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# The impact of a reduced VAT rate on the catering industry.

**September 2024**



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## Executive Summary

The aim of this study is to formulate a high-level policy proposal for the Maltese government to consider reducing the VAT rate on the catering industry. The study clearly outlines the parameters of this policy proposal and calculates the impact on government revenue.

The proposal is for the VAT rate to be reduced from 18% to 7% and that this would be applicable only to food consumed in catering establishments registered under NACE code I56.1, which opt in this system, hereinafter throughout the report referred to as "**qualifying catering establishments**".

Other catering establishments including event catering (NACE 56.2) and beverages (NACE 56.3) shall still apply the standard VAT rate of 18%. Furthermore, the reduced VAT rate on qualifying catering establishments shall only apply on food and not on the consumption of beverages.

In order to opt in, qualifying catering establishments will need establish a real time link providing daily reconciliation to the VAT Department and having at least 10% of their workforce proficient in the Maltese language.

We calculate that the increase in Income Tax revenue would offset the shortfall in VAT by an annual €5 million, thus making the proposal one which would be beneficial to government revenue.

# 1.0 Introduction

## 1.1 Terms of Reference

Horwath Malta was commissioned by Association of Catering Establishments (ACE) to carry a study on the alignment of the VAT rate applicable to catering establishments through an engagement signed on the 13th July 2024.

## 1.2 Objectives

Malta has one of the highest VAT rates in the European Union applying a standard VAT rate of 18% on all services provided by catering establishments locally.

The Council Directive 2006/112/EC allows Member States to apply a reduced VAT rate for restaurant services through provisos therein. Throughout this report we shall analyse the main considerations for the implementation of a reduced VAT rate on Catering Establishments and primarily:

1. Provide insight as to the current situation in other EU jurisdictions;
2. Provide an overview of the Catering Sector in Malta;
3. Analyse relevant statistical information published by the National Statistics Office;
4. Highlight the main advantages of a reduced VAT Rate;
5. Identify risks involved in reducing the VAT rate and mitigation strategies;

The aim of this report is to analyse the impact of a possible reduction in the VAT rate applicable for qualifying catering establishments on the Maltese economy in general and the tourism industry as well as the effect on public finances.

For the purpose of this report, **qualifying catering establishments** shall refer only to food consumed in any catering establishment registered under NACE code I56.1.

Other catering establishments including event catering (NACE 56.2) and beverages (NACE 56.3) shall still apply the standard VAT rate of 18% and shall not be considered to be a **qualifying catering establishments**. The reduced VAT rate on qualifying catering establishments shall only apply on food and not on the consumption of beverages.

## 2.0 Overseas experience

From a comparative analyses carried out with other EU jurisdictions, it is noteworthy to point out that, nineteen Member States already impose a VAT rate on catering services below the standard 18% VAT rate applied in Malta.

This includes most of Malta's main competitors in the tourism industry, such as Cyprus (9%), Portugal (13%), Italy (10%), and Spain (10%), all applying a reduced VAT rate. In this section we shall analyse the different VAT rates applied across the European community.

### France

France imposes a 5.5% VAT rate on school canteens, water, soft drinks and non-alcoholic beverages in containers. Restaurants, takeaway food, bars, cafes and nightclubs are subject to the reduced rate of 10%.

Alcoholic beverages and caviar are subject to the standard rate of 20%.

### Ireland

A reduced rate of 13.5% for catering and restaurants services excluding all alcoholic beverages and soft drinks applies in Ireland. Fruit juices are subject to VAT at 13.5%.

### Cyprus

Cyprus levies two separate VAT rates on the consumption of food prepared in restaurants and takeaway food.

While food consumed in restaurants is subject to the reduced rate of 9%, takeaway food is chargeable at 5%. Non alcoholic beverages are also subject to the reduced rate of 5% while all alcoholic beverages are subject to the standard rate.

## 2.0 Overseas experience (continued)

### Luxembourg

The lowest vat rate in the EU is that of 3% in Luxembourg for restaurant services which however excludes alcoholic beverages. The super-reduced rate is also extended to mineral water, lemonade and fruit juice.

