

Retaining the 9% tourism and hospitality VAT rate to maintain competitiveness and ensure growth and prosperity in Ireland's largest indigenous sector

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9 reasons why 9% matters

The Irish Tourism Industry Confederation (ITIC) represents the leading tourism interests throughout the country. Tourism is at a key juncture with certain markets performing solidly but with a sharp decline in Ireland's largest source market, that of Great Britain. This is direct result of the impact of Brexit, consumer uncertainty, and sterling's devaluation. In that context, decisions taken in Budget 2018 will be vital and in particular the need to retain the current 9% tourism VAT rate. ITIC has worked with BDO, one of Ireland's leading advisory firms, to define 9 reasons to retain the 9%:

Employment

The introduction of the 9% VAT rate in 2011 has, according to the Central Statistics Office & Fáilte Ireland, helped the tourism sector create an additional 57,000 jobs nationwide as a result of the increase in international visitors to Ireland. The tourism economy has improved significantly with the support of successful Government policies such as the tourism VAT rate.

Regionality

Tourism supports jobs nationwide - it is the only industry that can provide jobs in all parts of the country. The majority of the jobs created by the tourism industry nationwide since 2011, have been outside Dublin. Tourism is vital for regional balance and growth, and the VAT rate is a critical component of regional success.

Competitiveness

The tourism VAT rate is right-sized for Ireland; 16 out of 19 eurozone countries have tourism VAT rates of 10% or less, therefore Ireland is competitive. Any change to Ireland's tourism VAT rate would consciously damage our competitiveness at a critical time for the industry.

Growth

Tourism is an export industry, bringing in much needed overseas earnings from international visitors to our shores. Spending by international visitors when in Ireland last year was €4.6bn - this is good for the national economy, regional balance, and for jobs. Let's not jeopardise it.

Revenue

Fáilte Ireland estimate that for every €1 of tourist expenditure, 23c is generated in tax revenue for the exchequer. This means that since the introduction of the 9% tax VAT rate, the value of direct tourism related tax receipts to the exchequer has increased from €1.265bn in 2011 to €1.911bn in 2016. This is an additional €646m in 2016 than in 2011. Increasing the VAT rate runs the real risk of dampening demand.

Cost of Business

The National Competitiveness Council report has stated that Ireland is an expensive location to run a business with regards to labour, property, energy, water, waste, communications and business services. From a tourism perspective, and what is a largely open-sector, retaining competitiveness is key to continued growth. In that regard, the tourism VAT rate must be retained.

Brexit

41% of all international visitors that come to Ireland do so from Britain which is Ireland's largest source market. Visitors from Britain are down 7% year to date and the Brexit effect is estimated to cost Irish tourism at least €100m in 2017. Such a period of uncertainty demands stability and competitiveness and the retention of the tourism VAT rate is critical.

Value for Money

There have been significant improvements in the Value for Money (VFM) rating as measured by Fáilte Ireland of the Irish tourism product in recent years. This improvement in VFM has been largely brought about by an agile, competitive tourism industry and the reduction in the VAT rate. Any change in the VAT rate would add cost to the system and damage Ireland's value rating.

Programme for Govt.

A commitment to retain tourism's 9% VAT rate was included within the Programme for a Partnership Government which was agreed by the Government and main opposition party. Tourism is Ireland's largest indigenous sectoral employer - providing 1 in 9 jobs nationally both in urban and rural areas - and it cannot be taken for granted.

“The majority of the 57,000 jobs created by the tourism industry nationwide since 2011 have been outside Dublin and in the regions”.



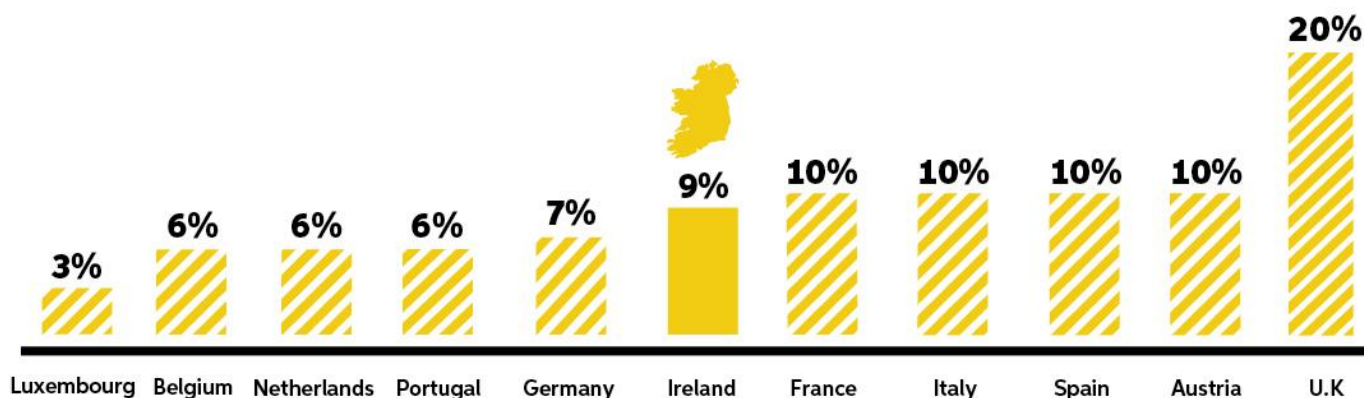
Impact of total job creation
in tourism Q2 2011 to Q1 2017
(ITIC estimates derived from CSO and Fáilte Ireland data.)

Regions	Q2 2011	Q1 2017	Jobs Growth
Border (Cavan, Donegal, Leitrim, Monaghan, Sligo, Louth)	18,900	25,800	6,900
Midland (Laois, Longford, Offaly, Westmeath)	11,100	11,550	450
West (Galway, Roscommon, Mayo)	17,700	23,700	6,000
Dublin (City and County)	43,350	70,650	27,300
Mid-East (Kildare, Meath, Wicklow)	17,850	20,850	3,000
Mid-West (Clare, Limerick, Tipperary North)	15,600	18,150	2,550
South-East (Carlow, Kilkenny, Tipperary South, Waterford, Wexford)	17,400	23,100	5,700
South-West (Cork, Kerry)	29,700	34,800	5,100
Total Tourism Jobs	171,600	228,600	57,000

EU VAT Rates on Tourism Services

The Tourism VAT rate is right-sized for Ireland; 16 of the 19 Eurozone countries have VAT rates of 10% or lower.

