



Fédération Européenne
de la Restauration Collective Concédée

European Federation
of Contract Catering Organisations

FERCO - European Federation of Contract Catering Organisations

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European Commission
Directorate-General for Taxation and Customs Union
VAT and other turnover taxes – Unit TAXUD/C1
Rue Joseph II 79, Office J79 05/093
B-1049 Brussels
Belgium

3 January 2013

Response to the Public Consultation on the review of existing legislation on VAT reduced rates

Dear Mr. Raponi,

FERCO, the European Federation of Contract Catering Organisations, hereby submits its response to the European Commission's Public Consultation on the review of existing legislation on VAT reduced rates.

We welcome this opportunity to contribute to the review of the VAT rate structure and appreciate the fact-based approach the Commission is taking. In the attached response we provide information regarding our organisation and the contract catering sector in Europe and have included economic evidence regarding the effects of reduced VAT rates on the food service sector in several Member States.

The FERCO Secretariat remains at your disposal (rrenaldi@landmarkeurope.eu) and we thank you in advance for your consideration.

Yours sincerely,

Rocco Renaldi
FERCO Secretary General



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*FERCO Response
Consultation on VAT reduced rates
3 January 2013*

IDENTIFICATION OF STAKEHOLDER

You are included in one of the following groups:

- ☐ Multinational enterprise
- ☐ Large company
- ☐ Small and medium sized enterprise (SMEs) ¹
- ☐ National Association
- ☒ European Association
- ☐ Non-Governmental organisation (NGO)
- ☐ Tax advisor or tax practitioner
- ☐ Citizen
- ☐ Academic
- ☐ Others. Please specify

Name of your organisation/ entity/ company

European Federation of Contract Catering Organisations

Country of domicile Belgium

Brief description of your activity or your sector

FERCO represents the contract catering sector in Europe

Do you agree to the publication of your personal data?

☒ Yes

☐ No

Do you agree to have your response to the consultation published along with other responses?

☒ Yes

☐ No



FERCO Response to the European Commission Consultation on the review of existing legislation on VAT reduced rates

FERCO welcomes the opportunity to contribute to the European Commission's review of the VAT rate structure and appreciates the fact-based approach the Commission is taking. The VAT system has a significant impact on the business operations of contract caterers and therefore FERCO values the possibility of providing information and evidence to the Commission on these matters.

I. Contract catering in Europe

FERCO represents the contract catering sector in Europe. The sector **employs over 600,000 people** and delivers over 6 billion meals each year. This equates to **67 million consumers served every day, or one in every four meals eaten outside the home.**

With such a strong presence of the contract catering business in the everyday lives of Europeans, VAT changes can have a profound impact on our employees and our customers, affecting our price and competitiveness.

II. Review of the VAT reduced rates

Question 1:

Are there any concrete situations that you are aware of whereby the application of a reduced rate on certain goods and services by one or more Member States is effectively resulting in material distortion of competition within the Single Market? Please explain and, if possible, give an indication of the economic impact of the distortive effects.

FERCO is **not aware of any cases** where the application of a reduced rate in the contract catering sector results in a distortion of competition within the single market. On the contrary, and as acknowledged by the Commission, there is economic evidence that reduced rates for locally-supplied services, such as contract catering, do not cause distortions within the Single Market and have positive effects on job creation.

This was the conclusion of the 2007 *Commission Communication on VAT rates other than standard VAT rates*¹, where it was determined that **reduced VAT rates applied to locally-supplied services do**

¹ European Commission (2007). Communication from the Commission to the Council and the European Parliament on VAT rates other than standard VAT rates - COM(2007)380. Available at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/com%282007%29380_en.pdf



not obstruct the smooth functioning of the internal market and may have positive effects on job creation and combating the informal economy. Consequently, provisions for applying reduced rates to certain labour-intensive industries as well as to restaurant and contract catering services became permanent and open to all Member States in 2009. These conclusions were based on the study conducted for the European Commission by Copenhagen Economics in 2007, which, as mentioned in the Consultation paper, **confirms unequivocally that locally-supplied services could never give rise to distortions of the internal market.**

In addition to the studies and information gathering carried out by the European Commission, concrete evidence of the positive effects of reduced rates in the restaurant and contract catering sector has been gathered at national level. Illustrative examples across Member States are provided below.

