Budget 2025 Submission

Supporting Irish Tourism & Hospitality

Irish Hotels Federation

July 2024

TABLE OF CONTENTS

It is essential that the Government remains focused on ensuring the right conditions are in place to deliver a long-term sustainable recovery of Irish tourism and hospitality. Given the enormous challenges facing our sector in relation to business costs, we are calling on the Government to reinstate the 9% rate of VAT for food services in the upcoming Budget.

The Irish Hotels Federation is available as a resource for information and views on Ireland's hotels sector and wider tourism industry. Please contact the IHF on (01) 497 6459 or info@ihf.ie.

EXECUTIVE SUMMARY

This submission sets out the Irish Hotels Federation's key policy proposals for Budget 2025 to address the ongoing challenges facing Irish tourism and hospitality. This is of critical importance given the integral role our sector and wider industry plays within the economy, supporting domestic and international tourism, rural and regional prosperity, foreign direct investment, indigenous industry and communities throughout the country.

Michael Magner, IHF President

Irish Hotels Federation Budget 2025 Submission to the Minister for Finance & Minister for Public Expenditure and Reform

While Irish tourism and hospitality experienced a recovery in business levels over the last two years, a significant amount of lost ground still remains for many hospitality businesses throughout the regions. Recent industry research by Fáilte Ireland[1] shows that the industry has endured a challenging year to date with many businesses struggling to match last year's performance. Some 44% of tourism and hospitality businesses across the country have reported a decrease in visitor volumes compared with last year. Food and drink businesses, in particular, continue to struggle with 55% reporting a drop in business.

Reduced demand is a major concern with consumer finances remaining under significant pressure both at home and in our key overseas markets. Meanwhile competitiveness is being eroded by persistent inflation within the hospitality sector due to ever-increasing business costs. This is at a time when figures from Eurostat[2] show that general consumer prices in Ireland are the second highest in the EU at over 42% above the average, putting us at competitive disadvantage as a tourist destination.

Hospitality businesses are now at a cross-roads as they grapple with very tight margins and reduced profitability due to cost increases that are largely driven by the Government's own economic policies, including a series of employment-related cost increases coming into effect in close succession. The impact is particularly acute for hospitality businesses given the labour-intensive nature of our industry. These businesses are forecasting worrying further increases in costs at levels significantly outpacing inflation within the broader economy over the next 12 months.

Fáilte Ireland research[1] shows that 77% of food & drink businesses are seeing a drop in profitability compared to last year, creating further uncertainty for the sector. This follows a period of unprecedented cost increases in recent years which have already seriously undermined profitability and competitiveness. Meanwhile, hospitality businesses are struggling to deal with the effects of last September's VAT increase, which is resulting in over €500m in further annual taxes for food services alone.

Prior to last year's VAT increase, our sector was already generating over €600m in additional annual taxes for the exchequer compared with 2018 – delivering an enormous return for the State. We are now reaching an inflection point, however, with Government controlled costs and the current 13.5% VAT rate fundamentally jeopardising the viability of food services and downstream businesses, which are a critical part of our overall tourism experience. This policy failure is jeopardising the future tax revenue generating capacity of the entire industry and has enormous implications for the long-term recovery of tourism and hospitality, our largest indigenous employer supporting some 270,000 livelihoods.

While the Government has repeatedly assured hospitality businesses that it understands the extent of the challenges we face, this has yet to translate into meaningful and equitable taxation policy. For example, the business measures announced by the Government in May were a missed opportunity and fell fall far short of what is required to protect hospitality businesses, including small and medium sized regional hotels, that are heavily dependent on food-related services. For many businesses that are struggling, these measures had only a very minimal impact.

