

JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR IN IRELAND (Q1 2017)



Report from the Restaurants Association of
Ireland on the impact of the introduction of the
VAT rate of 9% in July 2011.

July 2017

Introduction

This report identifies the direct and indirect employment associated with the introduction of the reduced VAT rate of 9% in the Accommodation & Food Services Sector in July 2011, at a national level.

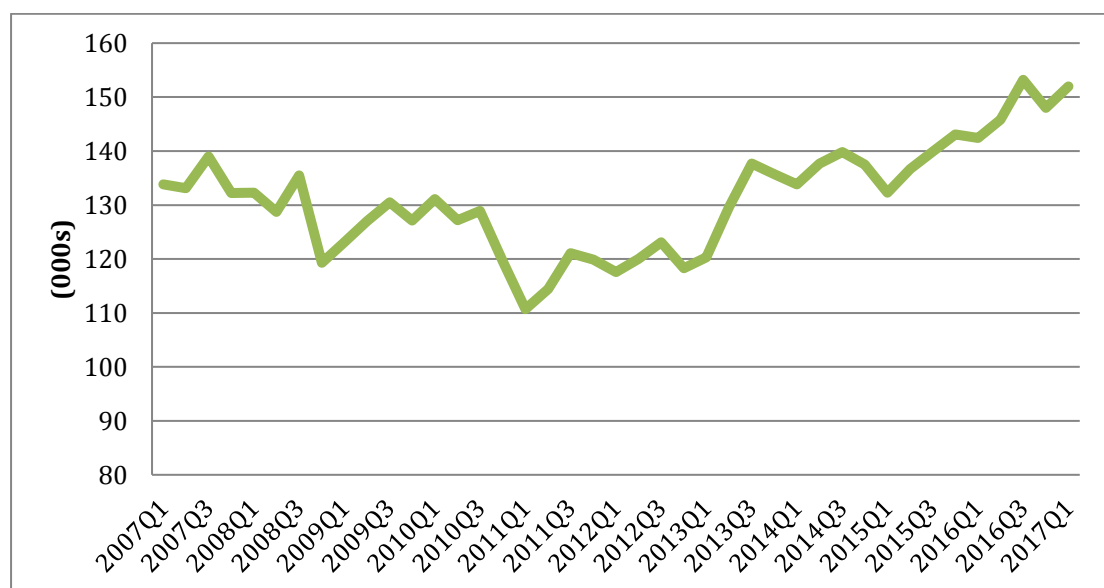
Direct employment refers to the employment directly provided in the Accommodation & Food Services Sector. Indirect employment refers to the jobs supported elsewhere in the economy by the jobs in the Accommodation & Food Services Sector.

This report examines the level of employment in the sector in Q1 2017 and its contribution to the Exchequer. It also looks at the change in employment in the sector between Q2 2011 and Q1 2017; the impact on Exchequer revenues of the change in employment; and the reduction in social welfare expenditure if all of the direct jobs created took people off the Live Register.

Between Q2 2011 and Q1 2017, the number of people working in the Accommodation & Food Services Sector nationally increased by 37,800, taking total employment from 114,400 to 152,200. The sector accounted for 7.4% of total employment in the economy in the first quarter of 2017.

The increase in Indirect Employment as a result of this job creation is estimated at 17,388. The increase in Direct and Indirect Employment is estimated at 55,188.

Figure 1: Employment in the Accommodation & Food Services Sector



Source: CSO Quarterly National Household Survey Q1 2017, May 23rd 2017.

IMPACT OF JOB CREATION IN THE ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 – Q1 2017.

	NUMBER OF DIRECT JOBS CREATED	NUMBER OF INDIRECT JOBS	TOTAL INCREASE	SOCIAL WELFARE SAVINGS FROM DIRECT EMPLOYMENT	PAYROLL TAX RECEIPTS FROM DIRECT EMPLOYMENT
NATIONAL	37,800	17,388	55,188	€756 m	€180 m

BACKGROUND TO LOWER VAT RATE OF 9%

In July 2011, the VAT rate for Tourism related goods & services was temporarily reduced from 13.5% to 9% by Government as part of a measure to promote job creation. This incentive was due to expire at the end of 2013, but has been subsequently extended due to the fact that it is having a positive impact on the sector.

NATIONAL IMPACT

The aim of the lower rate of VAT was to encourage and support growth in small businesses in the tourism sector. In this context the measure has been very successful, hence the decision by the Minister for Finance to extend it. As well as the direct jobs created in the sector, the multiplier effect of employment in the Accommodation & Food Services sector is an important consideration. Anthony Foley of DCU Business School estimated in the '*Drinks-related employment in Dail constituencies 2013*' report, which was commissioned by Drinks Industry Group of Ireland, that the total employment multiplier effect of a job in that sector is 0.46. This means that for every direct job in the sector, 0.46 of a job is supported elsewhere in the economy. In this report, this multiplier is applied to direct employment in the Accommodation & Food Services sector.

The Irish Congress of Trade Unions has estimated that '*for every 10,000 people off the live register and back in employment means a net gain to the Exchequer of some €200 million*'¹ in social welfare savings.

SUMMARY OF NATIONAL IMPACT

Employment in the Accommodation & Food Services Sector Q1 2017

- In Q1 2017, 152,200 workers were employed directly in the Accommodation & Food Services Sector.
- The total Gross Annual Wage paid to those workers totaled €3.5 billion.
- The total Net Annual Wage paid to those workers totaled €3.2 billion.
- The payroll taxes accruing to the Exchequer from this employment totaled €724 million.
- Indirect employment as a result of the direct employment in the sector is estimated at 70,012.

¹ Post-Budget Briefing 16th October 2013, by Congress Assistant General Secretary, Sally Anne Kinehan.

