

News Analysis: Consumer Exodus Behind VAT Cut

by Richard Asquith

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COUNTRY DIGEST

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In his December 9 budget speech, Irish Finance Minister Brian Lenihan announced a reduction of the VAT rate by half a percentage point, to 21 percent. (For prior coverage of the budget speech, see *Tax Notes Int'l*, Dec. 14, 2009, p. 849, *Doc 2009-26966*, or *2009 WTD 235-2*; for related Finance Ministry news releases, see *Doc 2009-26948* or *2009 WTD 235-12* and *Doc 2009-26965* or *2009 WTD 235-13*.)

The reduction is largely seen as a measure to counter huge revenue losses as shoppers seek bargains in Northern Ireland, with its 15 percent VAT and falling pound.

Ireland increased its VAT rate from 20 percent to 21.5 percent in October 2008 to increase government revenues in the face of a significant downturn in the Irish economy. Following a massive property value crash, the government faced a devastating drop in stamp duties on house sales.

However, the VAT increase has driven thousands of consumers across the border into Northern Ireland. Towns such as Newry have become shopping meccas for Irish consumers, withering the retail sector in the immediate south, with the loss of hundreds of jobs in Meath and other locations blamed on the lower U.K. VAT rate.

After vigorous campaigning, Lenihan has backed down, announcing the partial reversal of the VAT increase, effective January 1, 2010.

The VAT cut was inevitable, given the influence of the lower rates in the U.K. Considering the dire straits of Ireland's finances and the need to save more than €4 billion elsewhere, however, the cut is a stark reminder of the loss of trade to the north. All European governments must remain competitive with their VAT rates if they are to avoid similar trade distortions. ♦

♦ *Richard Asquith, head of VAT, TMF VAT Services Ltd.,
United Kingdom*