
Scenario 1g	27 779	2 778	13 890	44 447
Scenario 1h	46 679	4 668	23 340	74 687
Scenario 2a	-815 947	-81 594	-407 973	-1 305 515
Scenario 2b	-416 726	-41 672	-208 363	-666 761
Scenario 2c	0	0	0	0
Scenario 2d	-490 424	-49 042	-245 212	-784 678
Scenario 2e	-1 198 485	-119 848	-599 242	-1 917 576
Scenario 2f	-1 881 633	-188 163	-940 816	-3 010 612

Source: authors' elaborations

Key Insights

- For each job in the sector directly affected by any VAT changes, an additional 0.6 jobs could be expected to be impacted in the wider economy

[63] On average across the OECD countries in 2019, around 28% of the total value added generated by tourism spending in hotels and restaurants was created indirectly in upstream domestic sectors (e.g. agriculture, food production, energy, and transport services).

4.3 Summary Tables

The summary tables below compare all the modelled scenarios and the main variables considered with reference to respectively to hotels, restaurants and the hospitality industry as a whole.

Table 11. Modelled Scenarios in million EUR (2023 prices) and units

Scenario	Net Sales	in %	Net GOS as a proxy of EBITDA	In %	Wages	Employment units	Revenue	Social contributions
Restaurants								
1a	-6 287	-0.8%	-1 364	-0.8%	-1 614	-88 569	6 287	-338
1b	-3 150	-0.4%	-684	-0.4%	-809	-44 394	6 712	-169
1c	0	0.0%	0	0.0%	0	0	7 138	0
1d	-6 287	-0.8%	-1 364	-0.8%	-1 614	-88 569	6 287	-338
1e	-3 777	-0.5%	-814	-0.5%	-962	-52 790	6 629	-202
1f	-6 095	-0.8%	-1 343	-0.8%	-1 544	-84 728	6 309	-325
1g	+1 913	+0.3%	+415	0.3%	+491	+21 763	-6 917	+103
1h	+3 192	+0.4%	+693	0.4%	+819	+36 562	-6 769	+172
2a	-47 343	-6.2%	-11 552	-7.1%	-11 134	-610 986	47 343	-2 231
2b	-24 176	-3.2%	-5 905	-3.6%	-5 681	-311 749	52 156	-1 138
2c	0	0.0%	0	0.0%	0	0	57 182	0
2d	-28 731	-3.7%	-6 970	-4.3%	-6 704	-367 887	51 239	-1 343
2e	-69 548	-9.1%	-16 954	-10.5%	-16 369	-898 260	42 733	-3 281
2f	-110 055	-14.4%	-27 084	-16.7%	-25 748	-1 412 940	34 263	-5 153
Hotels								
1a	-1 772	-0.7%	-401	-0.7%	-437	-23 981	1 772	-89
1b	-888	-0.4%	-201	-0.4%	-219	-12 018	1 875	-45
1c	0	0.0%	0	0.0%	0	0	1 978	0
1d	-1 772	-0.7%	-401	-0.7%	-437	-23 981	1 772	-89
1e	-1 064	-0.4%	-237	-0.4%	-258	-14 158	1 855	-53
1f	-1 734	-0.7%	-404	-0.7%	-421	-23 103	1 773	-86
1g	+539	+0.2%	+122	0.2%	+133	+6 016	-1 926	+27
1h	+899	+0.4%	+203	0.4%	+222	+10 117	-1 891	+45
2a	-15 672	-6.5%	-3 684	-6.7%	-3 735	-204 961	15 672	-735
2b	-8 031	-3.3%	-1 888	-3.4%	-1 913	-104 977	17 228	-376
2c	0	0.0%	0	0.0%	0	0	18 867	0
2d	-9 529	-3.9%	-2 209	-4.0%	-2 233	-122 537	16 943	-440
2e	-22 943	-9.5%	-5 391	-9.8%	-5 470	-300 170	14 195	-1 077
2f	-36 065	-14.9%	-8 576	-15.5%	-8 541	-468 693	11 507	-1 679
Hospitality Industry								
1a	-8 059	-0.8%	-1 765	-0.8%	-2 051	-112 550	8 059	-427
1b	-4 038	-0.4%	-884	-0.4%	-1 028	-56 412	8 587	-214
1c	0	0.0%	0	0.0%	0	0	9 117	0
1d	-8 059	-0.8%	-1 765	-0.8%	-2 051	-112 550	8 059	-427
1e	-4 841	-0.5%	-1 052	-0.5%	-1 221	-67 003	8 485	-254
1f	-7 829	-0.8%	-1 747	-0.8%	-1 964	-107 776	8 083	-410
1g	+2 453	+0.2%	+537	0.2%	+624	+27 779	-8 843	+130
1h	+4 091	+0.4%	+896	0.4%	+1 041	+46 679	-8 660	+217
2a	-63 015	-6.3%	-15 236	-7.0%	-14 869	-815 947	63 015	-2 966
2b	-32 207	-3.2%	-7 793	-3.6%	-7 594	-416 726	69 384	-1 515
2c	0	0.0%	0	0.0%	0	0	76 049	0
2d	-38 261	-3.8%	-9 178	-4.2%	-8 937	-490 424	68 182	-1 783
2e	-92 491	-9.2%	-22 345	-10.3%	-21 840	-1 198 485	56 928	-4 357
2f	-146 120	-14.5%	-35 660	-16.4%	-34 289	-1 881 633	45 770	-6 832

Appendix 1

Detailed Case Study Factsheets

Factsheet - The Impact of Denmark's 25% VAT on Rural Hospitality and SMEs

Introduction

Denmark stands out in Europe for its **uniform 25% VAT on hospitality, with no reduced rates** for tourism or hospitality services. This standard VAT rate – the highest among EU member states – applies fully to hotel stays, restaurant meals, and other visitor services, whereas most neighbouring countries apply much lower rates to these sectors. For example, Sweden charges just 12% VAT on hotels and restaurant meals, and Germany 7% on hotel accommodation. Such disparities have significant implications. Danish tourism businesses must charge gross prices around 13–18% higher than Swedish or German competitors for the same net revenue. This disadvantage is felt most acutely in price-sensitive segments and regions.

Outbound vs Domestic Tourism Patterns

One consequence of high domestic prices is a **skewing of tourism flows**, with Danes often choosing to spend their holidays abroad. Danish residents are among Europe's most travel-prone populations, taking *nearly 8 million outbound trips in 2024* and spending about EUR 10 billion on international tourism. Tellingly, the number one destination for Danish travellers is Sweden – a nearby country offering similar nature and culture but significantly lower hospitality prices. Many Danish families find that crossing the Øresund or the German border can yield substantial savings on vacations and dining due partly to the VAT disparity.

On the flip side, Danish tourism spending was roughly split 56% domestic vs 44% inbound. Foreign tourism to Denmark has grown substantially over the last decade together with the platform economy and climate change (which is making northern destinations more attractive). Annual international tourist arrivals climbed from around 8.7 million in 2010 to nearly 14.7 million in 2019. In fact, in 2023 Denmark saw around 32.5 million international tourist visits and the first half of 2024 recorded over 25 million tourist overnight bookings, the highest ever. On average this equated to about $580 spent per international visitor, reflecting the fact that Denmark attracts a generally affluent tourist base. Leisure travel overwhelmingly dominates. For example, beach vacations alone accounted for ~75% of international visits in 2023, highlighting Denmark's growing strong pull as a coastal holiday destination during the summer months.

