



RESTAURANTS
ASSOCIATION
OF IRELAND

9% VAT - FOOD, TOURISM & JOBS REBUILDING IRELAND'S ECONOMY

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

JULY 2014

County Wicklow

**KEEP
VAT AT 9%**
Supporting Food, Tourism & Jobs



The reduction of VAT on food and tourism services from 13.5% to 9% has been a resounding success since its implementation by Government in July 2011. On behalf of the Restaurants Association of Ireland I wholeheartedly welcome the 31,584 new jobs created as a result of the lower rate of VAT, as outlined in the following report.



While the 9% VAT is significantly rebuilding our economy in the Food and Accommodation sectors county by county, our industry is still experiencing a 3-tier recovery where a divide remains evident between businesses in the capital, urban areas and rural Ireland.

The Tourism industry may have turned a corner but in order to create another 50,000 jobs and to recover the number of tourists lost since 2007, stability must be maintained in the Irish Tourism Industry.

We look forward to playing our part in the jobs recovery and rebuilding Ireland's economy.



Adrian Cummins
Chief Executive,
Restaurants Association of Ireland.

FOREWORD

In what has been a very difficult and challenging economic environment, the tourism sector has stood out like a beacon of light over the past couple of years. Foreign visitors to Ireland increased by 10 per cent in the first half of this year and it is very clear that it is a sector that is now benefiting from improved quality and cost competitiveness. Government policy has played a key role in this regard.

In July 2011 the VAT rate for tourism related services and goods was temporarily reduced from 13.5% to 9% by Government as part of a measure to promote job creation in the economy. This policy has undoubtedly been successful.

In the period between the introduction of the lower VAT rate in July 2011 and the first quarter of this year, employment in the Accommodation & Food Services sector has increased by 31,584. Clearly, the lower VAT rate is not the only factor at play, but it has made a significant contribution. This report looks at the contribution that the Accommodation and Food Services sector has made to employment and public finances since the incentive was introduced. The results are impressive, and the regional spread of the impact is even more impressive.

The lower VAT rate is a good example of a government intervention that is working and that is making a significant contribution to employment all over the country and the public finances. It would not be sensible at this juncture to revert back to the standard VAT rate as this could threaten the growth that is now being seen in the sector. This report suggests that the lower VAT rate should be kept in place until the general economic recovery story is more soundly based and sustainable.

Jim Power
Economist.

INTRODUCTION

This report identifies the direct, indirect and multiplier employment associated with the introduction of the reduced VAT rate of 9% in July 2011 in the Food, Tourism and Hospitality sectors. The national figures for each section have been apportioned for each county using census data and the population of each county as a percentage of the total national population.

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

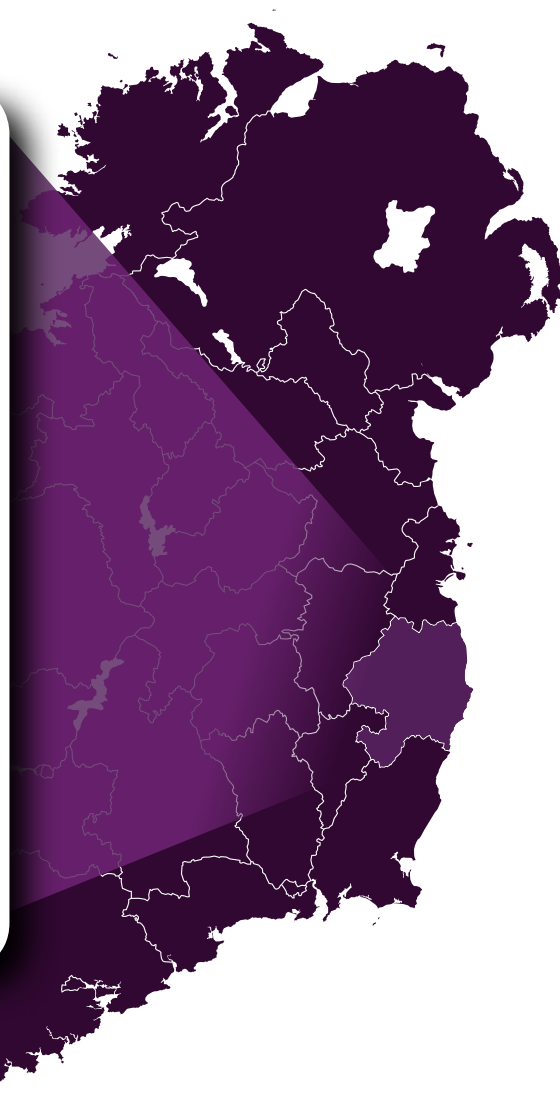
This report examines the level of employment in the sector in Q1 2014 and its contribution to the Exchequer; and the change in employment between Q2 2011 and Q1 2014, and its contribution to the Exchequer.

