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economics

THE ECONOMIC CASE FOR PRESERVING THE 9% VAT RATE FOR HAIRDRESSING

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BACKGROUND

Hairdressing was one of the sectors that was subject to the most stringent operating restrictions after the global pandemic was declared in March 2020. It is a labour-intensive sector that is reliant on human contact and as such was deemed high risk by the health authorities.

In Budget 2021, a reduced 9 per cent VAT rate was re-introduced for a number of sectors that were worst affected by the Covid-19 restrictions. The lower VAT rate was applied to restaurant supplies, tourist accommodation, cinemas, theatres, museums, historic houses, open farms, amusement parks, certain printed matter such as brochures, leaflets, programmes and catalogues, and hairdressing. This reduced VAT rate was intended to help sectors that had been very badly affected by the Pandemic get back to a normal trading environment.

The reduced VAT rate was applicable from 1st November 2020 to 31st December 2021 at an estimated cost of €401 million. In Budget 2022, the measure was extended to 31st August 2022 at a further estimated cost of €251 million. In May 2022, the measure was further extended to 28th February 2023, at an estimated further cost of €250 million. It is envisaged that the 13.5 per cent rate will apply to all affected sectors from 1st March 2023.

In a dynamic environment with many moving parts, it is always difficult to isolate the impact of one specific policy measure. Consequently, it is difficult to be very specific about the impact that the reduction in the VAT rate to 9 per cent had for the hairdressing sector after 2011 or indeed since it was re-introduced in November 2020. However, on both occasions it was introduced at a time of considerable stress for the hairdressing sector, and it helped preserve margins and control consumer prices. It was a supportive measure that helped the sector recover and more importantly to contribute to national economic recovery and employment creation.

The current 9 per cent VAT rate for hairdressing is due to revert to 13.5 per cent on 1st March 2023. The timing of this planned increase is not good, for a variety of reasons.

Global Economic Uncertainty

The global economic outlook is quite challenging currently. Global economic activity is under considerable pressure due to a combination of the highest levels of inflation in four decades; the monetary policy activities of most global central banks; and intense global geopolitical uncertainty. The Ukraine war is ongoing and there is no realistic end in sight. The global outlook is characterised by intense uncertainty.

Irish Economic Challenges

To date, the small open Irish economy has remained relatively immune from the intense global headwinds. The Exchequer finances are strong on the back of buoyant tax revenues; the labour market is very strong, with a record level of employment and an unemployment rate of just 4.4 per cent of the labour force; and the multi-national component of the

economy is contributing to a strong export performance. However, consumer and business confidence have weakened significantly against a background of rising interest rates; the escalation in the cost of living and the cost of doing business; and significant global economic uncertainty.

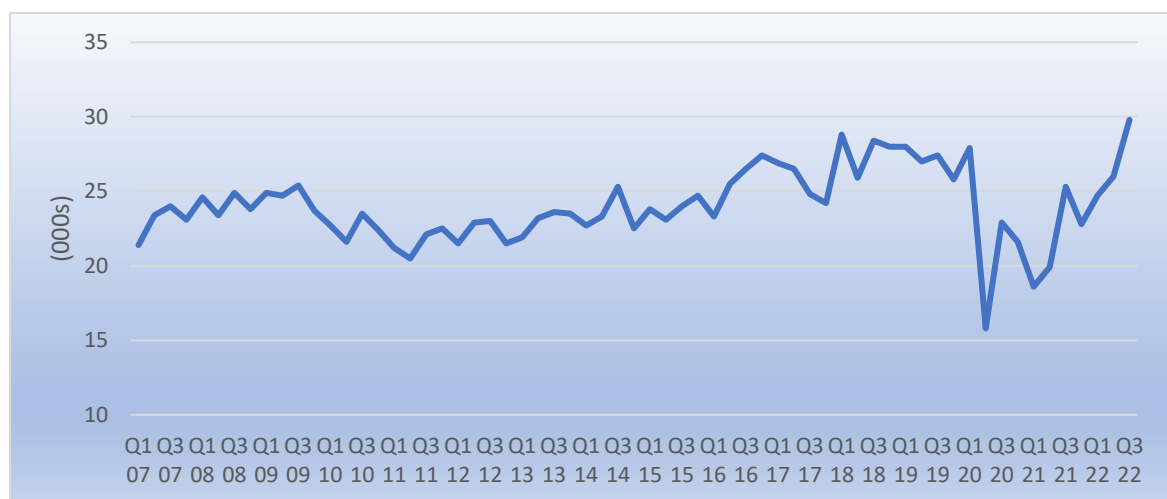
2023 looks set to be a challenging year for the global economy and the Irish economy is not likely to remain immune to those pressures. There is considerable uncertainty surrounding the outlook for 2023, and particularly for Small and Medium Enterprise (SME) businesses in Ireland. The hairdressing sector is totally dominated by SMEs and provides a strong template for the various pressures and challenges faced by service-focused SMEs in the current environment.

