

International VAT Rate cuts to Support Entrepreneurship within Coronavirus Pandemic Context

Rodica PRIPOAIE¹
Irina Olimpia SUSANU²
Mihai CADINOIU³

Abstract

Given that 2020 was completely different to what we used to know, and also a particularly difficult year due to SARS-Cov-2 pandemic and to the restrictions imposed by all states worldwide in order to address such pandemic by limiting movement freedom or people and by enacting quarantine measures in many countries, most businesses and companies, irrespective of their field of activity, had losses and a decrease of business activities.

In order to support entrepreneurship in hospitality industry (HoReCa) and in other industries as well, many states enacted certain temporary measures to reduce VAT rates, either for standard tax and reduced tax. Thus, governmental authorities seek to stimulate businesses like HoReCa through VAT reduction, as such businesses were among the most seriously impacted. Moreover, there is an international trending to eliminate or introduce zero-VAT rate for the sale of e-books and other electronic publications.

Keywords: VAT rate, standard rate, reduced rate, entrepreneurship, pandemic.

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1. Introduction

Restrictions enacted by most countries worldwide in order to address COVID-19 pandemic, i.e. limiting the movement of persons during the imposed quarantine periods, resulted in a decrease of operations and even losses for most companies, irrespective of their field of business. In order to support HoReCa and other businesses, many countries enacted certain financial and tax measures for supporting the operations of the businesses which were most impacted by the pandemic.

¹ Rodica Pripoaie, "Dunărea de Jos" University of Galati, Romania, rodica.pripoaie@ugal.ro

² Irina Olimpia Susanu, "Dunărea de Jos" University of Galati, Romania, irina.susanu@ugal.ro

³ Mihai Cadinoiu, "Dunărea de Jos" University of Galati, Romania, mihai.cadinoiu@ugal.ro

2. Literature review

Well-known authors in the professional literature consider that “a temporary VAT reduction is an intertemporal incentive on the consumer demand, which shall be lower during economic depression than in better economic periods, when uncertainty is lower and consumers are less concerned on the debt levels. However, this argument mainly addresses to durable goods. In case of consumption goods, the impact should be substantive. As more than two thirds of the expenses covered by VAT incentive are made on consumption goods, the expenditure levels are probably maintained despite pricing drops. Therefore, the amount of sold goods shall increase commensurate with the VAT reduction sensed by the consumers. The consumers’ demand shall increase proportional to the pricing drops.” (Blundell, 2009, p. 36).

Moreover, the professional literature considers that “when thinking if the temporary VAT cut will stimulate consumption during the current period, it is important to acknowledge that such temporary change shall reduce the consumption pricing in the current period as compared to the consumption pricing in the next period.” (Crossley, T.F. et al., 2009, p. 6).

3. Research methodology

This paper aims to highlight how there was an European and international trend of cutting VAT rates in certain fields of business, or even removing or establishing a zero VAT rate with respect to the sale of e-books and other electronic publications, in order to support and revive those sectors which were most impacted by the pandemic, such as: hospitality industry, cultural and sport activities, and also agriculture and fishing.

We used an empirical research method, using statistic methods for analyzing what are the economic development assessments within Euro-area based on a series of statistic indicators, such as: business climate within Euro-area, income growth rates in industry, constructions and retail calculated based on the statistical data published by <https://ec.europa.eu/eurostat/>.

3.1. Outcome

The pandemic together with the restrictions imposed by all countries worldwide in an attempt to limit its spread were a real blow for all economies. Therefore, national governments and European and international bodies sought to enact certain tax and political measures in order to support businesses and, inferentially the citizens employed in the sectors which were particularly impacted by the pandemic.

Thus, across Europe there were taken certain harmonized measures in order to mitigate the negative impact on the economies of the European Union Member

States, and for supporting the living standard of the population impacted by the pandemic. To that effect, the European Commission enacted certain economic measures so as the Member States could award state aids to the affected companies so they would carry on their businesses and maintain as many jobs as possible.

In order to provide the food needed by population, it is highly required to ensure continuity of European agricultural and food production, therefore the European Commission proposed actual measures for the European farmers and agricultural entrepreneurs could get the support they needed.

Moreover, the European Commission paid great importance to tourism revival, as hospitality was heavily impacted by the movement restrictions imposed as a result of the pandemic. To that effect, certain measures have been taken in order to allow a gradual reopening of tourist facilities, together with awarding special aids to tourism businesses.

Thus, the European Commission awarded a EUR 90.3 billion aid through SURE instrument, such amount being divided among 18 Member States for supporting the jobs impacted by the pandemic. Considering the evolution of national macroeconomic indicators, and also the European Commission economic forecast for the Euro-area economy, it is estimated that it will drop by 7.8 % in 2020, respectively by 4.2% in 2021 and 3% in 2022. Current forecasting indicates that not even in 2022 production within Euro-area will recover its pre-pandemic level.

