



Fédération Européenne
de la Restauration Collective Concédée

European Federation
of Contract Catering Organisations

The European Contract Catering Sector and the future of the VAT Regime

The European contract catering sector

The contract catering sector in Europe **employs over 600,000 people** and delivers over 6 billion meals each year. This equates to 67 million consumers served every day, or **one in four meals eaten outside the home**.

With such a strong presence in the everyday lives of Europeans, issues such as VAT can have a profound and widespread impact on our sector, our employees and our customers, affecting our price and competitiveness.



Employing
over 600,000
people across
Europe

The principle of reduced VAT rates

The European Commission's [Communication](#) on the future of VAT recommends a restricted use of reduced rates. To that effect, the Commission has planned to launch an assessment of the current rate structure in 2012. Following a consultation with stakeholders and Member States, by the end of 2013 the Commission will make proposals on the abolition of reduced rates that are an obstacle to the internal market or that lead to similar goods and services being taxed at different rates.



Delivering
over 6
billion meals
each year

FERCO is in favour of retaining the current reduced rates on food and food services. Reduced rates on food and food services **do not create an obstacle to the functioning of the internal market** and are an **important driver for securing jobs and growth in the contract catering business**. Reduced rates actually serve the Commission's objective of increasing access to food to lower-income earners, which is also central to the recently extended "Food Distribution programme for the Most Deprived Persons of the Community".

Due to the labour intensity of the contract catering sector, **reduced VAT rates for food services result in increased employment and income tax revenues** whilst also reducing the need for social welfare payments to the unemployed.

The neutrality of the VAT system

The [Communication](#) also urges Member States to move toward a 'broad based' VAT system, where all commercial transactions are taxed as far as possible and any exemptions are construed narrowly. A gradual approach will be considered, concentrating on activities where distortions of competition are more likely due to greater private sector involvement.

FERCO agrees with the need to guarantee the neutrality of the VAT system. Current exemptions for public bodies can cover services performed in-house (such as catering), and distort competition by reducing the incentive to outsource services and by giving in-house public service providers an automatic competitive advantage. **The removal of these exemptions would restore a level playing field and eliminate distortions to competition.**

Full taxation could lead to a €194.6 billion increase in VAT revenue, enabling an 18.7% reduction in VAT rates.

A key study¹ completed by Copenhagen Economics and KPMG for DG Taxation and Customs Union confirmed unequivocally that **a full taxation model** (VAT fully applicable to and deductible for public bodies) **would result in the highest economic gains**. In addition to eliminating distortions of competition, the study shows that the removal of exemptions for the public sector results in increased efficiency, higher public revenues and reduced administrative and compliance costs. Measured in economic terms, full taxation could increase EU-wide GDP by up to 0.19%, or lead to a 194.6 billion EUR increase in VAT revenue, thereby enabling an 18.7% reduction in VAT rates.

Reduced rates for food services

Considering that food is a basic need, in many Member States it is included in the list of products benefiting from reduced VAT rates. In 14 out of the 27 EU Member States, catering services can benefit at least partially from these reduced rates (see *Annex I*). This enables contract caterers to provide high quality meals at an affordable price which leads to healthier and more sustainable diets and **stimulates growth** in the sector. As catering is very labour-intensive, this growth is accompanied by **increased employment**, which not only benefits communities, but also raises income tax revenues and contributes to economic growth. Therefore, **FERCO believes that reduced VAT for food services should be retained**.

Additionally, tax increases in times of economic crisis can be detrimental to demand and can contribute to the decline of a sector. As evidenced by the examples below, the contract catering industry in Europe has not been unaffected by the current economic crisis. The removal of reduced rates would have a severe impact.