* How Ireland compares



ABOUT ITIC

The Irish Tourism Industry Confederation (ITIC) represents the leading tourism interests and businesses throughout Ireland. Through independent research, analysis and interpretation ITIC aims to help the tourism sector realise its full potential.

MEMBERS

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AIPCO
(Association of Irish Professional Conference Organisers)
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Irish Hotels Federation
Jameson Visitor Centres
Office of Public Works
Restaurants Association of Ireland
Shannon Group plc
Stena Line
Tourism Ireland (Associate Member)
Vintners' Federation of Ireland

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1. Introduction

2016 was a record year for Irish tourism both in terms of visitor numbers and revenue, surpassing all previous records. Overseas tourist visits to Ireland grew by 8.8% to 8.74 million. However this growth has slowed significantly during 2017 due to a sharp Brexit-related slowdown in tourist numbers from Great Britain, Ireland's largest source market.

Central Statistics Office (CSO) statistics show that for the first half of 2017, the number of trips to Ireland by non-residents increased to 4,565,000, an increase of 4% compared to the first half of 2016.

However, 1,745,300 British visits were recorded between January and June, compared with 1,865,000 for the same period last year – a reduction of 6% and an indication that the impact from Brexit is continuing to be felt by the tourism industry here.

CSO numbers relating to the first quarter of 2017 show that the number of nights spent in Ireland by overseas travellers decreased by 4.1% down from 11.6 million to 11.1 million for the same period in 2016. Total expenditure by overseas visitors also decreased for this period by 1.3% to €684 million.

Irish tourism now finds itself at a key juncture and competitive and pro tourism policies need to be adopted, or the sector is at risk of seeing a reversal of the recent strong gains that have been made by the industry.

In Ireland, the tourism sector now directly employs over 228,000 jobs, having added more than 56,700 jobs since 2011.

As international tourist arrivals globally continue to grow steadily according to the WTO and domestic consumer spending also strengthens, there is enormous potential for further employment and economic growth in tourism across Ireland if the right policies are pursued.

Beyond the very obvious direct impact, tourism reaches into and impacts upon many other sectors of the economy having a very significant multiplier effect. The sector's wide reach also stimulates entrepreneurship and growth of micro, small and medium sized enterprises (MSMEs) throughout Ireland.

Ireland operates in a global tourist market, and maintaining competitiveness will be vital to sustaining and growing Ireland's tourism sector.

Prior to the introduction of the reduced VAT rate of 9% in 2011, Ireland had lost competitiveness as exemplified by weak Value for Money ratings reported in Fáilte Ireland's annual Overseas Holidaymakers Attitudes surveys.

The 13.5% VAT rate had placed Ireland's tourism VAT rate at the upper end of the scale for other EU member states. However since the introduction of the 9% rate, VAT on tourism products and services in Ireland is now much closer aligned to many of our European competitors, resulting in lower prices and enhanced competitiveness, which in turn has stimulated recent demand and employment growth in the sector. 16 out of 19 Eurozone countries have tourism Vat rates of 10% or less thus Ireland is in a competitive position. Crucially Ireland's Value for Money ratings have improved considerably as evidenced in Chapter 9.

Direct tax receipts to the exchequer have also improved considerably since 2011 and the introduction of the 9% Vat rate. Back in 2011, according to Fáilte Ireland, direct tourism tax receipts amounted to €1.265 billion whereas in 2016 receipts were €1.91 billion.

Not only has tourism's improvement been notable in terms of visitor numbers, revenue and employment, after many years of inactivity, many elements of the tourism sector are once again seeing increasing levels of construction and new development taking place. Throughout Ireland, local authorities currently have plans for over 121 new tourism projects at an envisaged capital cost of €180.8m, while in Dublin it is estimated that there are approximately 11 new hotels at various stages of the planning and development process, which will add much needed capacity to the Dublin market, at an envisaged capital cost in the region of €440 million to €500 million.

Once again, tourism is at the forefront of the growth and recovery currently taking place in the Irish economy.

The recovery in tourism has been driven by a competitive and quality tourism product supported by a number of important policy measures such as the 9% tourism VAT rate, which has proven to be one of most successful job creation initiatives in modern times with the positive impact on tourism exceeding all expectations.

As this document outlines, it is clear that changes to the VAT regime have had a very positive impact on Ireland's tourism sector. However as recent experiences have shown, the sector and wider economy are very susceptible to external market factors and shocks. In order to maintain competitiveness and ensure growth and prosperity in Ireland's tourism sector, this report aims to demonstrate the positive impact the reduced VAT rate has had on the tourism sector and the wider economy and calls for policy certainty on this measure in order to help the sector to realise its full potential as a key employer and driver of economic activity.

2. Employment

Tourism is a major component of the Irish economy, accounting for more than one out of every ten jobs in the country according to the CSO and Fáilte Ireland.

The sector's wide reach also stimulates entrepreneurship and growth of micro, small and medium sized enterprises (MSMEs) throughout Ireland.

As outlined below, when viewed on a regional basis, the growth in tourism volumes and revenue in recent years has provided additional jobs throughout the country.

Further evidence of this employment growth on a county by county basis is included in Appendix 1, which is based on information presented by the Restaurants Association of Ireland (RAI) in their Report- Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016).

Research conducted on behalf of the Drinks Industry Group of Ireland, by Anthony Foley of the DCU Business School, found that the total multiplier effect of a job in the accommodation and food services sector is 0.46. This suggests that for every direct job in the sector a further 0.46 of an indirect job is supported by the sector.

