



RESTAURANTS
ASSOCIATION
OF IRELAND

The Economic Case for the 9% VAT Rate for Food Services

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The Economic Case for the 9% VAT Rate for Food Services

Top Challenges for Food Businesses



Rising Operational & Labour Costs



Declining Sales and Revenue



Punishing VAT Rate



Declining International Tourism



Weakening Profit Margins

Top Benefits of 9% VAT



Protects Jobs & businesses Nationwide



Backs Ireland's Indigenous SMEs



Builds Business Stability & Resilience



Sustains & Strengthens Local Economies



Enhances Ireland's Tourism Competitiveness

EXECUTIVE SUMMARY

The Restaurants Association of Ireland is calling for the permanent restoration of the 9% VAT rate for food services from January 2026, arguing that the sector is under severe financial pressure and that a lower VAT rate is a proven, internationally recognised policy tool to support hospitality.



The sector is far from booming. CSO data shows sales volumes down in every month of 2025, with a 7.6% drop in June year-on-year. Margins have been severely eroded by a combination of market-driven input cost inflation and government-imposed labour cost increases. Headline employment figures overstate actual growth, with much of the increase concentrated in Dublin, while performance outside the capital is far weaker.



Rising wages, PRSI, pension auto-enrolment and other regulatory measures are sharply increasing labour costs, while restaurants face market constraints on raising prices without losing customers. Internationally, Ireland's 13.5% restaurant VAT rate is uncompetitive, with eighteen EU countries applying a lower rate. Germany will restore its 7% rate in 2026, reflecting the value placed on reduced hospitality VAT across Europe.

Tourism remains below pre-Covid levels, with overseas visitor numbers and spending still depressed. Fáilte Ireland's June 2025 Tourism Barometer shows a weak restaurant performance in the first half of the year, with most operators reporting falling revenue and fewer overseas customers. Central Bank statistics reveal that outstanding credit to restaurants fell from €211 million in March 2024 to €197 million in March 2025, while gross new lending collapsed from €17 million to €6 million in the same period. The Department of Finance's SME Credit Demand Survey further notes that the restaurant sector reported the lowest net turnover in 2024, with a notable decline in trading conditions.

From a fiscal perspective, the cost of restoring VAT 9% is €674 million – only 0.6% of total tax revenue and 2.8% of VAT receipts – and small in the context of the €9.4 billion 2026 Budget package. The Restaurants Association of Ireland understands that the Government’s cost assessment does not account for the positive economic impact of the measure. A lower rate would improve sector performance and recoup part of the initial cost through higher survival rates, stronger employment, and increased tax receipts. Even at 9%, the sector would still contribute around €2.7 billion annually to the Exchequer.



The reality is that Irish hospitality is dominated by small businesses: of 20,213 hospitality enterprises, 76.6% employ fewer than ten people. These smaller operators are more vulnerable to market and policy shocks and have less capacity to absorb rising costs. Food services are not just about fine dining; they include pub carveries, takeaways, workplace lunches and cafés, making VAT 9% a cost-of-living issue as well as a business one. It is important to note that only 73 out of 20,213 businesses are large enterprises with 99.6% of businesses being considered SMEs.

The Restaurants Association of Ireland believes the recent performance of the food services sector understates its weakness. Many operators are delaying closures and cutting investment, maintenance and community support in the hope of better times aided by a VAT reduction. Without this measure, the sector will face further decline, business closures and job losses. For these reasons, the Restaurants Association of Ireland maintains that reducing the food services VAT rate from 13.5% to 9% is necessary, sensible and justified to restore a viable commercial model, safeguard jobs, maintain Ireland’s tourism competitiveness and support the long-term development of both the restaurant industry and the wider food tourism offering.

1. OBJECTIVE AND BACKGROUND

The objective of this report is to make the case for the restoration of the 9% Vat rate for food services and to consider some recent criticisms of this policy measure. The 9% rate was increased to 13.5% in September 2023 after a period of 9% related to the Covid situation. The Restaurants Association of Ireland argued against the restoration to 13.5% and for the permanent implementation of the 9% rate for food services.



The need to support SMEs, especially those in the tourism, and hospitality sectors, has been recognised in the Programme for Government (PfG), January 2025. The PfG acknowledges the increased cost pressures on these sectors and states that Government will bring forward measures to support SMEs that will entail changes to VAT, PRSI and other measures. These measures were to be examined as part of the budget process and according to Minister for Finance Paschal Donohoe, would include the reintroduction of the 9% rate for some or all elements of the hospitality sector. He confirmed that any changes would take effect on January 1st, following the budget, with repeated assurances from various government ministers that the measure would be included in Budget 2026.

Recent political comments, public discussion and media articles have questioned the desirability of restoring the 9% rate and, even if restored, of delaying implementation until later than January 2026. The arguments against the restoration of the 9% rate include, the hospitality sector is doing well (booming) and does not need such support, Vat reductions are inappropriate ways to support specific enterprise sectors, a lower Vat rate supports large global hospitality chains, the cost of a reduction is substantial in both absolute terms and opportunity cost terms and would take a large share of the available resources in Budget 2026.

The Restaurants Association of Ireland strongly believes that the restoration of the 9% Vat rate for food services is both necessary and justified and urges the Government to stick to its earlier stated promise to introduce the 9% Vat rate for food services from January 2026 on a permanent basis. In particular, the Restaurants Association of Ireland rejects the view that the restaurant sector is booming and that it can generate adequate profitably with the retention of the 13.5% rate. This report outlines our case for the 9% rate for food services and considers some of the recent criticisms of this policy measure.

2. THE RESTAURANT SECTOR IS DEFINITELY NOT BOOMING; OFFICIAL FIGURES SHOW DECLINING SALES VOLUME



The Monthly Services Index from the Central Statistics Office provides up to date data on the value and volume of sales in the food services sector. The latest data refers to June 2025. In the year to June 2025, the seasonally adjusted volume of food services sales declined by 7.6% and the value of sales declined by 3.8% despite some price increases.

On an annual basis between 2023 and 2024 the volume of food services sales declined by 4.4% and the value, despite price increases, increased by only 0.5%. Between June 2023 and June 2025 the seasonally adjusted volume of food services sales value decreased by 14.0%. The value of sales declined by 5.9% despite price increases. This is not a booming sector.

The detailed recent monthly figures are shown in Table 2.1 for seasonally adjusted volume and value below.