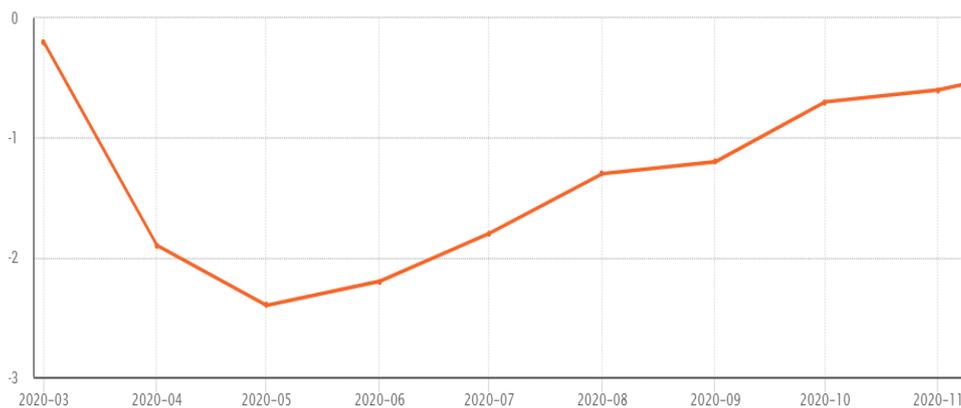


Figure 1. Chart of business climate in Euro-area

Source: https://ec.europa.eu/eurostat/databrowser/view/ei_bsci_m_r2/default/line?lang=en

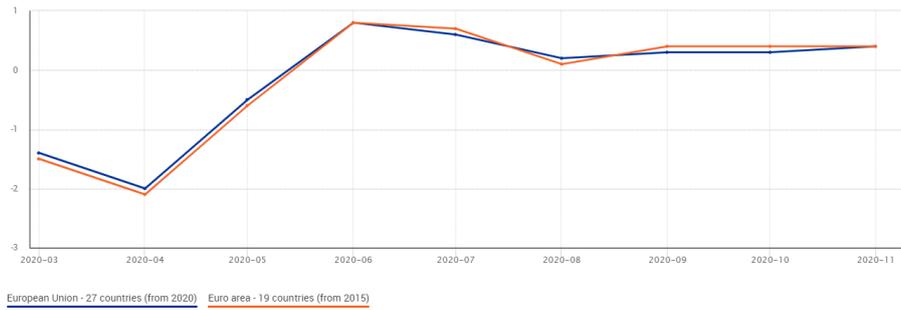


Figure 2. Grow rates in industry – EU – 27
 Source: https://ec.europa.eu/eurostat/databrowser/view/ei_isir_m/default/line?lang=en

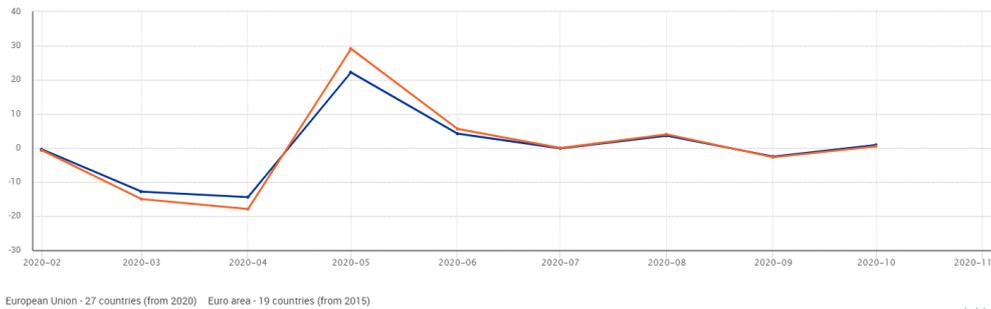


Figure 3. Grow rates in constructions – EU – 27
 Source: https://ec.europa.eu/eurostat/databrowser/view/ei_isbr_m/default/line?lang=en



Figure 4. Grow rates in retail – EU – 27
 Source: https://ec.europa.eu/eurostat/databrowser/view/ei_isrr_m/default/line?lang=en