VAT rates have influenced the Danish market by **encouraging a significant portion of visitors to opt for extended stays in rental summerhouses**. It is common practice for these guests to book cottages for a week or longer during the summer months. Notably, 42% of all touristic overnight stays in 2022—more than twice the European average—were in rented holiday homes, highlighting the popularity of this type of accommodation. This trend has lessened the local economy's immediate benefit, as longer-term visitors typically self-cater and share expenses within families, thereby reducing overall trip costs. As a result, the formal accommodation sector has shifted toward shorter weekend stays, when renting an entire house is rarely practical. Therefore, the average stay in Denmark is just over two nights. Furthermore, because visitor spending tends to focus on low-labour-intensity activities—such as short-term rentals, self-catering, and purchasing imported groceries—the number of tourism-related jobs per GDP share is lower in Denmark compared to neighbouring countries.

Cross-Border Substitution: Tourists and Locals Seek Cheaper Alternatives

Because of these price differentials, there is **clear evidence of cross-border substitution in tourism behaviour**. Both foreign visitors and Danes themselves frequently adjust their plans to minimise time or spending in high-cost Denmark. For example, international tour operators often limit the number of nights their groups spend in Denmark, opting for more overnight stays in Germany or Sweden where hotel rates (after tax) are lower. The CEO of one Danish hotel chain observes that *"package tours [...] may*

limit the number of nights in Denmark and go for more nights in Sweden or Germany. We see German bus tours staying only one night in Denmark because of the VAT rate." Denmark's small geographic size makes it feasible for tour buses to transit quickly through; a coach tour can have a brief stopover in Copenhagen or Jutland, then move on to countries with cheaper hospitality costs for the bulk of the trip. This represents lost revenue for Danish regions – an opportunity cost directly linked to VAT-induced price competitiveness.

Specific anecdotes illustrate the pattern. A Danish hotel recently hosted a Swedish group for the first time in years, and while the visitors loved the experience, they candidly admitted that *"the price is a big factor"* in deciding if and when to return. Even for social events, the substitution occurs: one Danish-Swedish wedding saw the bride's family and guests stay in Malmö, Sweden and shuttle by bus across the bridge to the Danish wedding venue, because lodging in Sweden was markedly cheaper after tax. Then it has also been reported that, with sites like Booking, when the map function is used and options in Denmark vs Sweden or Germany can be seen in one shot, the price difference is very obvious, and travellers opt for the cheaper ones.

Crucially, it is not only foreign tourists who adjust their behaviour – **Danish consumers themselves engage in cross-border arbitrage for leisure** and professional events. In border regions like southern Jutland and the Øresund area, many Danes routinely shop and dine out on the other side of the border to stretch their money. A significant number of Danish families drive to Germany for restaurant dinners or groceries or take a short trip to southern Sweden for a weekend outing, taking advantage of their neighbours' lower VAT on hospitality.

Looming changes abroad may intensify this trend. Germany's decision to cut restaurant VAT to 7% by 2026 is expected to "open a new VAT front against Denmark," heightening the competitive challenge for Danish eateries and attractions. This will particularly impact areas like the West Coast of Jutland, *"where competition for German tourists is intense."*

Non-Deductibility of Input VAT for Meals as a Competitive Disadvantage

A specific issue in Denmark concerns the **non-deductibility of input VAT on meals.** This rule significantly increases the overall cost of hosting conferences, business meetings, and corporate events, where catering services are an essential component of the package. For event organisers and international associations choosing among potential destinations, the inability to recover VAT on meals can represent a decisive factor when comparing costs across countries.

The result is that Denmark is placed at a competitive disadvantage in the conference and events market, which is highly sensitive to total price. Other countries, where input VAT on meals is deductible under certain conditions, are perceived as offering better value for money, thereby attracting organisers and international delegates even if their VAT is high as in Germany. This effect is particularly problematic because conference and business tourism tends to generate high value-added expenditure across the hospitality sector, from accommodation to restaurants and transport. By discouraging such demand, the current VAT treatment indirectly limits Denmark's potential to benefit from spillover revenues and long-term reputation gains in the business tourism segment.

Impacts on Rural Areas: Price Sensitivity, Seasonality and Investment

The **adverse impacts of Denmark's VAT policy are particularly pronounced in rural regions** that lack the advantage of coastal tourism, as well as among smaller hospitality enterprises. Rural tourism tends to be highly price-sensitive, typically serving families, domestic travellers, seniors, and other cost-conscious demographics who respond to even minor price variations. The standardised 25% VAT in Denmark presents significant challenges for these areas, making it difficult to provide attractive off-season discounts or bundled packages and thereby impeding competitiveness.

Seasonality presents a significant challenge within Danish tourism, and VAT exacerbates the fluctuations between high and low demand. Coastal destinations experience a brief summer peak — primarily driven by international visitors such as Germans and domestic travellers during school holidays — followed by extended periods of low demand. In theory, businesses could offer substantial discounts outside peak season to encourage year-round visits. However, with a 25% VAT applied to each transaction, Danish rural hotels and holiday parks have constrained pricing flexibility; substantial price reductions risk eroding already modest profits since the tax rate remains unchanged. Consequently, as noted by industry stakeholders, Denmark exhibits "more pronounced peaks and low periods" compared to neighbouring Sweden or Germany, *"because the price must remain relatively constant throughout the year"* in order to absorb higher costs including VAT. In contrast, competitors in jurisdictions with lower VAT can provide more attractive off-season packages. Supporting this, data reveals that Denmark's tourism workforce is notably seasonal, with a substantial proportion of staff employed solely for the summer period. This trend suggests that many rural hospitality establishments either close or significantly reduce operations during the off-season.

High VAT also dampens long-term investment and upgrading in rural hospitality. Smaller hotels, B&Bs and restaurants in villages or provincial towns typically operate on slim margins. According to industry feedback, the 25% tax burden saps resources that could otherwise be reinvested into facility upgrades or new offerings. Over time, this dynamic can lead to a quality and infrastructure gap: Danish rural accommodations risk becoming dated or limited in amenities, while foreign competitors modernise, further influencing travellers' choices. The cumulative impact on rural areas is a kind of vicious cycle that makes rural businesses less competitive over time.

It also **exacerbates urban-rural disparities**: Copenhagen and other major cities may cope better since they attract business travellers and tourists for whom Denmark is a unique destination worth the premium. But smaller operations outside the capital have a much more difficult business proposition when comparable experiences exist just across a border at significantly lower cost. Thus, the VAT structure effectively distorts development, favouring high-price, urban offerings while rural and budget-friendly segments lag behind. Another contributor to these disparities is the booming cruise travel segment. Copenhagen is a major cruise port in Northern Europe, serving as both a turnaround port and a port of call on Baltic and Scandinavian cruise itineraries. In 2019, for instance, Copenhagen expected 352 cruise ship calls carrying roughly 975 000 passengers in a single season. Nevertheless, partly also because of VAT, the level of prices is so high that shopping is limited and these visitors quickly flee the country.

