



REPORT ON THE BENEFITS OF LOW VAT  
ON JOB CREATION AND COMPETITIVENESS  
IN THE EUROPEAN UNION

For more information about VAT in the hospitality sector  
**please contact Mr. Dániel Makay, Public Affairs Manager of HOTREC**

Tel: + 32 (0) 2 513 63 23

Email: [daniel.makay@hotrec.eu](mailto:daniel.makay@hotrec.eu)

# CONTENTS

|    |   |                                                                              |
|----|---|------------------------------------------------------------------------------|
| 04 | ○ | Foreword by the President of the European Parliament                         |
| 05 | ○ | Key facts and figures by UNWTO Secretary General                             |
| 06 | ○ | Message from the European tourism stakeholder alliance                       |
| 07 | ○ | Introduction by HOTREC                                                       |
| 08 | ○ | The hospitality industry's contributions to the European economy and society |
| 10 | ○ | VAT and tourism in the European Union at a glance                            |
| 12 | ○ | The benefits of low VAT in the hospitality sector for the European economy   |
| 12 | ○ | Competitiveness of Europe                                                    |
| 15 | ○ | Employment                                                                   |
| 17 | ○ | Investment and Treasury                                                      |
| 18 | ○ | Other benefits                                                               |
| 21 | ○ | 5 reasons to keep VAT low for the hospitality and tourism sector             |
| 22 | ○ | References                                                                   |
| 23 | ○ | Access the Membership                                                        |

## MISSION

HOTREC is the umbrella Association of Hotels, Restaurants, Cafes and similar establishments in Europe, which brings together 41 National Associations active in 29 countries.

Our mission is to promote the hospitality industry's contributions to European society and represent, protect and defend its interests to the European Institutions.



## FOREWORD BY THE PRESIDENT OF THE EUROPEAN PARLIAMENT

### The contribution of the European hospitality industry to Europe's competitiveness: a driving force for job creation, investment and growth

Tourism keeps growing at a pace of 4% per year at world level. Europe, although still the number one destination, has seen its market share decreasing year after year to 51% today compared to 60% in the 90s, and 40% by 2030, due to an increased competition among destinations.

Europe ranks second in terms of receipts, with revenues amounted to 336.5 billion euros, behind the Asia and Pacific Region with receipts of 377 billion euros in 2015. However, tourism receipts in Europe are rising below the world average.

Europe's leadership must sustain and for this, Europe must keep being competitive vis-à-vis other regions of the world.

The European hospitality industry, which counts 1.8 million small and medium-sized enterprises, 91% of which are micro enterprises plays a key role. Together with tourism, the European hospitality industry is the 3rd socio-economic activity and a strong contributor to the European economy and society. Indeed, the hospitality sector employs 80% of the total EU tourism workforce, i.e. more than 10 million workers directly and 16.6 million indirectly, notwithstanding its direct contribution to the European Gross Domestic Product of close to 4%. It is also a sector where 19,6% of workers are aged under 25 years, while this share is only 8.2 in the overall economy, representing a strong potential to fight against youth unemployment. It is as well, last but not least, a driver for social inclusion as 1/3 of the total number of jobs of the sector are held by relatively unskilled people. For all these reasons, the European hospitality industry is a strong contributor to Europe's competitiveness and it is therefore vital to keep it strong also to keep Europe the number 1 tourist destination in the world.

I commend HOTREC for this report which demonstrates how the European hospitality sector helps Europe to maintain a leading position and invest in the development of sustainable tourism for the benefits of society.

A handwritten signature in black ink, reading "Antonio Tajani".

**Antonio Tajani**



## KEY FACTS AND FIGURES BY UNWTO SECRETARY GENERAL

Tourism taxation should be carefully measured, modelled, monitored and assessed before any political tax reform is implemented.

We are living in an era of travel. The tourism sector enjoyed its seventh consecutive year of above-average growth in 2016 as the number of international tourists, which back in 1950 numbered just 25 million, surpassed 1.2 billion. All around the globe, millions travel within their own countries and across borders and there is almost nowhere in the world that is not travelled to.

Today the sector contributes 10% of the world's GDP and as many as one in every eleven jobs globally. Exports from international tourism have swelled from only US\$2 billion in 1950 to US\$1.5 trillion in 2015. This equates to 7% in global trade, a larger contribution than from any other export sector except fuels and chemicals. In Europe tourism has been instrumental in supporting economic recovery and the generation of new jobs.

Beyond the direct impact, tourism reaches into many other sectors, such as construction, manufacturing and IT services, having a multiplier effect along the value chain. Tourism is creating jobs for millions at a time when the failure to provide hope for a better future to people of all regions is one of our biggest global challenges. It is estimated that every job in the tourism sector creates about 1.5 additional or indirect jobs in the tourism-related economy. The sector's wide reach also stimulates entrepreneurship and growth of micro, small and medium-sized enterprises (MSMEs). MSMEs are the sector's main innovators and sources of economic diversification, as well as being major job creators across sectors.

Yet, tourism's role in employment generation and entrepreneurship is often underestimated and undervalued in policy formulation and implementation. This includes the forming, or reforming, of tourism taxation systems and the analysis of its impacts in terms of job creation. A good taxation system needs to be equitable to reduce tax avoidance, and efficient without affecting the allocation of resources. A tourism tax regime that is sound, transparent and efficient can support good investments to assist a country's development in socio-cultural and political terms, as well as in economic competitiveness and employment. The better designed and more holistic the tourism taxation policy is, the more the environmental, socio-cultural and economic benefits – and the fewer the costs – generated for hosts.

There is no single approach for sustainable and competitive tourism taxation in the long-term. Destinations differ in their stages of tourism development, political and legal systems and institutions, and overall development priorities. Their idiosyncrasies have to be carefully and effectively measured, and their measurements analysed holistically, when establishing or reforming taxation policies. A holistic system and an optimal taxation policy in tourism development should account for tourism's role within the larger economy, its economic, environmental and socio-cultural benefits as well as its potential costs.

Therefore, tourism taxation should be carefully measured, modelled, monitored and assessed before any political tax reform is implemented. Applying models that provide strong evidence for decision-makers at any given destination is the most reliable and feasible option in attaining sustainable, resilient and competitive tourism and overall development.

We much welcome this report by HOTREC as we trust it will provide an important contribution to the ongoing discussion on taxation and its impact on competitiveness in the tourism sector, and particularly to the pressing and ongoing challenge of job creation. I would like to thank HOTREC for its continuous contribution to advancing tourism knowledge and maintaining Europe's position as the world's leading tourism region and global shepherd of a more sustainable and competitive sector.

**Taleb Rifai**





# MESSAGE FROM THE EUROPEAN TOURISM STAKEHOLDER ALLIANCE

Together with NET<sup>1</sup> (the Network for the European Private Sector in Tourism), the ETC and NECSTouR, HOTREC calls upon the long-term application of low Value Added Tax to tourist accommodation, restaurant and café services and in general to tourism services, in order to help the tourism industry to increase its competitiveness on the global travel market and to help Europe to remain the number one tourism destination in the world. The European tourism stakeholder alliance as represented by all signing parties beneath, together with HOTREC also call upon the mapping of all tourism taxes and levies affecting tourism at national level and the assessment of their impact on competitiveness.