As a highly competitive industry, the demand for the services of the tourism and hospitality sector is price sensitive. Research has shown that the demand for tourism related goods is relatively price elastic. This means that consumer demand increases by proportionately more than the percentage reduction in prices in the tourism sector¹.

Therefore any increase or decrease in the price of goods and services in the sector has a significant impact on consumption and as a consequence the demand for labour.

According to the most recent Quarterly National Household Survey (QHNS) Quarter 1 2017, there are currently 152,200 people directly employed in the accommodation and food sectors in Ireland. This represents an increase of 37,800 on the numbers employed at the time of the introduction of the reduced VAT rate.

<i>Accommodation and Food Service Activities (000's)</i>	<i>Q2 2011</i>	<i>Q1 2017</i>	<i>Diff</i>
Border	12.6	17.2	4.6
Midland	7.4	7.7	0.3
West	11.8	15.8	4
Dublin	28.9	47.1	18.2
Mid-East	11.9	13.9	2
Mid-West	10.4	12.1	1.7
South-East	11.6	15.4	3.8
South-West	19.8	23.2	3.4
Total	114.4	152.2	37.8

¹ Measuring the Impact of the Jobs Initiative: Was the VAT Reduction Passed On and Were Jobs Created?
Brendan O'Connor

All regions and counties have benefited to varying degrees, with the greatest increases, outside of Dublin, taking place in the Border, South-East and South-West regions, with the smallest growth taking place in the Midlands region.

When these figures are factored up to take account of the total numbers employed in the tourism sector, it is estimated by Fáilte Ireland that there is a total of 228,000 employed in a variety of roles throughout Ireland's tourism industry. This represents an increase of 56,700 on the numbers employed in 2011.

<i>Total Tourism (000's)</i>	<i>Q2 2011</i>	<i>Q1 2017</i>	<i>Diff</i>
Border	18.9	25.8	6.9
Midland	11.1	11.6	0.5
West	17.7	23.7	6
Dublin	43.4	70.6	27.2
Mid-East	17.9	20.9	3
Mid-West	15.6	18.2	2.6
South-East	17.4	23.1	5.7
South-West	29.7	34.8	5.1
Total	171.6	228.3	56.7

The increase in employee numbers, represents an increase of approximately 33% over the period and compares to an increase of only 12.5% in overall employment nationally between Q2 2011 and Q1 2017.

The increase in employment since the reduction in the VAT rate, while not wholly as a result of the reduced VAT rate, does follow similar experiences in other EU member states where similar policy approaches were implemented, pointing to a strong correlation between a reduction in VAT and employment creation.

For example, when Sweden reduced its VAT rate on restaurant services from 25% to 12% in 2012 it was observed that over the period 2012 and 2013, employment increased by 8% and 6% respectively in the restaurant sector. The rate of growth in the control industry group was 1% and 3% respectively².

In Germany, between 2009 and 2016 - i.e. 6 years after a reduction in the VAT rate from 19% to 7% in the accommodation sector - an additional 46,666 jobs had been created. This corresponds to an increase of 18.5%, which is in excess of the 14.6% recorded in the economy as a whole over the same period³.

Employment created in the tourism sector in Ireland since the introduction of the reduced VAT rate has not only generated considerable revenues for the Exchequer in additional PAYE and PRSI taxes, but has contributed to significant social welfare savings.

In the Restaurants Association of Ireland's Job Creation Report for Q4 2016 it is estimated that in the period Q2 2011 to Q4 2016 social welfare savings accruing as a result of the number of new jobs

² The control industry group comprised of businesses operating in the retail, cleaning, and call centre sectors.

³ Report on the benefits of low VAT on job creation and competitiveness in the European Union

created in the accommodation and food services sectors amount to €672 million, with the value of payroll tax receipts from direct employment equal to approximately €160 million⁴ (see Appendix 1).

One of the key features of the tourism sector is that it has a national spread and provides numerous employment opportunities all over the country, where opportunities for other employment are often limited.

The current national tourism strategy document, *People, Place and Policy - Growing Tourism to 2025*, prepared by the Department of Transport, Tourism and Sport sets out key targets for Irish tourism; specifically and with regards to employment, the plan looks to increase employment in the sector to 250,000 by 2025. Based on the current estimates of employment in the sector, it is clear that Ireland is on track to over-achieve this objective.

In the context of boosting employment and economic activity throughout the regions, ensuring the on-going health and prosperity of the tourism sector is vital. The retention of the reduced VAT rate can contribute to the realisation of these objectives.

⁴ Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016)

3. Revenue

According to Fáilte Ireland total tourism revenue has increased from €5.164bn in 2011 to €8.3bn in 2016. This represents an increase of 61% over the period and includes carrier receipts and expenditure by same day visitors.

Revenue (€m)	2011	2012	2013	2014	2015	2016
Britain	858	858	891	927	1,018	1,110
Mainland Europe	1,111	1,061	1,228	1,301	1,555	1,658
North America	677	746	829	940	1,200	1,337
Other Overseas	273	292	368	428	493	533
Total Overseas	2,919	2,956	3,316	3,596	4,266	4,638
Northern Ireland	297	292	305	334	338	367
Total out-of state	3,216	3,248	3,620	3,931	4,604	5,005
Carrier Receipts		856	976	1,166	1,322	1,479
Overseas same day		34	35	41	38	48
Domestic Trips		1,514	1,533	1,714	1,725	1,776
Total Tourism Revenue	5,164	5,652	6,164	6,851	7,689	8,308
Value of Tax Receipts	1,265	1,385	1,510	1,679	1,768	1,911

Source: Fáilte Ireland Tourism Facts 2011-2016

Based on data presented by the Revenue Commissioners for 2016, we have estimated that the value of VAT returns from the 9% VAT rate is approximately €1.3bn or 10% of the total VAT take.

Fáilte Ireland estimate that for every €1 of tourist expenditure, approximately 23c is generated in tax revenue for the exchequer. This would imply that since the introduction of the 9% VAT rate, the value of tourism related tax receipts to the Exchequer has increased from €1.265 billion in 2011 to €1.91 billion in 2016, an increase of 51% and €646m when looking at a 12 month period.