Short-Term Rentals vs. Hotels: Uneven Playing Field

Another distortion arising from the current VAT system is the **advantage it grants to short-term rentals (STRs) and informal accommodation over traditional hotels**, especially in rural destinations. Most Danish summerhouse rentals are run by agencies; these are generally treated as VAT-exempt letting of immovable property, unless bundled with services. Many private Airbnb hosts also fall under exemption or below-threshold supply. Denmark allows individuals renting out their property (through platforms like Airbnb or similar) to earn a certain amount tax-free each year (e.g. an annual deduction around DKK 33 500). Many casual landlords or small-scale rental hosts do not register for VAT at all if their turnover is below the threshold (which is relatively low, DKK 50 000, but some private rentals may slip under it or only pay income tax on a portion). The effect is that a room or summer cottage rented peer-to-peer can effectively avoid charging the 25% VAT, immediately making it cheaper for the guest than a hotel room which must add VAT on top of the base rate. In rural areas, where Airbnb and holiday home rentals are common, this tax differential skews the market: price-sensitive travellers (families, youth, etc.) will gravitate to short-term rentals which appear much cheaper, while locally run hotels struggle to compete on price while complying with full VAT obligations. Thus, the VAT disparity inadvertently encourages a

shift toward the informal or sharing-economy sector, potentially at the expense of local job creation in the hospitality industry.

Digital booking platforms amplify this imbalance by directly contrasting prices of hotels vs. private rentals in a region. It is worth noting that Denmark historically has high tax compliance and relatively little "grey" economy activity in hospitality, so widespread under-the-radar evasion is not reported to be a major issue. However, the tax rules themselves legally favour one type of supply (private rentals) over another (formal hospitality businesses). The Danish government added a cap to the number of nights hosts can share their entire primary homes, which is 70 nights maximum per year, but this can be increased to 100 nights by the local authorities in different municipalities if those authorities decide to vote on it.

The VAT in the Digital Age (ViDA) reform will introduce the "deemed supplier" rule starting from 2030. This will make platforms responsible for collecting and remitting VAT on accommodation services supplied through them if the host is not VAT-registered. This means Airbnb hosts under the threshold will effectively be brought into the VAT system via the platform. With ViDA the price gap will narrow, since even small hosts booked via platforms will have VAT added. Hotels may regain some competitiveness, especially in rural/coastal areas where summerhouses dominate. However, there are expectations that some Danish STR operators may try to bypass platforms to avoid VAT — e.g. by advertising directly, using agencies or renting through their own websites. The incentive to "go off-platform" will be stronger in Denmark than in Germany/Sweden, because the VAT gap is larger and some expect Denmark to be one of the first markets where AI agents will replace platforms as means to seek tourist rental opportunities.

Consumer Choice, Innovation and Employment Consequences

The high VAT situation in Denmark has broader consequences for consumer choice and the nature of tourism offerings. One noticeable effect is a **contraction of mid-range, family-oriented options in the market**. When eating out or vacationing locally is expensive, average consumers do so less often. Danish families, school groups, and pensioners on a budget face tough choice: either pay a premium to stay and dine in Denmark or seek cheaper alternatives. This means domestic demand for low- to mid-priced hospitality is suppressed, which in turn means fewer businesses catering to those segments can survive. A Danish tourism executive highlighted that even groups one might expect to stay domestic – for example, local school trips – are choosing to go to Sweden because of the cost difference. *"[Our hotel group] is owned by the Danish teachers' union, but even schools choose Sweden… it's the cost"*, he noted, implying that educational tours find better deals across the bridge. Similarly, ordinary Danish households might camp or rent a cottage in Sweden/Norway rather than pay Danish holiday park prices, or they might simply reduce the frequency of dining out at restaurants at home, given a 25% tax on every cafe meal. The end result for consumers is less choice: upmarket and luxury offerings remain (targeting those willing or able to spend), but affordable choices are fewer than they might be in a lower-tax scenario.

This dynamic has contributed to **shaping Denmark's tourism supply toward the higher end**. With a need to justify high prices, many Danish hospitality businesses have focused on delivering exceptional quality, uniqueness, or luxury to entice visitors despite the cost. This is evident in, for example, Denmark's emergence as a hub for world-class New Nordic cuisine and Michelin-starred restaurants, a trend sometimes attributed to operators having to "be innovative in terms of making unique experiences" to survive in a high-cost environment. In other words, Danish hospitality has adapted by specializing in niche, high-value experiences (gourmet dining, design hotels, specialised conferences, sustainability-focused resorts, etc.) that can command a premium. This has positive aspects – Denmark is known for quality and innovation at the top end – but it also reflects a lack of breadth in more mainstream offerings. The same expert quickly adds *"Still there is always the question of whether we can keep doing this, or if the adventure will end,"* acknowledging that this model may not be sustainable if economic conditions turn or if consumers become even more price-sensitive.

In fact, **the sector's vulnerability in downturns is a serious concern**. High fixed costs and high taxes mean Danish hospitality SMEs have little cushion when demand softens. Industry leaders fear that in a significant recession or crisis, Danish hospitality businesses would be disproportionately hit. One estimate suggests that *"in a crisis 60% of Danish hotels and restaurants would die within 2 years"* without change, due to their higher break-even thresholds. That dire prediction may be speculative, but it underscores the point that employment in rural and smaller hospitality businesses is less secure under current conditions.

Already, Denmark likely forgoes some employment because certain projects or expansions never happen – entrepreneurs are "more reluctant to invest or expand" when taxes take such a large share. There may also be a subtle effect on the labour market. There are "slightly fewer jobs in the mid-level hospitality sector in Denmark" than there would be otherwise, since the sector is relatively smaller than in countries where tourism can tap broader markets.

Finally, **innovation at the grassroots level is stifled by the VAT-induced tight margins**. Beyond high-end gastronomy, consider the small-scale or niche tourism offerings – farm stays, glamping sites, adventure activities, rural wellness retreats, etc. These often start as experiments by SMEs, and they need a certain financial breathing room to succeed. In neighbouring countries, a lower VAT can act almost like a built-in subsidy for such new ventures, letting them keep more revenue in early years. In Denmark, however, *"the high VAT means margins are too low and it decreases the appetite to be daring and try things,"* effectively acting like *"a prison without bars"* that confines entrepreneurs. An eco-campground in Denmark, for example, must give 25% of each sale to the government, whereas one in Sweden keeps 13% more – that difference might determine whether the business model is viable. Thus, some types of innovative tourism may be offered more in Sweden or Germany than in Denmark, as suggested by stakeholder observations. This represents a lost opportunity for Denmark's rural communities to diversify their tourism appeal. In summary, the market distortions from VAT have far-reaching implications: they shape what kinds of businesses operate (favouring upscale or informal, squeezing mid-market), where tourism occurs (favouring cities or across borders), and how robust the sector's growth and employment can be outside the main urban centres.