Michel de Blust  
Secretary General of ECTAA,  
the European Travel Agents'  
and Tour Operators' Association

Ros Pritchard  
Secretary General of EFCO&HPA,  
European Federation of  
Campingsite Organisations  
and Holiday Park Associations

Tom Jenkins  
CEO of ETOA,  
European Tourism Association

Jan Korthout  
Vice-President of NECSTouR,  
Network of European Regions  
for Competitive and Sustainable  
Tourism

Klaus Ehrlich  
General Secretary of Eurogites,  
European Federation of Rural  
Tourism

Eduardo Santander  
Executive Director of ETC,  
European Travel Commission

Rémi Lebeda  
Head of EU Passenger  
Transport of IRU

Tom Fecke  
Secretary General of CLIA-Europe,  
Cruise Lines International  
Association

Karen Staley  
Senior Vice President of  
IAAPA EMEA, The International  
Association of Amusement Parks  
& Attractions



# INTRODUCTION BY HOTREC



## Low VAT applied to hospitality and tourism services proves to be a guarantor to foster jobs and growth

While competition keeps increasing among destinations and Europe's market share decreasing, with receipts rising at a lower level than the rest of the world, a tourism friendly tax policy is a must to sustain Europe's competitiveness and keep it the number 1 destination.

The current VAT system set up by the EU in 1992 is strongly supported by the Member States which mostly apply reduced VAT rates for hospitality services. Currently 25 out of the 28 Member States apply a reduced rate to hotel services, of which 18 apply a rate equal or lower than 10%. Similarly, 17 out of 28 apply a reduced rate to restaurant services from 3% in Luxembourg to 18% in Hungary. Facts and figures show that applying low VAT rates for hospitality and tourism services, not only foster job creation and growth, but also investments as communicates this report.

Therefore, in order for small and micro-enterprises to keep investing in sustainable tourism, it is of utmost importance that Member States keep applying low VAT rates.

Indeed, the Foreword of the President of the European Parliament, and the evidence brought by UNWTO Secretary General along with the Members of HOTREC further emphasize tourism's essential role for economic and social development thus boosting Europe's competitiveness.

HOTREC together with NET, the ETC and NECSTouR calls upon the long-term application of low VAT rates to hospitality and tourism services, but also the mapping of all taxes and levies affecting tourism at national level in order to assess their impact on competitiveness, to make tourism play its full catalyst effect on jobs, growth and investment.

We would like to thank the EU Institutions for their efforts to promote the importance of tourism for the European economy, as well as the many European tourism trade associations which, together with HOTREC, work on developing a bright future for society.

**Susanne Kraus-Winkler**  
President

**Ákos Niklai**  
Vice-President

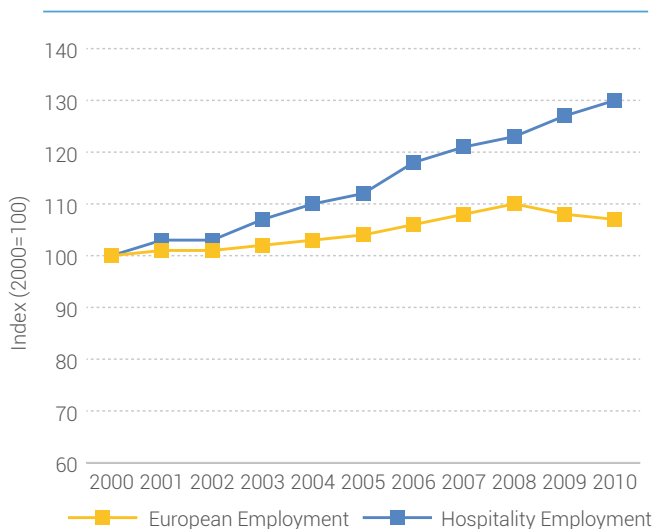
**Christian de Barrin**  
CEO

# THE HOSPITALITY INDUSTRY'S CONTRIBUTIONS TO THE EUROPEAN ECONOMY AND SOCIETY

Europe keeps being the number one tourist destination, although its market share significantly decreased from over 60% in 1990 to 51% in 2015. The European Union alone counted 478,4 million international tourist arrivals in 2015, translated in a total share of 40,3%. In terms of international tourism receipts, the EU is second with receipts amounted to 336,5 billion euros and rising at a lower level than the rest of the world, behind the Asia and Pacific region with receipts of 377 billion euros in 2015. Third is the Americas with 273,7 billion euros, with North America alone accounting for 214,9 billion euros.<sup>2</sup>

Thanks to its leading role in the global tourism market, the hospitality sector is one of the key drivers of the European economy, and European tourism, both in terms of employment as well as of direct contribution to the economy. Together with tourism, the hospitality sector is the 3<sup>rd</sup> largest socio-economic activity in the EU. Indeed, 1 in 10 enterprises in the European non-financial business economy belongs to the tourism industries.<sup>3</sup> The hospitality sector directly employs 80% of the total EU tourism workforce<sup>4</sup>, and counts all together 1,8 million enterprises, from which 9 out of 10 are micro enterprises, employing fewer than 10 people.

EU and hospitality employment index (2000-2010)



Source : EY report: The hospitality sector in Europe, September 2013

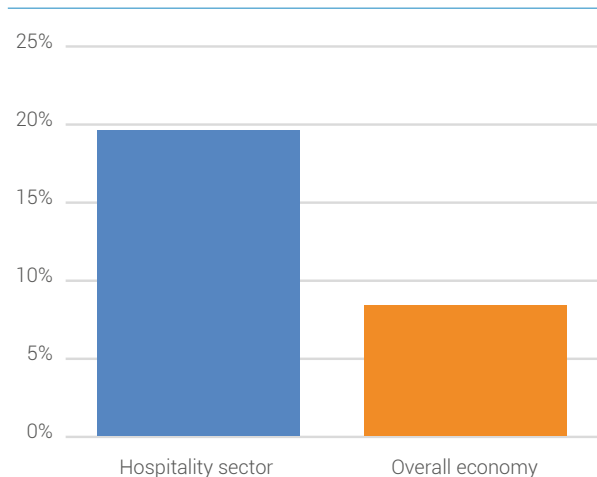
## A sector providing jobs to the young

The sector is also strong for providing jobs to the young. In the overall economy, the unemployment rate of people older than 25 years amounted to 8,3% in 2015, while youth (aged below 25 years) unemployment was of 20,3% in the EU.<sup>6</sup> Conversely, while in the overall economy only 8,2% of the persons employed are aged below 25 years, this figure in the hospitality industry amounts to 19,6%.<sup>7</sup> These figures show the big potential of the sector in fighting youth unemployment.