We need an urgent change in direction. It is now vital that the Government does everything possible to help put our sector and wider tourism industry on a more stable footing. **At a minimum, this must include an immediate commitment to reinstating the 9% VAT rate for food-related hospitality services.**

Michael Magner
President, Irish Hotels Federation

270,000 jobs

Supported by Irish tourism & hospitality

Regional spread

70% of tourism jobs are outside of Dublin

€7.5bn revenues

Generating tourism revenues of €7.5bn for the Irish economy annually prior to Covid

€2bn in taxes

Contributing over €2bn in tax receipts for the exchequer annually

SUMMARY OF KEY PROPOSALS FOR BUDGET 2025

As outlined below, our proposals for Budget 2025 set out the key measures required to protect business viability and provide the best possible conditions for further recovery of Irish tourism and hospitality. These include the reinstatement of the 9% rate of VAT for food services as a long-term cost competitiveness measure, avoiding cost-increasing measures for businesses, targeted funding for training and skills development, ring-fenced funding for retrofitting hotels and ongoing investment for tourism marketing to support a sustained recovery.

A summary of our key recommendations is set out as follows:

1. **9% VAT for Food Services:** Reinstatement the 9% rate of VAT for food-related services to support cost competitiveness within the sector.

2. **Cost of Doing Business:** Improve overall cost competitiveness within the economy and avoid any cost-increasing measures affecting tourism businesses.

3. **Recruitment, Training & Development:** Provide additional funding for hospitality recruitment and career awareness, and targeted resources for training and skills development.

4. **Sustainability:** Provide targeted funding for a national hotel retrofitting scheme to reduce carbon footprint throughout the sector in line with the Government's climate action goals.

5. **Increased investment in Tourism Marketing & Development:** Increase investment and support for tourism marketing both domestically and overseas.

BUDGET 2025:

RECOMMENDED POLICY MEASURES TO UNDERPIN TOURISM & HOSPITALITY

1. Reinstatement of 9% VAT for food-related services

It is essential that last September's VAT increase be revisited given the severe impact it is having on hospitality businesses. The VAT increase has been highly destabilising and is resulting in significant damage, particularly to businesses heavily reliant on food services, thereby undermining one of the key pillars of our tourism offering and visitor experience. There is now a very real risk to tourism due to the reduced range and availability of food services throughout the country to cater for visitors. This will only escalate if not addressed.

The VAT increase is resulting in an additional €500m in annual taxes being extracted from food businesses at the very time when they are struggling to deal with eye-watering increases in operating costs and reduced profitability. The impact is most pronounced for food-related service businesses in regional Ireland, where margins are under tremendous pressure.

With consumer finances continuing to experience significant pressures, some 55% of food and drink businesses have reported a drop in business compared with last year while 77% are seeing a drop in profitability[1]. This follows a period of unprecedented cost increases in recent years which has already seriously eroded profitability and competitiveness.

Businesses throughout the sector are now forecasting worrying increases in operating costs over the next 12 months at levels significantly outpacing inflation within the broader economy. This is largely being driven by the Government's own economic policies, including a series of employment-related cost increases coming into effect in close succession. These include changes in relation to the minimum wage, pension auto-enrolment, statutory sick pay and other measures. The cost impact is particularly acute for hospitality businesses given the labour-intensive nature of our industry.

Unsustainable Cost Pressures

55% of food and drink businesses report drop in business compared with 2023

77% of food and drink businesses report fall in profitability compared with 2023

€500m in extra VAT imposed by Government on struggling food services sector this year

€466m in additional employment costs for sector this year due to Government measures

1. Fáilte Ireland Tourism Barometer. May 2024
2. Eurostat 'Comparative price levels of consumer goods and services' published 20th of June 2024.
3. Irish Tourism Industry Confederation Report – 'Analysis of Government induced costs on Tourism & Hospitality Enterprises' by economist Jim Power, March 2024
4. Department of Enterprise report: 'An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland,' March 2024

It is estimated that these Government measures will cost the sector €466 million this year and as much as an additional €1.4 billion by 2026[3]. Analysis carried out by the Department of Enterprise, Trade and Employment[4], shows that a small hospitality business could see a policy-driven increase of 6.6% in its payroll costs for 2024 relative to 2023 as a result of Government employment-related measures. This is projected to increase to 19.4% by 2026. However, taking account of the full impact of the transition to a Living Wage, this equates to an increase of 14.5% in 2024 and an increase of 36.7% by 2026.