Luxembourg is the only Member State which applies a super-reduced rate, since this was in force on 1 January 2021 in accordance with Article 105a of the Council Directive 2006/112/EC.

Alcoholic beverages are subject to a 17% rate while a reduced rate of 14% is applied on a number of wines from fresh grapes.

### Romania

Another jurisdiction levying a reduced vat rate on restaurant and takeaway establishments is Romania charging 5% on consumption. The 5% VAT rate has also been extended to draft or non-alcoholic beer.

Non-alcoholic beverages and foodstuff which needs further reheating are vatable at 9%. On the other hand, bars and cafeterias charge 19% on all consumption excluding beer which is subject to 5% VAT.

### Croatia

On 1st January 2020, Croatia reduced the VAT rate from 25% to 13% on food preparation and meal services (including take-aways) aligning the rate with that applicable to accommodation services.

Such reduction however was not extended to alcoholic beverages, as is most common in the rest of Europe.

## 2.0 Overseas experience (continued)

### Hungary

In Hungary, preparation of food by restaurant and catering establishments excluding non-alcoholic beverages benefit from a 5% vat rate. However, takeaway food establishments suffer a higher rate of 18%.

Both alcoholic and non-alcoholic beverages are subject to the standard rate of 27%.

### Belgium

Belgium applies two separate reduced VAT rates on food. 6% is applied on takeaway food while 12% is applied for food consumed in restaurants and catering establishments which however exclude all beverages.

Events catering and all beverages are subject to the standard rate of VAT.

### Poland

Restaurant, bars, cafes or takeaway establishments are subject to a reduced rate of 8% on all food consumption however excluding beverages which are subject to the standard rate of VAT.

Nightclubs on the other hand charge the standard VAT rate on consumption of both food and beverages.

### Netherlands

All catering establishments in the Netherlands apply a reduced VAT rate of 9%. Such a reduced rate of VAT is also applied to non-alcoholic beverages. Alcoholic beverages are subject to the standard rate.

## 2.0 Overseas experience (continued)

### Italy

The provision of meals and beverages for immediate consumption and all restaurant services including alcoholic beverages are subject to a reduced rate of 10% in Italy. Italy is the only member state which applies a lower VAT rate on alcoholic beverages.

Items from nightclubs are, however, subject to the standard rate of 22%, including both alcoholic and non-alcoholic beverages.

### Spain

Alcoholic beverages are subject to the standard rate of 21% in Spain. All other catering services and non-alcoholic beverages are subject to a reduced rate of 10%.

### Austria

In Austria, restaurant, takeaway and catering establishments suffer a VAT rate of 10% on consumption excluding all beverages which are subject to a 20% rate upon consumption.

However, farm produced wine is subject to a lower rate of tax of 13%.

Bars, cafes and nightclubs are subject to the standard rate of 20%.

## 2.0 Overseas experience (continued)

### Sweden

All alcoholic beverages in Sweden are subject to 25% VAT. The standard rate is also extended to bars, cafes and nightclubs.

However as with most European counterparts, a reduced VAT rate (12%) applies for restaurant and catering services including all non-alcoholic beverages.

Interestingly, in Sweden a reduced rate of VAT of 9% applies on takeaways. Therefore, two separate VAT rates are applicable on takeaways and restaurant services.

### Finland

The vat rate applicable to restaurants and catering establishments in Finland is of 14% on both food and non-alcoholic beverages. Alcoholic beverages are however subject to the standard rate of VAT.

The supplies provided by night club, bars and cafeterias are also subject to the standard VAT rate.

### Denmark

Denmark levies the highest VAT rate in Europe (25%) on all catering establishments and services provided therein.

### Latvia

Another member state which levies a higher VAT rate than Malta is Latvia (21%).

### Lithuania

In Lithuania, all catering establishments are subject to a 21% vat rate.

## 2.1 Overseas experience- The Covid 19 Pandemic

### Germany

As part of its' COVID-19 recovery programme, Germany had temporary reduced the VAT rate applicable to catering and restaurants services to 7% in a bid to boost consumption. However, the Federal Government decided not to extend such scheme following its' initial intended term and reintroduced the standard VAT rate shortly after the expiration of the scheme.