## A strong driver for job creation : 2,5 million new jobs in the last decade

Due to its essential role for the European economy, the industry is a particularly significant sector in terms of employment. Hospitality businesses alone provide for 10 million jobs directly, representing 4,7% of the total employment in the European Union. Hotels, restaurants, bars and similar establishments employed year by year 2,9% more people in the first decade of the millennium, creating an additional 2,5 million jobs. In the same period, employment in the overall economy was only growing by 0,7% every year. Last but not least, the sector employs 16,6 million workers including indirect and induced effects.<sup>5</sup>

Youth employment (< 25 years)

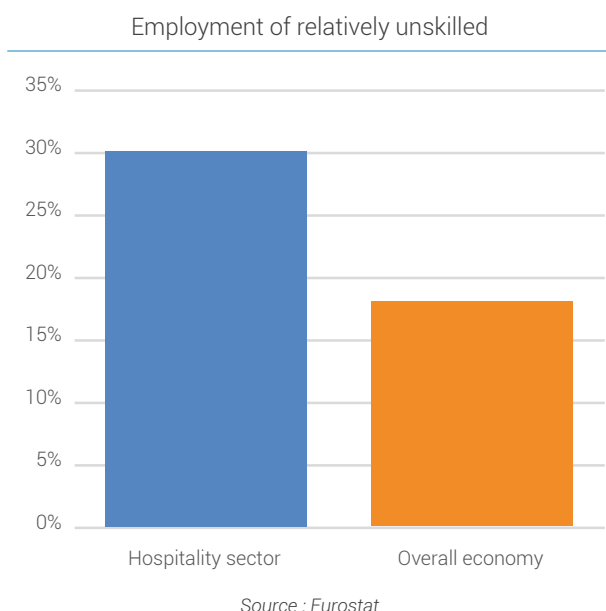


Source : Eurostat



### A significant employer of women

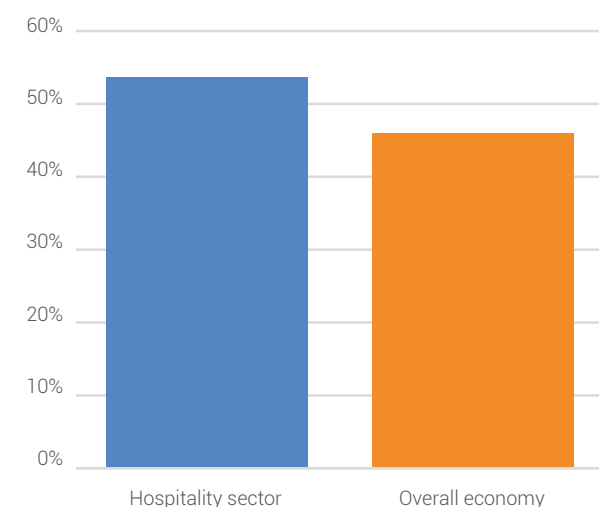
The hospitality industry is also a sector being especially significant in the employment of women. While in the overall economy 46,1% of people employed are women, in the hospitality sector this figure rises to 53,7%.<sup>8</sup>



### A catalyst for economic growth

Regarding further economic contributions, turnover across the hospitality sector is over €1.0tn, equal to approximately 8.1% of total economic output, with gross value added (GVA) in the sector (the contribution it makes to economic growth) of more than €460bn, or 3.7% of GDP. Out of this contribution, 236 billion EUR was direct contribution and 131 billion generated through the supply chains. 60% of this value added is generated by the small enterprises employing fewer than 50 people. In 2010, the hospitality sector contributed around €126bn to government treasuries in excise duties, VAT and employment and social security taxes.<sup>10</sup>

Employment of women

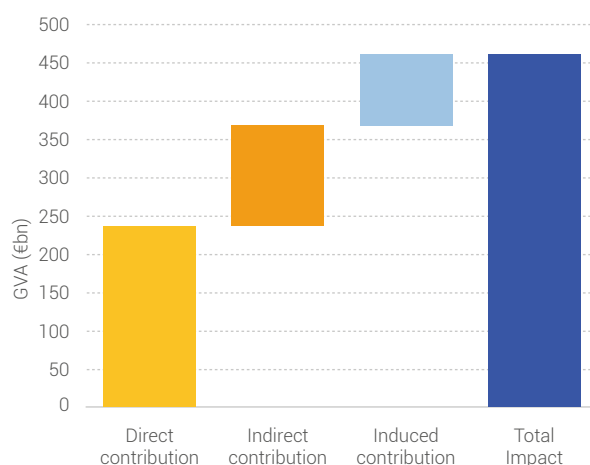


Source : Eurostat

### A key player for social inclusion

Regarding employment, the hospitality sector plays an important role in social inclusion, offering the first job experience for many young people. It also offers employment to relatively unskilled people, as 30% employed in the sector have maximum a lower secondary education, compared to 18% in the overall economy. When it comes to the possibility of working part-time, 33% of people in the sector are working part-time, compared to 20% in the overall economy.<sup>9</sup>

GVA impact of hospitality sector, 2010



Source : EY report: The hospitality sector in Europe, September 2013

# VAT AND TOURISM IN THE EUROPEAN UNION AT A GLANCE

## Overview of the EU VAT policy throughout the years

Value added tax (VAT) is a consumption tax, borne by the final consumer, which is paid on the value added to goods and services in the supply chain. It applies basically to all goods and services, which are sold for consumption in the European Union. Goods which are sold for exports are not subject to VAT.

First attempts to harmonise the VAT systems of Member States took place in the late 1960's, however, the adoption of the sixth VAT Directive was a turning point in 1977, when governments agreed on common criteria for the VAT base in all Member States.

The current system of VAT rates was adopted by the Council in 1992 and comprises a common list of goods and services, to which Member States have been able to apply a reduced VAT rate. These 1992 arrangements were, in principle, transitional, but still apply. The reference document is now Directive 2006/112/EC, which consolidated all VAT texts issued since 1967.

The European Commission's 2016 Communication "on an action plan on VAT - Towards a single EU VAT area - Time to decide" launched actions towards the modernization of the current VAT regime, with possible reforms regarding the VAT rates as well.



## The current VAT system

Under the current system, Member States are required to have a single standard rate of value added tax of not lower than 15%. Besides this standard rate, they may also apply one or two reduced rates of VAT, not lower than 5% with, however, some exceptions. The reduced rates may only apply to the supply of certain goods and services, which are listed in Annex III of the VAT Directive. This annex includes, among others, accommodation and restaurant services.

## Hospitality services under the current VAT regime: a system broadly implemented by the Member States

All Member States are allowed to apply a reduced VAT rate to both accommodation and restaurant services.

This possibility has existed for **accommodation services** in the EU framework since 1992, and individual Member States applied reduced rates to hotel services even before. As of 1 January 2017, out of 28 EU Member States 25 apply the reduced rate to accommodation services.

The possibility for all Member States to apply a reduced rate to **restaurant services** (including all types of beverages) has only been introduced in 2009. Before, only Member States which at 1 January 1991 applied a reduced rate to restaurant services were allowed to continue to apply such a rate to these supplies, similarly to Member States, which negotiated such a possibility in their accession treaties. Since the new possibility given in 2009, 6 additional Member States decided to apply the reduced VAT rate to restaurant services, instead of the standard rate. Overall, as of 1 January 2017, 17 out of 28 EU countries apply a reduced VAT rate to restaurants services.