Statistics from the Revenue on net tax receipts further demonstrate the increase in tax take that has occurred since the introduction of the 9% VAT rate.

Data for the Accommodation & Food Services sector, as demonstrated in the following table, shows significant increases in the various tax headings since 2011.

Tax Heading	Increase since 2011
Corporation Tax	€58m (228%+)
PAYE & USC	€90m (49%+)

Source: <http://www.revenue.ie/en/corporate/information-about-revenue/statistics/receipts/receipts-sector.aspx>

4. Competitiveness

The current VAT system set up by the EU permits Member States to have a single standard rate of value added tax of not lower than 15%.

In addition to this standard rate, they may also apply up to 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 2006/112/EC.

The provision of accommodation and restaurant services are just two of the activities which have benefited from a reduced VAT rate in Member States throughout the EU.

As outlined in the following table 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 a low of 3% in Luxembourg to 18% in Hungary.

Country	Hotel accommodation % VAT	Country	Restaurant and catering services VAT%
Luxembourg	3	Luxembourg	3
Belgium	6	France	5.5
Netherlands	6	Netherlands	6
Portugal	6	Poland	8
Germany	7	Cyprus	9
Malta	7	Romania	9
Poland	8	Ireland	9
Bulgaria	9	Austria	10
Cyprus	9	Spain	10
Estonia	9	Italy	10
Lithuania	9	Belgium	12
Romania	9	Sweden	12
Ireland	9	Portugal	13
Slovenia	9.5	Finland	14
Spain	10	Czech Rep.	15
Finland	10	Hungary	18
France	10	Malta	18
Italy	10	Germany	19
Latvia	12	Bulgaria	20
Sweden	12	Estonia	20
Austria	13	Slovakia	20
Greece	13	UK	20
Croatia	13	Lithuania	21
Czech Rep.	15	Latvia	21
Hungary	18	Slovenia	22
Slovakia	20	Greece	24
UK	20	Denmark	25
Denmark	25	Croatia	25

Only 5 of the EU member states have a VAT rate above 13% for hotels. A return to a 13.5% VAT rate would damage Ireland's competitiveness and would dramatically change Ireland's ranking, placing Ireland as the 6th highest VAT in the EU 28. Indeed when looking at the Eurozone countries, 16 out of 19 members have Vat rates of 10% or less.

It is also worth noting that any examination of VAT rates should be viewed in the context of ongoing debate and discussion in the UK to reduce its VAT rate, where numerous campaigns have cited the

success of the measure in Ireland. The British Hospitality Association is currently calling for the tourism VAT rate to be cut to 5%⁵ and the recent Conservative Party/Democratic Unionist Party electoral agreement makes a specific reference to reducing the current tourism Vat rate in Northern Ireland. In light of Brexit and the corresponding pressures on the UK economy it is expected that the campaign to cut the tourism VAT rate in the UK will increase further.

The 9% rate undoubtedly has helped the Irish tourist sector to remain competitive relative to other countries who apply a reduced rate of VAT.

However, there is clear evidence pointing to a deterioration in Ireland's international competitiveness with Ireland ranked 23th in **The World Economic Forum's, Travel & Tourism Competitiveness Index 2017 Ranking**. This represents a fall of 4 places from our previous ranking in 2015.

Although 23rd is a reasonable ranking, many of our fellow EU countries including Spain, France, Germany, United Kingdom, Italy, Portugal, Netherlands rank above Ireland.

Table 1: The Travel & Tourism Competitiveness Index 2017 Rank

Country/Economy	Rank	Score	Change since 2015
Spain	1	5.43	0
France	2	5.32	0
Germany	3	5.28	0
Japan	4	5.26	5
United Kingdom	5	5.20	0
United States	6	5.12	-2
Australia	7	5.10	0
Italy	8	4.99	0
Canada	9	4.97	1
Switzerland	10	4.94	-4
Hong Kong SAR	11	4.86	2
Austria	12	4.86	0
Singapore	13	4.85	-2
Portugal	14	4.74	1
China	15	4.72	2
New Zealand	16	4.68	0
Netherlands	17	4.64	-3
Norway	18	4.64	2
Korea, Rep.	19	4.57	10
Sweden	20	4.55	3
Belgium	21	4.54	0
Mexico	22	4.54	8
Ireland	23	4.53	-4
Greece	24	4.51	7

Tourism is a continuously growing industry domestically and internationally. The retention of the 9% VAT rate is essential to ensuring that Ireland maintains its competitiveness within a European and global tourism market and in order to sustain and build on recent growth in international tourist arrivals and receipts.

The reduction in the VAT rate has been identified as having had a positive impact on Ireland's competitiveness and attractiveness as a tourism destination.

⁵ BHA, Cut Tourism VAT Campaign

A recent Hotrec Report⁶, notes that “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, which has made Ireland more attractive as a tourism destination”.

Britain remains Ireland’s most important tourism market, accounting for 41% of all overseas visitors. The depreciation of the pound against the euro since the UK referendum on Brexit means that a holiday in Ireland is more expensive for British holidaymakers. The Brexit impact on Irish tourism is real and material – already year-to-date tourism numbers for Ireland’s largest source market are sharply down.

From the point of view of maintaining, let alone growing the volume of visitors from this market, it is vital that current competitive pressures aren’t exacerbated by upward pressure on price that would arise from the abolition of the reduced 9% VAT rate and a return to anything higher.

If Ireland’s tourism product is not competitive, foreign tourists are likely to be attracted to cheaper markets, while domestic tourists will have a stronger incentive to travel overseas, particularly the UK market where favourable exchange rates now make this an attractive proposition.

⁶ Report on the benefits of low VAT on job creation and competitiveness in the European Union.

5. Growth

Analysis of tourist numbers and statistics points to strong growth being achieved in many of Ireland's key source markets.

In 2016, approximately 8.74m overseas tourists visited Ireland, generating total foreign exchange earnings of €6.5bn.