Table 2.1 Recent monthly performances of food services sector volume and value, seasonally adjusted data

	% change compared with same month in 2024, volume	% change compared with same month in 2024, value
Jan 2025	-0.5	+3.4
Feb 2025	-2.1	+1.7
March 2025	-4.6	-0.4
April 2025	-7.8	-3.3
May 2025	-6.6	-2.6
June 2025	-7.6	-3.8

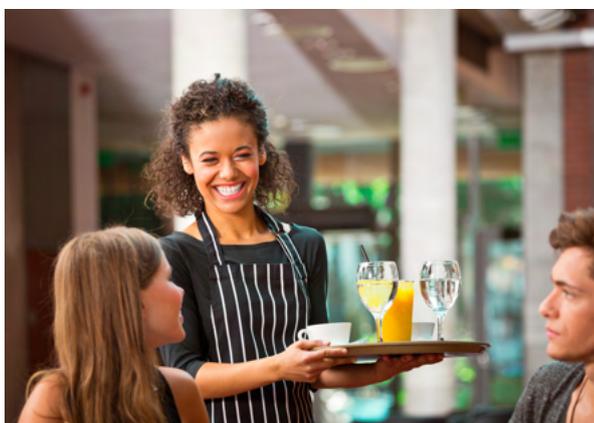
Source: CSO, Monthly Services Index

Each of the six months in 2025 had a decrease in sales volume compared with the same month in 2024. In the last three months the decreases ranged between 6.6% and 7.8%. The volume decrease in the latest month of June (compared with June 2024) was 7.6%. Each of the last four months had a sales value decline. The first two months had sales value increases. The largest annual decline was in the latest month of June.

Quarter 2 food services sales volume was 7.3% below the Quarter 2 2024 figure on a seasonally adjusted basis and the value was 3.2% lower over the period. The Quarter 1 figures were volume -2.4% and value +1.5%. The Quarter 1 figures are relevant when examining the Quarter 1 employment figures in section 3.

3. THE HOSPITALITY AND FOOD SERVICES RECENT EMPLOYMENT PERFORMANCE OVERSTATED BY LABOUR FORCE SURVEY HEADLINE FIGURES

The perception of a booming restaurant sector in some commentaries appears to be driven by the latest employment data from the Labour Force Survey published by the CSO. However, this data is subject to qualification. The latest data (Quarter 1 2025) for what is described generally as “hospitality” employment reports a substantial increase between 2025 and 2024 of 6.7% compared to 3.3% for total employment. On a seasonally adjusted basis, the hospitality employment increase was also 6.5% between Quarter 1 2025 and Quarter 1 2024. This employment growth of 6.7% contrasts with the sales volume decline of 2.4% in food services over the same period. The Restaurants Association of Ireland was surprised by this hospitality performance given the general state of the restaurant sector and the previous quarter data. Between Quarter 4 2023 and Quarter 4 2024 the hospitality employment increase based on the Labour Force Survey was 0.5% on both a seasonally adjusted basis and a non-adjusted basis.



However, other CSO employment data illustrate a different situation for the hospitality sector. Based on the “Employee Series from Administrative Data Sources”, hospitality employment decreased between May 2025 and May 2024 by 0.7% compared to the large increase reported in the Labour Force Survey over a slightly different period.



Another CSO employment series indicates an additional different situation in hospitality. The latest Earnings, Hours and Employment Costs Survey reports a hospitality employee total of 192,800 in Quarter 1 2025 compared to 182,300 in Quarter 1 2024, an increase of 5.6% which is a significant increase and contrasts with the administrative sources data. However, the average hours worked in the sector declined by 4.2% in the same period. Consequently, the earnings and hours worked data indicate an employment hours' total increase of 1.3%.

The LFS data includes part-time and full-time jobs in its total increase of 6.7%. The Quarter 1 2025 performance is comprised of 96.1k full-time and 90.0 part-time jobs. The Quarter 1 2024 breakdown was 96.9k full-time and 77.5k part-time jobs. Full-time hospitality employment decreased between Quarter 1 2025 and Quarter 1 2024 by 0.8% and part-time employment increased by 16.1%. On the assumption of three part-time jobs being equal to one full-time job. The LFS hospitality total employment (full-time equivalents) change over the year to Quarter 1 2025 is plus 2.8%. Business owners nationwide have been consistently saying that they cannot get full time staff and have to get part time staff to cover the same hours that a full time employee would do. This is the reason why we have seen a dramatic increase in part time employees. Therefore in reality the 6.7% increase is a reflection of a forced shift in the employment structure towards part-time roles rather than a genuine expansion in total labour capacity within the hospitality sector.

The aggregate LFS hospitality employment performance hides a very different regional versus Dublin performance. In Quarter 1 2025, as already noted, total hospitality employment was 186.2k which was divided between 62.6k in Dublin and 123.6k in the rest of the country. The 2024 equivalent figures were, Dublin 53.1k and the rest of the country 121.4k. This results in a Dublin hospitality increase of 17.9%, an enormous increase, and a rest of the country increase of 1.8%. The Restaurants Association of Ireland doesn't believe that the 17.9% Dublin hospitality employment increase represents reality on the ground as stated above.



The Restaurants Association of Ireland has estimated the Dublin/rest of the country hospitality employment performance adjusted for part-timers. This should be considered in the light of the headline LFS hospitality employment growth of 6.7%. It is shown in Table 3.1. we assume the same full-time/part-time mix for the two sub-national areas as occurs on the national scene. Dublin’s hospitality full-time equivalent employment increase, based on the LFS, is a substantial 13.4% but in the rest of the country there was a decline of 2.0%. Even within the context of the headline sectoral increase of 6.7% based on the LFS, the rest of the country shows no evidence of a booming hospitality sector while Dublin has a large increase.



Table 3.1 Dublin and the rest of the country hospitality employment performance between Quarter 1 2024 and Quarter 1 2025. % change in full-time equivalents

	% change full time equivalents
Dublin	+13.4
Rest of the country	-2.0
National	+2.8

Source: Estimated by A. Foley based on CSO LFS

The available employment statistics should be interpreted with caution. The different sources indicate:

- A very strong hospitality employment increase of 6.7% between Quarter 1 2024 and Quarter 1 2025 in the LFS, which is better than the national performance.
- A decrease in hospitality employment of 0.7% between May 2024 and May 2025 based on the CSO administrative sources data.
- An increase of 5.6% in hospitality employees between Quarter 1 2024 and Quarter 1 2025 based on the earnings and hours worked data but there is also a decrease in average hours worked of 4.2% which results in a total hours' employment increase of 1.3%.
- When the LFS data are adjusted for part-timers and full timers the headline increase of 6.7% is reduced to a full-time equivalent increase of 2.8%.
- There is a very different Dublin versus rest of the country hospitality performance. The LFS national increase of 6.7% is made up of an enormous 17.9% in Dublin and a more modest 1.8% increase in the rest of the country.
- However, when the geographic performances are adjusted for part-timers the full-time equivalent increase in Dublin drops to a still very substantial increase of 13.4% but the rest of the country hospitality full-time equivalent employment drops by 2.0%.