**A simplified overview of VAT rates applied in Europe  
to accommodation and restaurant services**

| Country        | Standard VAT rate |  |  |
|----------------|-------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Austria        | 20%               | 13%                                                                                | 10%                                                                                 |
| Belgium        | 21%               | 6%                                                                                 | 12%                                                                                 |
| Bulgaria       | 20%               | 9%                                                                                 | 20%                                                                                 |
| Croatia        | 25%               | 13%                                                                                | 25%                                                                                 |
| Cyprus         | 19%               | 9%                                                                                 | 9%                                                                                  |
| Czech Republic | 21%               | 15%                                                                                | 15%                                                                                 |
| Denmark        | 25%               | 25%                                                                                | 25%                                                                                 |
| Estonia        | 20%               | 9%                                                                                 | 20%                                                                                 |
| Finland        | 24%               | 10%                                                                                | 14%                                                                                 |
| France         | 20%               | 10%                                                                                | 10%                                                                                 |
| Germany        | 19%               | 7%                                                                                 | 19%                                                                                 |
| Greece         | 24%               | 13%                                                                                | 24%                                                                                 |
| Hungary        | 27%               | 18%                                                                                | 18%                                                                                 |
| Iceland        | 24%               | 11%                                                                                | 11%                                                                                 |
| Ireland        | 23%               | 9%                                                                                 | 9%                                                                                  |
| Italy          | 22%               | 10%                                                                                | 10%                                                                                 |
| Latvia         | 21%               | 12%                                                                                | 21%                                                                                 |
| Liechtenstein  | 8%                | 3,8%                                                                               | 8%                                                                                  |
| Lithuania      | 21%               | 9%                                                                                 | 21%                                                                                 |
| Luxembourg     | 17%               | 3%                                                                                 | 3%                                                                                  |
| Malta          | 18%               | 7%                                                                                 | 18%                                                                                 |
| Netherlands    | 21%               | 6%                                                                                 | 6%                                                                                  |
| Norway         | 25%               | 10%                                                                                | 25%                                                                                 |
| Poland         | 23%               | 8%                                                                                 | 8%                                                                                  |
| Portugal       | 23%               | 6%                                                                                 | 13%                                                                                 |
| Romania        | 19%               | 9%                                                                                 | 9%                                                                                  |
| Slovakia       | 20%               | 20%                                                                                | 20%                                                                                 |
| Slovenia       | 22%               | 9,5%                                                                               | 9,5%                                                                                |
| Spain          | 21%               | 10%                                                                                | 10%                                                                                 |
| Sweden         | 25%               | 12%                                                                                | 12%                                                                                 |
| Switzerland    | 8%                | 3,8%                                                                               | 8%                                                                                  |
| Turkey         | 18%               | 8%                                                                                 | 8%                                                                                  |
| United Kingdom | 20%               | 20%                                                                                | 20%                                                                                 |

Source: HOTREC National Associations, EU Commission, vatlive.com

# THE BENEFITS OF LOW VAT IN THE HOSPITALITY SECTOR FOR THE EUROPEAN ECONOMY

## Competitiveness of Europe

Tourism is a continuously growing industry in Europe and an essential one for the EU economy and the economies of most EU Member States. The hospitality industry contributes around 3,7% to European GDP.<sup>11</sup> Tourism for many EU countries is one of the key pillars of the economy. In Greece, tourism directly contributes with 7,6% to the national GDP, which scales up to more than 18,5% taking the multiplier effects into account.

**Contribution of Travel and Tourism to GDP**

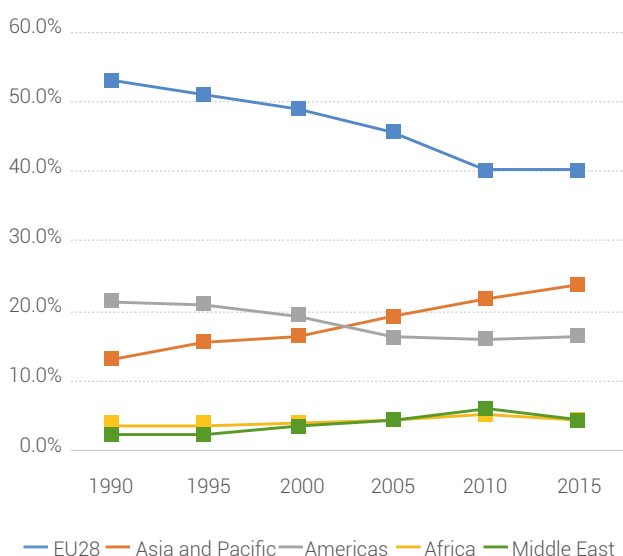
| Country        | Direct contribution to GDP | Total contribution to GDP |
|----------------|----------------------------|---------------------------|
| Austria        | 5,5%                       | 15,2%                     |
| Belgium        | 2,5%                       | 6,1%                      |
| Bulgaria       | 3,3%                       | 12,1%                     |
| Czech Republic | 2,5%                       | 7,7%                      |
| Croatia        | 10,1%                      | 23,2%                     |
| Cyprus         | 6,4%                       | 19,3%                     |
| Denmark        | 2,0%                       | 6,9%                      |
| Estonia        | 3,9%                       | 15,5%                     |
| Finland        | 2,1%                       | 6,3%                      |
| France         | 3,7%                       | 9,1%                      |
| Germany        | 3,9%                       | 8,9%                      |
| Greece         | 7,6%                       | 18,5%                     |
| Hungary        | 4,0%                       | 10,4%                     |
| Iceland        | 8,2%                       | 27,2%                     |
| Ireland        | 2,2%                       | 8,1%                      |
| Italy          | 4,2%                       | 10,2%                     |
| Latvia         | 4,1%                       | 9,0%                      |
| Lithuania      | 1,7%                       | 4,5%                      |
| Luxembourg     | 1,8%                       | 5,1%                      |
| Malta          | 15,1%                      | 27,7%                     |
| Netherlands    | 1,8%                       | 5,5%                      |
| Norway         | 3,2%                       | 7,8%                      |
| Poland         | 1,7%                       | 4,3%                      |
| Portugal       | 6,4%                       | 16,4%                     |
| Romania        | 1,3%                       | 5,1%                      |
| Slovakia       | 2,4%                       | 6,1%                      |
| Slovenia       | 3,6%                       | 13,0%                     |
| Spain          | 5,8%                       | 16,0%                     |
| Sweden         | 2,5%                       | 9,6%                      |
| Switzerland    | 2,1%                       | 7,6%                      |
| Turkey         | 5,0%                       | 12,9%                     |
| United Kingdom | 3,7%                       | 11,2%                     |

Source: World Travel and Tourism Council country reports 2016

*"I encourage Member States to keep tourism VAT low in order to help develop local economies and sustain growth and jobs, as well as helping Europe to remain competitive on the global market."*

Isabella De Monte, Member of the European Parliament and rapporteur of the October 2015 EP report on "New challenges and concepts for the promotion of tourism in Europe"

Share of international tourism arrivals (source : UNWTO)



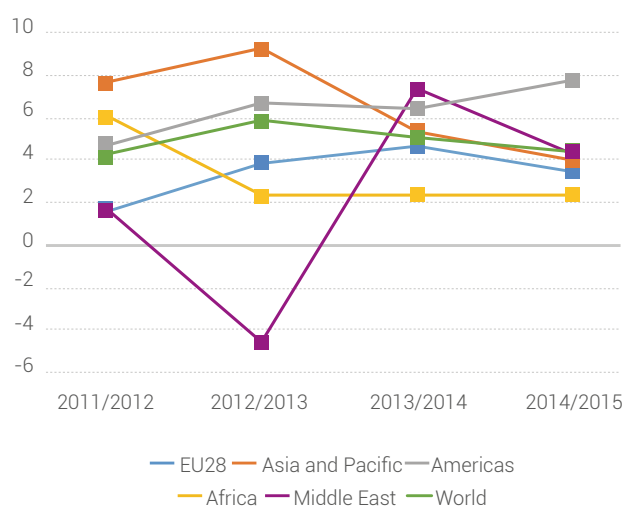
### Keeping Europe competitive to further boost international tourist arrivals

