Budget 2026 Submission

Supporting Irish Tourism & Hospitality

Irish Hotels Federation

August 2025

The voice of Irish hotels & guesthouses | www.ihf.ie

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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 deliver targeted measures in the upcoming Budget to enhance competitiveness and support business viability.

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.

IRISH HOTELS FEDERATION

EXECUTIVE SUMMARY

This submission sets out the Irish Hotels Federation's key policy proposals for Budget 2026, aimed at addressing the urgent and ongoing challenges facing Ireland's tourism and hospitality sector. As one of the country's largest and most regionally dispersed employers, our industry is a key driver of Ireland's economic development, generating billions in revenue while supporting and sustaining thousands of small and family-run businesses.

Tourism and hospitality underpins Ireland's international reputation, fuel rural and regional prosperity, attract foreign direct investment, strengthen indigenous enterprise and sustain vibrant communities nationwide. Protecting and growing this sector is not just an economic imperative, it is a strategic necessity for balanced national development and long-term competitiveness.

Michael Magner, IHF President

Tourism & Hospitality: A Vital Pillar of the Irish Economy

The Irish tourism and hospitality sector is Ireland's largest indigenous employer, supporting approximately 270,000 livelihoods, representing one in every ten jobs across the country. Crucially, more than 70% of these roles are located outside Dublin, making the industry a key driver of regional employment, economic diversification and rural development.

Despite the resilience demonstrated by the sector in the aftermath of the COVID-19 pandemic, 2025 has brought renewed challenges. Recent research by Fáilte Ireland [1] shows that over half (51%) of tourism businesses are seeing a decrease in revenue in 2025 compared with last year. Results indicate that overseas visitor spend, which typically accounts for 70% of tourism revenue, is a significant concern. This is particularly challenging for 'Food & Drink' businesses, with 75% reporting a drop in overseas revenue so far this year.

Meanwhile, CSO figures for inbound tourism [2] reveal a drop of over 17% in expenditure by overseas visitors to Ireland during the first six months of 2025. These figures underline the acute financial strain being felt, especially by food-led hospitality businesses, which form a central component of Ireland's tourism experience.

This is at a time when we are experiencing difficult headwinds on a number of other fronts, including economic challenges across our key source markets, increased political uncertainty internationally and the fallout from EU/US tariffs – all of which threaten Irish tourism.

The increase in the VAT rate for hospitality food services from 9% to 13.5% has added a substantial burden to operators across the country. This change has resulted in over €500 million in additional taxes being extracted annually from businesses that are already grappling with reduced profitability and rising operational expenses. Meanwhile, Government-mandated employment-related costs such as changes to minimum wage legislation, pension auto-enrolment and statutory sick pay are creating further significant cost pressures for hospitality businesses.

Ireland's cost competitiveness is a serious concern. We are currently one of the most expensive places in Europe in which to live and do businesses. As of June 2025, Eurostat data[3] shows that Ireland has the second highest consumer prices in the European Union, at 38% above the EU average. These high prices, particularly when coupled with increased taxes and business inputs, undermine Ireland's appeal as a destination and reduce the ability of hospitality operators to remain viable and competitive.

Tourism continues to deliver immense value to the Irish economy. In 2024, the sector generated €10.2 billion in annual revenue (excluding airline carrier receipts), with €6.2 billion from overseas visitors. €380m from Northern Ireland and €3.6 billion from the domestic market. It remains a critical source of tax income for the State, contributing more than €2.7 billion annually in exchequer receipts. Furthermore, approximately 69,000 people are directly employed in hotels and guesthouses, forming the backbone of the sector's operational capacity.

270,000 jobs

Supported by Irish tourism & hospitality

Regional spread

70% of tourism jobs are outside of Dublin

€10.2bn revenues

Generating tourism revenues of €10.2bn for the Irish economy annually prior to Covid

€2.9bn in taxes

Contributing over €2.9bn in tax receipts for the exchequer annually

Data Sources:

1. Fáilte Ireland Tourism Barometer, June 2025
2. CSO Inbound Tourism Statistics for June 2025
3. Eurostat 'Comparative price levels of consumer goods and services' published 19th of June 2025.

Looking ahead to 2026, there is an urgent need for Government to take meaningful steps to safeguard the long-term viability of the industry. First and foremost, this must include reinstating the 9% VAT rate for food-related hospitality services. Additionally, the State must work to relieve the unsustainable cost burdens being placed on businesses through payroll tax reform, insurance market intervention and energy pricing fairness.