It should also be noted that hospitality is not equivalent to the restaurant sector. Hospitality is usually meant to refer to the NACE classifications of 55 (hotel and other accommodation), 56.10 (restaurants and mobile food services), 56.20 (event catering and other food services) and 56.30 (beverage serving, including pubs, coffee shops and juice bars). Food services is comprised of 56.10 and 56.20. Up to date employment data is not available for each sub-aggregate of hospitality employment but they are available for up to 2022 and for accommodation and the rest in the LFS. The key point is that hospitality includes much more economic activity than food services or restaurants.



The scale of the different sub-sectors within hospitality are shown below based on statistics from the CSO Distribution and Service Enterprises. This source provides a much larger hospitality employment total than the other sources referred to above. The 2019 total hospitality employment from this source was 222,716 while the LFS in Quarter 2 2019 was 182.6k. We refer to 2019 for the detailed breakdown. The latest data refer to 2022 but the breakdown is less detailed. In 2022 there were 76,096 persons employed in accommodation and 156,286 employed in food and beverage services.

The 2019 employment breakdown was accommodation 71,541, restaurants and mobile food services 86,694, event catering and other food services 16,613 and beverage serving 47,868. Restaurants and mobile food services comprised 39% of hospitality employment in 2019. Obviously, hotels and pubs also provide food services while licensed restaurants serve alcohol.

The LFS provides up to date separate data on accommodation and a combined food and drinks services sub-sector. Accommodation employment had a tiny change of minus 0.2% between Quarter 1 2024 and Quarter 1 2025. This means that food and beverages had an increase of 9.4% compared to the hospitality overall increase of 6.7%. We do not have a breakdown between food and beverages but we know the volume of retail sales in bars, seasonally adjusted, decreased by 9.6% between March 2024 and March 2025. This would suggest that most, if not all, of the combined food and beverages employment increase was in food services. Based on the previous analysis this would imply an increase in food services employment over the past approximate year. This is not consistent with the sales data from the Monthly Services Index nor experience on the ground.

The LFS headline hospitality employment growth is not indicative of a national boom in the restaurant sector and there is a strong basis for doubting that the latest hospitality and food services employment data do not represent restaurants' experience in the market place. The LFS employment results appear to be at odds with various other CSO data.

4. REDUCED FOOD SERVICES AND OTHER HOSPITALITY VAT RATES ARE WIDELY USED POLICY INSTRUMENTS WITHIN THE EU AND IRELAND'S 13.5% FOOD SERVICES RATE IS BETTERED BY EIGHTEEN MEMBER STATES: GERMANY IS BRINGING BACK THE REDUCED FOOD SERVICES RATE

It has been argued that cutting Vat rates is an undesirable and inefficient way of supporting businesses in difficulty. A reduced Vat rate for hospitality is an extensively used policy measure internationally. The vast majority of EU countries think reduced Vat for hospitality is a good economic policy measure and the majority think a lower rate than 13.5% for food services is desirable.



The large majority of EU countries operate reduced VAT rates for the restaurant and food services sector. As of January 2025, seven of the other 26 EU countries operated the standard Vat rate for restaurants and nineteen operated reduced restaurant rates. Reduced restaurant Vat rates are seen as acceptable and desirable in the majority of EU countries.

Notably, Germany currently operates a reduced rate of 7% for takeaways and the standard rate of 19% for restaurants. It had operated a restaurant 7% rate up to January 2024 due to Covid. The German Government has announced its intention to restore the 7% reduced rate for restaurants from January 2026. Clearly, Germany thinks a low rate of Vat for food services is a good policy measure to support businesses in need



The key issue should be to have a competitive rate. As of January 2025, only one of the other nineteen was above the Irish restaurant rate of 13.5% and eighteen were below the Irish rate of 13.5%. Ireland with 13.5% had a higher restaurant VAT rate than, for example, France, Italy and Spain.

The Irish Government made effective use of the 9% VAT rate over much of the period since 2011, delivering solid economic returns. In 2014, the Restaurants Association of Ireland reported that, according to CSO figures, between Q2 2011 and Q1 2014 direct employment in the accommodation and food services sector rose by 21,633. This growth also supported the creation of a further 9,951 indirect jobs in other parts of the economy, bringing the total employment increase to 31,584.

The rise in employment generated significant savings for the Exchequer through reduced social welfare payments. The report estimated that €433 million in national social welfare savings were linked to the 21,633 direct jobs created since the VAT rate reduction. The reinstatement of the 9% Vat rate can this time save thousands of jobs across the country.



5. OTHER INDIRECT TAXES ON ELEMENTS OF FOOD SERVICES ARE RELATIVELY HIGH IN IRELAND



Alcohol is a substantial element of turnover in certain food services enterprises and is subject to excise tax and the standard rate of VAT. Some other elements of the hospitality experience are also subject to the standard Vat rate. Ireland's standard Vat rate is relatively high by EU standards. Of the other 26 EU countries, Ireland's rate of 23% is exceeded

by only six countries. Three other countries are on 23%, the same as Ireland. Seventeen countries have lower standard Vat rates than Ireland. In addition, some of the EU countries apply lower Vat rates than the standard on specific elements of alcohol sales.

Alcohol excise which is also an element of the hospitality experience is relatively high in Ireland compared to most other EU economies. Fifteen EU countries do not charge excise on wine. Two other countries, Malta and France charge very low excise on wine. This compares to 80c excise on a glass of wine in Ireland. Ireland has the second highest wine excise after Finland. Ireland has the third highest beer excise in the EU 27 and UK (using the UK non-draught beer excise rate) behind Finland and the UK. Ireland has the third highest spirits excise in the EU 27 and UK behind Sweden and Finland. Fifteen EU economies do not impose any excise on wine. In addition, France and Malta have very low wine excise tax. On an overall composite alcohol excise level (measured by the unweighted average of the different beer, spirits and wine excise rates), Ireland is the second highest behind Finland. The magnitude of the differences in alcohol excise between Ireland and most other EU economies is large. For example, Ireland's beer excise is 11.4 times that of Germany. Irish spirits excise is 4.4 times that of Spain.