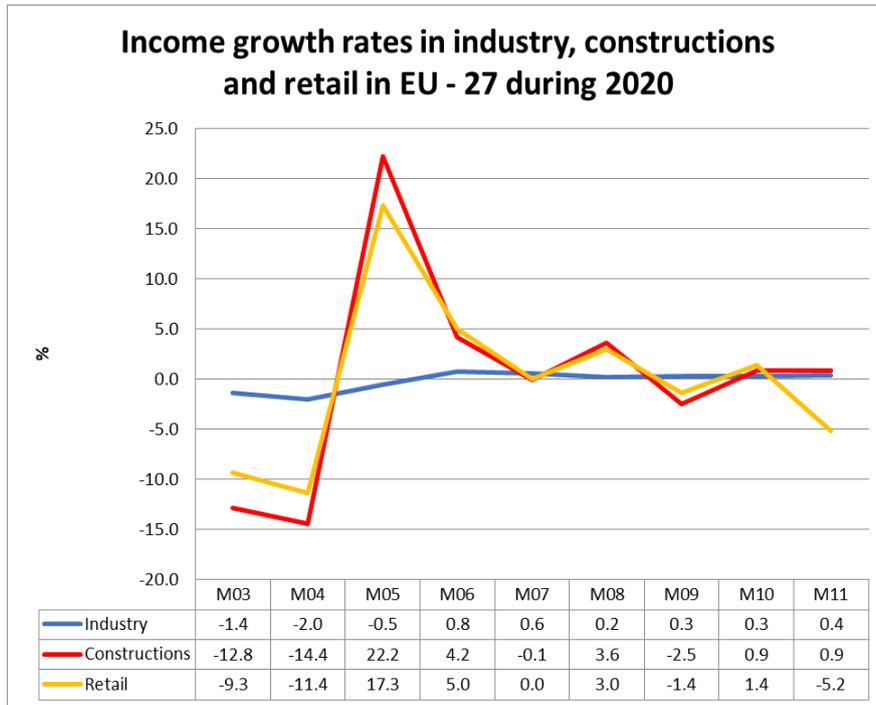


Figure 5. Income growth rates in industry, constructions and retail in EU 27 during 2020
 Source: drafted by the author based on statistic data from <https://ec.europa.eu/eurostat/data/database>

Growth map

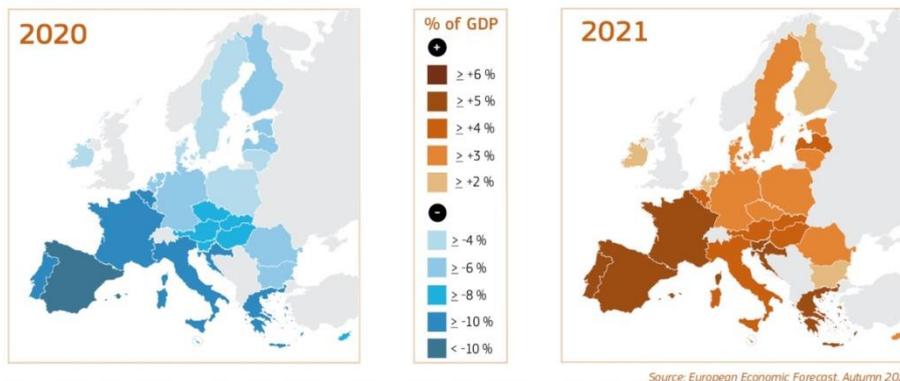


Figure 6. EU economic growth map

Source: https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/jobs-and-economy-during-coronavirus-pandemic_ro

3.2. Debates

The coronavirus outbreak represents a threat to European population and economics, not only in terms of healthcare, but also with respect to the living standards and future of its citizens. Therefore, countries worldwide were concerned this year, apart from providing safety of own citizens, with supporting national entrepreneurs through various financial or tax measures, as the pandemic impacted many businesses, yet differently based on their field of activity. National economies were differently affected by the pandemic, dependent upon each state's specificity, and therefore recovery expectations thereof also vary depending on the measures enacted for disease control and on the sectorial structure, as well.

Thus, most countries worldwide enacted as a first measure VAT cuts with respect to the goods and services that were the most impacted by the pandemic. Moreover, apart from VAT cuts in certain business fields considered as the most affected, other tax exemption or deferral measures were taken in order to support the companies facing hardships due to coronavirus pandemic.

Such measures considered that companies encountered additional expenses in order to comply with the emergency health regulations, and also that certain companies in the hospitality sector had a high rate of booking cancellations. The same applies to event-hosting businesses, due to the cancellation of all cultural and sports events under official bans. The financial and tax aid also targeted those businesses who had losses or turnover drops as a result of the changes occurred in the consumers' behaviour, e.g. large apparel and footwear stores.