Reportedly, this increase has led to a crisis in the German restaurant and catering sector, with reports indicating that about one-tenth of businesses have ceased operations due to profitability issues.[1] The increase in the VAT rate led many operators to increase their prices resulting in a drastic collapse in demand and huge pressure on the Federal Government.

### Bulgaria

In Bulgaria the supply of restaurant and catering services [2]is also subject to a reduced rate of 9%. However, take aways, restaurant and catering services which consist in the supply of spirits are typically excluded from this reduced rate.

Nevertheless, on the 1st July 2020, as part of its Covid 19 recovery programme, Bulgaria also like Germany, imposed tax cuts on the VAT rate applied to restaurant and catering establishments. This measure was deemed a success in sustaining the economy and was further extended until 31 December 2024.

### Greece

Pursuant to Law 5073/2023 as published in the Official Gazette on December 11, 2023, the temporary 13% reduced VAT rate in Greece that applied the provision of services in cafes, restaurants, and pastry shops, as well as the 6% rate on protective face masks and gloves due to Covid-19, has expired.

Since January 1, 2024 these supplies are subject to the 24% VAT rate in Greece.

[1] Has Berlin's fine dining bubble already burst? Michelin-starred restaurants in crisis in Germany | Euronews
[2] which consists of the delivery of prepared or uncooked food, including home delivery of food

## 2.2 A reduced VAT Rate. Can it be applied in Malta?

Article 98 of Council Directive 2006/112/EC of 28 November 2006, allows member states to apply either one or two reduced rates of VAT. Furthermore, Article 99 of the said directive further stipulates that the reduced VAT rate may not be lower than 5%.

However, in April 2022 following the reform of the EU system of VAT rates in (Council Directive (EU) 2022/542), EU countries may apply:

- up to two reduced rates as low as 5% to the supply of goods and services in up to 24 categories included in annex 1 of this report, including *"restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages";*
- one super-reduced rate lower than 5%[3];
- and one exemption with right of deduction ('zero rate') to a maximum of seven categories of supplies of goods and services considered to cover basic needs (e.g. foodstuffs, medicines, pharmaceutical products)[4]

The super-reduced rate of tax and the above mentioned exemption however cannot be applied to the catering industry, unless member states were applying reduced rates lower than the minimum laid down in Article 98(1) on 1 January 2021.

Derogations

There are several existing derogations that allow certain Member States to apply lower rates.

Following the reform of the EU system of VAT rates, all Member States have had the option to introduce, by a set date, the same type of rates to the same goods and services under the same conditions, while respecting the VAT rate framework set by the VAT Directive.

[3] Super-reduced rates of less than 5% are applied to the sales of a limited list of goods and services in certain EU countries, however not applicable to restaurant and catering industry.
[4] (Art.98(2) VAT Directive)

## 2.2 A reduced VAT Rate. Can it be applied? (continued)

To summarise the VAT rate situation at EU level is as follows:

- 1 standard rate at no less than 15%;
- 1 or 2 reduced rates at no less than 5%;
- One super reduced rate lower than 5% [5]
- Option for all Member States to apply the standard rate to accommodation services; and
- Option for all Member States to apply the standard or a reduced rate to restaurant services, including all types of beverages.

In terms of the Eight Schedule of the VAT Act, Malta applies a reduced rate of 5% and 7% respectively. Most notably the 7% reduced VAT rate is applied to the provision of accommodation services.

Accommodation services is defined in Article 2 of the VAT Act as *"a service provided on a bed and breakfast, half board or full board basis, which includes the provision of any services normally falling within the meaning of accommodation on such a basis and included in the price there of"*.

[5] Not applicable to catering industry

## 3.0 Overview of the Catering Sector in Malta

To better understand the composition of the catering establishment in Malta, it is essential to analyse its 'regulatory framework. The Malta Tourism Authority (MTA) is the main institution which is responsible for granting catering establishment licenses. The MTA identifies several categories of what constitutes a catering establishment, each with its responsibilities and requirements.