6. INTERNATIONAL INWARD TOURISM IS STILL WELL BELOW PRE-COVID LEVELS AND IS PERFORMING WEAKLY IN 2025



In 2019 the number of overseas trips to Ireland by non-residents with at least one overnight was 9.357 million. In 2023 the level of overnight foreign visitors was 6.2573 million, albeit on a different measurement methodology. In 2024 it was 6.5916 million. The 2024 increase was 5.3% but the 2024 level is still well below 2019. International tourism is a significant part of the restaurant sector's market. With inbound visitor numbers and spending still depressed, the sector is more reliant than ever on the domestic market, where consumers are already highly price-sensitive. A VAT reduction would help maintain affordability and footfall.

Table 6.1 shows the most recent monthly annual performances measured by total number of nights.

The January and February declines in 2025 compared with 2024 were very large. Declines continued for the three months of March to May but at much lower levels. The first increase of 2025 was in June with a 5.8% increase. Over the full January to June period there was a 13.5% decline in 2025 compared with 2024.

Table 6.1 Foreign overnight visitors, number of nights, month in 2025 compared with same month in 2024

	2024 nights k	2025 nights k	% change between 2024 and 2025
Jan	3813.8	2833.0	-25.7
Feb	2669.0	1797.0	-32.7
March	3109.8	2853.6	-8.2
April	4388.3	3436.7	-1.5
May	4462.1	4088.3	-8.4
June	4876.9	5159.0	+5.8
Jan - June	23319.9	20167.6	-13.5

Source: CSO Tourism and Travel database

The 2025 international tourism expenditure performance is shown in Table 6.2. The expenditure indicator used is “day-to-day” expenditure which is total expenditure less fares, prepayments and accommodation. This expenditure type is of particular relevance to the restaurant/food services sector.

International tourism expenditure decreased by 16.9% in the first six months of 2025 compared with 2024. There were annual decreases in each of the six months ranging from 27.1% in February to 4.45% in April. In four of the months the decreases exceeded 19%.



Table 6.2 Foreign overnight visitors, day-to-day expenditure € million, month in 2025 compared with same month in 2024

	2024 € m	2025 € m	% change between 2024 and 2025
Jan	199.5	146.0	-26.8
Feb	161.6	117.8	-27.1
March	219.3	177.0	-19.3
April	219.8	210.1	-4.4
May	299.0	231.4	-22.6
June	347.7	320.4	-7.9
Jan - June	1446.9	1202.7	-16.9

Source: CSO Tourism and Travel database

Domestic tourism expenditure was €616 million in Quarter 1 2025 compared with €576 million in Quarter 1 2024. This was an increase of €40 million. However, inward tourism day-to-day expenditure was down by €139.6 million in the same period, resulting in a combined domestic and international tourism expenditure decline of €99.6 million in Quarter 1.

7. DEMAND FOR CREDIT

The Central Bank Irish resident SMEs credit statistics show that outstanding credit for restaurants dropped from €211 million quarter ending March 2024 to €197 million as of March 2025. Gross new lending to restaurants was €17 million in quarter ending March 2024 and had dropped to €6 million as of March 2025. A reduction in outstanding credit and new credit advances could represent a stronger sector with less need for borrowed funds or a less attractive sector to which to lend additional funds or which is unable to support additional credit. The Restaurants Association of Ireland believes the drops in new credit and outstanding credit reflects the weakness of the restaurant sector.

8. DEPARTMENT OF FINANCE CREDIT DEMAND SURVEY 2025

The Department of Finance SME Credit Demand Survey contains some interesting data on the hospitality sector but does not disaggregate into the different hospitality sub-sectors. Page 24 notes “...The Restaurant sector reported the lowest net turnover, with a notable decline seen in trading conditions from 2023 to 2024”.

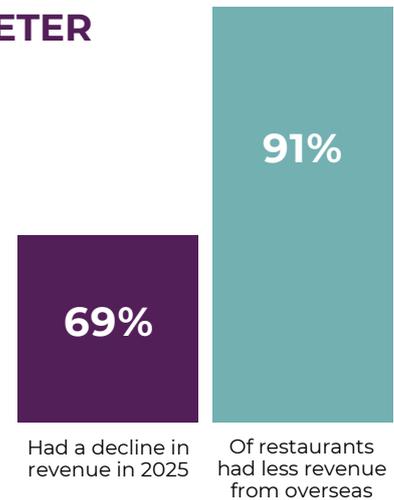
The net increase or decrease is defined as the difference between the percent of responding enterprises who reported turnover increases or decreases. The weighting of individual enterprises is not taken into account. In 2024 37% of hospitality enterprises reported a turnover increase and 25% reported a decrease, leaving a net increase of 12%. This contrasts with a 2023 hospitality performance of 64% increases and 16% decreases or a net increase of 48%. Hospitality had the lowest percent of enterprises seeking bank finance in 2024 at 12%. The other five sectors were between 16% and 29%. In 2023 18% of hospitality enterprises sought bank finance and this was much the same as the other sectors. This suggests that hospitality businesses are increasingly unable or unwilling to access external finance, leaving them more vulnerable to cash flow issues and financial shocks.

Worryingly, decline rates were higher among enterprises in the hospitality sector in 2024. The hospitality decline rate was 20% compared to the next highest sector, “other” at 9%. Overall, these figures paint a stark and concerning picture of the fragility of the hospitality sector, particularly in contrast to other sectors that continue to secure the funding they need to survive and grow.



9. FÁILTE IRELAND JUNE 2025 TOURISM BAROMETER

The June 2025 Failte Ireland Tourism Barometer reports a weak restaurant performance in 2025. Only 7% of restaurants had an increase in revenue in 2025 compared with the same period in 2024 but 69% had a decline. 91% of restaurants had less revenue from overseas customer. 89% of restaurants expressed concern about payroll costs and 82% were concerned about the Vat rate.



