

## Temporarily reduced VAT rates for hospitality services Effective and immediate relief for crisis-stricken sectors

**We believe a temporary ‘VAT break’ would be an extremely effective measure to support the recovery of hotels, restaurants, bars, cafes and contract caterers around Europe.**

[HOTREC](#), [FoodDrinkEurope](#) and [FoodServiceEurope](#) are committed to ensuring a safe environment for citizens and supporting the hospitality sector navigate an unprecedented crisis.

The closure of most hospitality businesses, including those providing contract catering services, around Europe in spring 2020 had an exceptionally heavy economic impact on the sector. While some establishments have gradually re-opened for the summer season, the prospects of a return to ‘business as usual’ and compensating for the losses made over the course of spring have not been an option: restrictions have prevented establishments from running at normal capacity, and strict health and sanitary measures, while fully necessary and supported by our sector, are generating additional expenses.

Beyond their economic importance and contribution, the COVID-19 crisis has shown how much hospitality establishments matter for public morale and social cohesion. A ‘return to normal’ would not feel the same without diverse and thriving hospitality establishments.

We welcome the measures and initiatives taken by the EU and its Member States to provide emergency relief for the many sectors, including hospitality and contract catering, facing exceptional economic difficulties and lack of liquidity. Amongst these measures, some EU member States (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Greece) and other European countries (UK, Norway) have introduced temporarily reduced VAT rates for hospitality services (*see Annex*). In certain cases, existing reduced rates have been further lowered for the hospitality sector.

We believe that reduced VAT rates for hospitality and contract catering offer immediate benefits for businesses and consumers and could make the difference between survival and closure for many establishments in the coming months. The establishment of reduced VAT rates is a national competence, but EU law provides a framework for reduced VAT rates under the 2006 VAT Directive.

**HOTREC, FoodDrinkEurope and FoodServiceEurope therefore ask the EU to:**

- Encourage EU Member States to reduce VAT for hospitality and contract catering services to the lowest rate (5%) authorized by EU legislation via a Recommendation
- Temporarily give EU Member States flexibility to set one additional reduced VAT rate where needed to allow the 5% rate to apply to our sectors

The outlook for hospitality businesses today in Europe is bleak and we expect that the vast majority of businesses will be struggling to make ends meet in the upcoming months if not years to come. Past evidence from across Europe shows that reduced VAT rates for hospitality businesses are one of the most effective measures to support employment, stable consumer prices, investment and economic resilience, with a limited impact on State finances.

## **Benefits for jobs and consumers**

The employment, revenue and social value for communities provided by hospitality and contract catering establishments is vital to the recovery of the economy.

Jobs and establishments in these sectors cannot be relocated to third countries: all jobs created directly benefit the people, the economy and the state budgets in Europe. The reduction of VAT rates creates social welfare savings by bringing back people to the job market and by opening entry-level employment opportunities for young people. It also adequately addresses the risk of higher consumer prices for hospitality services; in the absence of reduced VAT rates, establishments may have no other resort than to raise prices to survive.

## **Reduced VAT rates save crisis-stricken sectors**

In the aftermath of the financial crisis of 2008, France introduced a reduced VAT rate on restaurant services in 2009. The French National Institute of Statistics and Economic studies estimated that the number of bankruptcies in the sector decreased by 17%, thus saving 18.000 enterprises and 30.000 jobs when assessing the measure<sup>1</sup>.

Another example is Sweden, where following the VAT reduction of restaurant services in 2012, the evolution of turnover in the restaurant industry exceeded growth in comparable industries. While until 2011 evolution of turnover was very similar in the two groups, the VAT reduction contributed to an additional increase of turnover by 5,6% for restaurants<sup>2</sup>.

## **Long-lasting job creation and better wages**

In Germany, in 2016, 6 years after a reduction from 19 to 7% in the accommodation sector, it was estimated that an additional 46,666 jobs had been created. This corresponds to an increase of 18.5%, which is significant compared to the 14.6% rise in the overall economy during the same period<sup>3</sup>.

In Sweden, after the reduction of the VAT rate on restaurant services from 25 to 12% in 2012, it could be observed that employment increased by 8% in 2012 and 6% in 2013 in the restaurant sector, while the same figures were at 1% and 3% for the control industry group. At the same time, expenditure on total wages also increased more significantly in the restaurant sector namely between 4 and 7,5 percentage points higher than in the control industry group, while they had been following a similar pattern before 2012<sup>4</sup>.

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1 French HOTREC associations, INSEE French National Statistical Institute

2 Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015

3 Hotelverband Deutschland (2017): Branchenreport „Hotelmarkt Deutschland 2017“

4 Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015

## **Investing in the ‘new normal’ and towards greater sustainability**

In early 2020, the outlook for the hospitality sector was positive and many establishments were considering investing to renovate facilities, reduce their carbon-footprint and enhance the experience of guests. The COVID-19 crisis has severely affected establishments’ capacity to take such plans forward.