In total there are six categories covering a total of 2,758 establishments (according to data available on 18th September 2024).

*Table 1 Type of Catering Establishments*

| Type of Catering Establishment | Number of registered outlets | % |
|---|---|---|
| Restaurants | 881 | 32% |
| Snack Bars | 1211 | 44% |
| Bars & Discos | 417 | 15% |
| Take aways (including Kiosks) | 249 | 9% |
| **Total** | **2,758** | **100%** |

Each of these categories is regulated in a slightly different way and is defined in accordance to the 'Catering Establishment Regulations', and the Malta Travel and Tourism Services Act. The type of catering establishments include:

- **Restaurants** which are described as establishments where food is primarily consumed on the premises on a table service basis, while **snack bars** are more flexible, as food may or may not be sold on the premises and, may or may not be done on a table service basis.

- **Bars** are establishments where beverages are primarily sold, and food is not offered against payment.

3.0 Overview of the Catering Sector in Malta (continued)

- **Kiosks which** are establishments where food/beverages are sold off-premises and **discotheques** are establishments with the primary purpose of providing live entertainment and the sale of beverages.

- Meanwhile, **Takeaways** are establishments where products are given to customers to be consumed elsewhere.

There are also different grades which are given to these catering establishments in accordance with Article 5 of the Catering Establishment Rules as explained below:

- Restaurants are classified in three different grades, denoted as "First Class", "Second Class" and "Third Class".
- Snack Bars are classified in two different grades, denoted as "First Class" and "Second Class".
- Bars are classified in two different grades denoted as "First Class" and "Second Class".
- Nightclubs and Discotheques shall be classified in one grade, denoted as "standard".
- Kiosks shall be classified in one grade, denoted as "standard".

Furthermore, no license is required under this legislation if the catering establishment is a restaurant or snack bar situated within a hotel licensed by the MTA and operated by the same management of the hotel.

Table 1 on page 8 indicates that most licensed outlets are snack bars, making up 44% of all registered establishments. Restaurants come next, at 32%. This trend could be due to the fact that obtaining a license for a snack bar is less demanding, yet the services they offer are quite similar to those of restaurants.

## 4.0 Analysis of Statistical Information Published by the National Statistics Office.

In this section, two distinct data sources were analysed and discussed. The first source is data provided by the National Statistics Office (NSO) from the Statistical Business Register, while the second is based on a survey conducted by Sagalytics Ltd and commissioned by the ACE

### 4.1 NSO Data

Table two below shows the data in relation to the 'Turnover' (pre-tax and inclusive of VAT) by the catering establishments.

According to the NSO and its Statistical Business Register, in year 2020, the 'Restaurants and mobile food service activities' (I56.1) generated €291 million, which increased to €381.5 million in year 2021 and surged to €537.5 million in year 2022. Similarly, the 'Event catering and other food service activities' (I56.2) saw turnover rise from €54.4 million in year 2020 to €64.8 million in year 2021, reaching €94.7 million in year 2022. The 'Beverage serving activities' (I56.3) had a turnover increase from €43.4 million in year 2020 to €51.6 million in year 2021, and further increase to €77.2 million in year 2022. As a result of the Covid-19 pandemic, which commenced in year 2020, the sector was restricted with numerous restrictions, which led to lower consumer activity and in turn lower turnover figures for the said year.

*Table 2 Turnover pre-tax by Catering Establishments (Source: Statistical Business Register)*

| Turnover | 2020 (€) | 2021 (€) | 2022 (€) |
|---|---|---|---|
| **I56.1** | 291,059,929 | 381,536,921 | 537,552,321 |
| **I56.2** | 54,390,499 | 64,761,754 | 94,717,953 |
| **I56.3** | 43,384,761 | 51,562,289 | 77,196,288 |
| **Total** | **388,835,189** | **497,860,964** | **709,466,562** |

**I56 - Food and beverage service activities**

I56.1 - Restaurants and mobile food service activities

I56.2 - Event catering and other food service activities

I56.3 - Beverage serving activities

## 4.2 Additional Data

To further supplement our analysis of the sector, we were given access and shall analyse data derived from a scientific survey carried out by Sagalytics.