A seminal study[64] has explored how lowering VAT on hotel accommodation in Denmark could affect demand, competitiveness, and the wider economy. The study argues that this tax-driven price gap makes Danish hotels less competitive, encourages cross-border leakage of demand to Germany and Sweden, and reduces the number of nights that tourists spend in Denmark. Using scenario modelling, the authors show that a cut in VAT would reduce hotel prices and stimulate additional demand, especially in border areas and rural regions where customers are particularly price-sensitive. Rural hotels, which often operate with tight margins and depend on domestic and regional tourists, would benefit most. Higher occupancy and longer stays could in turn support investment, upgrades, and employment in these areas. The report also stresses that VAT reduction could partially counterbalance the structural tilt of Danish tourism towards summerhouses and short-term rentals, which are less labour-intensive and contribute less to GDP.

[64] Economic and Policy Implications of Reducing VAT Rates in the Hotel Sector in Denmark (Andersen & Zhang, 2016, Center for Regional and Tourism Research).

Factsheet: Tourism Taxation in Amsterdam

Context and Congestion Issues

Amsterdam welcomes over 20 million tourists each year, despite having a population of about 900 000. Its tourism intensity ratio is 25:1 is among the highest in Europe. The factors driving this growth are similar to those at play elsewhere: low-cost carriers turned Schiphol into a major travel hub, and the rise of short-term rentals. Additionally, investments in Passenger Terminal Amsterdam allowed large cruise ships to bring in thousands of day tourists each year.

Amsterdam built an affordable tourism market, focusing on party tourism and youth travel. International demand from business travellers (close to one third of the total before Covid and now down to less than 20% of guests) and high-income long-haul tourists is lower than in other destinations, resulting in less support for maintaining high average daily rates (ADRs). The concentration of tourists within a relatively small central area results in noticeable overcrowding. On peak days, the ratio of visitors to residents in these central zones may exceed 10:1, surpassing figures observed in other traditionally high-tourism destinations such as Florence or Lisbon. Part of the overcrowding problem is linked to the increasing number of daily visits that reached an estimated yearly 24 million units, of which one third made of visitors from abroad who do not remain overnight in the city. An additional 800,000 visitors are from cruise ships.

Over the past twenty years, Amsterdam's tourism policy has undergone significant changes, shifting from traditional promotion to a model emphasising regulation and visitor limits. The transition was influenced by ongoing input from residents and civil society organisations, with accelerated attention following the COVID-19 pandemic. As a result of this Amsterdam issued a Tourism in Balance Ordinance which requires the municipal executive to take measures to bring the number of overnight stays back within the desired range of a maximum of 20 million overnight visitors per year, which would be tantamount to an often hardly profitable 60% occupancy rate just for existing hotels. The cap represents an unprecedented restriction to the freedom of economic activities for businesses that had already been licensed and authorised and as such is now being legally challenged.

In line with the ordinance provisions, Amsterdam has implemented a set of various measures to discourage tourism and particularly party tourism, such as targeted campaigns specifically addressing party tourists (a limited share of total visitors but prominent in the nightlife scene), restrictions on hotel permits and alcohol sales, platform regulations, and stricter short-term rental registration and enforcement rules. Amsterdam now requires a permit/registration number for private holiday rentals and there is a notification / registration regime limiting 30 nights per calendar year for such rentals. Starting from April 2026, in areas with high tourist pressure, the city council is proposing to reduce this to 15 nights/year.

Amsterdam is not alone in restricting hotel permits. Other municipalities, such as Utrecht, Haarlemmermeer, Breda and Maastricht, also strictly regulate hotel developments. The municipality of The Hague has even imposed a hotel stop until the occupancy in the municipality is above 70% for two years. Rotterdam, Leiden and Eindhoven are more flexible and allow new hotel developments, but with the restriction that this is only allowed in specific locations outside the city centre. Also, in Amsterdam the tourism sector remains mainly clustered in the city centre but increasingly less so. In 2013, 47 per cent of jobs and 33 per cent of establishments in the tourism sector were located in the City Centre. By 2023, this fell to 42 per cent of the total number of jobs and 25 per cent of the total number of establishments in the tourism sector.

It is difficult to estimate the effectiveness of the Ordinance measures in reducing pressure in congested areas. According to official figures, these restrictions possibly contributed to halve the number of Airbnb-registered overnight stays in the city from over 2.2. Mn to 1 Mn in 2023. The effectiveness of these

measures remains, however, controversial. In the meantime, in fact, the number of overnight stays in the Metropolitan Area at a driving distance from Amsterdam have reached double that figure accounting for 10% of overnight stays and, in the Country have hit an estimated 8.8 Mn units. In other words, critics maintain that STR restrictions in Amsterdam do not fully control tourist inflow, because visitors can still stay in the surroundings and travel in daily and thus contribute to the growing number of daily visits.

Additionally, due to the post-COVID rebound of tourist flows, Amsterdam remains far from reaching its stated overnight stay objectives. The forecasts of total tourist overnight stays (hotel + campsites + rented homes etc.) in Amsterdam varies between 22.9 million and 25.4 million in 2024, and is projected to rise to around 23.6-26.6 million in 2026 depending on scenario. In 2023, the estimated number was of around 22.1 million. The dynamics of the post-COVID recovery in Amsterdam were influenced by the impact of long-distance travellers (due to the key role of Schiphol Airport) and the growth in the total number of hotel overnight stays started relatively later than in the rest of the Netherlands. The underlying dynamics behind overnight stay figures have changed. Still, in 2023 a decrease in the number of hotel guests as compared to pre-COVID levels was noticeable, while at the same time, the average number of nights per person rose. This is possibly also related to the decreased share of business guests on the total that followed the COVID epidemics and the structural change in working patterns and the emergence of the so-called “bleisure” segment mixing business and leisure purposes. This paradoxically contributed to further pressure on congested areas.

Tourism Tax Structure and Tax Response

Amsterdam was the first Dutch town to introduce a tourist tax in the Seventies. Like most Dutch municipalities at the time this was a flat per-person per night charge. In 2007 Amsterdam became the first Dutch city to levy the tourist tax as a percentage of the accommodation price. The initial rate was set at 5% of the overnight stay price (excl. VAT), with gradually differentiated increases over time until it reached 7% in for all accommodations in 2019 together with growing attempts at taxing and regulating the booming STR market. As pressure from civil society grow up in 2020 this was first to 7% of room rate + EUR3 per person per night per hotels and 10% of rental prices for holiday rentals and B&B. Campsites, which are very popular in the Netherlands and account for some 10% of overnight stays in the region, were fixed EUR1 per person per night. This structure already made Amsterdam’s hotel tax one of the highest in Europe at the time. In 2024 as part of the Tourism in Balance regulatory package the formula was replaced by a flat 12.5% of room rate (excl. VAT) for hotels, B&Bs, and holiday rentals. Campsites were set at EUR1.55 p.p./night and cruise passengers charged at EUR14.50 per passenger per visit. Amsterdam retains the highest tourist tax rate in Europe. The combined effect with the VAT (9%) brings tourism taxation close to the standard VAT rate.

