

HOTREC reply to the European Commission consultation on the future of VAT

HOTREC¹ thanks the European Commission for having invited all stakeholders to contribute to the consultation on the future of VAT.

HOTREC represents the European hospitality industry, which is one of the biggest sectors in Europe, employing around 9,5 million people in 1,7 million enterprises. VAT is a crucial question for the European hospitality industry, and especially the question of reduced rates is of utmost importance for securing jobs and growth, not only within the industry, but indirectly for the whole European economy.

Please find below HOTREC's responses to the questions of the consultation most relevant for the European hospitality industry.

HOTREC thanks in advance for taking the European hospitality industry's views into consideration when discussions arise about future steps.

Please see HOTREC's reply to the questions below:

Q1. Do you think that the current VAT arrangements for intra-EU trade are suitable enough for the single market or are they an obstacle to maximising its benefits?

Yes.

Q2. If the latter, what would you consider the most suitable VAT arrangements for intra-EU supplies? In particular, do you think that taxation in the Member State of origin is still a relevant and achievable objective?

For the hospitality industry taxation in the Member State, where the services are physically carried out, should prevail, as hotel and restaurant services are consumed at the same place where they are "produced".

¹ HOTREC represents the hotel, restaurant and café industry at European level. It counts 1.7 million businesses, with 92% of them being micro enterprises employing less than 10 people. The micro and small enterprises (having less than 50 employees) in the hospitality industry representing 99% of businesses make up some 62% of value added. The industry provides some 9,5 million jobs in the EU alone. HOTREC brings together 39 National Associations representing the interest of the industry in 23 different European countries.

- **Exemptions of VAT**

Q6. Which of the current VAT exemptions should no longer be kept? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?

With regard to VAT exemptions on the letting of immovable property, Member States shall continue to be allowed to decide on their own, which types of services should be excluded from such exemptions.

Q7. Do you think that the current system of taxation of passenger transport creates problems either in terms of tax neutrality or for other reasons? Should VAT be applied to passenger transport irrespective of the means of transport used?

Putting an end to the VAT exemption on international sea and air passenger transport would be detrimental especially for remote destinations and islands, as introducing VAT to such trips would make people think twice visiting those destinations. This may lead to losses of tourism related revenue and jobs in those areas.

Moreover, such a step would increase in general the expenditure related to most cross-border tourism activities.

Q8. What should be done to overcome these problems?

When considering any revision on VAT exemptions to passenger transport, the specific situation of remote destinations and islands should fully be taken into consideration, as most of those destinations heavily rely on tourism as a source of revenue. In general, any overall increase in VAT related to travelling is disadvantaging European hotel and tourism enterprises.

- **Deductions**

Q9. What do you consider to be the main problems with the right of deduction?

The principle of VAT deductibility ensures that the VAT is to be borne by the final consumer. Accordingly the concept of neutrality entails full deductibility of VAT on all goods and services, which serve as inputs for taxed economic activities. Although one might understand that in the case of some goods and services, which can be used for both business and private purposes, it is difficult to determine, to which part they are used for the business purposes, any limitation on the deduction is detrimental to bona fide business. Any limitation to the deductibility of VAT on accommodation or restaurant expenses is therefore not only harming the responsible business making use of such services, but also the hospitality business themselves, as they may expect less turnover from business clients due to limited deductibility.

Additionally, any limitations, levels of deductions are increasing red tape for the businesses, which is contrary to EU enterprise policy for cutting administrative burdens.

Q10. What changes would you like to see to improve the neutrality and fairness of the rules on deduction of input VAT?

HOTREC is of the opinion that VAT on any expenses incurred for business purposes should be fully deductible, therefore no limitations with regard to deductibility on VAT expenses in hotel and restaurant establishments should be in place in the EU. This principle should apply in all Member States, as different rules applied in various Member States create distortions between companies in different countries.

- **The legal process**

Q16. More broadly, what should be done to improve the legislative process, its transparency and the role of stakeholders in the process, from the initial phase (drafting the proposal) to the final phase (national implementation)?

In general, HOTREC believes that Member States shall keep their rights to a wide extent to decide about their tax policies, taking into account equal framework conditions (e.g. deductibility).

With regard to the drafting of proposals, those should always be accompanied by proper impact assessments.

- **VAT rates**

Q19. Do you think that the current rates structure creates major obstacles for the smooth functioning of the single market (distortion of competition), unequal treatment of comparable products, notably online services by comparison with products or services providing similar content or leads to major compliance costs for businesses? If yes, in what situations?