The survey was conducted through telephone interviews, where a sample of 400 responses were gathered between August and September 2023. The confidence level was of 95%, and had a confidence interval of +/- 4.5%. From the total sample collected, 56.4% reported having a 'Restaurant/s' licence, 25.4% had a 'Snack bar/s', 5.0% had 'Take Away/s', 4.7% had a 'Bar/s', and 0.2% operated a 'Kiosk/s'. Additionally, 8.2% fell under the 'Other' category, which is Trade Licensing rather than an MTA Licence.

From this survey, we can conclude that the labour costs constitute 26.6% from their total sales, which is the highest type of cost incurred on average. Property costs average 6.3% and raw material costs account for 20.0%, while beverage costs contribute 17.4%. Utility tariff costs stand at 7.7%, and delivery costs average to 1.5%, which is the lowest type of cost incurred on average.

*Table 3 Findings Sagalytics Survey*

| | Average 'Labour Costs' | Average 'Property Costs' | Average 'Raw material Costs' | Average 'Beverage Costs' | Average 'Utility Tariff Costs' | Average 'Delivery Costs' | Average 'TOTAL COSTS' |
|---|---|---|---|---|---|---|---|
| **Restaurant** | 26.6% | 6.4% | 20.0% | 17.4% | 7.5% | 1.3% | 79.2% |
| **Take Away** | 25.5% | 7.6% | 18.4% | 18.8% | 8.0% | 2.8% | 81.1% |
| **Bar** | 25.5% | 3.4% | 20.5% | 19.9% | 8.5% | 0.3% | 78.1% |
| **Snack Bar** | 27.1% | 5.8% | 19.6% | 16.7% | 8.2% | 1.7% | 79.1% |
| **Kiosk** | 25.5% | 8.0% | 25.5% | 25.5% | 8.0% | 1.3% | 93.8% |
| **Other (Trade Licensing rather than MTA License)** | 26.2% | 7.5% | 21.7% | 17.7% | 7.6% | 2.5% | 83.2% |
| **Average** | **26.6%** | **6.3%** | **20.0%** | **17.4%** | **7.7%** | **1.5%** | **79.5%** |

## 4.2 Additional Data (continued)

Based on all the costs for the different sections as defined above, we can calculate the total percentage costs being incurred by the catering establishments from their total sales.

From all catering establishments, the average costs incurred to run a catering establishment is 79.5%. This percentage is fairly consistent across most of the different types of catering establishments.

## 5.0 Policy Proposal

A decision by the Maltese government to apply a reduced VAT rate on qualifying catering establishments, in conformity with EU rules needs to be a calibrated decision which is targeted and aims to achieve well defined targets.

For these reasons, the proposal shall be well defined and can be further expanded if government decides to do so.

The main characteristics of this policy proposal are:

- The reduced rate should be determined by government but is assumed to be 7%, which is higher than the EU minimum of 5%.

- The reduced rate will apply only for food consumed in qualifying catering establishments registered under NACE code 56.1 and shall not be extended for beverages or event catering establishments registered under NACE codes 56.2 and 56.3 respectively.

- The system should not be mandatory but opt-in[6]. The default rate for sector should remain 18% and those business which will benefit must choose to be part of the system which includes the reduced VAT rate.

- The system will include a real-time link with the VAT Department which will provide for daily reconciliations. These reconciliations will optimise cashflow management for restaurants while drastically increasing compliance.

- The participants in the system will bind themselves to have at least 10% of their labour force which is fluent in the Maltese language.

[6] The opt in method for the reduced VAT rate must be introduced in conformity with EU legislation, namely via a system that could technically include a VAT refund. This would have the same net result.

5.0 Policy Proposal (continued)

- The authorities will not make retrospective tax assessments on those establishments opting in the system. Any increase in turnover by a qualifying catering establishment shall not be investigated on past declarations. A similar proviso in the Income Tax Act should be introduced as was done with the introduction of item 6A of Article 31D of the Income Tax Act on taxation of rental income derived from the letting of a tenement, which allows members within the catering industry to regularise their position This will result in added revenues to Government.