10. RESTAURANTS ASSOCIATION OF IRELAND COST OF DOING BUSINESS SURVEY

The most recent Restaurants Association of Ireland members survey on costs indicates that costs have risen much more than restaurant prices resulting in a reduction in operating margins and a threat to survivability. The main points are:

Decline in financial performance

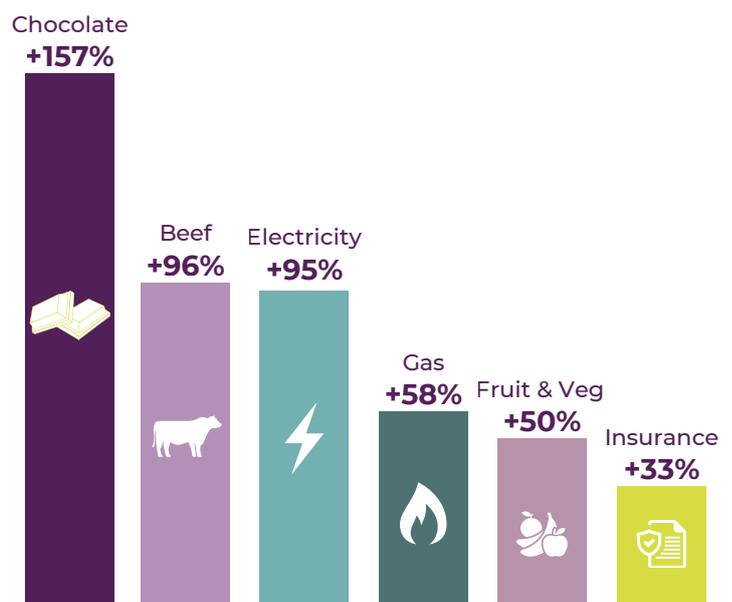
65% of respondents reported a decline in financial performance in 2024 compared to the previous year. Business owners identified wage increases and escalating operating costs as the most pressing challenges.

2022 – 2025 change in share of turnover

Payroll costs – Increased on average as share of total turnover from 32% to 39%
 Food costs increased from 28% to 34%

2022 to 2025 increase

- Insurance +33%
- Fruit and vegetables +50%
- Beef +96%
- Chocolate +157%
- Gas +58%
- Electricity +95%



Future response

Four in five restaurants anticipate cutting staff hours due to wage inflation and increased costs, 70% expect to reduce overall staff numbers without government action.

11. RESTAURANT INDUSTRY RESPONSE TO ADVERSE MARKET CONDITIONS AND GOVERNMENT ROLE AND RESPONSE

The food services market has undergone a substantial change since 2019 (before Covid) and because of the substantial price inflation associated with the Russian invasion of Ukraine. The fundamental issue is that the commercial model and profit levels of a few years ago no longer operate. We should emphasise that profit levels were never excessive due to the very substantial competition which the thousands of competing restaurants provided. We recognise that markets change and enterprises have to respond to those changes. This response includes improved factor/input productivity, improvements in costs of inputs, cost reducing adjustments to menus, increased prices to customers, reduced acceptable profit levels, adjustments in capacity utilisation and innovation. There are constraints in the ability to adjust in that restaurants must pay the market price for inputs whether the world market price or the domestic market price whichever is applicable.



Some input costs are influenced by public policy and not market forces such as water, regulatory fees and labour costs. Overall, however, restaurants are price takers regards input prices. The Restaurants Association of Ireland is confident that the large majority of restaurants are actively trying to improve productivity, be innovative and reduce costs of

operation where possible. Unfortunately, the Restaurants Association of Ireland believes that the full exploitation by enterprises of opportunities to reduce those operating costs determined by market forces will not be sufficient to restore profitability levels to the required minimum sustainable level.

It also has to be recognised that, apart from market generated cost increases, the Government is responsible for much of the cost increases faced, and still to be faced, by restaurants. The Government policies have significantly added to the sectors difficulties. It has paused some of the still-to-come measures but we recognise that this pause is temporary and short-term and these cost increasing measures will quickly come back. Government policies which have, or will have, negative impacts on the commercial model of the restaurant sector include minimum wage increases, the move to the living wage, higher employer PRSI, pension auto-enrolment, additional bank holidays, leave regulations, sick pay regulations and water charges. Without a balancing measure such as a VAT reduction, these cost increases will accelerate structural contraction in the sector, forcing many viable businesses to reduce capacity, cut jobs, or close entirely. To top it all, the Government also increased Vat on meals by 50% from 9% to 13.5% in September 2023.



The commercial model for restaurants has been substantially worsened and the worsening will continue in the future as the cost increasing public policy measures are reactivated. The Restaurants Association of Ireland recognises and understands the need for hospitality workers to get a fair wage and believes it is not fair to pit the worker against the businesses. Government must take a balanced approach. Allied to market generated cost increases, these measures are substantially worsening the food services commercial model and

significantly reducing or eliminating margins. We have already noted that the sector is responding in many ways to this shock. One solution is to simply increase prices to customers to cover the additional cost. This would reduce consumer demand, downsize the sector and negatively affect the appeal of Ireland for tourists.



This is not the Restaurants Association of Ireland's unsubstantiated commentary. Crowe (2024), on behalf of Failte Ireland, estimated that the long-term impact of these measures could be an increase of 31% in the labour cost of a representative restaurant/bar. The Irish Government Economic and Evaluation Service undertook An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland in March 2024. It concluded that under specific assumptions "a small hospitality business could see a policy-driven increase in its payroll costs for 2024 (relative to 2023) of 6.6%. This projected increase is closer to 19.4% by 2026. In overall terms, this equates to an increase of 14.5% and 36.7% by 2024 and 2026, respectively (when the full impact of the transition to a Living Wage is accounted for). It noted that there would be a high impact on the hospitality sector and a low impact on several sectors such as Information and communications and public administration. As already noted the PfG acknowledged the cost pressures being imposed on hospitality enterprises.

An additional response is that the Government plays an active role in assisting the food services sector to cope with the new cost reality by permanently reducing the Vat rate to 9% to acknowledge the cost pressures and support the business model and adequate margins. The Restaurants Association of Ireland believes that the large degree of competition in the food services sector will prevent excessive or supernormal profits. Our logic is simple. Various public policy measures have imposed cost difficulties on the sector and reduced margins. The Government can also use its public policies to improve the cost and operating model by lowering on a permanent basis the Vat rate from 13.5% to 9%. The sector is also suffering from market determined cost pressures and, of course, the sector must also play its part in coping with these through productivity, cost efficiency and innovation.

A permanent reduction in the Vat rate will provide a certain, large and administratively relatively simple support to the food services sector. Such a measure would directly strengthen business viability and protect the many workers reliant on the food services industry.

