HABIC
HAIR AND BEAUTY INDUSTRY CONFEDERATION IRELAND

19th of July 2021

Your Ref: FIN-MO-02521-2021

Mr Paschal Donohoe TD
Minister for Finance
Department of Finance
Merrion Street
Dublin 2

Dear Minister Donohoe

Thank you for your email dated 9th June 2021 in response to my letter of 20th April 2021.

You have advised that Article 118 of the EU VAT Directive precludes Ireland from applying the second reduced VAT rate of 9% to beauty services.

Article 118 restricts the application of the second reduced rate to goods and services that are specified in Annex III of the Directive. In this regard, it is possible for Ireland to apply the second reduced VAT rate of 9% to hairdressing services, since these services are already specified in Annex III. On the other hand, beauty services are not specified in the Annex and for that reason, these services are not currently eligible for the second reduced VAT rate. As you have pointed out, Article 118 provides a derogation for Ireland to apply a reduced rate of no less than 12% to beauty services.

As you know, there is currently a proposal under consideration by the EU Economic and Financial Affairs Council (ECOFIN) to extend the range of goods and services to which reduced VAT rates may be applied by EU member states.

Annex III of the VAT Directive is a 'positive list' of goods and services to which member states may apply a reduced VAT rate. Hairdressing is included in this 'positive list', but beauty services are excluded.

The original proposal from the EU Commission to ECOFIN would have abolished the 'positive list' in its entirety and replaced it with 'negative list' of goods and services - such as petrol, cigarettes, alcohol, electronic goods and financial services - to which a reduced VAT rate could never be applied. Member states would then be free to apply a reduced rate of VAT to any goods or services, including hairdressing and beauty services, that were not specified in this 'negative list'.

This proposal from the Commission would have automatically removed the present Article 118 impediment that prevents Ireland from having a reduced rate below 12% for beauty services.

I am attaching an update issued by ECOFIN on 4th June 2021 on the status of the proposal to amend the VAT Directive. It appears that ECOFIN is unwilling to adopt the Commission's proposal of establishing a 'negative list' and instead, wishes to expand the current Annex III 'positive list'.

The Hair and Beauty Industry Confederation (HABIC) is concerned with the final paragraph of the ECOFIN update which states the following:

Hair and Beauty Industry Confederation, **The Enterprise Centre, Hill Road, Drumshanbo, Co.Leitrim, N41 Y1F6**
Telephone: 0719615200, Email: info@habic.ie, Website: habic.ie

Ensuring a level playing field in the VAT Directive in what concerns the application of VAT rates, by allowing all Member States the right to apply a zero rate or a super reduced rate to a limited set of supplies of goods and services.

Presidency proposed solution: Allow the application of these rates exclusively to certain supplies of goods and services that address basic needs and clear public policies (covering the categories related to food and water, medicines and health products, transport of persons, some cultural items and solar panels).

If this solution is adopted by the ECOFIN, the current 'positive list' in Annex III would be extended in a limited way to allow a reduced VAT rate for *'goods and services that address basic needs and clear public policies'* and it is not clear whether the amended Annex III would include beauty services or indeed, hairdressing services.

It is also significant that the EU Commission had previously proposed in July 2008 that *'personal care of the kind provided in hairdressing salons and personal grooming establishments'* should be added to Annex III - but this proposal was subsequently pared back to merely add *'hairdressing'* to the Annex, when it was adopted by ECOFIN the following year.

The 2008 Commission proposal was made at a time when the EU and the world were facing into a major financial crisis and it underscored the economic justification for extending the reduced VAT rate to labour intensive personal care services, such as hairdressing and beauty treatments. This economic justification has even more merit today, especially when the COVID-19 pandemic has had a far greater negative impact on the hair and beauty sector than the earlier 2008 financial crisis.

I am attaching once again the report prepared by economist Jim Power which highlights the extremely damaging impact of the COVID-19 pandemic on the hair and beauty sector and notes the numerous measures required to ensure it is sustained into the future. The permanent introduction of the second reduced VAT rate of 9% for both hairdressing and beauty services is a key measure in securing this objective.

Hairdressing and beauty services are very labour intensives and significantly, these services are supplied and consumed entirely in the local community. Accordingly, the permanent application of the second reduced VAT rate does not create any distortion in the operation of the EU single market.

Moreover, the failure to introduce the second reduced rate on a permanent basis for both hairdressing and beauty services would exacerbate the migration of these services into the black economy, which has already occurred during the pandemic and, of course no VAT whatsoever is charged by these non-legitimate operators.

Ireland already applies the reduced 13.5% VAT rate to beauty services by virtue of Section 46(1)(c), Schedule 3, Para. 21(1) of VATCA 2010 (Miscellaneous Services). Therefore, it is logical that Ireland would support the inclusion of these services in an expanded Annex III of the EU VAT Directive.

In the circumstances, I would appreciate if you could indicate your general position regarding the ECOFIN deliberations and specifically, whether Ireland will seek the inclusion in Annex III of the services already eligible for the reduced VAT rate here in accordance with Section 46(1)(c), Schedule 3, Para. 21(1) of VATCA 2010.

I would also appreciate if you could confirm that the proposed Annex III
to the EU VAT Directive will retain the reduced VAT rate for hairdressing, as already provided for in the present Annex III.

Yours sincerely,

____
Margaret O'Rourke Doherty
CEO
(087) 065 7864

Copied:
John Hogan, Secretary General, Department of Finance.
Emma Cunningham, Tax Division, Department of Finance.
Gary Tobin, EU & International Division, Department of Finance.

Hair and Beauty Industry Confederation, **The Enterprise Centre, Hill Road, Drumshanbo, Co.Leitrim, N41 Y1F6**
Telephone: 0719615200, Email: info@habic.ie, Website: habic.ie