However, tourism is not only important for Europe, but also for countries in other parts of the world. Over the last 25 years, international tourists are more and more visiting other parts of the globe than the EU. While the EU had a market share in international tourist arrivals of 53% in 1990 (with 230 million arrivals) and 49% in the year 2000 (at 330,5 million arrivals), this share dropped to 40.3% by 2015 (at 478,4 million arrivals).<sup>12</sup>

### Keeping Europe competitive to further boost tourism receipts

Regarding the growth figures of international tourism receipts, the European Union has been lagging far behind growth rates of the world average for the past 4 years. In 2012, compared to the previous year, international tourism receipts increased by 1,5% in the EU, compared to 4,3% in the world. In 2015, these figures were 3,4% and 4,4% respectively.<sup>13</sup> In terms of international tourism receipts, the EU is second, with receipts amounted to 336,5 billion euros, behind the Asia and Pacific region with receipts of 377 billion euros in 2015. Third is the Americas with 273,7 billion euros, with North America alone accounting for 214,9 billion euros.<sup>14</sup>

Growth in international tourism receipts - change in % local currency, constant prices (source: UNWTO)



## European VAT levels are often higher than in other destinations therefore affecting Europe's competitiveness

As Value Added Tax is directly affecting the price of the tourism services, it is one of the key factors in global competitiveness. For example, the countries with the highest numbers of arrivals in the ASEAN countries, Malaysia and Thailand, apply a VAT rate of 6 and 7% respectively to hotel accommodation. These 2 countries counted over 50 million tourist arrivals in 2014<sup>15</sup>, which is more than 11% of the similar figure for the EU 28.

The VAT rate to hotel accommodation in China, the biggest Asian tourist destination (accounting for 56,9 million international tourist arrivals in 2015, being ranked 4<sup>th</sup> in the world)<sup>16</sup>, is 6%, which is also below the average rate of 11% (arithmetic mean) applied in the EU.

Tourism is a growing market all over the world, with tourism arrivals increasing steadily year by year. In 2016 this growth amounted to 3,9% compared to 2015. Although Europe is still the first tourist destination in the world, its market share is decreasing.

Therefore, it is of utmost importance to keep applying low VAT rates for hospitality services in Europe, thus keeping up its competitiveness in the global tourism market. In **Ireland**, having experienced a very difficult downturn, Irish tourism has seen significant recovery in recent years. This has been underpinned by a number of important Government policy initiatives such as decreasing the 13,5% tourism VAT rate to 9%, which has made Ireland more attractive as a tourism destination.<sup>17</sup> The value for money rate of Irish tourism products increased significantly. While in 2009 only 60% of tourists found that value for money of such products was very good, good or fair, this share increased to 95% in 2016.<sup>18</sup>

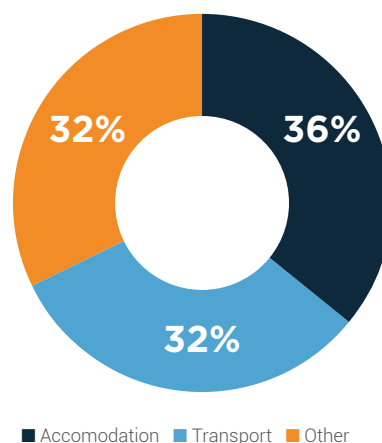
## Tourism as an export product, however consumed on the spot

Services related to tourism are important exports in most European countries, to the extent that they are sold to foreign visitors. Moreover, tourists do not only spend in hotels and restaurants but also in shops, for cultural activities, tourist attractions and for various other goods and services. In fact, around 42% of their spending is related to hospitality services, while the rest of their expenditure is for other purchases related to their travel.<sup>19</sup> As expenditure for accommodation has the highest shares in the overall expenditure of tourists, representing around 36% of spending<sup>20</sup>, lower VAT and lower prices have a big influence on the number of incoming tourists and their potential further spendings.

Contrary to most export products, hospitality services sold to foreign visitors are consumed on the spot. Consequently, the tourism industry can not benefit from the usual export promotion instruments, like VAT exemption. On the other hand, these services provide the Member States and the EU itself with VAT income both on VAT paid directly on the tourism services, as well as VAT paid on other products and services being made use of by tourists.

As the World Economic Forum stated, "Taxes such as the value-added tax (VAT) or goods and services tax (GST) are typically levied on goods and services sold at home, but not on exports. When the rate of these taxes is increased, it will not affect most export industries – but tourism is the exception. Thus the ways taxes are levied will be a significant determinant of tourism competitiveness. Countries that rely heavily on taxes such as the VAT / GST will be less tourism competitive than other countries with similar per capita incomes and industry structures."<sup>21</sup>

Share of expenses of tourists in the EU



Source : Eurostat



# Employment

## A labour intensive sector

As a highly competitive industry, the demand for the services of the hospitality sector is price sensitive. An increase or reduction in the price of hospitality services has a huge impact on consumption even when comparing with most other sectors.<sup>22</sup>

Hospitality businesses alone provide for 10 million jobs directly, representing 4,7% of the total employment in the European Union and provide jobs indirectly to overall 16,6 million people. The hospitality sector, thanks to its labour intensive nature, is a driving force for job creation. In fact, 1/3 of the costs are labour related expenses of enterprises. One of the best example for the industry's ability for job creation is the fact that in the last decade the number of jobs in the hospitality sector increased by 29% compared to 7,1% in the overall economy. Moreover, it had been one of the few sectors which during the financial and economic crisis continued creating new jobs, while employment figures in the overall economy were decreasing.<sup>23</sup> This outpacing growth of jobs in the hospitality sector compared to other parts of the economy can also be observed when looking at VAT reductions having taken place in some countries.

## Examples of how low VAT boosts job creation in the hospitality sector

For example in **Sweden**, after the lowering of the VAT rate on restaurant services from 25 to 12% in 2012, it could be observed that over the years of 2012 and 2013, employment increased by 8 and 6% respectively in the restaurant sector, while the same figures were 1% and 3% for the control industry group.<sup>24</sup>

After lowering VAT from 25 to 12% in 2012, Sweden saw an increase of 8% in employment.

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. Thus, for the outcomes relating to employment, and total wages, the impact estimates are positive and significant at the 10% level.<sup>25</sup>

In **Germany**, between 2009 and 2016, i.e. 6 years after the January 2010 VAT reduction from 19 to 7% in the accommodation sector, an additional 46,666 jobs were created. This corresponds to an increase of 18.5%, which is significant compared to the 14.6% rise in the overall economy in the same period of time.<sup>26</sup>

In 2016, i.e. 6 years after the VAT reduction in Germany from 19 to 7% in the accommodation sector, an additional 46,666 jobs were created.