It should be noted that 18 of the EU's 27 member states have a lower food services VAT rate than Ireland's 13.5% - with Germany the latest to announce a reduction in VAT on hospitality food services to 7% from the 1st January 2026 (currently at 19%). The average rate among those 18 countries is just 9.5%. This makes Ireland's VAT rate an outlier in the EU and places unnecessary strain on the country's hospitality and tourism industry.

International headwinds suggest that the US economy will continue to face currency uncertainty. The dollar's value, having fallen by 12% this year, is likely to affect the affordability of travel to Ireland for US visitors next year. This will, in turn, lead to shorter stays or reduced spending, with knock-on effects across the Irish economy.

Investment in the workforce is also critical. A reallocation of funds from the National Training Fund's €2 billion surplus should be used to deliver targeted upskilling and digital transformation support for tourism and hospitality. Meanwhile, a centrally managed hotel retrofitting scheme would not only enhance environmental sustainability but also help businesses within our sector reduce energy consumption and operating costs.

Increased investment in tourism promotion is essential now more than ever. The IHF is calling for the tourism budget to be raised by €90 million in 2026, to ensure that Ireland remains visible and competitive in key international markets. Air access is also a priority: the 32 million passenger cap on Dublin Airport must be lifted immediately to support connectivity and growth. Further support is needed to enhance regional air routes and attract international conferences and events.

Finally, with the accommodation crisis continuing to affect staffing, we are calling on the Government to carry out a cross-departmental review to identify options for assisting hotels to develop employer-led staff accommodation across the sector. As part of the national response to the housing crisis, this would also act to alleviate wider pressure on the private rental market, particularly in tourism hotspots.

Michael Magner
President, Irish Hotels Federation

RECOMMENDED POLICY MEASURES FOR BUDGET 2026

As outlined below, our proposals for Budget 2026 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 hospitality food services as a long-term cost competitiveness measure, avoiding cost-increasing measures for businesses, assisting hotels develop staff accommodation, targeted funding for retrofitting hotels and increased investment for tourism marketing to support a sustained recovery.

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

1. **9% VAT for Hospitality Food Services:** Reinstatement of 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. **Hospitality Staff Accommodation:** Carry out a review of options for assisting hotels to develop employer-led staff accommodation across the sector.

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.

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

It is essential that the VAT increase on the food services component of tourism and hospitality be revisited given the severe impact it is on hospitality businesses, particularly those reliant on food services which are a core pillar of Ireland's tourism offering. The increase is extracting an additional €500m annually from food-related businesses at a time of unprecedented cost pressures, leading to reduced availability of food services nationwide and putting the visitor experience at risk. The impact is most acute in regional Ireland, where margins are under severe strain.

Alongside this, Government-mandated employment-related costs such as changes to minimum wage legislation, pension auto-enrolment and statutory sick pay are creating further significant cost pressures for hospitality businesses. An analysis by the Department of Enterprise[4] last year projected an increase of over 36% in payroll related costs by 2026 (relative to 2023) for a small hospitality business when factoring in the transition to a Living Wage. While a small proportion of this has been mitigated, the overall increases are having a significant impact on business viability.

Ireland already has the second highest consumer prices in the EU (42% above average) and additional taxes are further eroding competitiveness. Retaining the increased 13.5% VAT rate, combined with these cost pressures, is undermining the tourism food offering, constraining business viability and threatening the recovery and long-term development of a sector that supports 270,000 livelihoods. A reversal of the VAT increase for food-related services would be a targeted, immediate measure to restore competitiveness, protect jobs and sustain Ireland's tourism product.

It is now vital that the Government takes decisive action to place the hotel and wider tourism industry on a more stable and competitive footing. At a minimum, this must include the reinstatement of the 9% VAT rate for food-related hospitality services, a measure that would provide immediate relief to struggling businesses, protect jobs and help restore Ireland's value proposition for visitors.