Amsterdam's approach to tourism taxation came to be distinct in that the tax rate is fully *ad valorem* and remains unaffected by hotel classification ratings. Since hotel classification in the Netherlands is voluntary rather than mandatory, it cannot serve as a dependable basis for taxation. However, the choice of moving from specific to ad valorem taxation maximises taxation revenue rather than minimising consumption by hitting affordability. Unlike Paris, Amsterdam has not introduced any zoning measures; instead, the tax rate is consistent throughout the city. Additionally, the rate does not fluctuate according to tourist seasons. As always, the case non-compliance remains a major challenge, especially in unregistered STR operators (operating without a license), overstaying rental nights beyond legal cap (max 30 nights/year for STRs) or underreporting of guests, but no estimates are publicly available.

Although driven by congestion considerations the Amsterdam experience fits within a more general trend to increase tourism taxation in the Country also as a way to manage the so-called “ravine year,” i.e. the sharp fall in municipal finances expected in the Netherlands in 2026. Over the past decade municipalities received additional central government transfers to help them cover the rising costs of youth care, social services, and later COVID-related expenditures. These transfers will come to an end in 2026. The result is a steep funding cliff: municipal budgets suddenly contract by several billions, leaving

cities with the choice of cutting services, raising local taxes, or both. Tourist taxation is a way of shifting the burden of revenue generation onto non-residents, thereby easing pressure on local households.

Other cities are following the Amsterdam's example. Utrecht has announced staged increases from 7 percent in 2024 to 8.5 percent in 2025 and 10 percent in 2026, while Rotterdam and The Hague are exploring similar measures. In the Netherlands, 320 municipalities now levy a tourist tax, although often still generally on a specific person basis. The rates vary greatly and have increased nationwide by approximately 12% just this year. The municipality of Amsterdam is the absolute top earner and accounts for 45% of total tourism taxation in the Country. In 2024, the municipality expected to collect EUR245 million in tourist tax revenue while all the other municipalities combined expect EUR295 million. After Amsterdam, Rotterdam is the municipality with the highest estimated revenue, but with "only" EUR17 million.

In Amsterdam's 2024 budget the total income is around EUR7.1 billion, but a large part of this comes from national transfers through the *gemeentefonds* and earmarked grants. If we look only at own-source revenues (local taxes, fees, charges), the picture changes. According to the *Begroting 2024* (budget), Amsterdam expects to collect roughly EUR2.0–2.1 billion in own revenues from local taxes, user charges, and other municipal income streams. Within this envelope, the tourist tax of EUR245 million accounts for about 12% of all own-source revenues. So, in 2024 the tourism tax represents some 3.5% of total municipal revenues (including transfers from central government), but 12% of Amsterdam's own-source revenues and one of the largest single local tax instruments alongside property tax and parking fees. For comparison the property tax paid by hotels annually can be estimated in the range of an additional EUR 20-40 million. Another EUR 7-8 million euro are likely to be paid by formal restaurants bringing the total contribution of the hospitality industry alone close to 15% of the City own-source revenue

Amsterdam has repeatedly confirmed in budget documents and council debates that the tourist tax is not earmarked to finance tourism promotion or visitor facilities. In fact, the city often stresses the opposite: because tourism generates pressure on public space, housing, and services, the proceeds are justified to offset these costs in the general budget, not to reinvest in marketing or tourism.

The Market Impact

It is difficult to disentangle the impact of the 2024 increase in the tourism tax on the Amsterdam accommodation market from other concurring factors also repressing demand. In 2024 local authorities implemented measures to curb disruptive tourism, particularly targeting young British travellers attending stag parties, which led, at least according to some sources, to some decline in UK visitor numbers. Moreover, ongoing instability in Russia, China and Israel negatively impacted demand from these markets, especially in the luxury segment. Most importantly, labour costs drastically increased due to a steep 11% increase in the level of sectoral wages.

In 2024 Amsterdam kept seeing more overnight stays than in 2023 (about +5% international tourism flows), even after the tourist tax rose. Occupancy rates also remained on the rise. The burden of taxation therefore fell on room rates and hotel profitability rather than on demand volumes. To compensate for increased taxation base room prices reportedly fell by 3%, well below the national -1.8% average. This brought to an estimate decrease in RevPAR variously estimated by different sources in the 2% to 4% range. Since the tax increase on the base rate was roughly +3.2 percentage points (sensitivity: +2.7 to +3.5 pp for ADR EUR190–EUR210 and 1.4–1.8 persons/room), to fully neutralise a +3.0–3.5 pp tax on the base, hotels would have needed to cut base prices by roughly 3.0–3.5%. Since they cut on average 3% it can be assumed that hotels offset ~85–100% of the tax increase in their base prices. Pass-through rate was therefore only 0–15% (with a central estimate of 5–10%).

Due to its appeal among younger demographics and its market positioning, the estimated demand elasticity for the Amsterdam accommodation industry is relatively high, ranging from -1.0 to -1.3, as

indicated by recent marketing surveys. As a result, substantial increases in gross prices could impact industry economics and volume preservation is prioritized. Additionally, both the restriction on new hotel permits and the stricter enforcement of short-term rental registration policies support a strategy focused on maintaining high occupancy rates.

The Cumulated Impact of the VAT Increase

The Dutch government's proposal is to increase VAT on overnight accommodation (hotels, B&Bs, etc.) from 9% to 21%, effective 1 January 2026 and subject to Parliament's approval. This would be tantamount to an average 11% price increase country although in Amsterdam the tourism tax dilutes the VAT effect to slightly less than 10%. The government's own estimate for additional tax revenue from this VAT hike is about EUR1.2 billion/year. There are several counter-estimates[65] by industry and research bodies, which suggest significantly lower yields, because of partial pass-through, business use (VAT reclaim), and reduced demand.

Hotels are already taking — or preparing to take — management countermeasures to cushion the impact of higher tourist taxes and the upcoming VAT hike to 21% in 2026 including smoothing rate increases: avoiding full direct pass-through by raising base rates gradually, spreading across room categories, or using "all-in packages" (room + breakfast) to disguise the jump and further use extreme dynamic pricing to optimise occupancy and ADR, shifting rates daily by demand pattern rather than increasing them bluntly across-the-board. Other strategies include upselling & cross-selling: boosting RevPAR with breakfast, wellness, parking, bike rental, or event space and shifting margins to bar/restaurant revenue, where the tax impact remains different.

Marketing effort focuses on targeting MICE business guests where VAT is deductible for companies, some hotels are focusing more on corporate contracts and attracting higher-spending international tourists: repositioning marketing toward less price-sensitive segments (US, Middle East, Asia). Cost control and efficiency measures are being strengthened including labour optimisation and digitalisation of operations where possible (e.g. (self-check-in to reduce front-desk staff costs) together with investments in energy efficiency. Finally, investments are postponed delaying refurbishments, expansion, or large capex until VAT/tax uncertainty stabilises. Some operators are particularly concerned that Antwerp, Munich or Berlin will replace Amsterdam as a youth destination because of their better affordability.