THE HAIRDRESSING SECTOR

Hairdressing is a labour-intensive activity, where practitioners spend a lot of time with their clients. In the third quarter of 2022, the CSO estimates that there were 29,800 people employed in Hairdressing and Related Services. There was a significant reduction in employment during the pandemic, but employment in the third quarter of 2022 was 8.8 per cent higher than the third quarter of 2019. Of the 29,800, it is estimated that around 22,950 employees were directly employed in Hairdressing activities only in the third quarter of 2022.

Census data from 2016 suggests that 88.9 per cent of employees in the sector are female. This gender profile is unlikely to have changed significantly once Census 2022 results are published. What is of particular importance is the fact that the sector employs many young females, who have limited formal education. Hairdressing offers a viable career path to younger people who have limited formal National Framework Qualification (NFQ) education. This is a very important socio-economic contribution. The sector also provides a very family-friendly working environment.

Figure 1: Employment in Hairdressers & Related Services



Source: CSO

In 2020, the CSO estimates that there were 10,186 hairdressing salons and other related services operating across the country. Table 1 provides a breakdown of salons by county and the estimated employment supported by those salons.

The regional footprint of hairdressing businesses is very significant. They are spread widely across the country and the local employment and economic activity supported is very significant. Hairdressing salons are a key element of the retail landscape in the towns, villages, and cities around the country. In an era when many towns and villages around the country are struggling to maintain vibrant streetscapes and a broad retail footprint, the contribution of hairdressing salons is immense. These businesses are anchor tenants in all high streets and shopping centres around the country and are an important driver of footfall. It is also the case that these businesses generally have a very positive and innovative physical appearance and generally contribute in a very positive way to the streetscape.

Table 1: Estimated Employment by County in Hairdressing and other related services.

COUNTY	NO. OF SALONS	EMPLOYMENT	COUNTY	NO. OF SALONS	EMPLOYMENT
Carlow	140	410	Louth	328	960
Cavan	206	603	Mayo	295	863
Clare	245	717	Meath	390	1141
Cork	1137	3326	Monaghan	164	480
Donegal	408	1194	Not Stated	156	456
Dublin	2330	6817	Offaly	195	570
Galway	543	1589	Roscommon	121	354
Kerry	382	1118	Sligo	175	512
Kildare	452	1322	Tipperary	404	1182
Kilkenny	172	503	Waterford	274	802
Laois	174	509	Westmeath	208	609
Leitrim	91	266	Wexford	341	998
Limerick	462	1352	Wicklow	282	825
Longford	111	325	Total	10,186	

Source: CSO & Jim Power Economics estimates

Table 2 provides a breakdown of the economic and financial impact of the 29,800 employees of Hairdressers and Related Services.

- The net wage contribution is estimated at €581 million.
- The contribution in employment taxes is estimated at €194 million.
- The wage earned are then spent in the economy and support other employment and economic activity. A conservative multiplier of 1.5 suggests that the financial and economic impact of the those employed in Hairdressers and Related Services is estimated at a contribution of €871 million to the broader economy.
- The turnover of the Hairdressing sector (excluding Beauty treatments as this is not subject to lower 9 per cent VAT rate) is estimated at €959 million in 2022. The turnover of Beauty Treatments is estimated at €321 million. The overall contribution

of Hairdressers and Related Services to GDP (Gross Value Added) is estimated at €794 million.