Unsustainable Cost Pressures

€500m in extra VAT imposed by Government on struggling food service businesses this year

Unprecedented increases in payroll costs due to Government mandated payroll measures[4]

Drop in Revenue

17% drop in overseas tourism revenue in first six months of 2025[2]

51% of tourism businesses seeing a drop in revenue in 2025[1]

75% of food and drink businesses seeing a drop in overseas revenue[1]

Irish consumer prices second highest in EU at 42% above the average[3]

Data Sources:

4. DETE Paper: An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland – March 2024

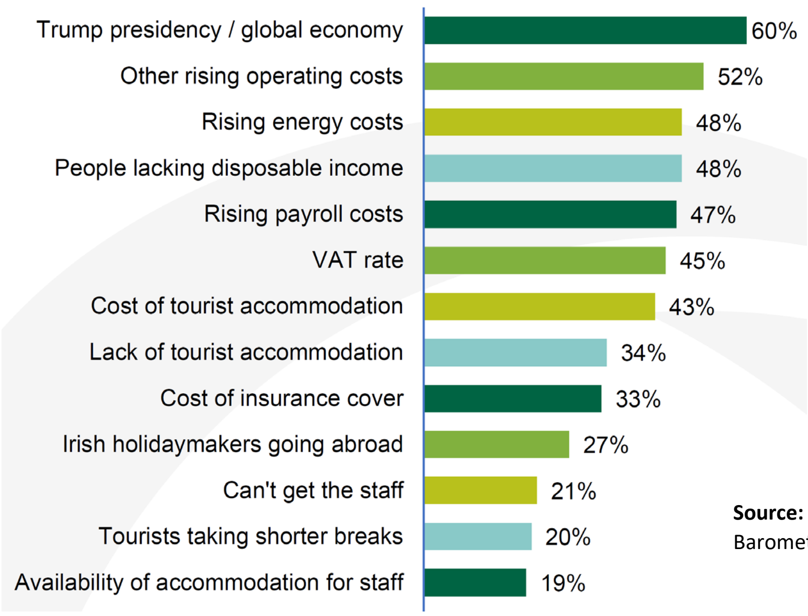
2. Cost of Doing Business

Over the past decade, successive public policies have significantly increased the cost of doing business. In today's inflationary environment, marked by soaring operational input costs it is essential that there be no further increases in charges, licence fees, taxes, levies or PRSI imposed by the State, as these would further erode the competitiveness and viability of hospitality and tourism businesses, particularly in regional areas.

Labour Costs – We propose a deceleration of National Minimum Wage increases; any further increase should be adjustments aligned to inflation. A meaningful reduction in Employers' PRSI is also required for labour-intensive indigenous industries such as tourism and hospitality. These measures would assist employers in offsetting a wave of ongoing employment cost increases, such as the transition to a Living Wage, pension auto-enrolment and statutory sick pay. 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.

***Energy Costs* –** Urgent regulatory, funding and tariff reforms are required to allow viable, sustainable business growth. Over the past five years, hoteliers like many in the hospitality sector have experienced a dramatic rise in energy costs, driven not only by unit rate increases but also by inflexible market structures and opaque pass-through charges. Despite major investments in renewable and energy-efficient infrastructure, our energy spend has almost doubled, eroding profitability and severely limiting future capital investment. This is reflected in recent industry sentiment[1] with tourism and hospitality businesses continue to rate energy cost as one of their highest concerns:

Causes for concern regarding business this year[1]



Source: Fáilte Ireland Tourism Barometer, June 2025

The impact of rising energy costs – real hotel examples:

- Electricity cost increased from €338,000 in 2019 to €666,000 annually in 2023/2024 a 97% increase.
- Cost per kWh has risen from €0.11 (2019) to €0.23 (2024).
- Daily electricity spend has increased for a typical sized hotel from €927 to €1,800.
- Despite reducing consumption by 24%, overall energy costs have climbed steeply.
- Pass-through charges (DUOS, TUOS, capacity, imperfection, etc.) now make up 41% of our electricity bill, up from 38% in 2021.
- Gas-related costs particularly from carbon taxes have also increased significantly, contributing to overall strain.

  Bottom Line: These cost increases have eroded profitability and undermined the industry's capacity to invest in further decarbonisation efforts.

Insurance Costs – Adequate financial provision should also be made to ensure the Department of Finance's new Action Plan for Insurance Reform can be delivered effectively and efficiently. In January 2025 the Injuries Resolution Board published a comprehensive review of claim volumes and award levels[5]. It found that claims in cafés, hotels and restaurants more than halved between 2019 and 2023 (down 52%). The review also confirmed that personal injury awards have reduced by at least one third since the introduction of the Personal Injury Guidelines. Meanwhile, the Central Bank's NCID mid-year liability report for H1 2024[6] found that the cost of settling liability claims is down a further 10% in just the first six months of last year alone.