Scenario Analysis

A report prepared for Koninklijke Horeca Nederland[66] estimates that the Dutch business sector will lose nearly EUR400 million in turnover, of which hotels account for about EUR340 million and related tourism businesses for around EUR120 million. Municipalities, particularly Amsterdam, will also lose about EUR20 million in tourist tax revenue due to fewer overnight stays. A key finding is that foreign tourists are estimated to decrease foreign expenditure by EUR100 million.

The impact is uneven across market segments. Four- and five-star hotels in major cities with a strong share of business travellers are less affected, since their elasticity is lower, whereas budget hotels and those in border regions are particularly vulnerable. The latter face more intense competition from Belgium and Germany, which already apply lower VAT rates on accommodation. For budget hotels, which host school trips and associations, margins could fall by up to 70–80%, threatening their viability and

[65] ABN AMRO estimates the hotel sector will generate only €285 million/year in additional VAT revenue from this change, assuming that only ~34.8% of hotel turnover is affected by the increase (i.e. only that share can be taxed at the higher rate, given components like business travel, food & beverage, conference usage, etc., are not fully affected). The CELTH / Decisio impact model (commissioned by Koninklijke Horeca Nederland) estimates roughly €250 million/year in additional revenue from the VAT hike, rather than higher numbers claimed by government.
[66] Decisio / CELTH, *Effecten verhoging btw-tarief voor de hotelsector*, 27 March 2025.

ability to invest in renovation or sustainability. Overall, hotel profits are projected to decline by about EUR240 million, with average profit margins dropping from 10% to below 7%, a contraction of around 35%.

Beyond the hotel sector, the VAT hike creates strong regional effects: for every euro of hotel revenue lost, about 60 cents of local economic activity disappears because guests spend less on restaurants, retail, transport, and attractions, and because hotels themselves purchase less from suppliers. This leads to an additional EUR220 million loss in regional turnover. The study estimates total value-added in the Dutch economy falls by around EUR300 million and that nearly 1 500 full-time jobs are at risk, with about 950 jobs lost directly in hotels and 750 in related sectors, only partly offset by 210 jobs created elsewhere due to substitution effects.

The report assumes a pass-through rate of 75%, meaning hotels will absorb about a quarter of the VAT increase in their margins rather than raising consumer prices in full. The price elasticity of demand is set at -0.75 in the baseline, implying that a 1% increase in room prices reduces demand for overnight stays by 0.75%. This elasticity is lower for business guests (around -0.6) and higher for leisure tourists (around -0.8). The model indicates that the VAT-driven price increase of about 9% leads to a 6.2% reduction in tourist overnight stays, concentrated mainly in the budget segment and outside the major cities.

Factsheet: VAT Roll-back in Ireland

Background

Tourism and hospitality contribute approximately 4% to Ireland's Gross National Income and support over 280 000 direct jobs, including 46 000 positions specifically related to tourism. In March 1991, the fixed 12.5% VAT rate for accommodation and catering was established, aligning with EU Directive provisions that permitted reduced rates existing as of 1 January 1991. Prior to the global financial crisis, the sector operated under a 13.5% reduced rate introduced through the 2005 budgetary changes, but no formal impact assessments were conducted during this period. During the early 2000s, concerns emerged regarding the competitiveness of Ireland's 12.5%/13.5% VAT band compared to Northern Ireland's lower 5% tourism VAT rate; however, adjustments were not implemented due to projected fiscal implications.[67] The industry also faced challenges stemming from strict limitations on VAT input deductions for registered businesses, particularly concerning accommodation and restaurant expenses, which complicated dealings with overseas enterprises and conference organisers. It was not until the enactment of the 2007 Finance Act that businesses were permitted to deduct VAT on accommodation costs incurred by delegates attending eligible conferences held for business purposes.

In response to an unemployment rate of 15%, the May 2011 Jobs Initiative reduced the tourism VAT rate from 13.5% to 9% beginning on 1 July 2011, applying to labour-intensive sectors such as hotels, restaurants, cinemas, and hairdressing. According to the Irish Tourism Industry Confederation, this measure was associated with the creation of approximately 31 000 jobs and a 9% increase in overseas visitor numbers within two years. However, 76% of bed and breakfast establishments in the country were not VAT-registered, meaning that the reduced rate primarily impacted larger or more profitable businesses, while smaller operations remained exempt.

According to a 2018 Department of Finance report,[68] employment within the accommodation and food services sector increased by 30–41% between 2011 and 2016, outpacing growth in other service industries. The majority of these positions were entry-level roles targeted at younger workers. During this period, median pay declined and remained below pre-2011 levels, resulting in a wage distribution in which the lowest 80% of earners received just 55% of total compensation. Consumption in this sector rose by 36% from 2011 to 2016, significantly exceeding the average for other services. This increase was attributed primarily to rising household incomes (with an elasticity of -1.6), rather than to price changes (elasticity of -0.6). The report indicates that household income growth accounted for much of the sector's expansion, surpassing the influence of VAT adjustments.

The report highlighted that labour productivity within the hospitality sector declined by 4.3% between 2011 and 2016, while overall economic productivity increased by 47%. Unit labour costs in hotels and restaurants rose by 14%, in contrast to a 5% reduction observed across the broader domestic economy, resulting in labour costs representing 77% of value added in hospitality, compared to 32% for the economy as a whole. Indirect evidence suggested that the reduction in VAT had a limited effect on foreign demand, with tourists—particularly those from North America—exhibiting relative price inelasticity. Hotel occupancy rates in Dublin increased from 67% in 2010 to 83% in 2017, indicating prevailing capacity constraints. Given the robust tourism sector, growing profitability, and modest productivity gains, the report questioned the justification for maintaining the 9% VAT rate and noted potential risks such as deadweight costs and inefficient resource allocation in an economy operating near full employment. Furthermore, the benefits largely accrued to higher-income households, who spent more on hospitality and therefore gained most from the tax break. These findings prompted the discontinuation of the 9%

[67] https://www.oireachtas.ie/en/debates/debate/dail/2002-06-25/122/

[68] 2018 *Review of the 9% VAT Rate*

VAT rate, which was subsequently reverted to 13.5%. However, this adjustment was temporary, as further VAT relief was implemented from 2020 until 2023.

A Parliamentary inquiry conducted in 2023[69] re-evaluated the VAT rebate policy. The investigation found that evidence supporting the effectiveness of VAT rebates in reducing hospitality prices was inconclusive and determined that profit margins increased to a greater extent than consumer prices declined. Nevertheless, economic modelling indicated that restoring the VAT rate to 13.5% would result in higher absolute costs for wealthier households (EUR17 per month compared to EUR3 per month for the lowest-income groups) but would impose a relatively greater burden on low-income households (0.25% of income versus 0.15% for the highest earners). Consequently, the inquiry recommended implementing compensation measures for low-income households who would be disproportionately affected. Analysis by the Parliamentary Budget Office further suggested that reinstating the 13.5% rate in 2023 could reduce full-time employment within the hospitality sector by 8 500 positions over two years under baseline assumptions; industry stakeholders contended that the actual impact could be twice as large when considering secondary suppliers.