12. PRICE INCREASES

The Restaurants Association of Ireland acknowledges that the cost pressures faced by the sector has forced the sector to impose price increases. These have not been driven by demand factors and were not intended to boost profits through exploiting strong demand pressures. The reason was to compensate for some of the substantial cost increases. The Restaurants Association of Ireland recognises that price increases will face significant consumer resistance with adverse consequences or individual

enterprises and the sector as a whole. It must be noted that even with recent price increases, prices remain far below the rise in some input costs in recent years. For example, the cost of buying coffee beans has increased by 156% since October 2023, yet the price of a cup of coffee has risen far less. Businesses have absorbed much of this increase in an effort to protect their customers. By reducing the VAT rate to 9%, businesses can better manage these soaring costs, maintain affordability for customers, and invest in sustaining their operations and staff. Lets be clear businesses do not want to raise their prices. It is a last resort to keep their lights on, staff employed and doors open.



13. THE PUBLIC FINANCES: THE ABSOLUTE COST AND OPPORTUNITY COST OF REDUCING THE VAT RATE FOR FOOD SERVICES

It is argued by some analysts and commentators that the annual cost of having VAT 9 for food services is too high in both absolute and relative terms. In absolute terms it is officially estimated at €674.6 million for 2026. In relative terms it is argued that that would take too large a proportion of the total available for tax reductions in a particular year. Earlier media comment has referred to Vat 9 taking up to €1 billion of the available €1.5 billion. This was completely unfounded and untrue.



The Restaurants Association of Ireland does acknowledge that this is a large absolute and relative sum. From the other perspective, the large size is indicative of the benefit it could bring to the food services sector and of the amount of resources being removed from the sector. If the amount was very small, it would not be expected to generate a substantial improvement for the sector and indeed safety for the thousands employed within the sector.

The impact on the public finances of a lower Vat rate can also be considered relative to the overall level of taxation and public expenditure and the full range of overall Budget 26 decisions. Budget 2026 will be based on a total package of €9.4 billion, which is composed of a tax package of €1.5 billion and an expenditure package of €7.9 billion. The cost of the lower Vat for food services can be considered in light of the overall €9.4 billion Budget 26 package. A different approach could have allocated a larger part of the total budget package to tax measures. If 40% of the €9.4 billion was allocated to tax the total tax reduction would be €3.76 billion and the 9% Vat rate cost would then be a much lower 17.9% of the available tax reduction resources. The Vat 9 cost is proportionately high because the overall tax component of the budget is relatively low.

In Budget 24 there was a personal income tax package of €1.3 billion. In Budget 25 there was a personal income tax package of €1.6 billion. Smaller income tax packages would have released resources to reduce the Vat rate for food services. These reductions, as do all tax reductions, narrow the tax base from what it was before the reductions. These packages increased credits, increased standard rate cut off points and reduced USC. These measures along with reductions in inheritance tax and any other tax reductions narrow the tax base. It is not only a reduced Vat rate which would narrow the tax base. The past two billion plus income tax packages and the forthcoming probable about a billion income tax package also have opportunity cost considerations.



The share of the reduction of the total tax package absorbed by the lower hospitality rate is a direct results of budgetary decisions already made on the size of the overall tax reduction component of the budget and is avoidable.

According to Table 1 of the Summer Economic Statement total gross voted public expenditure in 2025 will be €108.7 billion and €116.6 billion in 2026, an increase of 7.3% or €7.9 billion. The food services lower Vat rate cost of €674.6 million could have been accommodated by a lower 2026 expenditure total of €115.9 billion instead of €116.6 billion. The April 2025 Annual Progress Report (Table 9) projected a tax revenue of €103.8 billion excluding PRSI in 2026. The cost of the lower Vat rate of €674.6 million can also be related to this figure, it is 0.6% of the total tax take. The cost is less daunting when compared with €103.8 billion. It is only a partial analysis to relate the cost of a specific single element of the public finances to part of the net package of the budget. The same issue would arise with any large individual element of the public finances being related to the change associated with an annual budget or an element of the annual budget. Net Vat receipts are estimated to be €24.1 billion in 2026. The lower food services Vat rate cost is 2.8% of this. Unlike many support measures that require complex application processes or exclude certain business types, a VAT reduction is automatic, applies equally to all operators, and begins delivering impact from the moment it is introduced.



The hospitality sector is a substantial contributor to the Exchequer. Revenue figures show that in 2024 hospitality contributed €2.180 billion in tax receipts excluding excise. On the assumption of 45% of the alcohol excise (€556 million) coming from on-licensed activities, the sectors tax contribution came to about €2.736 billion in 2024. Even after a food services Vat rate of 9%, the hospitality sector would still contribute substantially to the exchequer.

It is the Restaurants Association of Ireland's understanding that the Government's assessment of the cost of the 9% food services Vat rate is the cost without taking into account the positive economic impact of the reduction. Things will not remain the same if the 13.5% remains. The sector will deteriorate, restaurants will close at an above average rate and employment will decline. These developments will lower the existing tax take. On the other hand, the lower rate will contribute to a better economic performance and a recovery of part of the initial cost.

14. FOOD SERVICES IS A COST OF LIVING ISSUE FOR THE WIDER POPULATION: IT IS NOT ONLY ABOUT FINE DINING

The food services sector is a large and important part of the national and regional economies, the tourism industry and the social infrastructure of the country. It is a vital part of the tourism product but its impact goes well beyond tourism. The price, quality and availability of food services affect large segments of the population. Restaurant and other food services products are sometimes incorrectly seen as luxury or discretionary and occasional, items where higher prices, lower availability and reduced demand would have very limited consequences for the general population. That is not the case. Food services include a wide range of food services including take-away services. Food services include the provision of a cooked lunch for workers, a public house carvery for an old age pensioner and a take-away pizza as well as luxury food services in high quality restaurants. Food services support overall tourism, quality of life, lifestyle, labour force participation and the division of labour. Food services is not only about fine dining but fine dining itself plays an important part in economic and social life in terms of special occasions, showcasing Irish food and contributing to the attractiveness of Ireland.



Food services describes all food consumed and prepared out of home including restaurants, take-away enterprises, hotels, pubs, coffee shops, workplaces, hospitals, education and other institutions. According to Bord Bia, full service restaurants (11.7%) and hotels (16.1%) together account for only 27.8% of the total market. Quick service, fast casual and food to go account for 37.4% of the total. Pubs account for 15.6%. A total of €7.343 billion was spent on food services in 2024. The “ordinary food” segment dominates food services. VAT on food services and the availability and quality of products, are issues for the overall population and are not confined to occasional fine dining. The composition of the food services market is shown in Table 15.1.