Policyholders, however, are not seeing any meaningful benefits with premiums paid by businesses continuing to rise according to industry research by the Alliance for Insurance Reform - despite many positive Government reforms of the Irish insurance market in recent years. Savings are not being passed on, whilst insurers are making record profits. This is unjustifiable and is having a sustained negative impact on our sector.

Insurance reforms are needed to quickly reduce liability premiums to affordable levels and keep them there. This should include taking steps to ensure that insurers pass on the savings generated by recent reforms; ensure adequate competition and a fairer and more transparent market in respect of underwriters and brokers; increase the volume of cases resolved at the Injuries Resolution Board and tackle unnecessary and excessive legal costs. We urge Government to take all necessary steps to increase underwriting capacity in the liability market, encourage competition and improve availability of cover. 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.

3. Staff Accommodation Development Scheme

Ireland's hospitality sector faces a critical staffing challenge caused by the shortage of affordable accommodation near hotels. Savills recent analysis shows there are on average just 5.9 properties for rent or share for every 10,000 people, with rural counties among the most severely impacted. This is undermining recruitment, retention and service delivery. As part of the national response to the housing crisis, we propose that the Government carry out a cross-departmental review to identify options for assisting hotels to develop employer-led staff accommodation across the sector. This would also act to alleviate wider pressure on the private rental market, particularly in tourism hotspots.

4. Sustainability – National Hotel Retrofitting Scheme

As a priority, we are calling for targeted funding for a nationwide hotel retrofitting scheme, managed centrally through a dedicated resource within SEAI and supported by a ring-fenced, multi-year Government grant programme. Such an initiative would deliver measurable environmental benefits, reduce operating costs and strengthen Ireland's reputation as a sustainable tourism destination.

Hotels are among the largest energy consumers in Ireland's tourism sector, using a mix of 32% electricity and 68% LPG, with space heating alone accounting for 40% of their total energy demand and water heating another 40%. This high consumption places them in a powerful position to make a meaningful contribution to national carbon reduction goals, provided they receive targeted support and incentives.

Given their scale and operational structure, hotels are ideally positioned to make a substantial contribution to Ireland's national carbon emissions targets. Across the sector, there is a strong commitment to aligning with the Government's Climate Action Plan but achieving meaningful reductions while maintaining commercial viability requires targeted support. We recommend a sector-specific review to identify practical, cost-effective measures that enable hotels to accelerate carbon reduction without compromising competitiveness.

5. Tourism Marketing & Development

A significant increase in investment in tourism marketing and development is required to support the recovery and long-term sustainable growth of Irish tourism. We are calling for a €90m increase in funding for tourism services in 2026, up from an estimated €251m this year. This should be supported by targeted marketing strategies to optimise the return in market segments of greatest potential value and underwritten by enhanced destination marketing and infrastructure development projects.

International Marketing and Connectivity – It is essential that a well-funded international marketing effort and programme be delivered throughout 2026. Further measures and investment are required to support the diversification of our tourism markets and to stimulate access and ensure carriers are incentivised to invest in additional routes, frequencies and capacity.

Air Access – Enhanced air access is vital for the long-term development of our tourism economy. As such the passenger cap into Dublin Airport is a major barrier to further recovery and growth given that approximately 85% of air passengers arrive through Dublin. This requires an urgent intervention by Government. As the country's main international gateway, capacity constraints limit visitor numbers, restrict airline route development and reduce seasonal connectivity, thereby weakening Ireland's competitiveness.

Without additional capacity, Ireland risks losing high-value visitors to competing destinations and constraining regional tourism growth that depends on Dublin as the primary entry point. Removing the cap will allow the sector to meet rising global demand, attract new carriers, and support year-round tourism, delivering substantial economic and employment gains nationwide.

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.

Data Sources:

5. Injuries Resolution Board Report on Public Liability Accidents 2019-2023
6. Central Bank NCID Employers' Liability and Public Liability Insurance Mid-Year 2024 Data Release – July 2025
7. Fáilte Ireland Key Tourism Facts 2024

6. Training and Development

We are calling for a significant increase in investment in training, skills and development, leveraging the approximately €2bn in un-tapped surpluses available through the National Training Fund. This has the potential to be transformative for our hospitality sector and wider tourism industry, delivering targeted upskilling coupled with sustainability and digital transformation support.

7. Short-term Lettings

We welcome legislative progress establishing a new registration system for landlords offering residential properties on a short-term basis. Enhanced regulation is critical to addressing the significant negative impact that unregulated short-term letting has on the availability of housing in the long-term rental market, particularly in high-demand tourism areas. We urge the Government to ensure this registration scheme is supported by a robust, well-resourced enforcement mechanism capable of delivering tangible results. This system should be fully operational by the end of this year to protect housing supply and ensure fair competition for compliant tourism accommodation providers.