The 2023 hike policy debate – the quest for alternatives

The concept of regional differentiation of VAT within the hospitality and tourism sectors has been considered as part of ongoing policy discussions among political stakeholders and industry representatives. The rationale stems from varying market conditions nationwide; for example, hotels and restaurants in Dublin frequently experience higher demand, increased pricing power, and benefit from international events such as festivals, concerts, and sporting occasions. In contrast, rural and regional operators contend with lower demand, greater seasonal fluctuations, and narrower profit margins.

Critics argue that a uniform VAT rate inadvertently favours urban markets, where businesses have access to larger labour pools and economies of scale, whereas rural enterprises often encounter staffing challenges and elevated per-unit input costs for items such as deliveries and utilities. Moreover, many rural regions are heavily dependent on hospitality and tourism to sustain employment.

Although a differentiated VAT rate is proposed as a potential regional development instrument to support peripheral areas, current EU VAT Directive mandates uniformity in reduced rates across service categories. This legal requirement precludes Member States from applying geographically varied VAT rates for the same type of service. Consequently, it was determined that both practical and legal constraints under EU VAT law make regional VAT differentiation highly unlikely. Instead, discussion has shifted towards alternative taxation measures—such as implementing tourist occupancy taxes in Dublin alongside a general VAT rebate—as more realistic approaches to addressing localised economic disparities.

Similarly, the proposal to differentiate VAT treatment between hotels and restaurants has emerged in both industry discussions and political forums. Hotels, particularly those located in Dublin and major urban centres, have experienced robust demand and enhanced pricing power. Since the pandemic, average room yields have risen significantly, with occupancy rates constrained primarily by supply limitations. In contrast, restaurants and cafés—especially SMEs situated in rural areas—are characterised by narrower margins, heightened sensitivity to increases in energy and food costs, and greater exposure to economic downturns. Stakeholders contend that applying a uniform VAT rate to both sectors does not account for their differing capacities to absorb VAT increases and thus creates inequity.

Restaurants are more dependent on domestic demand, which is highly price-elastic and influenced by cost-of-living pressures; additionally, they are more labour-intensive relative to their turnover. Industry

[69] An Oifig Buiséid Pharlaiminteach Parliamentary Budget Office Hospitality and Tourism: Analysing the Rationale for Reduced VAT Publication 35 of 2023.

representatives argue that raising the VAT rate could lead to business closures and job losses among small independent operators, whereas larger hotel enterprises are less vulnerable to such changes. Tax authorities have expressed concerns about the compliance and enforcement difficulties posed by operating multiple VAT rates within the same jurisdiction. Nevertheless, the Government has not dismissed the possibility of introducing differentiated VAT rates for hotels and restaurants in the medium to long term.

The impact of the 2023 VAT increase

As anticipated, the increase in VAT had immediate adverse impacts on Irish restaurants, notably manifesting as margin compression; this effect was particularly pronounced given that the higher VAT rate exacerbated existing cost pressures. Over the past three years, the minimum wage in Ireland rose by 23% to EUR13.50 per hour, effectively functioning as an additional tax burden. Labour expenses now comprise over 40% of total costs within hotels heavily reliant on food services. Energy costs also remain elevated—approximately 30% higher than the EU average—further intensified by geopolitical disruptions. Additionally, Ireland is among the most expensive EU nations regarding food input costs; for instance, beef prices increased by 19%, prompting menu adjustments such as the removal of steak items due to prohibitive price levels. Restaurant food inflation has been further magnified by the zero-rating of food in retail stores. Mitigation strategies, including portion resizing and promoting eco-friendly, energy-efficient practices, may offer only partial relief from these challenges that ended compressing margins.

Industry data show an unusually high closure rate after the 2023 VAT increase. The Restaurants Association of Ireland (RAI) reported roughly 577 restaurant and café closures in the 11 months after Sept 2023, versus only 18 in the same pre-VAT hike one year earlier. This tally (from company registries) puts attrition far above normal levels. Of the around 700 restaurant closures that happened over three years, many however were also linked to the delayed impact of COVID tax warehousing. Businesses unable to repay deferred VAT/corporation tax often liquidated. Since then, closures have stabilised, but the sector remains fragile with a negative net balance of around 100 closures and some 50–80 re-openings per year. Corporate insolvencies in Irish hospitality jumped 88% in H1 2024 (77 insolvencies vs. 41).[70]

An industry-commissioned report[71] estimated that each closed restaurant outlet results in an average economic loss of EUR 1.36 million. The report suggests that if all closures were attributed solely to VAT increases, the economic impact could outweigh short-term revenue gains. According to these estimates, increasing VAT may cost the State more through lost output and jobs than the reported EUR 545 million expense of maintaining VAT at 9%.

The VAT increase corresponded with job reductions and decreased revenues. According to data from RAI and the hotel federation, there were significant declines in sales. A survey of 730 hospitality businesses found that 91% experienced year-to-date decreases in food-service profitability, and 77% had a negative outlook, noting an average 9% reduction in food sales and a 16% increase in operating costs such as

[70] https://www.deloitte.com/ie/en/about/press-room/corporate-insolvencies-q2-2024.html

[71] According to the report each restaurant closure would entail on average 22 direct jobs lost, plus approximately 13 indirect jobs. This would be tantamount to €576 554 in lost gross wages, translating to €461 244 in net wage injection to the economy. With a further multiplier of 1.5 applied to net wages, the loss in spending power is estimated at €691 866. Fiscal revenues would lose €115 310 in forgone payroll taxes to the Exchequer, €105 000 in lost VAT receipts, calculated on average per closure and €11 874 in commercial rates lost to local authorities €4 583 in lost water charge receipts. Additional €440 000 in annual social welfare costs would be required if laid-off workers require support. The report also mentions further losses across the wider economy through services and suppliers connected to the restaurant, but these are not precisely quantified. All these elements are summed to arrive at the total estimate of €1.36 million in economic impact per restaurant closure per full year. Jim Power Economics, Economic and Financial Consequences of Restaurant Closures, RAI, April 2024. https://www.rai.ie/wp-content/uploads/2024/04/Economic-and-Financial-Impact-of-Restaurant-Closures-RAI.pdf.

labour, energy, and insurance by late 2024. Additionally, 68% stated that the VAT hike had a highly negative impact on their business. Many respondents adapted by reducing hours (46% cut opening hours and 26% cut open days) and menu options. As a result, restaurant profitability has declined, and some businesses have reduced staff or closed. Another factor noted is that uncertainty about future VAT rates can create additional costs, as businesses emphasize the importance of stable taxation for planning, suggesting that consistent VAT rates are considered more valuable than occasional tax relief.

Hotels have experienced challenges as well. Rural hotels and pubs have encountered relatively higher challenges due to their reliance on food and beverage revenue, often serving as the sole dining or banqueting facility in their communities. Urban hotels, which are typically asset-backed and benefit from international tourism demand, are generally less affected by food margins. Business operators did not agree with the Government's assessment that foreign tourist flows are price inelastic. According to an Irish Hotels Federation survey, national occupancy rates in 2024 decreased by approximately 2%, from 76% in 2023 to 74%, with business bookings for 2025 projected to decline by about EUR 100 million. The increase in VAT was specifically identified as a factor influencing hotel and tourism demand. By autumn 2024, hoteliers reported increased pessimism, citing higher VAT and rising costs as contributing factors, although Dublin maintained steady occupancy levels during this period. From an economic perspective, these changes are significant: foreign visitors spent EUR 19.6 billion in Ireland in 2023, with EUR 10.6 billion directed toward restaurants and similar sectors. Government forecasts suggest that a VAT-related reduction of approximately 6.75% in overnight stays may result in notable impacts on local businesses.