Identified criteria for the review of reduced VAT rates

1. **Abolition of reduced rates constituting an obstacle to the proper functioning of the internal market:** Catering services are generally not provided cross-border and therefore any reduction in rates would not constitute an obstacle to the internal market.
2. **Abolition of reduced rates for goods or services whose consumption is discouraged by other EU policies:** Food services are not discouraged by EU policy.
3. **Same treatment of similar goods and services:** Food supplied by contract caterers should not be charged with a higher rate of VAT.

Netherlands:

The contract catering sector in the Netherlands has been adversely affected by the economic crisis, with sales dropping 5.4% from 2009 to 2010. In 2011 revenues fell by 7.4%. The sector is no longer attracting young workers, with only 26% of employees being under 40 years of age and only 9% under 30, which creates uncertainty regarding the sustainability of the workforce². In this situation of declining sales and revenue, an adverse tax climate would not be desirable.

Price sensitivity in the food service industry

In France and Belgium, a reduction of the VAT on meals served in restaurants led to the creation of additional jobs – only within a year 30 000 new jobs were created in France and 2 500 in Belgium. In France, a decrease in prices also took place.

Source: Hotrec 2011³

Public sector exemptions and deductibility of input VAT

Council Directive 2006/112/EC on the common system of value added tax allows for certain exemptions to be granted for activities in the public interest (Article 132). All Member States are currently applying such exemptions, particularly for medical care and education services (see Annex IV).

While some Member States allow public bodies to deduct input VAT, most do not. If a public body is unable to deduct input VAT, it is cheaper to produce the service internally rather than to outsource it to a specialized company. The result is a **decrease in competition and innovation**. Furthermore, this leads also to a **decrease in efficiency** as, other things being equal, a specialized company would have the necessary resources and expertise to provide a service more efficiently and at a lower cost. However, when differential VAT treatment tips the scales in the opposite direction, a **distortion of competition occurs**.



Healthcare sector in **Poland**: hospitals can compete with private caterers for tenders of other hospitals and are able to offer lower prices.

Source: Sodexo, 2012⁴

In **Portugal**, a potential client can save 20% of the costs of catering by organising it internally rather than contracting a specialised company. In that case, the potential client will have to pay 6% VAT on the food purchased. As food products represent 50% of the costs, the VAT paid would only be 3% of total costs. By comparison, a specialised catering company would have to add 23% VAT to their bill.⁵

Private caterers in **Austria** are almost excluded from accessing the following public sectors: healthcare, education, senior living, correctional institutions and defense. Within these sectors, cities, counties and the state are generally self-catering.⁶

If public bodies are able to deduct input VAT, they will have less incentive to provide services internally and more incentive to outsource. However, refund schemes for input VAT exist only in the following 8 Member States: Austria, Denmark, Finland, France, Netherlands, Portugal, Sweden and the UK¹ and not all of these schemes cover catering. Furthermore, refund schemes are often associated with **high administrative costs**, potentially creating inefficiencies and ineffectiveness.

In addition to distortions of competition occurring on the input side, it is also possible that public and private organisations **compete directly** when providing services to others, which would result in a clear competitive advantage for public bodies. In Belgium, for example, the City of Brussels has its own central kitchen that caters to schools and is now offering catering services in other cities⁴. As it is not subject to VAT, it is able to offer lower prices than private companies.



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The aforementioned Copenhagen economics¹ study suggests that the **full taxation model** would be the most effective in avoiding both types of distortion to competition at the lowest possible administrative cost. This solution will have the following positive outcomes:

- ✓ Elimination of distortions to competition
- ✓ Possible increase in investment
- ✓ Reduced public sector employment, but higher private sector employment
- ✓ Increased efficiency
- ✓ Reduced administrative and compliance costs
- ✓ Higher public revenues



The market penetration of contract caterers in Western Europe is only 35.2%. Internally provided food services make up the rest.

Source: Gira Foodservice, 2011⁷

Conclusion

Two aspects of value added taxation are of particular concern to the contract catering industry in Europe:

- reduced rates for food services; and
- the neutrality of the VAT system.