In **Belgium**, a reduction in the VAT rate for meals served in restaurants led to the **creation of 2 500 full-time equivalent jobs within only 9 months.**²

In **France**, the VAT reduction for restaurants resulted in **the creation of 53 000 jobs and prevented 20 000 bankruptcies.** Additionally, it enabled the transfer of €1.2 billion to employees. Furthermore, the **sector provides employment to young people**, which is essential in the current economic climate of high youth unemployment. Almost a fourth of the restaurant sector employees in France are below 25 – twice as high as the proportion of under-25s in all other sectors of the economy.³

Additional examples of EU countries, which have recently reduced the VAT rates applied to restaurant services with the objective of stimulating economic and job growth, provide further support for allowing Member States to implement reduced VAT rates in the food service sector.

This was the case of **Ireland**, where the VAT rate for restaurant and contract catering services, hotel and holiday accommodation and various entertainment services was decreased from 13.5% to 9% in July 2011. The decision was part of the wider “Jobs Initiative”, put forward by the Minister of Finance, designed to improve Irish economic competitiveness and stimulate job creation. The measure was based on the government’s assessment that tourism can be stimulated and jobs created through reduced VAT rates.⁴

² See Hotrec’s reply to the European Commission consultation on the future of VAT (2011) available in: http://www.hotrec.eu/Documents/Document/20110907110827-D-0511-149-DM-VAT_consultation-draft_HOTREC_reply.pdf.

³ See restaurant associations’ press release: <http://www.laveritesurlatvarestauration.fr/wp-content/uploads/2012/10/M.Thevenoud-on-ne-se-fait-pas-un-nom-en-voulant-tuer-une-profession-25102012-.pdf>

⁴ See the Irish Minister of Finance’s “Jobs Initiative”, May 2011 <http://www.finance.gov.ie/documents/pressreleases/2011/mn018jobsinit.pdf> and also information provided in <http://www.revenue.ie/en/tax/vat/rates/rate-changes-jobs-initiative.html>.



The desired positive impact has already been observed, as confirmed by the Irish Minister of Finance in a monitoring report from 14 November 2012⁵. Following an assessment of the effects of the changes introduced, it was concluded that *“the 9% reduced VAT rate appears to have had the desired impact both in terms of price pass through and by contributing to employment gains, with an **additional 3,000 jobs in quarter 1 2012 relative to quarter 2 2011** [emphasis added] in the labour intensive food and accommodations services sector of the economy”*.

Another example is **Sweden** that in January 2012 cut the VAT rate on restaurant and contract catering services from 25% to 12% with the aim of stimulating job creation for young people. This led to a reduction in restaurant prices, a sizeable increase in turnover and the creation of new jobs.

In November 2012, the prices of restaurant services were 0.1 % lower than in December 2011⁶. In the long run, the Swedish government expects a full pass through of the VAT reduction, representing a **decrease in prices of 6-7 %**. Additionally, the VAT decrease has had a beneficial effect on turnover and employment in the sector. Between January 2012 and October 2012, **turnover in the restaurant industry increased by 4.4% in terms of volume** compared to the same period in 2011⁷. This is the biggest increase in turnover for the last 10 years, in spite of the difficult economic conditions in Sweden in 2012. Finally, the total amount paid in wages in the hotel and restaurant industry during the first three quarters of 2012 increased by 8.5% compared to the same period in 2011⁸. According to Visita, the trade and employer organization for the Swedish hospitality industry, **this represents an increase in employment equivalent to 6 000 full-time employees**.

In the **United Kingdom**, although reduced rates are not yet in place, two recent studies point to possible benefits. A report, commissioned by Bourne Leisure and Merlin Entertainments, undertaken by Deloitte and Tourism Respect and completed in February 2011, indicates that a reduction in VAT on visitor accommodation and attractions would generate 78 000 jobs and set off a virtuous cycle of growth. A report commissioned by BHA, undertaken by Tourism Respect and completed in June 2011 indicates that **a reduction in VAT on out-of-home meals would generate 223 000 jobs**⁹.

From a different perspective, there is also evidence that increasing VAT rates in the restaurant services sector has negative consequences on competitiveness and employment and thus could further aggravate the impact of the current economic crisis in the EU.

In **Portugal**, it is estimated that the VAT increase from 13% to 23%, introduced by the Government in 2012, will lead to the closing of more than 28 thousand companies in the restaurant services sector

⁵ Available online in the following page: <http://taxpolicy.gov.ie/wp-content/uploads/2012/11/Measuring-the-Impact-of-the-Jobs-Initiative-Was-the-VAT-Reduction-Passed-On-and-Were-Jobs-Created1.pdf>.