Table 15.1 Composition of the food services market 2024

	Market share %	Value € million
Limited service restaurants (including, quick service, fast casual and food to go)	37.4	2743
Hotels and other accommodation	16.1	1184
Pubs	15.6	1143
Institutions	9.3	685
Other commercial	4.3	315
Coffee shops and cafes	5.7	416
Full service restaurants	11.7	857
Total	100	7343

Source. Bord Bia Foodservices Market and Consumer Insights report 2024

15. MACROECONOMIC CONTEXT

The Restaurants Association of Ireland recognises that the economy is currently at full capacity and close to full employment. There is a strong case to be made that Government budgetary policy should not add additional demand to the economy. There is a need to free up resources for additional infrastructure development and possibly specific public services. Hence the argument could be made that buoyant sectors should face higher taxes to reduce demand to avoid absorbing additional labour resources or to reduce existing levels of labour utilisation. The Restaurants Association of Ireland's view is that the food services sector is not booming and that the lower Vat rate is intended primarily as a supply side measure. It is not intended to directly reduce prices and stimulate demand. It is intended to generate a sustainable business model with adequate returns to encourage the ongoing maintenance and development of the sector. A lower Vat regime will also help the sector to avoid some future price increases.

The issue of avoiding additional demand in the short-run macroeconomic management sense also applies to the overall budget package of the additional €9.4 billion boost. The food services Vat package is only 7.1% of the total budget package. The income tax boost of over €1 billion also substantially exceeds the Vat reduction boost to demand.



The ideal macroeconomic aggregate demand budget would be to avoid any additional stimulus of the economy and still allow for specific sectors such as infrastructure and housing to grow. This would require existing sectors to decrease from existing levels of activity. This could include increases in income tax as opposed to the intended reduction. Within the context of the intended budgetary policy, the lower Vat rate should be seen as a supply-side measure to enhance the ongoing supply capability of the food services sector. It should also be recognised that near term economic growth and unemployment may worsen due to the US tariff impact, possible recession in the US and weaker global economic activity. The national unemployment rate was 4.9% in July 2025 compared to 4.5% in July 2024. The lowest unemployment rate in recent months was 4.2% in October and November 2024.

16. STRATEGIC ECONOMIC DEVELOPMENT CONTEXT

US inward multinational investment has been a mainstay of Ireland's economic development. Hopefully this will continue. However, current US tariff and industrial policy (including desired reshoring of production) suggest that inward multinationals will contribute less than previously to future economic development. The Department of Finance expect that the 15% US tariff will cost the Irish economy between 56,000 and 70,000 jobs over the next five years. More will be expected from the indigenous sector including tourism and Food Tourism. The quality and competitiveness of food services is an important component of the overall Irish tourism product and contributes to its success.

17. WHY IS THE MEASURED PERFORMANCE OF THE FOOD SERVICES SECTOR NOT WORSE IN LIGHT OF THE INCREASED COSTS AND REDUCED MARGINS?



In light of the identified cost increases and deterioration in margins, the question arises of why the performance of the food services sector has not been worse than has occurred over the recent past? While we have argued that the headline LFS employment performance is not a good indicator of performance, a larger decline might have been expected from the adjusted employment data. The Restaurants Association of Ireland believes the answer lies in time lags and delayed reactions. These time lags are

largely the result of operators implementing temporary survival strategies rather than operating on a sustainable basis. Businesses are cutting back on opening hours, reducing staff hours, deferring maintenance, and postponing investment in upgrades or innovation. Many are drawing down personal savings or using short-term credit to keep doors open.

Many restaurants are currently generating inadequate profit margins for ongoing sustainability. They are heavily invested financially and emotionally in their businesses and will try to remain operating as long as possible. They will not abandon their businesses at the first sign of trouble. They will implement whatever measures they can to avoid a quick closure in anticipation of better times. This menu of measures includes avoidance of investment and maintenance expenditure, short term acceptance of very low or zero margins, use of reserves, price increases, delays in paying bills and cutbacks on community support. Many restaurant operators are planning and investing with the expectation that the promised VAT reduction to 9% will be implemented. These measures are being taken in anticipation of better times, and the sector is banking on the Government delivering on its commitment. The anticipated VAT cut is critical to encouraging operators to continue trading and investing in their businesses. Without it, many restaurants will face unsustainable costs, which will result in mass closures across the sector. Failure to act would send a clear message that the Government is not providing meaningful support to restaurants at a time when it is desperately needed. The Restaurants Association of Ireland believes that the recent performance of the food services sector including the decline in food sales volume in 2025 understates the weakness of the food services sector.

In 2023 the Restaurants Association of Ireland started to collect statistics on the number of closures of food services enterprises. Such information was not collected on an up to date basis by the CSO. These referred to closures and did not account for new operations to get a net figure. The Restaurants Association of Ireland recognises that there is a significant churn of closures and openings in the food services sector. It would be preferable that the sector was otherwise. In 2024 we identified 546 closures. In the first seven months of 2025 the number of identified closures was 306. That is 306 businesses closed, 306 businesses who have had to let go staff and 306 businesses who have seen years of investment and effort wiped out. We are confident we do not identify all closures.

CSO data for food and beverages “deaths” (or closures) for 2019 was 1662 and births were 1695. In “normal” times the turnover of food and beverages enterprises is very large and probably larger than the figures identified by the Restaurants Association of Ireland.

The answer to a June 2024 Dáil parliamentary question has been used to suggest the economic position of the hospitality sector is much better than generally presented. Based on CRO data, the first half of 2024 was characterised by 629 hospitality incorporations (new companies) and 55 liquidations (closures), a ratio of 11.4 to 1 in favour of new openings. There was also 100

voluntary strike-offs (removed from CRO register). Even including these, the openings far exceed the closures. The data refers to the company legal structure and do not refer to the large number of individual proprietorships. This could change the figures but in 2019 the number of private and public companies in hospitality exceeded the number of individual proprietorships. The Restaurants Association of Ireland acknowledges that more work needs to be done to understand the behaviour behind these figures. We strongly argue, from our knowledge of our sector that a pattern of 11 openings for each closure does not match with our understanding of the business environment and also does not match with the 2019 CSO data on sectoral enterprise births and deaths. In any town or village, when a restaurant, café, or pub closes, you are not seeing eleven new businesses open up. The idea that this could be reality is highly implausible and unrealistic.