It should also be considered that the sector is one, where jobs and place of production 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, with increasing employment effects, can create social welfare savings by bringing back people to the job market. For example in **Ireland**, according to Fáilte Ireland (Ireland's National Tourism Development Authority), "Employment in tourism is also increasing, arguably at a faster rate compared with many other sectors - in large part due to the Government's decision to maintain the applicable VAT rate at 9%".<sup>27</sup>

*“The hospitality industry is a perfect example of how low VAT helps tourism to boost youth employment, facilitate social inclusion and promote apprenticeships.”*

István Ujhelyi, Member of the European Parliament, Vice-Chair of the TRAN Committee



The VAT rate reduction in tourism and hospitality services from 13.5 to 9% in 2011 resulted in the creation of 37,600 new direct jobs in accommodation and food services by Q4 2016.<sup>28</sup> This is an increase of 34%, compared to an increase of 12.5% in overall employment in the country during this period. Taking the multiplier effect into account another 18,800 jobs were supported throughout the wider tourism industry, resulting in a total increase of over 56,000 jobs.

It is estimated that the new direct jobs contributed to social welfare savings of around €620 million. In addition, the payroll taxes accruing from the additional employment contributed an additional €147.6 million to the exchequer.<sup>29</sup>

#### Impact of job creation in the accommodation & food services Q2 2011-Q4 2016 in Ireland

|                 | Number of direct jobs created | Number of indirect jobs created | Total increase | Social welfare savings from direct employment | Payroll tax receipts from direct employment |
|-----------------|-------------------------------|---------------------------------|----------------|-----------------------------------------------|---------------------------------------------|
| <b>National</b> | 37.600                        | 18.800                          | 56.000         | €620m*                                        | €147,6 m*                                   |

Source: 9% VAT – Food, tourism & jobs, Restaurants Association of Ireland July 2016, \* Based on Q2 2011 - Q1 2016

Other examples further support the argument of the positive effects of VAT reduction on employment. In **France**, in the 2 years following the VAT reduction on restaurant services in July 2009, the sector created 52.700 jobs, making the sector the number one in terms of job creation.<sup>30</sup> In addition, VAT reduction allowed social improvements and progress. A new and mandatory health insurance system was negotiated with unions by the French hospitality associations. Furthermore, minimal wages were increased by +5.5%, a bonus of 500 € as well as 2 additional days off were granted to restaurant employees.

Also in **Belgium**, following the VAT reduction for restaurant services in 2010, the VAT effect allowed for an additional increase by 1,5% in the number of jobs in the sector, compared to the distribution sector.<sup>31</sup>

*“With nearly 34,000 enterprises, hospitality businesses are the keystone of the Flemish tourist system. The federal measure to apply a lower VAT rate on food certainly contributes to the economic resilience of our hospitality companies and as such also benefits our entire tourist destination.”*

Mr. Peter de Wilde, Administrator-General Visit Flanders and President of the European Travel Commission

## Investment and Treasury

A low VAT rate provides resources for the improvement of quality and competitiveness of tourism products and services. In a highly globalised tourism market, not only price but also the quality of the offer matters. High tax burdens, especially a high rate of VAT, tends entrepreneurs to keep prices competitive, thus withholding investments into renovation and improvement of the quality of the offer.

*“The VAT reduction paid off for the Treasury, too: The total VAT revenue from the German hotel industry in 2015 was already higher with a 7% rate than it was in 2009 with a 19% rate”*

Mr. Otto Lindner, President of IHA-D

Besides price competition in the global tourism market, a competitive price-performance ratio is of utmost importance as well for attracting visitors. This ratio can be improved either by price reduction or by the improvement of the offer, for which, however, financial resources are indispensable. Such resources can be more available, when e.g. low VAT rates relieve entrepreneurs from fiscal pressure and thus leaving more manoeuvre to invest in the performance of the services.

The example of **Germany** and the VAT reduction of 2010 for accommodation services demonstrates, how much low VAT rates can contribute to increased investments into the sector and thus increasing its performance. Where on average hotels in Germany were investing around 90.000 Euros in their establishment in 2009, this figure increased to 119 and more importantly to 243.000 in the years 2010 and 2011, respectively. 2011 marked also the year, when more was invested than depreciated, putting an end to a period of the overall deterioration of assets. Investments were done mainly to the acquisition of machinery and equipment as well as in the renovation and modernisation of guest rooms.<sup>32</sup> These measures resulted in Germany in an improved price-performance ratio compared to the years prior to the VAT reduction.

| Comparison groups   | Value of fixed assets on 31. December ..... in thousand EUR |       |       | Depreciation in thousand EUR in year ..... |      | Investments in thousand EUR in year..... |      |      |
|---------------------|-------------------------------------------------------------|-------|-------|--------------------------------------------|------|------------------------------------------|------|------|
|                     | 2009                                                        | 2010  | 2011  | 2010                                       | 2011 | 2009                                     | 2010 | 2011 |
| <b>Hotels</b>       | 1.772                                                       | 1.721 | 1.804 | 170                                        | 160  | 90                                       | 119  | 243  |
| <b>Hotel garni*</b> | 672                                                         | 651   | 674   | 86                                         | 82   | 64                                       | 65   | 105  |

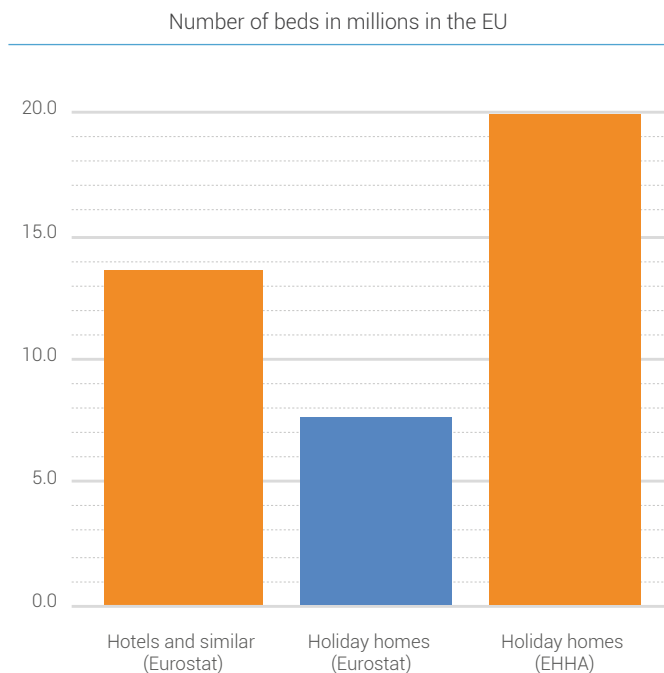
\*Hotels without restaurant Source: dwif e.V.

The VAT reduction for accommodation services has also paid off for the Treasury in Germany - even without taking into account any economic multiplier effects. According to the VAT tax statistics published by the German Federal Statistical Office - the VAT revenue in the hotel industry rose by EUR 72.8 million to EUR 3,493 billion in 2015 compared to 3,420 billion in 2009, the year before the VAT reduction from 19 to 7%.

In **Ireland**, the Irish Hotels Federation estimates that there has been a 79% increase in activity covered by the 9% Vat rate since 2011, following the reduction from 13.5%.<sup>33</sup> This increase means that annual VAT receipts to the exchequer relating to this activity are now €202 million more than in 2011.