⁶ Consumer prices, Statistics Sweden.

⁷ Restaurangindex, Statistics Sweden.

⁸ Lönesummestatistiken, Statistics Sweden.

⁹ See information provided in <http://www.bha.org.uk/vat-campaign/history-and-research/>.



as a whole, representing around 40% of the companies in the sector. The closing of these establishments corresponds to an estimated **loss of between 70 and 80 thousand jobs due to the tax increase by the end of 2013**. This was the conclusion of an independent study carried out by PricewaterhouseCoopers (PwC) and Espanha & Associados law firm, at the request of AHRESP, the Portuguese Restaurant and Hotel Services Association, and presented to the Portuguese Government in October 2012¹⁰.

In view of this evidence, FERCO is convinced that Member States should retain the option of applying reduced VAT rates to the contract catering sector.

As mentioned in the consultation document, the Commission will take into account two more factors when reviewing the VAT rates structure:

Abolition of reduced rates on goods and services whose consumption is discouraged by other EU policies. This could notably be the case for goods and services harmful to the environment, health and welfare.

Although food services are not covered by this section of the Consultation Paper, **FERCO takes the opportunity to emphasise that reduced rates applied to this sector are not discouraged by other EU policies**. On the contrary, reduced rates serve the Commission's objective of **increasing access to food to lower-income earners**, which is also central to the recently extended "Food Distribution programme for the Most Deprived Persons of the Community". Additionally, contract catering is very labour-intensive. Therefore, any growth resulting from lower VAT applied to the sector is accompanied by **increased employment**, which raises income tax revenues and **contributes to economic growth**, as evidenced by the national data above. Higher employment also benefits communities and is in line with the **Europe 2020 Inclusive Growth dimension**, which calls for increasing Europe's employment rate, particularly among women and the young. **Therefore, FERCO believes that reduced VAT rates for food services are justified and in line with other EU policies.**

Similar goods and services should be subject to the same VAT rate and progress in technology should be taken into account in this respect, so that the challenge of convergence between the on-line and the physical environment is addressed.

The Consultation Paper addresses under this heading the discrepancy between digital and physical environment goods and services, which FERCO is aware does not concern the contract catering sector. However, **FERCO believes the Commission should seize this opportunity to also address the public sector exemptions and fully apply its proposition that similar goods and services should be**

¹⁰ For additional details and access to the executive summary of the study please refer to http://www.ahresp.com/news_article.php?id=789.

subject to the same VAT treatment. Indeed, although currently not covered in the review of the VAT rate structure, **exemptions for public bodies create distortions of competition** which cannot be justified when applied to economic activities carried out for business purposes:

- Public bodies are increasingly taking up functions traditionally performed by the private sector, while private companies are often moving into traditionally public sectors such as education and healthcare. Therefore, **direct competition** between public bodies exempt from VAT and private bodies subject to VAT is becoming more frequent. The different VAT treatment in these cases **causes distortions of competition by creating a price differential.**
- Exemptions can also **reduce the incentive to outsource services due to the lack of mechanisms to recover input VAT.** The result is a **decrease in competition and innovation.** Furthermore, this leads to a **decrease in efficiency** as, other things being equal, a specialized company would have the necessary resources and expertise to provide a service more efficiently and at a lower cost. However, when differential VAT treatment tips the scales in the opposite direction, a distortion of competition occurs.
- Finally, exemptions create an issue with **hidden VAT.** This occurs when businesses subject to VAT purchase goods/services from VAT-exempt bodies. In this case there is non-deductible VAT imbedded in the price.

A key study completed by Copenhagen Economics and KPMG for DG Taxation and Customs Union in 2011 confirmed that a **full taxation model** (VAT fully applicable to and deductible for public bodies) **would be the most effective in avoiding these distortions to competition at the lowest possible administrative cost.** The study shows that the removal of exemptions for the public sector results in increased efficiency, higher public revenues and reduced administrative and compliance costs. Measured in economic terms, **full taxation could increase EU-wide GDP by up to 0.19%, or lead to a 194.6 billion EUR increase in VAT revenue, thereby enabling an 18.7% reduction in VAT rates.**

In conclusion

- FERCO believes that **reduced VAT rates for food services should be maintained** in line with the economic evidence that demonstrates the positive effects of such rates on economic growth and employment in the EU and the lack of any distorting effect to competition in the internal market.
- FERCO encourages the Commission to also **address public sector exemptions**, which create distortions of competition, and fully apply its proposition that similar goods and services should be subject to the same VAT treatment.