This is on the back of a period of unprecedented cost increases in recent years, all of which have resulted in significant inflationary pressure throughout the tourism and hospitality sector. These cost increases will continue to have a knock-on effect on consumer demand and the decisions people make in relation to expenditure on discretionary items, with hospitality food services particularly vulnerable.

Ireland is already one of the most expensive places in the world in which to live and do business. Recent figures show that general consumer prices in Ireland are the second highest in the EU at over 42% above the average[2]. Increased consumer taxes therefore pose an enormous concern given the implications for the long-term recovery of tourism and hospitality, our largest indigenous employer supporting some 270,000 livelihoods.

As we look to develop and grow our hospitality and tourism product across the country, the focus should be on making us more attractive as a destination and enhancing the range and availability of tourism and hospitality services. The combined effect of the increased 13.5% VAT rate and additional Government-controlled costs is, however, having the exact opposite outcome by seriously undermining our tourism food offering and the viability of downstream tourism businesses.

The Government's approach to taxation is of critical importance for Irish tourism and hospitality. Taxation is one of the key tools at its disposal to create the right conditions for continued long-term and sustainable recovery. However, while we have been repeatedly assured by the Government that it understands the extent of the challenges facing hospitality businesses, this has yet to translate into meaningful policy measures.

It is now vital that the Government does everything possible to help put our sector and wider tourism industry on a more stable footing. At a minimum, this must include the reinstatement of the 9% VAT rate for food-related hospitality services.

2. Cost of Doing Business

Over the last decade, public policy has induced continuing increases in the cost of doing business. Given the current economic climate with escalating costs, it is even more important that there should be no increase in charges and fees for services provided by the state and its agencies including licence fees, taxes and charges, levies and PRSI.

Labour Costs – In relation to the national minimum wage (NMW), we are seeking a reduction in the pace of increase to the level of 60% of the median wage. We are seeking a return to normal market level adjustments in the NMW in line with inflation to allow employers absorb the full impact of the series of recent Government employment-related cost increases which are already in train. The Government's focus should now be on improving labour cost competitiveness for SMEs through the reform of income taxes and adjustment of the social insurance structure.

Insurance Costs – Excessive insurance costs, poor availability and lack of competition within the insurance market are having a negative impact on the viability of tourism businesses. While we welcome progress made in this area in recent years, it has not yet had the desired impact in relation to liability insurance premiums. Much more needs to be done to ensure savings are passed on.

A report published earlier this year by the Central Bank's NCID Liability Report in April shows that the hospitality sector is being hit particularly hard by rising premiums, with accommodation and food service businesses seeing a 24% increase in insurance costs between 2020 and 2022. This is in addition to significant increases in previous years. A greater focus on attracting additional capacity and competition into the liability market is required and should be supported by the Insurance Competition Office at the Department of Finance. Equally, we ask that Government do nothing from a fiscal policy perspective that would discourage new entrants into the Irish market or diminish risk appetite.

Energy Costs – A fairer system for levying fixed pass-through energy network charges is required to ensure business customers do not carry an unfair proportion of network charges relative to actual consumption.

Excise Duty – The IHF recommends that the Government reduce alcohol excise by 7.5% in Budget 2025 to safeguard the commercial viability of drinks related enterprises in the on-licence sector. Alcohol sales are a significant part of hotel revenue, and Irish excise is among the highest in the EU which is not supportive of a competitive tourism and hospitality industry vis-à-vis our European counterparts.

3. Recruitment, Training and Development

Research into Present and Future Skill Needs – The last detailed study of the hospitality sector carried out by the Expert Group on Future Skills Needs (EGFSN) was in 2015. To support proper planning for skills development, we are calling on the Government to commission a detailed study of the present and future skill needs of our industry. In particular, accurate data and metrics are required to assist the Education and Training Boards (ETBs) and Skillnets.

Recruitment – We are calling on the Government to provide additional targeted funding for hospitality recruitment and career awareness to amplify the recruitment activities of hospitality businesses.

