



HOTREC response to the Consultation paper of the European Commission “Review of existing legislation on VAT reduced rates”

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ABOUT HOTREC:

HOTREC is the European association of hotels, restaurants, cafes and similar establishments in Europe. HOTREC very much welcomes the opportunity to contribute to the current review of the existing legislation on VAT reduced rates. The hospitality sector is represented by around 1,75 million enterprises in the European economy (out of which around 92% micro enterprises) providing jobs for around 9,5 million people.

GENERAL REMARKS AND FACTS ON THE SUBJECT MATTER:

VAT rates have a huge impact not only on the hospitality sector, but also on the whole **tourism industry** of Europe, which is directly and indirectly **providing for more than 10% of the EU GDP and about 12% of the EU labor force**¹.

One of the targets in the **EU 2020 Strategy** is **to enhance the competitiveness of the European tourism sector**. Moreover, since years the European Commission has been working on a **tourism policy** in order to **keep Europe the number 1 tourism destination** in the world, especially when looking at the falling share of Europe in international tourist arrivals. The **application of reduced VAT rates** for the tourism sector is probably **one of the most important tools** to achieve these aims or, in other words, abolishing reduced VAT rates for the tourism sector could probably not be compensated by other means to achieve this objective.

Currently **23 out of 27 Member States** (24/28 after the accession of Croatia) **are making use of a reduced VAT rate on accommodation services**, i.e. only 4 apply the standard rate. There are only 4

¹ Source: European Commission, DG Enterprise and Industry

other items of products and services (out of which 3 health related) listed in Annex III of the VAT Directive, to which less Member States are applying the standard rate only².

Currently **13 out of 27 countries are making use of a reduced VAT rate on restaurant services** (14 out of 28 following the EU accession of Croatia). In 2009 Directive 2009/47/EC introduced the option on a permanent basis to all Member States to apply a reduced VAT rate on restaurant services, as *“there is no risk of unfair competition between service providers in different member states”*. Since June 2009 already 4 additional current EU Member States decided to make use of such possibility to support their economy (+ Croatia).²

The labor intensive **hospitality services are covering basic needs** in everyday life.

Restaurants and similar establishment offer at least one daily **meal for most people working away from home**. Besides of their role of providing this **basic need “to eat”**, restaurants, cafes and bars are an essential part of community life bearing positive social impacts when allowing friends, colleagues and families to share a relaxing experience.

Travelling is important for business and educational or training reasons, often implying overnight stays. **“To sleep” is a basic need** for everybody. Therefore travelers, and especially those with low income, should not be hindered with a high level of taxation.

REVIEW OF THE LEGISLATION OF REDUCED VAT RATES:

“Question 1:

Are there any concrete situations that you are aware of whereby the application of a reduced rate on certain goods and services by one or more Member States is effectively resulting in material distortion of competition within the Single Market? Please explain and, if possible, give an indication of the economic impact of the distortive effects.”

HOTREC is **not aware of any case** whereby the application of a reduced rate on accommodation and restaurant services **would result in the distortion of competition** within the Single Market. It should rather be noted, that the **reduced VAT rates applied to hospitality services hold lots of benefits** to the whole European economy and contribute to keep Europe the Number 1 tourism destination in the world.

The **public consultations** of 2008 and 2010, as well as the 2 **studies** initiated by the Commission **could not reveal any major anomalies** with regard to distortion of competition with the reduced rates as they are applied today.

In the case of the hospitality industry there is **evidence showing the benefits to the whole economy** of the application of a reduced VAT rate to the sector. Going against the negative trend with regard to **employment** in the recent years of crisis, the sector managed to **increase the number of jobs by 3,8%** between 2008 and 2011, while employment in the **overall economy dropped by around 2.1%**

² Source: European Commission, DG Taxation

in the EU 27. **Significant increases** in employment in the sector could be observed in Belgium (4,9%) and France (12,2%), **where a reduced VAT rate was recently introduced** on restaurant services.³

Moreover, the **hospitality industry is an important point of entry into the labor market** for young and unskilled people. In fact, 20,5% of the people employed in the hospitality sector are between 15 and 24 years old, while in the overall economy this figure is only 9,1%. In the light of the high unemployment rate of the youth – 22,4% in the second quarter of 2012 compared to 10,7% in the overall population in the EU 27 – this fact should be remembered^{3,3}.