Table 2: Wage Contribution of Employment in Hairdressers and Related Services.

Number of Salons	10,186
Number of Employees	29,800
Gross Wage Contribution	€775 m
Tax Contribution	€194 m
Net Wage Contribution	€581 m
Multiplier Effect	€871 m
Turnover Hairdressing & Personal Grooming	€1,280 m
Contribution to GDP	€794 m

Source: CSO & Jim Power Economics Estimates

In addition to the direct employment in the sector, it is estimated that for every direct job, the sector supports 0.6 jobs elsewhere in the economy, through the impact of the wages spent by employees in the sector. This means that direct employment in the sector supports another 17,880 jobs elsewhere in the economy. Most of these jobs are very local and make a strong contribution to local economic activity.

ISSUES FACING THE HAIRDRESSING SECTOR

The hairdressing sector was very badly affected during the pandemic. It is now facing a number of challenges on a significant scale:

- An uncertain economic outlook - consumer confidence weakened significantly during 2022 against a background of intensifying cost-of-living pressures and rising interest rates. These factors are still relevant in 2023 as interest rates continue to rise and the cost-of-living pressures are still strong in areas such as food and energy. It is estimated that the average grocery bill is now 16 per cent higher than a year ago, while CSO data suggest that food inflation was running at 12 per cent in December 2022. These cost-of-living pressures will undermine consumer spending power. The sectors most exposed and vulnerable to the pressures on disposable incomes are those that are most dependent on discretionary spending, such as hospitality, personal services such as hairdressing, and non-essential retail.
- The cost of doing business has increased significantly over the past 18 months. Energy costs have been the most obvious cost pressure but rising interest rates and labour costs are now significant issues. The recruitment and retention of workers and the cost of labour are now putting significant pressure on labour-intensive activities such as hairdressing.
- The informal economy has always been a significant issue for hairdressing. However, during Covid-19 it increased dramatically and much of it is likely to have survived. Legitimate businesses in the hair and beauty sector correctly believe that the sector has a very high level of black-market activity. A previous survey carried out by the

author of this report suggests a belief that it could account for between 30 and 50 per cent of the legitimate sector. Given the nature of hairdressing and the experience during the COVID-19 closure of hairdressers, it seems safe to assume that the black market in hair and beauty is likely to account for at least 30 per cent of the legitimate sector. This would imply turnover of at least €288 million, and lost tax revenues of at least €50 million. It places the legitimate sector at a severe competitive disadvantage. Taxation policy towards the legitimate sector must not act to add further strength and competitive advantage to the illegitimate sector. It seems obvious that the higher the tax burden, the more operators will be pushed into the informal segment of the industry.

Given the various challenges facing the hairdressing sector now, an increase in the VAT rate from 9 per cent to 13.5 per cent at the end of February 2023 does not make sense. It would add 4.1 per cent to the cost of hairdressing services, assuming that the increase would be passed on to the consumer. Given the cost pressures on many operators, the ability to absorb the tax increase into margins could be challenging for many businesses.

Given the contribution that the sector plays in terms of employment; economic activity; the contribution to vibrant streetscapes; the socio-economic contribution; the regional economic contribution; and the pressures it is facing from illegitimate operators, increasing the VAT rate at this time could do serious damage to many operators. This could result in many more operators migrating to the already strong informal economy for hairdressing. In addition, adding 4.1 per cent to the cost of the service is not to be recommended during a cost-of living crisis.

Hairdressing services are labour intensive and are supplied and consumed entirely in the local community. As such, the permanent application of the second reduced VAT rate does not create any distortion in the operation of the EU Single Market. Hairdressing is outlined as Item 21 in the revised Annex III of the EU Vat Directive. This means that it is possible for Ireland to apply the reduced 9 per cent VAT rate to hairdressing services on a permanent basis.

Given all of the circumstances and challenges facing the hairdressing sector, maintaining the 9 per cent VAT rate would be the sensible and prudent approach to take.