Training and Development – Additional resources are also required to support training and skills development, including funding for apprentice off-the-job training and resources for training and hiring of new entrants into the hospitality sector:

- Fully funded training should be made available through the ETBs and Skillnet Ireland to meet the immediate training needs of hospitality enterprises across the state.
- The National Training Fund (NTF) is projected to have a surplus of almost €2bn by 2025. While it is acknowledged that the fund must hold reserves, there is an urgent need in the case of the hospitality sector for ring-fenced funding to meet the critical training and upskilling requirements of our industry. A strategic framework should be developed for the NTF to ensure that it has the agility and flexibility to adapt to changing priorities in Ireland's skills and workforce development landscape, including in relation to the tourism and hospitality sector.
- Hospitality skills development in the areas of sustainability and digitalisation requires significant investment and should also be supported by targeted business grants for hotels in relation to digital capacity and technologies.
- A dedicated hospitality applied research fund should be established to examine the impact and application of artificial intelligence and robotics within the sector. The fund should be available for collaborations between third-level institutions and industry.

Hospitality Training & Evaluation Coordinators – We are also calling on the Government to fund, on a pilot basis, the provision of hospitality training and evaluation coordinators to assist SMEs in our sector identify their skill needs and to develop appropriate training provisions with the key state agencies including ETBs, Technical Universities and industry Skillnets. A similar type of service is already provided to the farming sector through Teagasc and was previously a feature of our industry. Such a service could be coordinated by Fáilte Ireland.

4. Sustainability – National Hotel Retrofitting Scheme

Hotels are among the largest consumers of energy within the tourism industry. Given their scale and the structure of operations, they are ideally placed to make a substantial contribution toward Ireland's national carbon emissions targets. There is a real desire across our sector to embrace further measures in line with the Government's Climate Action Plan. We believe a sector-specific, targeted review should be undertaken to identify potential new ways of supporting tourism businesses, including hotels, in achieving their carbon reduction goals while maintaining commercial viability.

We are calling on the Government to provide targeted funding for a nationwide hotel retrofitting scheme managed centrally through a dedicated resource within SEAI. The projects should be part-funded through a ring-fenced, multi-year Government grant scheme.

5. Tourism Marketing & Development

We are calling for an increase in funding for tourism services to €200m in 2025, up from €167m in 2024, to support recovery and long-term sustainable growth of Irish tourism. This should be supported by targeted marketing strategies to optimise the return in market segments of greatest potential value and underwritten by adequate destination marketing and development budgets.

International Marketing and Connectivity – It is essential that a well-funded international marketing effort and programme be delivered throughout 2025. While the rebound in connectivity is positive, further measures and investment are required to stimulate access and ensure carriers are incentivised to invest in additional routes, frequencies and capacity targeting key source markets.

Air Access – Enhanced air access is vital for the long-term development of our tourism economy. As such the 32 million passenger cap into Dublin Airport is a major barrier to further recovery and growth given that over 85% of air passengers arrive through Dublin. This requires an urgent intervention by Government to remove the cap. A wider review of planning legislation and aviation policy is also required, including a focus on securing additional opportunities to enhance regional air access and connectivity.

Conferences and Events – A programme of targeted Government grants and incentives should be provided to restore Ireland's competitiveness in relation to international conferences and events, which is an area experiencing a slower and more challenging recovery.

Tourism Development – Maintaining investment in developing national infrastructure critical to our tourism offering should remain a priority, including further development of public amenities such as the Greenways and Blueways.

6. Employee Accommodation – Accelerated Capital Allowances

The severe shortage of residential accommodation is having a detrimental impact on the ability of employees within our sector to secure suitable accommodation. This is having a direct, knock-on effect on the ability of hotels to attract people to work in our industry.

To help address this challenge, we are calling on the Government to introduce an accelerated capital allowances scheme targeting hotels with capacity to develop accommodation for employees on existing hotel land and sites. The scheme would have the potential to produce a significant amount of housing, thereby releasing affordable units currently used by hospitality staff while introducing much-needed new stock for use.

7. Short-term Lettings

We welcome legislative progress underpinning a new registration system for landlords renting residential properties on a short-term basis. Enhanced regulation is essential to address the significant negative impact short-term letting is having on availability of units in the long-term residential market. We ask the Government to ensure that the registration scheme is supported by a robust and adequately funded enforcement system to be in place by the end of this year.