## Other benefits

### Levelling the playing field with new emerging players outside of the VAT scope



The so-called 'collaborative' economy is developing exponentially in Europe with bringing new suppliers, many of them being regularly active on the market. The growth of this new and often unregulated segment, which is to be considered as an opportunity for tourism destinations, is seriously impacting the regulated tourism accommodation market. Compared to 13,8 million beds available in hotels and similar establishments in the EU, there are already almost one and a half times more available on the holiday home market, around 20 million.<sup>34</sup> (7,3 million of which only are registered in the official statistics of Eurostat). Similarly, collaborative type of food services ('private restaurants') are on the rise as well.

As most of the suppliers in the 'collaborative' economy market are not subject to or are not paying VAT, it creates a considerable competitive advantage for them on the market.

Therefore, a low level of VAT on hospitality services reduces this competitive edge on the supply side of the European tourist accommodation and catering market and thus shall be maintained.





## Locally supplied services boosting social welfare

Services offered by restaurants, bars and cafes are locally supplied. Even more importantly, the majority of guests in restaurants cafes are "locals": one rarely travels abroad just for a meal.

Low VAT rates may increase overall productivity and GDP, if people are induced to spend less time on do-it-yourself activities and more time on their ordinary job. The Commission acknowledged that *"locally supplied services (and restaurants) are industries where households have considerable scope for carrying out DIY (do-it-yourself) and therefore the area where such a shift could thus take place"*.<sup>35</sup>



When compiling its study for the European Commission, Copenhagen economics stated that *"there is a convincing theoretical and empirical argument for extending reduced VAT rates (or other subsidies) to sectors whose services are easily substituted for do-it-yourself or underground work, e.g. locally supplied services and some parts of the hospitality sector"*.<sup>36</sup>

### Effects on prices

An impact on the price of the hospitality services is also one of the many effects VAT rate changes may bring. As outlined before, the extra financial resources resulting from a VAT rate reduction are used in different ways in this highly competitive sector.

In **France**, 1 year following the VAT reduction of 1 July 2009 for restaurant services, prices in the restaurant sector were on an average by 0.92% lower, while the consumer price index for overall economy increased by 1,51%, allowing for a price effect of 2,39% for the consumers. After 2 years this effect further increased to 2,85%, as prices in the overall economy were increasing faster than in the restaurant sector.<sup>37</sup>

Also in **Finland**, following the VAT reduction on restaurant services from 22 to 13% in June 2010, price comparisons proved that the VAT decrease was followed by an average drop in consumer prices of about 4.1% throughout the restaurant and catering industry. The price monitoring results show that the restaurants that are members of the Finnish hospitality association MaRa, slashed their prices by an average of 5.7%. The 4.1% reduction in the food service consumer prices translates on the grounds for price elasticity into a 4.2% rise in demand for food services. A calculated immediate effect to the catering industry is an EUR 150 million growth in total sales, which corresponds to 2,000 – 2,200 more jobs across the industry.<sup>38</sup>

Similarly, when VAT rate reductions are not fully appearing in the changes of the final prices, for the various other reasons described above, VAT increases are often not completely passed on to consumers, but absorbed by the enterprises, in order to remain price competitive. In this case the lack of passing on the burdens results in less investments in quality and personnel, thus contributing to the loss of competitiveness of the hospitality products in the global tourism market.

## Saving enterprises and jobs

Not increasing fiscal burdens and the level of VAT, or even further reducing it, saves enterprises and thus jobs in the economy. Due to the fragmented structure of the industry with the vast majority of micro enterprises operating on a highly competitive market, additional fiscal burdens can force enterprises not to reflect these burdens in the prices. This can bring them in financial difficulties, resulting in the closure of businesses and thus to the loss of jobs.

For example in **France**, following the VAT reduction for 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.<sup>39</sup>

Another example is **Sweden**, where following the VAT reduction of restaurant services in 2012, the evolution of the turnover of the restaurant industry decoupled from the one of comparable industries. While until 2011 evolution of turnover was very similar in the two groups, the VAT reduction contributed to an additional increase of the turnover by 5,6%. A similar evolution can be seen when regarding the net-entry figures to the market. A positive effect of 1,6 percentage points compared to the similar control industries could be observed.<sup>40</sup>





# 5 REASONS TO KEEP VAT LOW FOR THE HOSPITALITY AND TOURISM SECTOR

## ○ 1. Competitiveness of Europe

Tourism and the hospitality industry are operating in a global and highly competitive market. Low VAT rates allow for maintaining Europe's competitiveness both in terms of price levels as well as quality thanks to investments in innovation, contributing to keep Europe the number one destination on the long term.

## ○ 2. Employment

The hospitality industry, which employs 80% of the total EU tourism workforce, is a key driver for job creation in the European economy. Almost 1 in 20 jobs are provided by the industry directly. The price sensitivity and the labour-intensiveness of the sector contribute to significant positive or negative impacts on overall employment depending on the VAT policy applied.

## ○ 3. Investment and Treasury

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 investments further contribute 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.

## ○ 4. Levelling the playing field with the 'collaborative' economy

Collaborative economy professional types of activities, especially in the tourist accommodation sector, are growing exponentially and directly compete with regulated tourism suppliers without complying with the same rules. As most suppliers in the 'collaborative' economy are not subject to VAT, a low level of VAT help reduce the negative effects of uneven conditions of competition.

## ○ 5. Effects on prices

The extra financial resources resulting from a VAT rate reduction are used in different ways. Besides investments in employment, quality and innovation, prices are also decreasing. Indeed, VAT increases are often not completely passed on to consumers, but absorbed by the enterprises, in order to remain price competitive on the market. This, however, may lead to cutting investments, decreased conditions for employment and eventually to closing down of businesses.

# REFERENCES

1. NET is composed of: ECTAA, EFCO HPA, ETOA, CLIA Europe, Eurogites, HOTREC, IAAPA, IRU
2. UNWTO Tourism Highlights, 2016 edition
3. Eurostat: Tourism statistics 2016, Eurostat Compact guides
4. Eurostat
5. EY report: The hospitality sector in Europe, 2013
6. Eurostat
7. Eurostat Labour Force survey
8. Eurostat data extraction
9. Eurostat data extraction
10. EY report: The hospitality sector in Europe, 2013
11. EY report: The hospitality sector in Europe, 2013
12. UNWTO Tourism Highlights, 2016 edition
13. UNWTO Tourism Highlights, 2016 edition
14. UNWTO Tourism Highlights, 2016 edition
15. ASEAN tourism statistics database
16. UNWTO Tourism Highlights, 2016 edition
17. Irish Hotels Federation presentation to Irish Parliamentary Committee, November 2016
18. Fáilte Ireland (National Tourism Development Authority), 2016 Overseas Holidaymakers' Attitudes Survey
19. Eurostat
20. Eurostat
21. World Economic Forum, The Travel & Tourism Competitiveness Report, 2009
22. Copenhagen economics, Study on reduced VAT applied to goods and services in the Member States of the European Union, 2007
23. EY report: The hospitality sector in Europe, 2013
24. Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015
25. Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015
26. Hotelverband Deutschland (2017): Branchenreport „Hotelmarkt Deutschland 2017“.
27. Fáilte Ireland presentation to Irish Parliamentary Committee, November 2016
28. Irish Central Statistics Office Quarterly National Household Survey Q4 2016
29. Restaurant Association of Ireland, 9% VAT – Food, tourism & Jobs, July 2016
30. French HOTREC associations, INSEE French National Statistical Institute
31. University of Leuven, Study Een economische analyse van arbeidsintensieve sectoren, 2013
32. Deutsches Wirtschaftswissenschaftliches Institut für Fremdenverkehr e.V. (dwif): Ermäßigter Mehrwertsteuersatz für Beherbergungsleistungen – Eine Initialzündung für das deutsche Hotelgewerbe?!, Dr. Joachim Maschke, dwif-Jahrbuch Nr. 52/2015, München 2015.
33. Based on data from Ireland's Department of Finance and Irish Government's Tax Strategy Group
34. Figures from Eurostat and the European Holiday Home Association, respectively
35. European Communication on VAT rates other than standard VAT rates, 2007
36. Copenhagen economics, Study on reduced VAT applied to goods and services in the Member States of the European Union, 2007
37. Contrat d'avenir 2009-2012: Bilan, French associations
38. National Consumer Research Center, Finland, Kuluttajatutkimuskeskus, julkaisu 1 • 2011
39. French HOTREC associations, INSEE French National Statistical Institute
40. Tillväxtanalys, Impact of the VAT reform on Swedish restaurants, 2015

