
# Reduced VAT rates: a vital measure to support the recovery of European hospitality

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## Executive summary

The European hospitality sector is a **major contributor to the EU economy and social fabric**. It provides 11 million jobs and contributes approximately 2 to 3% to the EU GDP. Behind these numbers are many societal and cultural benefits which were particularly missed by consumers during the last global pandemic. From a financial point of view, hospitality companies also contribute to national budgets with taxes – including Value-Added Taxes (VAT).

During the COVID-19 pandemic, many European countries decided to reduce the VAT rate for hospitality establishments to help them better cope with severe financial instability. In the aftermath of COVID-19, many of them decided to revert back to previous pre-COVID rates. Even more worryingly, some are now considering to introduce standard rates for the hospitality sector without taking into account the many benefits of reduced rates.

Furthermore, **even if businesses reopened after the pandemic, they are now facing high food and energy prices, inflation and interest rates**. On the other side, consumers' confidence is impacted by their financial well-being.

Therefore, **we believe that a permanent 'VAT break' would be the most effective measure to support the recovery and transformation of hotels, restaurants, bars, nightclubs and cafés across Europe**.

The current paper provides arguments in favour of reduced VAT rates in hospitality based on examples and evidence from all over Europe. More specifically, it points out that reduced VAT rates:

- Benefit the economy, local jobs, consumers and tourism.
- Safeguard crisis-stricken sectors.
- Create long-lasting jobs and better wages.
- Boost investments towards sustainability goals.
- Help make the sector more competitive and ensure a level playing field.
- Help preserve gastronomic, cultural diversity and the livelihood of city centres.

# Introduction

As one of the most affected sectors by the COVID-19 pandemic, European hospitality fully reopened. However – while we hoped to return to the pre-2020 'business-as-usual' situation – the current **soaring energy and food costs and labour shortages** are making it extremely difficult for businesses to recover and operate in a stable economic environment.

Several months of closure or partial opening have taken their toll on hospitality establishments – despite significant government and EU support to offer the sector a much-needed lifeline. The companies that managed to remain in business still **need to compensate for the lack of turnover over the course of 2 years** of pandemic, and **must continue paying fixed costs and dealing with rising debt**. Hospitality businesses operate with tight margins, high staff costs, and pressure from suppliers and need liquidity to stay afloat.

The sector must look at investing to prepare for a digital and sustainable future while facing geopolitical and economic instability, as mentioned above. The difficult situation in the sector is reflected by the latest Eurostat data[1] on bankruptcies and new registration of businesses, which show that:

- Compared to pre-pandemic Q4 2019, **the number of bankruptcies in the accommodation and food services sector in Q4 2022 increased by 97.7%**. This is the highest number among all covered sectors.
- Comparing Q3 and Q4 2022, the accommodation and food services sector accounted for the **second-highest increase in the number of bankruptcies** (+39.4%) behind the transportation and storage sector.

The past two years have also shown that hospitality is crucial for the livelihood of cities and village centres, the well-being of European citizens and social inclusion. Hospitality creates beneficial effects for the European economy as a whole and remains a major employer and source of growth and fiscal income[2]. The sector creates employment opportunities among vulnerable groups in the labour market that are most exposed during economic downturns.

**A permanent 'VAT break' would constitute the most effective measure to support the recovery and transformation of hotels, restaurants, bars, nightclubs and cafes around Europe**. The measure would also support other sectors in the tourism ecosystem such as tourism, travel, culture, agriculture and catering as well as underpin investment in digital and green buildings and services.

[1] Eurostat, Q4 2022: business bankruptcies highest since 2015.

[2] According to Brewers of Europe, **€11 billion in extra government tax revenues** can be collected to help kick-start the economy if hospitality can get back to pre-COVID levels.

**The enactment of a VAT break would have long-lasting beneficial effects for the sector and beyond. Where applicable, we urge European governments to**:

- **Set the lowest possible VAT rate under national and EU law over the course of 2023.**
- **Maintain a reduced VAT rate for hospitality services after 2023.**
- **Avoid increasing the reduced rates to standard rates.**

The potential losses generated for national budgets by the reduction of the VAT rate in hospitality would be offset by increased consumption and tourism as well as the generation of revenues by larger number of businesses which have been able to maintain activity. 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.

## Why reduce VAT for hospitality services?

### Reduced rates benefit the economy, local jobs, consumers and tourism

The employment, revenue and social value for communities provided by hospitality are vital to the recovery of the economy. The reduction of VAT rates creates social welfare savings by bringing back people to the job market and opening entry-level employment opportunities for young people. It also adequately addresses the risk of abnormally higher consumer prices for hospitality services. **With reduced VAT rates, prices can be held back and limit the effects on the labour market**.

In Germany, for instance, the lower VAT rate (as of 1 January 2010) positively impacted turnover, employment and investment in developing new accommodations. Between 2009 and 2015, the turnover tax collected from the accommodation sector increased by EUR 73 million[3].