IMPACT OF JOB CREATION IN FOOD & ACCOMMODATION SECTOR Q2 2011 and Q1 2014:

WICKLOW *Cill Mhantáin*



| | Wicklow | National |
|--|---|----------|
| Number of Direct Jobs | 648 | 21,633 |
| Comparison to Major Employer | Just 72 jobs less than the total number of employees also employed in Wicklow by Wicklow County Council | N/A |
| Number of Indirect Jobs | 298 | 9,951 |
| Total Increase in Employment | 946 | 31,584 |
| Social Welfare Savings | €12.96 m | €433m |
| Payroll tax receipts from Direct Employment | €3 m | €103m |



BACKGROUND TO LOWER VAT RATE OF 9%

In July 2011 the VAT rate for tourism related services and goods was temporarily reduced from 13.5% to 9% by Government as part of a measure to promote job creation. This incentive for job creation was due to expire at the end of 2013, but in Budget 2014, the Minister for Finance announced that the measure would be retained. Confirmation of the Minister's budget day announcement was received on 18 December 2013, when the Finance Act (no.2) 2013 (which is the legislation that contains the measures announced by the Minister on budget day) was signed into law.

NATIONAL IMPACT

The aim of the lower rate of VAT was to support and encourage 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 beyond the end of 2013. 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 Dáil 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. This multiplier is applied to direct employment in the Accommodation & Food Services sector.

Since the new VAT rate of 9% was introduced in July 2011, employment in the sector has increased.

Data from the Central Statistics Office Quarterly National Household Survey show that:

- Between Q2 2011 and Q1 2014, direct employment in the Accommodation & Food Services sector increased by 21,633 from 114,904 to 136,537:
- An additional 9,951 indirect jobs were created elsewhere in the economy, giving a total employment increase of 31,584;
- The employer & employee payroll taxes resulting from this increase of 21,633 in direct employment was €103 million;
- The number of people signing on the Live Register at a national level declined by 58,910 between June 2011 and July 2014; and
- 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 payments. Consequently, the increase in direct employment of 21,633 in the Accommodation & Food Services sector at a national level saved the Exchequer €433 million in social welfare payments.

“ The lower VAT rate has been great for our economy. Not only does it benefit the food, tourism and hospitality sectors directly, but there is a knock-on effect in the wider economy with everyone from farmers to suppliers feeling the positive affect of 9% VAT. ”

Adrian Cummins, Chief Executive, Restaurants Association of Ireland

¹ Post-Budget briefing 16 October 2013, by Congress Assistant General Secretary, Sally Anne Kihinan

COUNTY WICKLOW

The numbers employed in the Accommodation & Food Services sector in Q1 2014 stood at 4,092:

- The gross annual wage bill paid to those employees is €94.8 million;
- The net annual wage bill paid to those workers is €85.5 million;
- The contribution to the Exchequer from employee taxes (PAYE & USC) is €9.3 million; and
- The Employer PRSI contribution is €10.2 million;

The increase in direct employment between Q2 2011 and Q1 2014 was 648;

- The gross annual wage paid to those extra workers is €15 million;
- The net annual wage bill paid to those extra workers is €13.5 million;
- The contribution to the Exchequer from employee taxes (PAYE & USC) as a result of the increased employment is €1.5 million; and
- The Employer PRSI contribution as a result of the increased employment is €1.6 million.

The number of people signing on the Live Register in County Wicklow decreased by 1,270 between June 2011 and June 2014.

COMPARISON TO MAJOR LOCAL EMPLOYER

The 648 extra jobs created in Wicklow is just 72 jobs less than the total number of employees also employed in Wicklow by Wicklow County Council.