Numbers (000's)	2011	2012	2013	2014	2015	2016
Britain	2,799	2,722	2,870	3,007	3,346	3,632
Mainland Europe	2,184	2,247	2,346	2,490	2,880	3,102
North America	904	940	1,039	1,146	1,294	1,477
Rest of World	353	378	431	462	516	531
Total Overseas	6,240	6,287	6,686	7,105	8,036	8,742
Northern Ireland	1,420	1,299	1,572	1,708	1,492	1,358
Total out-of state	7,660	7,586	8,258	8,813	9,528	10,100
Domestic Trips	7,169	8,291	8,413	8,991	9,125	9,282

Brexit poses a significant challenge to Ireland's tourism industry, given the heavy reliance on holidaymakers and business travellers from the UK market.

The economic uncertainty created and a weakening in the value of sterling against the euro has impacted on consumer sentiment and the spending power of potential visitors in these market.

While there had been an upward trend in the number of visitors coming to Ireland from the UK in the three years post the commencement of the economic recovery, since the start of 2017 there has been a notable fall in the number of UK visitors to Ireland as the post-Brexit fall in sterling has made it more expensive to travel.

Between January and June, the number of overseas trips to Ireland from abroad has increased by 4%, or an overall increase of 182,000 arrivals. However, the number of people arriving from Britain fell by approximately 6% from 1,745,300 to 1,865,000.

The cost of European travel for UK residents has increased significantly since voting to leave the EU, conversely, travel into the UK from countries with the euro has become more affordable.

Any increases in the VAT rate will undermine Ireland's attractiveness to UK visitors. It will negatively impact upon our international competitiveness as a tourist destination and has the potential to reverse the significant improvements in Ireland's value for money ratings within our key source markets.

This is of particular relevance where we look to maintain and build market share in key markets outside the EU where exchange movements have the potential to very quickly impact on value for money perceptions and price competitiveness.

Closer to home, the weakening of sterling, makes the UK a more attractive destination for Irish tourists, which can adversely impact on current levels of domestic tourist activity.

Notwithstanding the recent growth in tourism performance that has occurred, particularly since the introduction of the reduced VAT rate, as illustrated in the following WTTC table Ireland's Travel & Tourism Industry's contribution of 2.2% of total GDP, remains below the EU average of 4.2% of GDP and 5% of total employment and significantly below the likes of Croatia, Portugal.

Country	T&T Industry % of Total GDP
Malta	15.5
Croatia	10.1
Greece	7.6
Portugal	6.4
Cyprus	6.4
Spain	5.8
Austria	5.5
Italy	4.2
Latvia	4.1
Hungary	4.0
Germany	3.9
Estonia	3.9
UK	3.7
France	3.7
Slovenia	3.6
Bulgaria	3.3
Czech Rep.	2.5
Sweden	2.5
Belgium	2.5
Slovakia	2.4
Ireland	2.2
Finland	2.1
Denmark	2.0
Netherlands	1.8
Luxembourg	1.8
Poland	1.7
Lithuania	1.7
Romania	1.3

Tourism can and will contribute more to GDP in Ireland given the right circumstances and policies. Indeed in areas like association conferences and international events, there is a strong argument for the Convention Centre Dublin to be given the 9% Vat category to put it on a level playing field with international operators. This would strengthen Ireland's chance of winning more business tourism.

Ireland has the real potential to target further growth in the tourism industry over the coming years and increase its contribution to GDP and employment figures. This can be achieved through, what the Programme for a Partnership Government describes as, "the retention of the hugely successful 9% VAT rate on tourism and hospitality related services".

6. Cost of Doing Business

The cost of doing business in Ireland has a very significant influence on how competitive we are internationally. Ireland's economic prosperity is inextricably linked to our international competitiveness.

As a small open economy, our relative cost competitiveness is a significant determinant of Irish competitiveness, and in turn economic growth, employment and our standard of living.

For any industry, high and rising business costs are often reflected in rising prices to the consumer, reducing the competitiveness of goods and services.

High business costs make Ireland less attractive for mobile inward investment and reduce the competitiveness of Irish enterprises' goods and services traded in both domestic and international markets. For the tourism sector this has implications in terms of both domestic and international tourist activity.

While the economy and tourism sector is performing strongly, increasing business costs will reduce the competitiveness of businesses and Ireland's attractiveness as a holiday destination.

Despite the significant improvements that have been made in the competitiveness of the Irish tourism product, Ireland remains an expensive location within which to do business.

The UK's decision to leave the EU has imminent and far reaching consequences for Ireland's economy and brings into sharp focus the need for Ireland to maintain and improve our cost competitiveness.

According to the CSO⁷ Ireland had the third highest price levels among EU countries in 2015, after Denmark and the United Kingdom. Bulgaria and Romania had the lowest prices in the EU in 2015, with prices at about half of the EU average.

Between 2006 and 2009 price levels for final consumption by private households in Ireland were about 25% above the EU average, with a spike in 2008 when our price levels were about 30% above the EU average.

However price levels in Ireland fell in 2010 to 18.1% above the EU average and since then they have increased slightly to stand at 22.5% more than the EU average in 2015, with prices in the UK 31.3% above the EU average.

According to Eurostat (June 2017)⁸ it found significant variations in price levels for consumer goods and services throughout the European Union (EU). Denmark (139% of the EU average) had the highest price level, followed by Ireland (125%), Luxembourg and Sweden (both 124%), Finland and the United Kingdom (both 121%). At the opposite end of the scale, the lowest price level was found in Bulgaria (48%), while Poland (53%) and Romania (52%) were just above 50% the average. In effect, price levels for consumer goods and services in the EU varied by almost one to three between the cheapest and the most expensive member state.

⁷ <http://www.cso.ie/en/releasesandpublications/ep/p-mip/mip2015/econ/ef/#d.en.123927>

⁸ <http://ec.europa.eu/eurostat/documents/2995521/8072361/2-15062017-BP-EN.pdf/fff33756-4460-4831-9915-4a8c101f2b56>

Ireland therefore needs to maintain and improve its relative cost competitiveness.