5.1 Identification of Main Risks and Mitigation Strategies

SWOT Analysis

As any other policy decision, the choice to reduce the VAT rate for qualifying catering establishments is not void of pitfalls. Nevertheless, on balance it will have a net positive effect.

The following is a SWOT analysis of this policy proposal.

*Strengths*

- Focused on qualifying catering establishments and not widespread throughout all catering establishments.
- Direct assistance to bottom line of catering sector.
- Online system and daily VAT reconciliation will bring about significantly greater tax compliance in a sector which it is said to lack, thus leading to higher revenues.

5.1 Identification of Main Risks and Mitigation Strategies (continued)

*Strengths (continued)*

- The same system will also enhance cashflow management for businesses.
- Inflation curtailing measures will have a positive effect on sector.
- Government will see the risk of bad debts decrease significantly.

*Weaknesses*

- Limited direct benefits to consumers.
- The parallel co-existence of multiple rates in the sector, within the same group of companies may lead to an increased administrative burden.

*Opportunities*

- Scalable in other parts of the catering establishments sector.
- Encourage employment and training of locals and staff proficient in Maltese language, thus indirectly increasing the conditions of work in this sector.
- The increased VAT compliance will lead to greater revenues also on the front of Corporate and Income Tax.
- Tax authorities will be able to focus on those businesses which will not opt in the system.
- The increase in overall compliance will likely lead also to more compliance on employer side, increasing National Insurance and Income Tax revenues.

5.1 Identification of Main Risks and Mitigation Strategies (continued)

*Threats*

- Public perception of government helping the sector which is ripe with abuses. The decision not to make retrospective tax assessments on businesses opting in for the system might not be perceived well by the public.

- Increasing pressures by further business sectors for the introduction of a reduced VAT rate.

- If the compliance in the sector is higher than was anticipated, this might lead to different net revenue outcome.

## 6.0 The effect on Government Income.

In this section, we will analyze the impact on government revenue if the VAT rate on qualifying catering establishments (NACE Code I56.1) is reduced from 18% to 7%.

This reduction would apply only to food, while beverages and events catering would continue to be taxed at the existing 18% VAT rate.

In our computations, several assumptions have been made:

1. ACE estimates that 60% of customers pay by card rather than cash. Therefore, it is being assumed that the declared revenues in section 3.1 represent only 60% of total actual sales. It is expected that a reduction in the VAT rate will increase the level of compliance by 30%.

2. The most recent revenue figures available are from the financial year 2022. This year is being used as a baseline for projecting revenues in 2025 topped with a 10% increase.

3. We assume that 70% of the revenue comes from food, while 30% comes from beverages.

Taking into consideration the above assumptions, a reduction of 11% in the VAT rate on food offered by qualifying catering establishments is expected to result in a €13 million decrease in VAT revenue for the Government as shown in Table 4 (next page).

## 6.0 The effect on Government Income (continued)

*Table 4 Expected net decrease in VAT revenue*

| Turnover | 2022 (€) million | 2025 (€) million | Notes |
|---|---|---|---|
| I56.1 | 538 | 591 | A 10% increase in revenue from 2022 to 2025. |
| Revenue excluding 18% VAT | 456 | 501 | |
| Adjusted revenue | 684 | 752 | Considering a 30% increase in compliance (i.e to 90%) |
| **Net Increase** | **228** | **251** | |
| Net Increase (food) | 160 | 176 | 70% of net increase |
| Net increase (beverages) | 68 | 75 | 30% of net increase |
| | | | |
| Expected decrease in VAT on 70% of current revenue (11%) | (35) | (39) | Calculated on 70% of current revenue multiplied by 11% |
| Expected increase in VAT assuming higher compliance (7% on food and 18% on beverages) | 23 | 26 | Calculated on net increase (7% on food and 18% on beverages) |
| **Net decrease in VAT revenue.** | **(12)** | **(13)** | |

In tandem with the above, it is also important to analyse the net effect this measure would have on the Government's Income Tax revenues in view of higher compliance.

According to Table 3 of this report, total costs for qualifying catering establishments are expected to amount to 79.5% of all revenues.

