

Republic of Ireland and Tourism VAT

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In the Republic of Ireland, the rate of VAT applied to certain Tourism services reached a peak of 23% in the mid-1980s, the second highest in Europe at that time. In 1986, the VAT rate on hotels was reduced from 18% to 10% and on restaurant meals from 23% to 10%. The cut in VAT stimulated a period of strong growth in the Irish Tourism industry after a period of stagnation. The rate was raised to 12.5% in 1990 and to 13.5% in 2004.

Impact of Irish Reduction to 9% Tourism VAT rate

Ireland further temporarily reduced its Tourism VAT from 13.5% to 9% in May 2011 and was due to revert back at the end of 2013. However in the 2013 and 2014 Budgets the Irish Government confirmed that their current reduced rate of Tourism VAT would be maintained at 9%.

Two reports in 2014 confirmed the benefits of the reduction to 9% to the Irish economy.

The first report, [An Analysis of the Impact of the VAT Reduction on Irish Tourism & Tourism Development](#) (August 2014), was designed and commissioned by Fáilte Ireland and conducted by Deloitte. It found:

- That since the VAT cut, employment in the targeted sectors increased by approximately 30,000 with direct tourism employment up by more than 20,000;
- That price pass-through of the rate reduction to consumers is evident across nearly every category;
- Renewed and sustained growth in overseas tourism numbers and earnings;
- Increased activity levels apparent across the industry; and
- Improved value for money perception across all visitors

It also noted that the Irish government significantly overestimated the fall in VAT receipts caused as a result of the reduction to 9%. Actual VAT receipts in the 9% categories fell by €107 million in the first 12 months following the introduction of the reduced rate, and have been broadly flat since then. This compares favourably with the initial estimates that the rate reduction would cost €120 million in the final 6 months of 2011 and €350 million in a full year.

The second report, by the [Nevin Economic Research Institute](#), looked at the distributional effects of indirect taxes, principally VAT and excise duties. The institute's paper examined recent Government initiatives in the area. These included the introduction of a new reduced VAT rate of 9% for restaurants, catering services, hotels, holiday accommodation and certain entertainment. This move is believed to have assisted the tourism recovery, while also boosting the restaurant business. The report author gave the initiative the thumbs-up, describing it as *"notably progressive, impacting positively on lower-income households"*.

Conclusions

Overall, the fortunes of the Irish tourist industry have correlated closely with changes in the rate of VAT. There have been many other factors that have contributed to the Irish industry's success during a difficult economic period, but industry representatives claim that the reduction in VAT was the most important single factor, providing a much-needed 'shot in the arm' to stimulate Tourism growth.