8. Tourism Economic Research

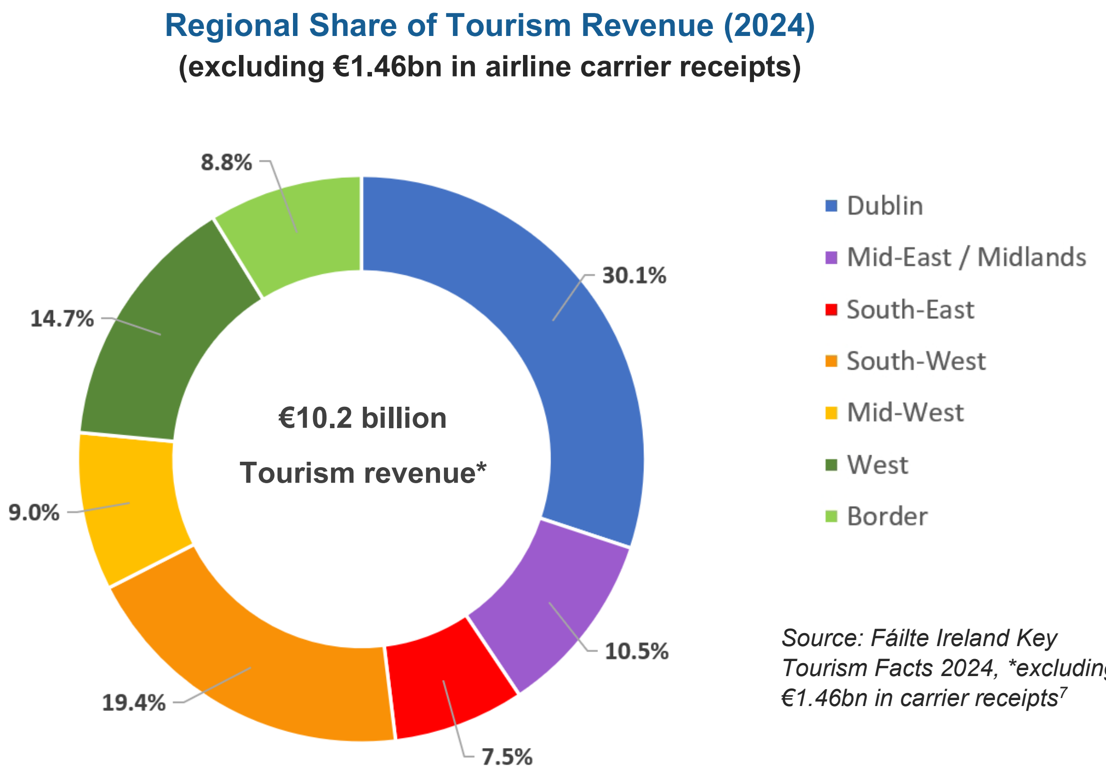
We recommend that the Government task the Economic and Evaluation Service with conducting regular economic analysis of the tourism sector, including comprehensive cost-benefit assessments of the impact of Government investment in tourism. Such analysis would provide robust, independent data to enhance the quality of public policy decision-making, support evidence-based investment decisions and accurately quantify the tourism sector's contribution to Ireland's economy. This insight is essential for ensuring that policy interventions maximise economic returns, job creation and regional development benefits.

Furthermore, Fáilte Ireland should allocate more resources to researching consumer trends, fostering product innovation, developing comprehensive destination management plans and conducting international research into future tourism trends to build out industry capability into the next decade.

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.

- Over 270,000 livelihoods, representing one in ten jobs, are supported by tourism across approximately 20,000 tourism and hospitality businesses.
- Approximately 69,000 people are employed directly in hotels and guesthouses.
- Approximately 70% of tourism jobs are located outside of Dublin, providing a major source of regional economic opportunity and employment.
- Tourism generates over €2.9bn in tax revenues for the exchequer annually.



*Source: Fáilte Ireland Key Tourism Facts 2024, *excluding €1.46bn in carrier receipts*[7]

- In 2024, tourism revenues of €10.2 billion were recorded (excluding €1.46 billion in carrier receipts) of which €6.2 billion came from overseas visitors, €380m from Northern Ireland visitors and €3.6 billion from the domestic market.

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