The VAT reduction of 2010 for accommodation services in Germany demonstrates how low VAT rates can contribute to increased investments into the sector. Where on average hotels in Germany were investing around 90.000 Euros in their establishment in 2009, this figure increased to 119.000 and more importantly to 243.000 in the years 2010 and 2011. Investments were done mainly to the acquisition of machinery and equipment as well as in the renovation and modernisation of guest rooms<sup>5</sup>.

## **Stable or lower prices for consumers**

Although the extra financial resources resulting from a VAT rate reduction are used in different ways, VAT rate reductions tend to have positive effects for consumer prices.

In France, 1 year following the VAT reduction of 1 July 2009 for restaurant services, prices in the restaurant sector were on an average 0.92% lower, while the consumer price index for overall economy increased by 1,51%<sup>6</sup>.

In Finland, following the VAT reduction on restaurant services from 22 to 13% in June 2010, price comparisons showed that the VAT decrease was followed by an average drop in consumer prices of about 4.1% throughout the restaurant and catering industry. Finnish Hospitality Association MaRa recorded an average drop in consumer prices of 5.7% among its restaurant members<sup>7</sup>.

## **A limited impact on State finances**

Low VAT rates allow for more significant investments in the sector, thus contributing to further increase the quality of the offer, being one of the most important factors in global competition. A high level of investment further contributes indirectly to growth and jobs in the related industries (e.g. construction). Treasuries see additional revenues and social welfare savings through additional demand and jobs.

Furthermore, a reduction of VAT rates for hospitality is likely to reduce the growing ‘VAT Gap’ in Europe as it will help fight some of its leading causes such as corporate insolvency, bankruptcies and tax evasion. It should also be noted that as hospitality services are delivered and essentially supplied locally, VAT rate reductions for the sector would have no impact on the good functioning of the EU Internal Market.

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5 Deutsches Wirtschaftswissenschaftliches Institut für Fremdenverkehr e.V. (dwif): Ermäßigter Mehrwertsteuersatz für Beherbergungsleistungen – Eine Initialzündung für das deutsche Hotelgewerbe?!, Dr. Joachim Maschke, dwifJahrbuch Nr. 52/2015, München 2015.

6 Contrat d’avenir 2009-2012: Bilan, French associations

7 National Consumer Research Center, Finland, Kuluttajatutkimuskeskus, julkaisu 1 • 2011

## ANNEX - Temporary VAT rate reductions for hospitality sector introduced to mitigate the effects of the COVID-19 crisis

As part of key measures to help sectors in difficulty overcome the impacts of the COVID-19, some European governments have introduced reduced VAT rates applicable to the hospitality sector (Hotels, bars, restaurants and cafes). The following table outlines the current state of play of temporary reduced VAT rates in European countries.

Country	Applies to:	Old rate	New rate	Start date / End date
Austria	Beverages	20%	5%	1 July 2020 - 31 December 2020
	Hospitality	10%*	5%	
Belgium	Hospitality	12%*	6%	8 June 2020 - 31 December 2020
Bulgaria	Hospitality	21%	10%	1 July 2020 - 31 December 2020
Cyprus	Hospitality	9%*	5%	1 July 2020 – 10 January 2021
Czech Republic	Accommodation	15%*	10%	1 July 2020 - 31 December 2020
Germany	Standard rate	19%	16%	1 July 2020 - 31 December 2020
	Reduced rate (incl. Hotels)	7%*	5%	
	Restaurants and catering (incl. beverages)	19%	5%	1 July 2020 – 31 December 2020
	7%		1 January 2021 – 30 June 2021	
Greece	Non-alcoholic beverages	24%	13%	1 July 2020 – 31 October 2020
	Hospitality	13%*	5%	1 July 2020 – 9 January 2021
Moldova	Hospitality	20%	15%	1 May 2020 – 31 December 2020
Montenegro	Restaurants and catering	21%	7%	4 August 2020 – 31 August 2021
Norway	Hotels	12%*	6%	1 April 2020 – 31 October 2020
Turkey	Hotels	8%*	1%	31 July 2020 – 31 December 2020
UK	Hospitality	20%	5%	15 July 2020 – 12 January 2021

\* Reduced VAT rate which has been further reduced



## HOTREC



[HOTREC](#) represents the hotel, restaurant and café industry at European level. HOTREC brings together 45 national associations representing the interest of this industry in 33 different European countries. The sector counts in total around 2 million businesses, being 99,5% small and medium-sized enterprises (90% are micro-enterprises, i.e. employing less than 10 people). The industry provides almost 12,5 million jobs in the EU alone (2017). Together with the other tourism industries, the sector is the 3rd largest industry in Europe.

## FoodDrinkEurope



[FoodDrinkEurope](#) is the organisation of Europe's food and drink industry, the largest manufacturing sector and leading employer in the EU and a key contributor to its economy (294,000 companies, 99% SMEs, 4.7million employees).

## FoodServiceEurope



[FoodServiceEurope](#) represents the interests of the European contract catering sector at EU level. Our sector employs over 600,000 people across Europe and delivers over 6 billion meals every year. Contract catering covers food services for people working or living in communities such as private and public undertakings, schools, hospitals, retirement homes, prisons.