8. Tourism Economic Research

The Government should task the Economic and Evaluation Service to undertake regular economic analysis of the tourism sector to include a cost/benefit assessment of the impact of Government investment in tourism. This would provide data and information which would enhance the quality of public policy decision-making and provide data on the true economic role of tourism.

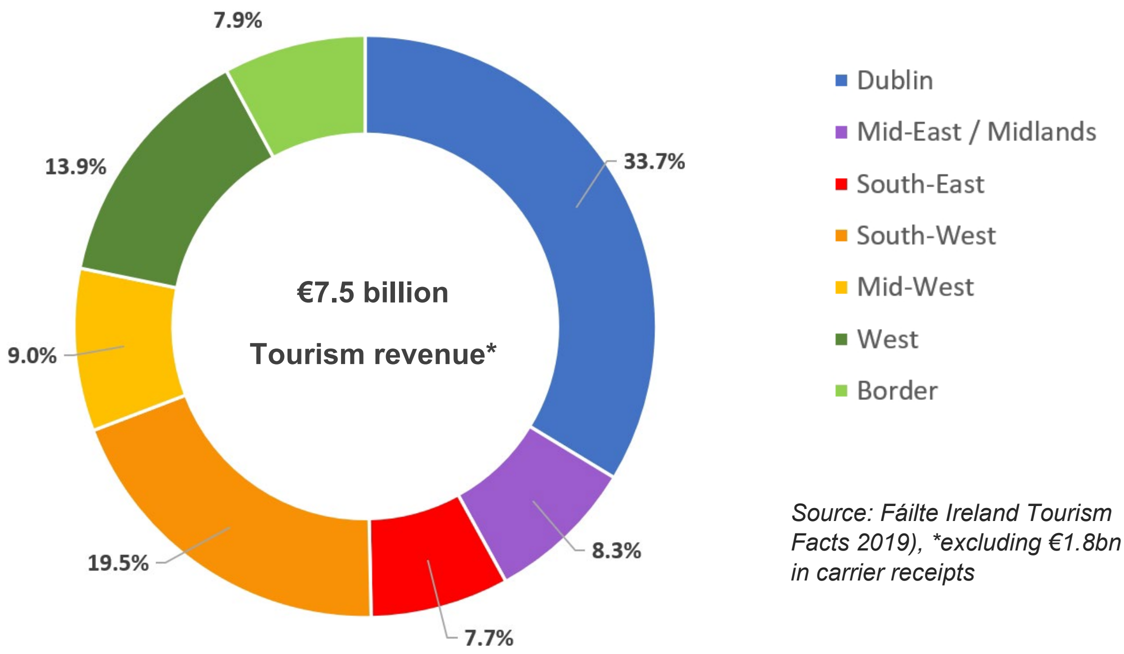
ECONOMIC CONTRIBUTION OF IRISH TOURISM

Irish tourism and hospitality make an enormous contribution to the economic well-being of the country, acting as a key driver of growth and employment.

- Almost 270,000 livelihoods, representing one in ten jobs, are supported by tourism across approximately 20,000 tourism and hospitality businesses.
- Approximately 65,000 people are employed directly in hotels and guesthouses.
- Approximately 70% of tourism jobs are located outside of Dublin, providing a huge source of regional economic opportunity and employment.
- Tourism generates over €2bn in tourism tax revenues for the exchequer annually and accounts for 4% of GNP.

The baseline for evaluating Irish tourism recovery is 2019 (prior to Covid)

Regional Share of Tourism Revenue (2019)
(excluding €1.8bn in airline carrier receipts)



*Source: Fáilte Ireland Tourism Facts 2019), *excluding €1.8bn in carrier receipts*

- In 2019, tourism revenues of €7.5 billion were recorded (excluding €1.8 billion in carrier receipts) of which €5.5 billion came from overseas visitors, €400m from Northern Ireland visitors and €2 billion from the domestic market.

Irish Hotels Federation

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