April 2017

# ACCESS THE MEMBERSHIP

## AUSTRIA

**APHA** - Fachverband Hotellerie

[www.hotelverband.at](http://www.hotelverband.at)

**APRA** - Fachverband Gastronomie

[www.gastronomieverband.at](http://www.gastronomieverband.at)

**VVAT** - Austrian Professional Copyright Users Association

[www.vvat.at](http://www.vvat.at)

## BELGIUM

**Fed. Ho.Re.Ca.** Bruxelles-Brussel

[www.horecabruxelles.be](http://www.horecabruxelles.be)

**HORECA** Vlaanderen

[www.horecavlaanderen.be](http://www.horecavlaanderen.be)

**Fed. Ho.Re.Ca.** Wallonie

<http://horecawallonie.be>

## CROATIA

**UPUHH** - Association of Employers in Hospitality Industry

[www.upuhh.hr](http://www.upuhh.hr)

## THE CZECH REPUBLIC

**AHRCR** - The Czech Association of Hotels and Restaurants

[www.ahrcr.cz](http://www.ahrcr.cz)

## DENMARK

**HORESTA** - Association of the Hotel, Restaurant and Tourism Industry in Denmark

[www.horesta.dk](http://www.horesta.dk)

## ESTONIA

**EHRA** - Estonian Hotel and Restaurant Association

[www.ehrl.ee](http://www.ehrl.ee)

## FINLAND

**FHA** - Finnish Hospitality Association

[www.mara.fi](http://www.mara.fi)

## FRANCE

**GNC** - Groupement National des Chaînes

[www.umih.fr](http://www.umih.fr)

**SYNHORCAT** - Syndicat National des Hôteliers, Restaurateurs, Cafetiers et Traiteurs

[www.synhorcat.com](http://www.synhorcat.com)

**UMIH** - Union des Métiers et des Industries de l'Hôtellerie

[www.umih.fr](http://www.umih.fr)

## GERMANY

**DEHOGA** - Deutscher Hotel-und Gaststättenverband

[www.dehoga.de](http://www.dehoga.de)

**IHA** - Hotelverband Deutschland

[www.hotellerie.de](http://www.hotellerie.de)

## GREECE

**HCH** - Hellenic Chamber of Hotels

[www.grhotels.gr](http://www.grhotels.gr)

## HUNGARY

**HHRA** - Hungarian Hotel and Restaurant Association

[www.hah.hu](http://www.hah.hu)

## ICELAND

**SAF** - The Icelandic Travel Industry Association

[www.saf.is/en](http://www.saf.is/en)

## IRELAND

**IHF** - Irish Hotels Federation

[www.ihf.ie](http://www.ihf.ie)

**RAI** - Restaurants Association of Ireland

[www.rai.ie](http://www.rai.ie)

## ITALY

**FEDERALBERGHI** - Federazione delle Associazioni Italiane Alberghi e Turismo

[www.federalberghi.it](http://www.federalberghi.it)

**FIPE** - Federazione Italiana Pubblici Esercizi

[www.fiipe.it](http://www.fiipe.it)

## LATVIA

**AHRL** - Association of Latvian Hotels and Restaurants

[www.hotels-restaurants.lv](http://www.hotels-restaurants.lv)

## LIECHTENSTEIN

**LHGV** - Liechtensteiner Hotel & Gastronomieverband

<http://www.lhgv.li/>

## LITHUANIA

**LHRA** - Lithuanian Hotel and Restaurant Association

[www.lvra.lt](http://www.lvra.lt)

## LUXEMBOURG

**HORESCA** - Fédération Nationale des Hôteliers, Restaurateurs et Cafetiers du Grand-Duché de Luxembourg

[www.horesca.lu](http://www.horesca.lu)

## MALTA

**MHRA** - Malta Hotels and Restaurants Association

[www.mhra.org.mt](http://www.mhra.org.mt)

## THE NETHERLANDS

**KHN** - Dutch Hotel, Restaurant and Café Association

[www.khn.nl](http://www.khn.nl)

## NORWAY

**NHO** - Reiseliv-Norwegian Hospitality Association

[www.nhoreiseliv.no](http://www.nhoreiseliv.no)

## POLAND

**IGHP** - Chamber of Commerce of the Polish Hotel Industry

[www.ighp.pl](http://www.ighp.pl)

## SLOVAKIA

**ZHRSR** - The Slovak Association of Hotels and Restaurants

[www.zhrsr.sk](http://www.zhrsr.sk)

## SLOVENIA

**TGZ** - Tourism and Hospitality Chamber of Slovenia

[www.tgzs.si](http://www.tgzs.si)

## SPAIN

**CEHAT** - Confederación Española de Hoteles y Alojamientos Turísticos

[www.cehat.com](http://www.cehat.com)

**FEHR** - Federación Española de Hostelería

[www.fehr.es](http://www.fehr.es)

## SWEDEN

**VISITA** - Swedish Hospitality Industry

[www.visita.se](http://www.visita.se)

## SWITZERLAND

**GASTROSUISSE** - Verband für Hotellerie und Restauration

[www.gastrosuisse.ch](http://www.gastrosuisse.ch)

**HOTELLERIESUISSE** - Swiss Hotel Association

[www.hotelleriesuisse.ch](http://www.hotelleriesuisse.ch)

## TURKEY

**TUROB** - Hotel Association of Turkey

[www.turob.com](http://www.turob.com)

**TÜROFED** - Turkish Hoteliers Federation

[www.turofed.org.tr](http://www.turofed.org.tr)

## THE UNITED KINGDOM

**The ALMR** - The Association of Licensed Multiple Retailers

[www.almr.org.uk](http://www.almr.org.uk)



36-38 Rue Dautzenberg 1050 Brussels | Belgium  
 Tel : + 32 (0)2 513 63 23 | Fax: +32 (0)2 502 41 73 | [www.hotrec.eu](http://www.hotrec.eu) | [hotrec@hotrec.eu](mailto:hotrec@hotrec.eu)