In Table 5 below, we will examine how Income Tax revenue is expected to be affected, considering a 30% increase in compliance and revenue declaration.

## 6.0 The effect on Government Income (continued)

*Table 5 Increase in Income Tax Revenue*

| Turnover | 2022 (€) million | 2025 (€) million | Notes |
|---|---|---|---|
| Revenue excluding 18% VAT | 456 | 501 | Increase in revenue of 10% from 2022 to 2025. |
| Adjusted revenues | 684 | 752 | Considering a 30% increase in compliance |
| **Net Increase** | **228** | **251** | |
| Total estimated costs | (181) | (200) | Calculated at 79.5% in accordance with data reported in table 3. |
| Profit before tax | 47 | 51 | |
| **Additional revenue from Corporate/Income Tax.** | **16** | **18** | Tax rate of 35% is being assumed. |

The calculations presented in Table 5 show that the government's Income Tax revenue would rise by €18 million, primarily due to improved compliance stemming from the VAT reduction and real-time reporting. The latter would also decrease significantly the risk of bad debts.

This increase in tax revenue is significant and plays a crucial role in balancing the overall impact of the proposed policy.

The projected rise in Income Tax revenue would effectively offset the total shortfall in VAT revenue, which is estimated at €13 million.

As a result, this policy scheme is anticipated to lead to a minimum net gain of €5 million in government income, demonstrating the potential financial benefits of implementing this VAT reduction strategy.

This calculation does not consider the likely higher compliance from an employment regulation perspective. This would bring about further increases in National Insurance and Income Tax revenues relating to the employment side.

## 7.0 Conclusion

This study shows that the targeted reduction of the VAT rate on the catering industry would not only be beneficial to the sector itself but would also be self-financing and would result in a net positive effect on government revenue.

The simulation contained in this study bases itself on conservative assumptions and estimates. This must be done on purpose so as to stress test the scenario being presented.

Even in this context, the policy proposal being put forward is sensible and workable.

The proposal put forward is set in a clear policy framework which is not all encompassing but rather focuses on a particular part of the catering industry and the services provided.

It is also coupled with other measures that drive compliance and which are flexible enough to widen and tighten.

Given the fact that such a reduction is in line with European Union rules and has been done successfully by a number of Member States, one would not envisage any regulatory hurdles.

In essence, given that taxpayers would not only need to pay for such a rate cut but would see an increased revenue return, it is a matter of resolve by policy makers to implement this change.

Annex 1

List of supplies of goods and services to which the reduced rates referred to in Article 98 may be applied.

a. Foodstuffs (including beverages but excluding alcoholic beverages) for human and animal consumption; live animals, seeds, plants and ingredients normally intended for use in the preparation of foodstuffs; products normally used to supplement foodstuffs or as a substitute for foodstuffs;

b. supply of water;

c. pharmaceutical products of a kind normally used for health care, prevention of illnesses and as treatment for medical and veterinary purposes, including products used for contraception and sanitary protection;

d. medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, including the repair of such goods, and supply of children's car seats;

e. transport of passengers and their accompanying luggage;

f. supply, including on loan by libraries, of books (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising;

g. admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities;

Annex 1 (continued)

h. reception of radio and television broadcasting services;

i. supply of services by writers, composers and performing artists, or of the royalties due to them;

j. provision, construction, renovation and alteration of housing, as part of a social policy;

k. supply of goods and services of a kind normally intended for use in agricultural production but excluding capital goods such as machinery or buildings;

l. accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites;

m. restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages;

n. admission to sporting events;

o. use of sporting facilities;

p. supply of goods and services by organisations recognised as being devoted to social wellbeing by Member States and engaged in welfare or social security work, in so far as those transactions are not exempt pursuant to Articles 132, 135 and 136;

q. supply of services by undertakers and cremation services, and the supply of goods related thereto;

r. provision of medical and dental care and thermal treatment in so far as those services are not exempt pursuant to points (b) to (e) of Article 132(1);

Annex 1 (continued)

s. supply of services provided in connection with street cleaning, refuse collection and waste treatment, other than the supply of such services by bodies referred to in Article 13.