The Cost of Doing Business in Ireland Report 2017 suggests that the service sector is likely to see upward cost pressure during 2017, as a result of exchange rates and anticipated increases in energy prices. It also points to rising inflation over the next three years, driven in part by the impact of higher import prices following Sterling's depreciation. As a result, Irish inflation rates are forecast at 0.7% in 2017 and 1.2% in 2018. Insurance cost increases continue to impact on Irish tourism businesses and the recent 3% increase in the minimum wage rate affects such a labour intensive industry.

The appreciation of the euro vis-à-vis sterling and recent falls in the volume of UK tourists visiting Ireland provides clear evidence of how susceptible the Irish economy and tourism sector is to external market factors.

The efforts by the wider tourism sector to take action to reduce costs over recent years have been cited as one of the factors that has contributed to a recovery in this market.

There is a clear role for both the tourism sector and policy makers to manage proactively the controllable portion of their respective cost bases, drive efficiency and take the necessary action to address costs.

The retention of the 9% VAT rate provides a very obvious means for Government support for the tourism sector by helping to mitigate against some of the cost pressures facing their businesses in an effort to maintain cost competitiveness.

7. Brexit

The UK market is Ireland's biggest inbound tourist market accounting for approximately 41% of all our overseas visitors.

In 2016, 3.632 million visitors from the UK visited Ireland. For the first 6 months of 2017, the number of visitors to Ireland from Great Britain (1,745,000) has fallen when compared to the 1,865,000 who visited in the corresponding period in 2016 (-6%). Total expenditure by UK visitors when in Ireland during Q1 2017 has also fallen down from €214m to €198m.

Since the United Kingdom voted to leave the European Union in June 2016, there has been a steady fall in the number of visitors coming from this market.

One of the key drivers of this fall, is the drop in the value of sterling, which has fallen by 15% in value, making holidays and short breaks here more expensive for British visitors. Last June, before the vote, one euro was valued at £0.7649, before rising to £0.86 within two weeks.

UK visitors to Ireland comprise both business and leisure travellers. Declines in the volume of visitors from the UK market, have the potential to have a very damaging impact on the tourism industry in Ireland.

Research undertaken by RedC on behalf of Tourism Ireland of Britons planning to holiday overseas in 2017 indicates that:

- 50% will spend less while on holiday;
- 37% will reduce their holiday budget;
- 26% will change their accommodation type;
- 25% will reduce their length of stay;
- 18% say the Brexit vote will influence their holiday choice in the next year; and
- 17% will postpone a trip outside the UK.

Given our reliance on the UK market, tourism to the island of Ireland from Britain is likely to be more impacted than to any other destination.

In the short-term, therefore, value for money is more important than ever in order to maintain our competitiveness in the international market place. The movement of sterling versus the euro and dollar, since the Brexit referendum, now makes Great Britain a more competitive destination for visitors from both Mainland Europe and the United States.

The weakening of sterling post the Brexit referendum and its impact on competitiveness was cited as one of the reasons for the retention of the 9% VAT rate in Budget 2017.

There is little evidence to suggest this situation is going to change in the short to medium term and it is essential therefore that Government policy for the sector be as supportive as possible. For this reason, the 9% VAT rate should be retained.

8. Investment Certainty

One of the immediate responses to the financial crisis saw the tourism and hospitality sector forced to significantly reduce its spending on maintenance and refurbishment of its products and services.

The curtailing of expenditure in these areas, while allowing many businesses to survive the recession, is in the long-term unsustainable in an industry where the capital stock depreciates at a fast rate.

There is clear evidence that the additional revenues and increased confidence generated, in part, by the VAT reduction are translating into improving confidence and new levels of investment in the sector.

This confidence is evident in the Irish Hotel's Federation Q4 2016 Industry Barometer which points to strong levels of operator confidence amongst hotel's with 9 out of 10 (89%) of hoteliers indicating that they plan to invest in refurbishment in 2017.

According to the Construction Information Services (CIS) Construction Market Review for Q3 2016, over €531 million in hotel & catering projects were granted planning permission in the first 9 months of 2016 throughout Ireland, with another €650 million in projects submitted for planning.

There are a number of large scale investments in hotel and leisure projects currently taking place nationwide, this includes the €230 million development Centre Parcs in Longford, 165 bed Maldron Beasley Street hotel and planned €50 million redevelopment of the Metropole Hotel in Cork and €50 million revamp of Adare Manor in Limerick just some examples.

These projects bring enormous economic benefits during and post their construction phase, both in terms of the employment opportunities created and the benefits to the exchequer in terms of tax receipts.

Throughout Ireland, local authorities have plans for over 121 new tourism projects at an envisaged capital cost of €180.8 million.

In Dublin alone it is estimated that there are approximately 11 new hotels at various stages of the planning and development process, which will add much needed capacity to the Dublin market, at an envisaged capital cost in the region of €440 million to €500 million.

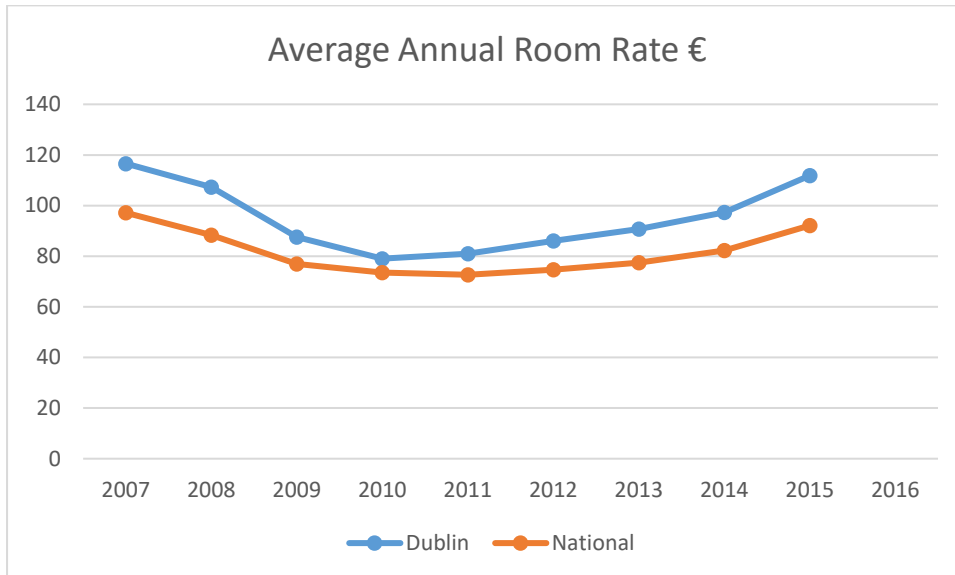
Recent reports have also pointed to an undersupply of hotel accommodation in Cork and Galway. This is having an inflationary impact on average room rates and is unlikely to be reversed until additional hotel capacity comes on stream.

