

Drinks industry rejects Central Bank comments and calls for VAT reduction

'Evidence based decision making rather than opinion is required'

Makhlouf scepticism on VAT rate reduction fails to consider the impact of a temporary VAT reduction on on-trade alcohol sales (in pubs, restaurants and hotel bars), according to the drinks industry

Group seeks VAT rate reduction on sales of alcohol as temporary and targeted measure which is in line with Central Bank boss advice to Government for targeted support measures for business ahead of July stimulus package

The measure is being sought as a business support measure rather than a demand stimulus – VAT savings would be held by businesses to reduce costs

Call comes as just 20% of the schemes in place to support businesses have been drawn down

A VAT rate reduction on on-trade alcohol will deliver targeted support to thousands of businesses, protect up to 22,500 jobs and get people back to work, says industry

As of 1 July, Austria has reduced the VAT rate on on-trade alcohol from 20% to 5% temporarily as a Covid response measure to support business

A temporary VAT rate reduction on on-trade alcohol sales (in pubs, restaurants and hotel bars) would deliver targeted and tangible support to one of the most Covid impacted and employment-intensive sectors of the Irish economy, according to the Licensed Vintners Association (LVA), Vintners Federation of Ireland (VFI) and Ibec representative group Drinks Ireland.

Rejecting commentary made by Central Bank boss Gabriel Makhlouf on the possibility and impact of a VAT rate reduction this weekend, the LVA, VFI and Drinks Ireland said that comments failed to consider – and were not inclusive of – the potential impact of a VAT rate reduction on on-trade alcohol sales which would deliver direct support to businesses.

The group – who is calling for a temporary reduction in the 23% VAT rate on alcohol until 31 December as part of the July stimulus package – said that such a measure would provide an instant cash injection to a network of 7,000 businesses across the country. The measure is being sought as a business support measure rather than a demand stimulus – the VAT savings would be held by the businesses to reduce costs.

Commenting on RTÉ, Makhlouf remarked that there are sectors affected more than others and those who rely on person-to-person interaction is where the pressure is and that Ireland does not want to see viable businesses become insolvent.

He added that 'temporary' and 'targeted' measures for businesses is what is required. Makhlouf's comments come as Government finalises detail of the July stimulus package this week.

'A cash injection to businesses that are currently viable but living with the constant uncertainty and threat of Covid can help them to remain solvent with direct and tangible financial support now. A VAT rate reduction on alcohol sales is a measure that will do just that, it is both temporary and targeted and will protect Ireland's drinks and hospitality sector. We need to rely on evidence-based decision making and not opinion right now,' said Pádraig Cribben, Chief Executive, VFI.

'The economy needs businesses to reopen so people can get back to work, earn a living and pay their taxes, reducing the reliance on government support. Crucially, pubs need some certainty and today, that does not exist. Pub owners who have yet to reopen their premises are worried that the reduced capacity due to the guidelines, coupled with decreased consumer confidence and a reluctance to go out among people will make it unfeasible to reopen. If some certainty and clarity existed regarding tangible supports that would reduce costs for these businesses, they would be in a better position to reopen and get people back to work.' Cribben said.

The call comes as the industry questions the impact of other Covid response measures.

The uptake of the current 'direct support' on offer from the Government has been low to date. Just 20% of the schemes in place to support businesses have been drawn down. For example, just €89 million of the €250 million available in the Government Restart Grant has been utilised.

Over 50,000 people are employed in the drinks industry and according to a recent report by DCU economist, Anthony Foley, even if pubs regain half their normal capacity by the end of 2020, which is an optimistic scenario, as many as 22,500 jobs could be permanently lost.

TO SUPPORT, NOT STIMULATE

A temporary reduction in the on-trade VAT rate on alcohol is not intended as a 'demand stimulus, which VAT rate changes tend to be,' said Donall O'Keeffe, CEO, LVA.

'This is a new ask which has never been considered in Ireland before. It is achievable and easy to implement quickly. We need a short, sharp burst of financial support for our industry to get through the difficult trading period ahead, and this is the only way to do it effectively. Not only do pubs provide employment, they are the cultural epicentre of our city centres, towns, and villages. The Government needs to make bold decisions to support the revival and recovery of our industry. A cut in VAT on alcohol on on-trade sales will give pubs the boost they need to reopen and trade.'

ADMINISTRATIVELY SIMPLER

Patricia Callan, Director of Drinks Ireland said a reduction in the VAT rate on on-trade alcohol is 'an administratively simple way of getting money to where it is needed rather than through complex schemes.'

'Providing some certainty to businesses as they prepare to reopen is key. A reduction in the VAT rate on alcohol would provide certainty and allow these job-intensive businesses to remain viable with reduced demand and the increased Covid costs until trade improves towards pre-Covid levels in 2021. Reduced rates of VAT for hospitality businesses are established Covid response policy instruments. As of 1 July, Austria reduced the VAT rate on on-trade alcohol temporarily from 20% to 5% as a Covid response measure specifically to support businesses – not as a consumer support. In Cyprus, the VAT rate on services has been reduced from 9% to 5% from June to January 2021 and this applies to alcohol sold in the on-trade. In Spain and Italy, VAT on on-trade alcohol has long been set at the hospitality rate.

'Now is the time for innovative and ambitious policy decisions for industries that are vulnerable yet enormously viable, but only with tangible support.' Callan concluded.

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