The recent ETOA Irish Tourism Survey (June 2025) provides a nuanced outlook for Irish tourism. While Ireland continues to attract substantial visitor numbers—over 545 000 in 2024 via surveyed operators—and Dublin maintains its position as a leading destination, projections for 2025 indicate a potential 6% decrease in visitor volumes. Additionally, industry suppliers are experiencing increasing challenges that undermine competitiveness. A prominent issue identified in the survey is the persistently high-cost environment: hotel prices have risen over 35% since the pandemic, and dining expenses remain significant. Ireland is now perceived as offering less value for money compared to other European destinations. These concerns are closely linked to the reinstatement of higher VAT rates on hospitality and tourism services, which has further intensified cost pressures already present from energy, food, and labour. Consequently, operators face limited capacity to absorb these costs without resorting to price increases.

The effects on regional balance are significant. While Dublin continues to prosper, counties such as Donegal, Mayo, and Kilkenny experience challenges in attracting investment and promotional opportunities. The increase in VAT may exacerbate this disparity: urban hotels with greater market strength are better positioned to absorb additional costs, whereas rural businesses face reduced profitability and potential closures, which could diminish the diversity of Ireland's tourism sector. Furthermore, the closure of small businesses—including cafés and pubs—due to rising operational costs is increasingly recognised by visitors as a concerning trend within the tourism landscape.

ETOA respondents also report shorter visitor stays and decreased spending, consistent with official statistics that reveal a disparity between increasing visitor nights and declining overall expenditure. This pattern indicates that tourists are reducing discretionary expenditures, particularly in restaurants. Should elevated costs—exacerbated by an increased VAT rate—continue to negatively affect perceptions of value for money, the country may lose competitive advantage to other European destinations that offer lower rates of hospitality VAT.

Conclusions

Ireland's recent hospitality VAT increase has hit restaurants and rural hotels hardest, driving up costs, closures, job losses, and reducing profitability—especially for small businesses. Additional labour, food, and energy expenses have worsened the situation, widening regional gaps and diminishing tourism competitiveness. Data shows decline in restaurant and hotel performance, as well as foreign tourist spending and business bookings. Ongoing concerns about value for money and VAT uncertainty continue to erode industry confidence, threatening more losses against European competitors with low.

Appendix 2

Data Used for the Graphs

The following tables correspond to the data illustrated in Graphs 1–3 in Chapter 2 and supply quantitative figures for each country.

Table 12. Sources of VAT payments related to hospitality services and their providers in 2023 (mn EUR)

Country	VAT remitted by final consumers (hotels and accommodations)	VAT remitted by final consumers (restaurants and bars)	VAT on hospitality services businesses cannot deduct because of their activity	VAT businesses cannot deduct because hospitality services non-deductible
Austria	904	2 607	11	7
Belgium	148	2 295	397	333
Bulgaria	116	295	7	0
Croatia	467	780	22	18
Cyprus	125	187	3	2
Czechia	218	639	59	32
Denmark	206	1 983	170	184
Estonia	22	219	13	10
Finland	28	1 131	220	0
France	2 994	9 064	751	483
Germany	2 319	12 697	236	31
Greece	795	2 715	31	100
Hungary	98	1 011	19	6
Iceland	71	152	N/A	N/A
Ireland	81	1 798	42	38
Italy	2 338	1 1914	322	0
Latvia	21	216	6	0
Lithuania	31	389	4	3
Luxembourg	3	113	9	1
Malta	62	206	7	5
Netherlands	650	3 115	173	231
Norway	189	1 760	N/A	N/A
Poland	238	1 390	52	135
Portugal	480	2 296	101	100
Romania	252	940	49	0
Slovakia	58	283	19	0
Slovenia	57	258	7	26
Spain	1 351	10 071	201	201
Sweden	249	2 075	164	38
United Kingdom	6 140	17 562	1 114	0
EEA+UK	**20 712**	**90 161**	**4 210**	**1 981**

Source: authors' estimates based on own VAT models

Table 13. Comparison between Consumer VAT Taxation and CIT Revenue Flows in the Hospitality Industry (mn EUR)

Country	VAT paid by final consumers 2023	Corporate Income Tax 2023	CIT/VAT Ratio
Austria	3 511	2 716	77%
Belgium	2 443	1 166	48%
Bulgaria	411	76	19%
Croatia	1 247	427	34%
Cyprus	312	107	34%
Czechia	857	481	56%
Denmark	2 189	223	10%
Estonia	241	21	9%
Finland	1 159	231	20%
France	12 059	3 924	33%
Germany	15 016	9 713	65%
Greece	3 510	2 056	59%
Hungary	1 110	166	15%
Iceland	223	N/A	N/A
Ireland	1 878	337	18%
Italy	14.252	10 083	71%
Latvia	237	22	9%
Lithuania	420	50	12%
Luxembourg	116	22	19%
Malta	268	175	65%
Netherlands	3 766	2 094	56%
Norway	1 948	370	19%
Poland	1 628	1 301	80%
Portugal	2 776	2 306	83%
Romania	1 192	504	42%
Slovakia	341	207	61%
Slovenia	314	85	27%
Spain	11 422	12 343	108%
Sweden	2 324	243	10%
United Kingdom	23 702	3 277	14%
TOTAL	**110 873**	**54 728**	**49%**

Source: authors' estimates based on own VAT models. CIT values are overestimated because they have been calculated on a tax base inclusive of depreciation.

Table 14. Comparison between VAT paid by final consumers on accommodation services and revenue from tourism taxation in selected[72] European Countries

Country	VAT paid by final consumers on accommodation services (including STR)	Tourism Taxes (2023)	2023 Index of total levies on accommodation (VAT =100)	Tourism Taxes (2024 Estimates)	2024 Index of total levies on accommodation (VAT =100)
Greece	795	250	131	473	159
Spain****	1 351	227	117		
France***	2 994	799	131	1500 (e)	158
Croatia	467	104.3	122		
Italy	2 338	651**	128	793	133
Cyprus	125	8.7	107		
Latvia	21	1.6	108		
Luxembourg	3	3.55	215		
Hungary Municipal	98	56.02	157		
Hungary National*	98	78.4	180		
Netherlands	650	455	170	540	183
Austria	904	300.15	416		
Poland	238	15.49	107		
Romania	252	10.8	104		
Iceland	71	4.12	106	30 - 35 (e)	128 – 133
TOTAL	**8405**	**2385.75**	**128**		**142**

Source: Authors' elaboration on own and Eurostat's data

[72] Not all European Countries (particularly the federal ones) send data on their revenue from tourism taxes to Eurostat and these typically appear with a two-year delay. So, the latest available ones refer to 2023 and therefore tend to be outdated in this fast-moving field.