Many countries decided VAT cuts especially for HoReCa, the hospitality industry, but also for publications or cultural and sports activities. Please find in the table below an outline of the countries and measures taken with respect to VAT rate cuts in certain business fields in order to support the entrepreneurs from those business sectors:

Table 1. EU countries, including UK, that enacted VAT rate cuts in certain business fields

Country	Old VAT rate	New VAT rate	Applicable to	Implementation period
Austria	20%	10%	Non-alcoholic beverages	01.07.2020 – 31.12.2020
	10%	5%	HoReCa, culture, publications	01.07.2020 – 31.12.2020
Bulgaria	20%	9%	HoReCa, books, e-books	01.07.2020 – 30.06.2021
Croatia	25%	13%	basic food products	01.07.2020
Cyprus	9%	5%	HoReCa, public transportation	01.07.2020 – 10.01.2021
Czech Republic	15%	10%	Hotel services, sports and cultural activities	01.07.2020 – 31.12.2020
Germany	19%	16%	All goods and services subjected to standard rate	01.07.2020 – 31.12.2020

Country	Old VAT rate	New VAT rate	Applicable to	Implementation period
	19%	7%	catering	01.07.2020 – 01.07.2021
Greece	24%	13%	Transportation, cafés, non-alcoholic beverages, cinemas, touristic services	01.06.2020 – 30.04.2021
Ireland	23%	21%	All goods and services subjected to standard rate	01.09.2020 – 28.02.2021
	13,5%	9%	Tourism and hotel services	01.11.2020 – 31.12.2020
Macedonia	18%	12%	Hotel services	01.12.2020
Great Britain	20%	0%	E-books, online magazines	01.05.2020
	20%	5%	HoReCa, excepting alcoholic beverages, house rental, camping, home delivery (take-away), tickets to cultural events	15.07.2020 – 31.03.2021
Hungary	27%	5%	Residential constructions	08.10.2020 – 31.12.2022
	18%	5%	Home delivery (take-away)	14.11.2020 – 08.02.2021

Source: drafted by the author based on statistic data from <https://www.avalara.com/vatlive/en/vat-rates/international-vat-and-gst-rates.html>

Table 2. Non-EU that enacted VAT rate cuts in certain business fields

Country	Old VAT rate	New VAT rate	Applicable to	Implementation period
Costa Rica	13%	9%	All goods and services subjected to standard rate	01.07.2020
	13%	7%	Tickets to cultural events	01.07.2020
	13%	0%	Tourism	01.07.2020 – 30.06.2021
Malaysia	6%	0%	Hotel charges	30.03.2020 – 30.06.2021
	10%	0%	Tourism	01.07.2020 – 30.06.2021
Mexico	16%	10%	All goods and services subjected to standard rate	01.07.2020
Moldova	20%	15%	HoReCa	01.05.2020
	15%	12%	HoReCa	01.12.2020
Montenegro	21%	7%	Restaurants, cafés and catering services	04.08.2020 – 31.08.2021
Norway	12%	6%	Hotels, public transportation and cinemas	01.04.2020 – 31.12.2020

Country	Old VAT rate	New VAT rate	Applicable to	Implementation period
Turkey	18%	8%	HoReCa, cultural events and conferences, household repairs	01.04.2020 - 31.12.2020
	18%	1%	Domestic flight services	01.11.2020
	18%	0%	HoReCa	01.11.2020

Source: drafted by the author based on statistic data from <https://www.avalara.com/vatlive/en/vat-rates/international-vat-and-gst-rates.html>

An exception in terms of VAT rate measures is Saudi Arabia, who increased the standard VAT rate from 5% to 15% during this pandemic year, as from 1st July 2020.

Table 3. Exception to VAT rate cut

Country	Old VAT rate	New VAT rate	Applicable to	Implementation period
Saudi Arabia	5%	15%	All goods and services subjected to standard rate	01.07.2020

Source: drafted by the author based on statistic data from <https://www.avalara.com/vatlive/en/vat-rates/international-vat-and-gst-rates.html>

The tax deferral measures envisaged either tax payment deferral, prorogation of certain deadlines, rescheduling and even tax amnesty. Moreover, other measures enacted by certain countries envisaged the suspension of employees' national insurance contributions. The countries who enacted such measures are: Latvia, Sweden, Great Britain, Slovenia, Germany, Portugal, Denmark, Austria, Hungary, Romania.

In Romania, the Government launched an economic recovery plan for the companies affected by COVID-19 pandemic, based on the money allocated by the European Commission. Moreover, measures for the preservation of jobs in the pandemic heavily impacted sectors have been taken, through the furlough payment by governmental authorities, payment of a reinsertion allowance in case of furlough employees, and also through tax benefits such as deferral of payment for certain tax obligations, bonuses on tax payment, etc.

4. Conclusions

Given that 2020 was completely different to what we used to know, and also a particularly difficult year due to SARS-Cov-2 pandemic, many companies, from various business fields, had heavy losses and a business contraction. In order to support entrepreneurship in hospitality industry (HoReCa) and in other industries as well, many states enacted certain temporary VAT rate cut measures.

Moreover, there is an international trending to eliminate or introduce zero-VAT rate for the sale of e-books and other electronic publications. The tax deferral

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