Unlike other sectors, tourism does not require high investments compared to the income it provides to national budgets. For example, it is estimated that in the Czech Republic tourism brings 2,9% of GDP, with state investment reaching just over CZK 1 billion. On the other side, agriculture brings 2,7% of GDP, however, the investment by the state represents about CZK 70 billion.

On the other side, we are concerned with some attempts around Europe to increase the reduced VAT to standard rates. There is concrete evidence from Latvia that increasing the VAT rate from 5% to 21% had negative long-term consequences. For example, the turnover of the industry decreased by 33% while it is estimated that 10,000 jobs were lost[4].

### Reduced rates safeguard 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[5].

In Sweden, the VAT reduction of restaurant services in 2012 led to the evolution of turnover in the restaurant industry exceeding 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[6].

In 2021, a survey of more than 1,100 UK hospitality businesses by UKHospitality[7] covering the effects of the temporarily reduced VAT rate found that 30% of businesses could have faced closure without the VAT rate reduction.

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[3] German HOTREC association.

[4] Travelnews.lv, "*Līdz ar PVN palielināšanu izmitināšanas sektoram tautsaimniecība zaudēs aptuveni 47 miljonus EUR*", available **here**.

[5] French HOTREC associations, INSEE French National Statistical Institute.

[6] Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015.

[7] UK Hospitality, results of a survey of businesses by the Cut Tourism VAT Campaign in association with UK Hospitality, the Tourism Alliance and the Association of Leading Visitor Attractions undertaken in late December 2020 and completed in early January 2021.

## Reduced rates create long-lasting jobs 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 by 18.5%, which is significant compared to the 14.6% rise in the overall economy during the same period[8].

In Sweden, after the reduction of the VAT rate on restaurant services from 25 to 12% in 2012, 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[9].

**Lower VAT can be an important factor in mitigating higher costs on staff, food and energy**. The increase in minimal and average wages, accompanied by unprecedentedly high levels of labour shortages has severely impacted the everyday lives of hospitality establishments. Therefore, lower VAT can be an important factor in mitigating risks and costs and provide an economic stimulus that will enable businesses to bring back workers and attract a new workforce.

## Reduced rates can boost investments towards sustainability goals

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 and the current economic situation have severely affected our establishments' capacity to bring such plans forward.

Responses to the 2021 UK Hospitality survey[10] showed that savings due to the reduced VAT rate would be directed towards regaining financial sustainability; cutting prices; acquiring new premises to convert to tourist use; expanding and refurbishing existing buildings; switching investment from overseas to the UK; employing additional staff and increasing wages; improving the customer experience; improving cash flow and building financial reserves.

## Reduced rates help make the sector more competitive and ensure a level playing field

Increasing the VAT rate has a detrimental effect on the competitiveness of the hospitality sector which is struggling to absorb any margins, including higher VAT. Consequently, any increase could be passed on to the consumer meaning higher prices of accommodation and food services. In Ireland, it is estimated that in case the VAT increase is passed on to consumers in its entirety, the prices of such services could increase by around 4.1 %[11].

**Traditional accommodation providers are already competing against short-term rental (STR) accommodations which in most cases do not include VAT in the final price**. The study 'VAT in the Digital Age', prepared for the European Commission and referenced in the VAT in the Digital Age proposal[12], found that 70% of suppliers that are using certain online platforms are not registered for VAT. Consequently, this means that the majority of Short-Term Rental (STR) listings can be offered at a lower price than a room in a hotel, thus impacting competitiveness amongst different accommodation providers. While there is a general perception that STRs are rented out by individual hosts for a limited period, the data does not support it. In cities – such as Barcelona, Lisbon, Madrid, Prague, Rome and Vienna – more than half of all available listings appear to be under the management of professional operators.

Therefore, instead of increasing the reduced VAT rates, more effort should be directed to ensure that STR accommodations include VAT in their prices. The current EU proposal on VAT in the Digital Age represents a great opportunity to oblige platforms to collect and remit VAT instead of hosts.

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[8] Hotelverband Deutschland (2017): Branchenreport „Hotelmarkt Deutschland 2017.

[9] Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015.

[10] UK Hospitality, Results of a survey of businesses by the Cut Tourism VAT Campaign in association with UK Hospitality, the Tourism Alliance and the Association of Leading Visitor Attractions undertaken in late December 2020 and completed in early January 2021.

[11] Jim Power Economics, 2023, p. 3.

[12] European Commission, Council Directive amending Directive 2006/112/EC as regards VAT rules for the digital age, pp 5-6, available **here**.

### Reduced rates can boost investments towards sustainability goals

Reduced VAT rates significantly contribute to the preservation of the gastronomic and culinary culture and the livelihood of European city centres. Bars, restaurants and cafes provide public spaces, allowing social interactions which are essential to European societies. They are also important buyers of products and clients of farmers, butchers, bakers and other businesses that sell local products. Due to the current challenging macroeconomic situation, which is endangering the survival of many hospitality businesses, a reduced VAT rate can significantly help to contribute to the entire local business system.