Change in Employment in the Accommodation & Food Services Sector Q2 2011 – Q1 2017

- Total employment in the Accommodation & Food Services sector increased by 37,800 between Q2 2011 and Q1 2017.
- The total Gross Annual Wage paid to those extra workers is €875 million.
- The total Net Annual Wage paid to those extra workers is €790 million.
- The payroll taxes accruing to the Exchequer from this extra employment totaled €180 million.
- The savings in social welfare payments, assuming the extra employment took people off the Live Register, is estimated at €756 million.
- Indirect employment as a result of the change in direct employment in the sector is estimated at 17,388.
- The number of people signing on the Live Register declined by 189,222. between June 2011 and June 2017.

INCREASE IN THE NUMBER OF TRIPS TO IRELAND

There has been strong growth in the number of overseas trips to Ireland since the 9% VAT rate was introduced in July 2011. Between 2011 and 2016 there has been an increase of 47.3% in the number of overseas visitors to Ireland. This growth is due to a number of factors, but the impact that the reduced VAT rate has had on the competitiveness of the Irish tourism product is significant.

Trends in Overseas Visitors to Ireland 2011-2016

COUNTRY OF ORIGIN	2011 (000s)	2016 (000s)	% CHANGE
France	401	531	+32.4%
Great Britain	2,878	3,924	+36.3%
Germany	423	652	+54.1%
Italy	220	344	+56.4%
North America	987	1,808	+83.2%
Other Europe	1,239	1,774	+43.2%
Australia & New Zealand	141	204	+44.7%
Other Countries	216	346	+60.2%
Total	6,505	9,584	+47.3%

Source: CSO

In the first 5 months of 2017, the number of overseas trips to Ireland increased by 3.1%. However, visitor numbers from the UK declined by 6.8%. This decline is primarily currency related and is a source of concern for the Irish tourism sector.

Trends in Overseas Visitors to Ireland Jan-May 2017

COUNTRY OF ORIGIN	JAN-MAY 2016 (000s)	JAN-MAY 2017 (000s)	% CHANGE
Great Britain	1,541	1,436	-6.8%
Other Europe	1,213	1,261	+3.9%
North America	536	663	+23.7%
Other	175	213	+21.7%
Total	3,465	3,573	+3.1%

Source: CSO

The sterling v euro exchange rate averaged 72.6 pence in 2015: 81.9 pence in 2016: and 86.19 pence so far in 2017.

Sterling v Euro Exchange Rate



Source: Bloomberg

**NATIONAL & COUNTY SPECIFIC IMPACT OF JOB CREATION IN THE
ACCOMMODATION & FOOD SERVICES SECTOR Q2 2011 - Q1 2017.**

	NUMBER OF DIRECT JOBS CREATED	NUMBER OF INDIRECT JOBS CREATED	TOTAL INCREASE	SOCIAL WELFARE SAVINGS FROM DIRECT EMPLOYMENT	PAYROLL TAX RECEIPTS FROM DIRECT EMPLOYMENT
CARLOW	458	211	669	€9.1 m	€2.2 m
CAVAN	604	278	882	€12.1 m	€2.9 m
CLARE	878	404	1,282	€17.6 m	€4.2 m
CORK	4,405	2,026	6,431	€88.1 m	€21 m
DONEGAL	1,063	489	1,552	€21.3 m	€5.1 m
DUBLIN	11,291	5,194	16,485	€225.8 m	€53.7m
GALWAY	2,025	932	2,957	€40.5 m	€9.6 m
KERRY	1,094	503	1,597	€21.9 m	€5.2 m
KILDARE	1,866	858	2,724	€37 m	€8.9m
KILKENNY	791	364	1,155	€15.8 m	€3.7m
LAOIS	697	321	1,018	€13.9 m	€3.3m
LEITRIM	234	108	342	€4.7 m	€1.1 m
LIMERICK	1,461	672	2,133	€29.2 m	€7 m
LONGFORD	333	153	486	€6.7 m	€1.6m
LOUTH	1,041	479	1,520	€20.8 m	€4.9m
MAYO	912	420	1,332	€18.2 m	€4.3 m
MEATH	1,649	759	2,408	€32.9m	€7.8 m
MONAGHAN	450	207	657	€9 m	€2.1 m
OFFALY	585	269	854	€11.7m	€2.8 m
ROSCOMMON	459	211	670	€9.2 m	€2.2 m
SLIGO	455	209	664	€9.1 m	€2.2 m
TIPPERARY	1,156	532	1,688	€23.1 m	€5.5 m
WATERFORD	886	408	1,294	€17.7 m	€4.2 m
WESTMEATH	677	311	988	€13.5m	€3.2 m
WEXFORD	1,160	534	1,694	€23.2 m	€5.5 m
WICKLOW	1,144	526	1,670	€22.9 m	€5.4 m
NATIONAL	37,800	17,388	55,188	€756 m	€180 m

CONCLUSION

Since the introduction of the 9% VAT rate in July 2011, there has been a significant increase in the number of overseas visitors to Ireland and in employment in the Accommodation & Food Services sector. This employment has generated considerable revenues for the Exchequer and has contributed to significant social welfare savings.

Tourism is Ireland's most important indigenous sector and has a broad regional spread. It provides considerable employment all over the country. In the context of a country where there is a strong imperative to boost employment and economic activity in the regions, the ongoing health of the sector is of vital importance. The lower VAT rate is an important component of the efforts to build the tourism sector and improve the regional spread of growth and should not be risked, particularly in the context of Brexit-related uncertainty and sterling weakness. It is totally uncertain as to how the Brexit process will evolve, but in an environment of such uncertainty and significant sterling weakness, increasing the VAT rate is not advisable and would just serve to undermine the competitiveness of the sector.