It is estimated by PWC that approximately 300 extra rooms will come on stream in Dublin in 2017 with a further 1,700 beds in 2018 through new builds and extensions.⁹

The attractiveness of developing these new rooms in Dublin is underpinned by the improving Occupancy and RevPar (revenue per available room) statistics that occurred in 2016. The growth in RevPar is not limited to Dublin with growth of 15.6% in Cork City and 9.8% in Galway a contributory factor, influencing investment in hotel and leisure projects.

⁹ <http://www.irishtimes.com/business/transport-and-tourism/dublin-hotel-rates-set-to-rise-by-30-in-three-years-1.2998589>

While room rates nationally and within Dublin have strengthened in recent years, as demonstrated in the following chart, they are only now reaching the historical high levels that were achieved in 2007.



Source: Crowe Horwath Hotel Industry Surveys 2008-2016

The VAT rate that applies to the tourism sector is a key part of the investment equation, especially for international investors. Increases to the 9% VAT applied could have negative impacts on inbound investment in future Hotel & Leisure projects. This investment is critical for improving the country's tourism offering, maintaining competitiveness and ensuring sustained growth in the sector.

As demonstrated by the economic downturn, financial uncertainty combined with unfavourable tax environments, will influence tourism operators to withhold investment in their products and services.

A high level of investment in the sector can contribute indirectly to growth and jobs in related sectors of the economy.

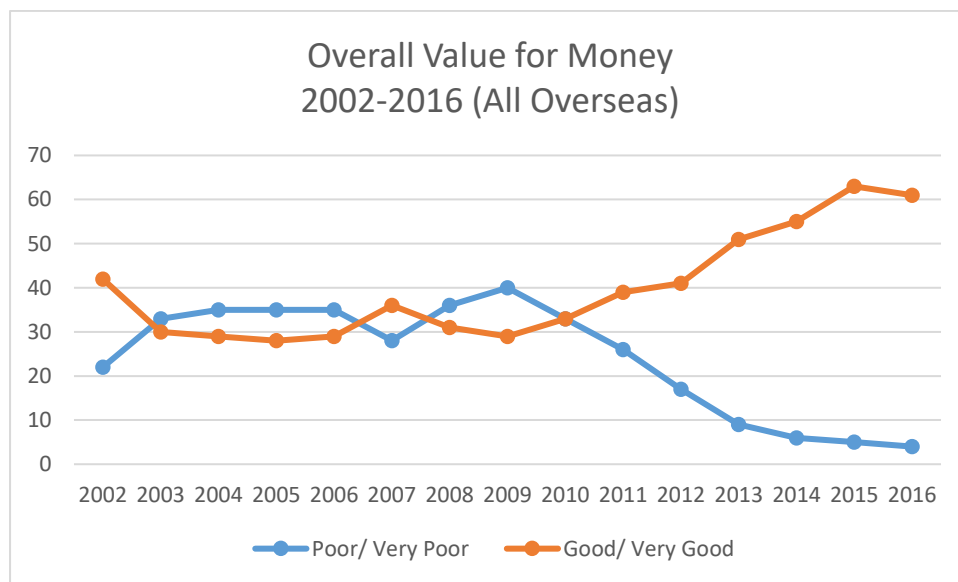
9. Value for Money

There have been significant improvements in the value for money (VFM) rating of the Irish tourism product over recent years.

This improvement in VFM has been largely brought about by an agile, competitive tourism industry and the reduction in the VAT rate.

In the main, overseas tourists continue to see Ireland as offering good value for money as reflected in annual Fáilte Ireland visitor satisfaction surveys.

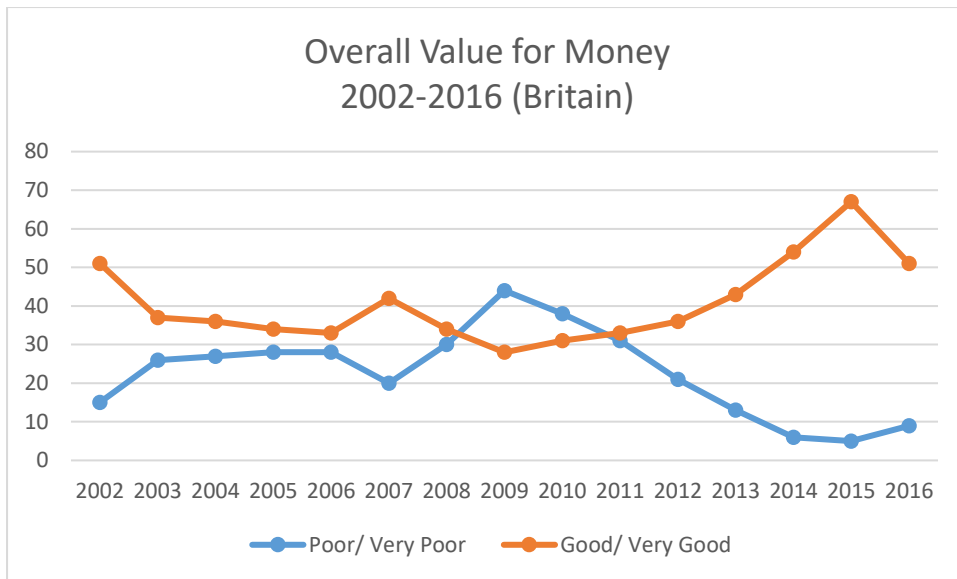
As illustrated in the following table during the period 2002 to 2010, on average 33% of overseas visitors indicated that they found value for money to be poor/ very poor.