No. HOTREC is of the opinion that, with regard to tourism and hospitality services, the current rate structure does not create obstacles for the functioning of the single market. Member States shall have the freedom to compete on tax rates, as this approach is also confirmed by the Commission on corporate taxation.

Q20. Would you prefer to have no reduced rates (or a very short list), which might enable Member States to apply a lower standard VAT rate? Or would you support a compulsory and uniformly applied reduced VAT rates list in the EU notably in order to address specific policy objectives as laid out in particular in ‘Europe 2020’?

HOTREC has been advocating for years, that accommodation and restaurant services (including bars, cafés and similar establishments) be eligible in all Member States for the reduced VAT rate. Currently 24 out of 27 Member States are making use of the option to apply a reduced VAT rate to accommodation services. Also restaurant services are very popular among Member States, when it comes to the application of a reduced rate to those services. The majority of Member States are making use of this option, despite the fact that until June 2009 only 11 out of 27 were entitled to do so. Therefore HOTREC emphasizes the need to keep the possibility for all Member States to apply a reduced VAT rate to restaurant services, including all kinds of beverages, as is currently the case.

It would be detrimental for the European hospitality and tourism industry, if VAT rates for its services would have to be increased. It would also be very difficult in that case to achieve the Commission’s aims to keep Europe as the Nr. 1 destination in the world. Europe has for years already been losing market share in international tourism, and this trend could even be accelerated if VAT rates on such services would have to be increased.

Increased VAT rates would also mean the loss of a considerable number of jobs in the hospitality industry, as it was proven in earlier negative examples of some Member States. The recent positive examples of, among others, France, Germany and Belgium are clearly showing how reduced VAT rates for accommodation and restaurant services can boost the whole economy by additional jobs and investments.

In France in one year following the VAT reduction on restaurant services almost 30.000 jobs were created by mid-2010, despite the economic crisis. Half of the restaurants expanded the number of their staff and wages were raised as well, while in parallel also a price reduction in restaurants took place.

In Germany, in the first six months following the introduction of the reduced VAT rate for accommodation services, over 700 million euros were invested by hoteliers in improving their services, almost 6.000 jobs were created in the sector and in addition a substantial number of establishments have reduced their prices as well. The industry also invested over 40 million euros in wage increases and training.

In Belgium, the introduction of the reduced VAT rate for restaurant food made the number of bankruptcies in the sector decrease and additionally over 2500 full time equivalent jobs were created in the first nine months following the implementation of the reduced rate in January 2010.

Therefore HOTREC is strongly advocating for keeping at least the option for all Member States to apply a reduced VAT rate (or even a super reduced VAT rate) to accommodation and restaurant services.

- **The Commission Action Programme for Reducing Administrative Burdens and streamlining VAT obligations**

Q21. What are the main problems you have experienced with the current rules on VAT obligations?

Regular detailed reporting is a huge burden, especially for SMEs.

Q22. What should be done at EU level to overcome these problems?

Reporting frequency should be reduced.

Q23. What are your views particularly on the feasibility and relevance of the suggested measures including those set out in the reduction plan for VAT (N° 6 to 15) and in the opinion of the High Level Group?

Proposals on reducing administrative burdens are welcome, among others the reduction of VAT reporting frequency.

- **Reviewing the way VAT is collected**

Q30. Which of these models looks most promising in your view and why, or would you suggest other alternatives?

The split payment model seems to be an interesting way forward. However, it has to be seen, whether banks would not raise additional charges on the businesses for the provision of the services in relation to the split payment model.

- **Protecting bona fide traders against potential involvement in VAT fraud**

Q31. What are your views on the feasibility and relevance of an optional split payment?

See reply to question 30.

- **An efficient and modern administrating of the VAT system**

Q32. Would you support these suggestions to improve the relationship between traders and tax authorities? Do you have other suggestions?

Member States shall be encouraged to exchange practices with regard to VAT systems, as the whole of the European economy might benefit from viable and business friendly taxing solutions.

- **Other issues**

Q33. Which issues, other than those already mentioned, should be addressed in considering the future of the EU VAT system? What solution would you recommend?

The main concern about the future VAT system is the possible harmonization of rates. As described above, any increase in VAT rates would be detrimental to the European hospitality and tourism industry putting other tourism destinations around the world in more advantageous position.

Moreover, harmonization of rates may also negatively impact peripheral regions in Europe. Additional transportation costs already increase disadvantages in price competition for those regions, therefore the sovereignty on deciding about VAT rates for those countries (especially with regard to tourism services) is a key factor for remaining competitive.

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