18. HOSPITALITY AND FOOD SERVICES ARE SMALL BUSINESS LABOUR INTENSIVE SECTORS

Hospitality and food services are dominated by small businesses. Of course there are some large global food services firms and several international hotel chains but the dominant feature are small firms. In 2022 there were 20,213 hospitality enterprises. Of these only 73 or 0.4% had 250 people or more persons engaged. 711 or 3.5% employed between 50 and 249 persons. 3,947 or 19.5% employed between 10 and 49 persons. 15,482 or 76.6% were in the 1 to 9 persons engaged classification. Small firms can face particular difficulties in coping with market and policy shocks.



Labour cost is a substantial element of the business model in hospitality and represents a large share of turnover and costs. This is not the case in the high technology multinational dominated sectors where labour cost is a small proportion of turnover. The hospitality sector is particularly vulnerable to direct and indirect increases in labour cost. Ireland has one of the highest minimum wage rates in the EU.

As with any universally applied policy support whether economic or social some recipients who do not need it will benefit as well as those in need. As one recent commentary has stated, Vat 9 would benefit owners of Mc Donald's and Michelin Star restaurants more than a small restaurant. As already shown, 15,482 hospitality enterprises are small and only 73 are large. Vat 9 will provide much needed support to the very large majority of hospitality enterprises, and food services firms. Although larger enterprises may experience higher absolute gains in monetary terms, the fact remains that 99.6% of food businesses are SMEs. Therefore, the primary beneficiaries of a reduced VAT rate would be small and medium enterprises rather than large corporations.

19. WHY RESTORE VAT 9 FOR FOOD SERVICES?

Vat 9 is a cost of living issue affecting many people. Food services matter greatly to tourism but also to the wider population. The sector has a large employment and economic impact regionally and nationally. Its commercial model has been decimated by labour and input cost inflation, much of it caused by Government policies. These policies are socially desirable and the issue should be how to both sustain and develop the sector and improve the position of workers. The Restaurants Association of Ireland believes that the future looks bleak based on the current approach. The sector is in trouble as shown by objective analyses. In the absence of supportive measures such as VAT 9, the sector will decrease significantly with many direct closures and job losses and additional indirect negative economic effects. VAT 9 helps consumers, food service enterprises and improves tourism competitiveness. There is scope to develop Food Tourism but this must be underpinned by a strong, large viable and profitable restaurant sector. It helps to cope with cost increasing policy measures and also assists in the implementation of these policies.

20. THE RESTAURANTS ASSOCIATION OF IRELAND POSITION ON THE 9% VAT RATE

The Restaurants Association of Ireland position on Vat 9 is as follows:

- The Restaurants Association of Ireland does not accept recent public views that the policy measure (lower food services Vat rate) is wrong, inefficient, too expensive, unnecessary and inappropriate.
- Over recent years the restaurant sector has suffered substantial cost increases from market-priced inputs and from Government-determined labour cost increases. This is confirmed by independent assessments.



- Hospitality and food services are dominated by small firms. In 2022 there were 20,213 hospitality enterprises. Of these only 73 or 0.4% had 250 people or more persons engaged. 711 or 3.5% employed between 50 and 249 persons. 3,947 or 19.5% employed between 10 and 49 persons. 15,482 or 76.6% were in the 1 to 9 persons engaged classification. Small firms can face particular difficulties in coping with market and policy shocks.
- Despite price increases to partially cope with these cost increases, the overall result is a significant weakening of operating margins.

- The CSO Monthly services index shows that food services sales volume and value are declining in 2025; there were volume declines in each month of January to June 2025 compared with the same month in 2024.
- The headline growth in hospitality employment of 6.7% in Quarter 1 2025 from the LFS overstates actual employment growth when adjusted for part-timers and Dublin has a very different employment performance than the rest of the country.



- The food services sector is not booming. Currently sales volume is declining. The Restaurants Association of Ireland is definite that if the sector was booming with good profit margins, ongoing adequate investment resources and ongoing growth we would find it difficult to argue for the Vat reduction.
- A reduced Vat rate for hospitality is an extensively used policy measure internationally. The vast majority of EU countries think reduced Vat for hospitality is a good economic policy measure and the majority think a lower rate than 13.5% for food services is desirable.
- Notably, Germany currently operates a reduced rate of 7% for accommodation and the standard rate of 19% for restaurants. It had operated a restaurant 7% rate up to January 2024 due to Covid. The German Government has announced its intention to restore the 7% reduced rate for restaurants from January 2026. Clearly, Germany thinks a low rate of Vat for food services is a good policy measure.
- The Irish Government has made effective and successful use of the 9% hospitality Vat policy measure throughout much of the period since 2011.
- Other indirect taxes on elements of food services such as alcohol excise and the standard rate of Vat are relatively high in Ireland compared to EU countries.
- International tourism is still substantially below the pre-Covid level.

- The Central Bank credit statistics show that outstanding credit for restaurants dropped from €211 million in the quarter ending March 2024 to €197 million as of March 2025. Gross new lending to restaurants was €17 million in quarter ending March 2024 and had dropped to €6 million as of March 2025.
- The June 2025 Failte Ireland Tourism Barometer reports a weak restaurant performance in 2025.
- It is only a partial analysis to relate the cost of restoring Vat 9 to the tax part of the overall package of Budget 26. It is a much smaller part of the total budget package and a very much smaller part of the total tax take.
- Food services include a wide range of food services including take-away services. Food services include the provision of a cooked lunch for workers, a public house carvery for an old age pensioner and a take-away pizza as well as luxury food services in high quality restaurants. Food services is a cost of living issue for the wider population in their normal course of life.
- The Vat 9 restoration is justifiable in both a macroeconomic context and a strategic economic development context.
- Revenue figures show that in 2024 hospitality contributed €2.180 billion in tax receipts excluding excise. On the assumption of 45% of the alcohol excise (€556 million) coming from on-licensed activities, the sectors tax contribution came to about €2.736 billion in 2024. Even after a food services Vat rate of 9%, the hospitality sector would still contribute substantially to the exchequer.
- The RAI believes that the recent performance of the food services sector including the decline in food sales volume in 2025 understates the weakness of the food services sector. The better than warranted performance is because restaurant operators are delaying adverse responses in anticipation of a better future aided by the lower Vat rate.
- There is substantial potential for food tourism and there is a need to develop a Food Tourism Strategy. A major element of such a strategy is a viable, profitable and large restaurant sector.
- The RAI believes the reduction of the food services Vat rate from 13.5% to 9% is necessary, sensible and justifiable. The primary objective is that the Vat reduction will significantly contribute to a restoration of a viable commercial model for the sector and support long term development.



RESTAURANTS ASSOCIATION

OF IRELAND