Number of Indirect Jobs:

If the multiplier effect of 0.46 is applied to jobs in the Accommodation & Food Services sector;

- A further 1,882 jobs are supported in the wider economy; and
- The extra jobs created in the sector between Q2 2011 and Q1 2014 resulted in the creation of an extra 298 indirect jobs in the wider economy; and
- The total direct and indirect increase in employment between Q2 2011 and Q1 2014 was 946.

ESTIMATED SOCIAL WELFARE SAVINGS FROM THE DIRECT INCREASE IN EMPLOYMENT IN THE ACCOMMODATION & FOOD SERVICES SECTOR BETWEEN Q2 2011 – Q1 2014

The increase in direct employment of 648 in the Accommodation & Food Services sector in Wicklow saved the Exchequer €12.96 million in social welfare payments.



Since implementation of VAT at 9%, we have employed an additional 2 full-time and 3 part-time employees. Passing on the reduced VAT rate, we have also been able to offer a better value menu to our customers.



Paul Smith, The Mystic Celt, Church St, Wicklow Town

VALUE FOR MONEY

The “*Analysis of the Impact of the VAT Reduction on Irish Tourism & Tourism Employment Report for Fáilte Ireland*” published by Deloitte, provided an assessment of the performance of Ireland in terms of visitors’ Value for Money (VFM) rating. VFM provides an indicator from tourists as to their perception of the level of value in the tourism sector in Ireland.

There has been a large improvement in the overall VFM rating in the period 2005 to 2012 with the number of visitors rating Ireland as ‘good’ or ‘very good’ increasing from 28% to 40% while the number of visitors rating Ireland as ‘poor’ or ‘very poor’ decreased from 35% in 2005 to 16% in 2012. This change in visitors’ perception of VFM has been most noticeable since 2009, and has continued to improve since the introduction of the rate reduction.

The assessment of the VFM offered by Ireland has improved across visitors from all regions since 2009. This positive trend continued in 2011 – 2012, when the VAT rate reduction was implemented. The number of visitors rating Ireland as either ‘very poor’ or ‘poor’ for VFM has reduced from 40% in 2009 to 16% in 2012, while the number rating Ireland ‘good’ or ‘very good’ VFM has increased from 28% to 40% over the same period.

While this improvement cannot be wholly attributed to the reduction in VAT rate, the continuing improvement in the VFM assessment across all regions is another positive indicator for the performance of the sector.

INCREASE IN THE NUMBER OF VISITORS

Since the introduction of the new VAT rate of 9%, there has been strong growth in the number of overseas visits to Ireland. According to the CSO figures overseas visits to Ireland grew by 10.3% overall in the period from January to June 2014 when compared to the corresponding period of 2013.

In the period from Q2 2011 to Q2 2014, the following growth was recorded in Overseas Visitors to Ireland:

| DESTINATION | % CHANGE Q2 2011 to Q2 2014 |
|-------------------|-----------------------------|
| Total Overseas | +17.82% |
| Great Britain | +10.12% |
| Mainland Europe | +19.01% |
| Rest of the World | +31.97% |
| USA | +30.22% |

Source: Fáilte Ireland/CSO 30th July 2014

CONCLUSION

Since the introduction of the 9% VAT rate for tourism related services and goods in July 2011, there has been a significant increase in overseas tourism numbers to Ireland and to employment in the Food & Accommodation Services sector at a national and local level. This cannot be attributed exclusively to the reduction in the VAT rate, but it has contributed to an improvement in the competitiveness of the sector. With a recovery underway, it would not be wise to threaten it by increasing the VAT rate to 13.5%. The lower rate is an important component of the efforts to build the tourism sector and should not be risked at this point in time.

“ It is important that we reinforce success when possible, so I have decided to continue the 9% rate of VAT for these vital sectors. This will support the increased number of jobs already in place and accelerate the creation of new jobs. ”

Minister for Finance, Michael Noonan
15th October 2013, Budget 2014 Speech

“ Last year, The Gathering was a major success. This week the Government published a new tourism strategy to add 50,000 new jobs over the next decade. ”

Taoiseach Enda Kenny
11th July 2014, Dáil Éireann Speech





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