Source: Fáilte Ireland

There were notable falls in this figure during the period 2011 to 2016 with corresponding increases in the good and very good ratings given. Only 4% of visitors surveyed as part of the 2016 survey indicated that they found value for money to be poor or very poor.

Improving visitor satisfaction is a key pillar of the Department of Transport Tourism and Sport's current tourism policy. While the figures contained in recent visitor satisfaction surveys confirms that overall visitor satisfaction levels remain high, as illustrated in the following chart, there has been a notable fall in the number of British holidaymakers who would describe Ireland as good value - down from 67% in 2015 to 51% in 2016.



Undoubtedly the weaker pound has played a role on British visitor's perceptions of Ireland as a holiday destination. However, as long as sterling remains weak, this will continue to pose challenges and is likely to continue to adversely impact on the VFM ratings from UK visitors.

While the primary responsibility to offer good value and service, will rest with the tourism sector itself, the government can and should show its continued support for the sector by maintaining the 9% VAT rate. Any increase in the Vat rate is likely to damage Ireland's value for money ratings.

10. Conclusion

Since the introduction of the reduced 9% VAT rate for tourism goods and services in July 2011, there has been a notable increase in overseas visitor numbers, significant employment gains in the sector, and Ireland's value for money ratings have improved considerably.

While not all the above can be attributed exclusively to the 9% VAT rate, it has clearly contributed to overall improvements in the competitiveness of the sector, and its success and positive impact have been widely recognised, both nationally and internationally.

With clear evidence of a sustained recovery in the tourism and hospitality sector, the challenges posed by Brexit should not be underestimated and it would be unwise to assume that the 9% VAT rate has served its purpose and should now be reversed.

The Programme for a Partnership Government, published in May 2016, commits to working towards achieving the ambitious tourism policy goals set for 2025 of growing employment in the tourism and hospitality sector and increasing the number of visits to Ireland through specific measures such as "the retention of the hugely successful 9 percent VAT rate on tourism and hospitality related services".

Reversing the lower VAT rate, will adversely impact on public and private sector efforts to continue to grow the sector. It will impact on competitiveness, while the temporary nature of the measure will continue to create investor and operator uncertainty in the market.

Since the introduction of the 9% VAT rate, the number of people employed throughout Ireland's tourism industry has increased by approximately 56,700 to 228,000 people, with Ireland well on track to achieving targets set to increase employment in the sector to 250,000 by 2025.

In the context of boosting employment and economic activity throughout the regions, ensuring the on-going health and prosperity of the tourism sector is vital. The retention of the reduced VAT rate can contribute to the realisation of these objectives.

Total tourism revenue (overseas earning and the domestic market) has increased from €5.16 billion in 2011 to €8.3 billion in 2016, an increase of 61% over the period. Fáilte Ireland estimate that for every €1 of tourist expenditure, approximately 23c is generated in tax revenue for the exchequer. This would imply that since the introduction of the 9% VAT rate, the value of tourism related tax receipts to the Exchequer has increased from €1.265 billion in 2011 to €1.91 billion in 2016, an increase of 51%. In 2016 an additional €646 million was collected in direct tourism tax receipts than in 2011 when the Vat rate was higher.

There have been significant gains in Ireland's international competitiveness and value for money proposition within our key source markets since the introduction of the reduced VAT rate. However, there is now some evidence to suggest that this may be deteriorating, particularly in the UK our key source market for overseas visitors.

Tourism is a continuously growing industry domestically and internationally. The retention of the 9% VAT rate is essential to ensuring that Ireland maintains its competitiveness within a European and global tourism market and in order to sustain and build on recent growth in international tourist arrivals and receipts.

Appendix 1

Job Creation in the Accommodation and Food Services Sector in Ireland (Q4 2016)

Analysis by Restaurants Association of Ireland

	Number of Direct Jobs Created	Number of Indirect Jobs Created	Total Increase	Social Welfare from Direct Employment	Payroll Tax Receipts from Direct Employment
National	33,600	15,456	49,056	€672m	€160m
Carlow	415	191	605	€8.3m	€1.9m
Cavan	538	247	785	€10.7m	€2.6m
Clare	931	428	1,359	€18.6m	€4.4m
Cork	3,785	1,741	5,526	€75.7m	€18m
Donegal	1,165	536	1,701	€23.3m	€5.5m
Dublin	9,250	4,255	13,505	€185m	€44m
Galway	1,894	871	2,765	€37.9m	€9m
Kerry	1,110	510	1,620	€22.2m	€5.3m
Kildare	1,568	722	2,290	€31m	€7.5m
Kilkenny	728	335	1,063	€14.6m	€3.5m
Laois	651	299	950	€13m	€3.1m
Leitrim	247	113	360	€4.9m	€1.2m
Limerick	1,434	660	2,094	€28.7m	€6.8m
Longford	212	97	309	€4.2m	€1m
Louth	930	428	1,358	€18.6m	€4.4m
Mayo	884	406	1,290	€17.7m	€4.2m
Meath	1,333	613	1,946	€26.6m	€6.3m
Monaghan	414	190	604	€8.3m	€2m
Offaly	606	279	884	€12.1m	€2.9m
Roscommon	470	216	686	€9.4m	€2.2m
Sligo	436	201	635	€8.7m	€2.1m
Tipperary	1,056	486	1,542	€21.1m	€5m
Waterford	863	397	1,260	€17.3m	€4.1m
Westmeath	661	304	965	€13.2m	€3.1m
Wexford	1,110	510	1,620	€22.2m	€5.3m
Wicklow	1,031	474	1,505	€20.6m	€4.9m