EMPIRICAL EXAMPLES:

Below are some **examples of positive (and negative) effects of reduced VAT rates** in the hospitality sector:

In France, the VAT rate on restaurant services was reduced from 19,6% to 5,5% in July 2009. In the next 2 years the so far increasing number of **business closures could be stopped** and around **50.000 jobs were created** only in the restaurant sector. During the same period the construction sector had to cut over 30.000 jobs. The **consumer price index in restaurants and cafes dropped** following the introduction of the reduced VAT rate and reached the July 2009 level again only in February 2011. However, the **prices in restaurants are still around 2,85% lower** than they would be without the VAT reduction. Thanks also to the VAT reduction, between 2008 and 2010 the sector could realize **investments of around 3 billion EUR / year** in the modernization of the sector, which makes an increase of 15% in this period. The **employees were benefiting** from the reduced VAT rate by seeing their salaries rising by 5,7% between July 2009 and March 2012. Additionally two additional bank holidays were agreed and a VAT bonus is paid for all employees in the sector (2% of annual salary)⁴.

In Germany, the VAT rate on accommodation services was reduced from 19% to 7% as from January 2010. Since then an **annual increase of 2,4% and 2,9% in the number of jobs** in hotels could be observed in 2010 and 2011 respectively. According to a non-representative survey among around 5.000 out of the around 36.000 accommodation establishments in Germany **investments of almost 1 billion EUR** were realized following the VAT reduction in those few thousand establishments. With regard to losses in VAT income, before the introduction of the reduced VAT rate the government was expecting a loss in VAT revenue of around 805 million EUR. At the end in the first year **just over half of the expected VAT income loss became reality** with a figure of 464 million EUR. Furthermore, it is estimated that due to the positive effects of the VAT reduction, **social security expenditure could be cut** by 291,5 million EUR⁵.

In Belgium, the VAT rate on restaurant food was reduced from 21% to 12% in January 2010. The **business closures** observed in 2009 could be **stopped** and in the first 9 months **2570 full time equivalent jobs were created**. It could furthermore be observed that **investments were rising again** with an increase of 2% compared to 2009 and an even more **significant increase of 7.2% in turnover**

³ Source: Eurostat

⁴ Source: Synhorcat, France

⁵ Source: German Hotel Association (IHA-D)

could be realized⁶.

In Sweden, the VAT rate on restaurant services was reduced from 25% to 12% in January 2012. As a consequence, the **price level** is now (November 2012) 0,1 percent lower than in December 2011. That's about **3 percent lower than if the VAT-rate wouldn't have been reduced**. Restaurateurs in Sweden could observe the **biggest increase (4,4%) in turnover in the last 10 years** over the period of January-November 2012. This is extraordinary if one take in to account the extremely bad general situation in the economy. It is estimated that the **employment** in the hotel and restaurant industry has **increased by 5,3%** (with the equivalent of 6 000 full-time employees) in 2012⁷.

In Luxembourg, thanks to the low level of VAT on hospitality services, in 2012 **the sector increased by 5%**, against the **local economy** which only increased by **about 0,4%**. The hospitality industry has created **1650 new jobs in 2012** and more than 1800 new jobs in 2011⁸.

In Latvia, the VAT rate on accommodation was increased in January 2009 from 5% to 21%. In 2009 the **number of persons employed in the sector fell by 12.000** resulting in **losses for the government** in social and income taxes of around 14 million EUR. Following the **re-introduction of the reduced VAT rate** in May 2010 at 10%, **employment grew by 8.3%** and also the before dropping **number of visitors started to rise again**, which was also visible in the **rising occupancy rates** of the establishments (48% and 56% in 2009 and 2010 respectively)⁹.

IN SUMMARY:

HOTREC believes that **reduced VAT rates for accommodation and restaurant/catering services should be maintained** as there is no evidence of any distorting effect to competition in the internal market. On the contrary there is sufficient economic evidence demonstrating the positive effects of such rates on employment and economic growth in the EU, as the hospitality sector is one of the few sectors in Europe where employment was in the rise in the recent years. Keeping the reduced VAT rate for hospitality services will facilitate **to achieve the aim of the EU 2020 Strategy**, namely that *"75 % of the population aged 20-64 should be employed"* and also the aim **to keep Europe as the number 1 tourism destination** in the world.

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⁶ Source: Horeca Vlaanderen

⁷ Source: Visita- Swedish hospitality industry

⁸ Source: HORESCA - Luxembourg

⁹ Source: Latvian Hotel and Restaurant Association