Due to the importance of the food service sector in providing meals, employment and revenue, it is FERCO's belief that reduced rates for food services should be retained.

In line with the Commission's view that VAT exemptions are to be construed narrowly, FERCO also agrees with the need to guarantee the neutrality of the VAT system. Where public sector exemptions cause distortions of competition, such exemptions and their effects should be carefully evaluated.

Annex I: VAT rates in the European Union (as of 1 July 2012)

Member State	Standard rate	Super reduced rate	Reduced rate	Rates in contract catering: Workplaces	Rates in contract catering: Education	Rates in contract catering: Health and Welfare
Austria	20	-	10	10/20	10/20	10/20
Belgium ⁱ	21	-	6/12	12	12	12
Bulgaria	20	-	9	20	20	20
Cyprus	17	-	5/8	8/17	8/17	8/17
Czech republic	20	-	14	20	20	20
Denmark	25	-	-	25	25	25
Estonia	20	-	9	20	20	20
Finland	23	-	9/13	23	0	23
France	19.6	2.1	5.5/7	5.5	5.5	5.5
Germany	19	-	7	19	19	19
Greece	23	-	6.5/13	13/23	13/23	13/23
Hungary	27	-	5/18	27	27	27
Ireland	23	4.8	9/13.5	13.5	0/13.5	0/13.5
Italy	21	4	10	4	4	10
Latvia	21	-	12	21	21	21
Lithuania	21	-	5/9	21	21	21
Luxembourg	15	3	6/12	3	3	3
Malta	18	-	5/7	18	18	18
Netherlands	19	-	6	6/19	6/19	6/19
Poland	23	-	5/8	8	8	8
Portugal	23	-	6/13	23	23	23
Romania	24	-	5/9	24	24	24
Slovakia	20	-	10	20	20	20
Slovenia	20	-	8.5	8.5/20	8.5/20	8.5/20
Spain	18	4	8	8	8	8
Sweden	25	-	6/12	25	25	25
UK ⁱⁱ	20	-	5	20	0/20	0/20

Source: European Commission, 2012⁸

ⁱ 6% VAT rate for delivering meals without service

ⁱⁱ 0% refers to catering to pupils/students and patients. The 20% rate is applied to catering to staff and visitors in schools, universities and hospitals. Cold food taken away is generally 0-rated (including in workplaces).

Annex II: Size of the catering market in the European Union

Country	Size of the social food service market (by revenue, total):	Share of market contracted to catering companies		Share of market self-operated by public bodies	
		Revenue	Percentage	Revenue	Percentage
Austria	€1.56 billion	€800 million	53%	€700 million	47%
Belgium	2.1 billion	€672 million	31.8%	€1.44 billion	68.2%
Denmark	€2 billion	€389 million	19%	€1.66 billion	81%
Finland	€2.5 billion	€565 million	22.4%	€1.96 billion	77.6%
France	€15.8 billion	€6.1 billion	38.5%	€9.7 billion	61.5%
Germany	€16.6 billion	€3 billion	18.1%	€13.6 billion	21.9%
Ireland	€555.7 million	€344 million	61.9%	€211.7 million	38.1%
Hungary	210 billion HUF (700 € million)	78,6 billion HUF (€270 million)	35%	130 billion HUF (€430 million)	65%
Italy	€7.3 billion	€3.96 billion	54.2%	€3.35 billion	45.8%
Luxembourg	€183.7 million	€102.1 million	55.6%	€81.7 million	44.4%
Netherlands	€3.2 billion	€1.236 billion	38.6%	€2 billion	61.4%
Poland	€1.1 billion	€300 million	27.3%	€800 million	72.7%
Portugal	€748 million	€451 million	60.3%	€297 million	39.7%
Slovenia	€459 million	€167 million	36%	€295 million	64%
Spain	€2.9 billion	€1,73 billion	60.3%	€1.14 billion	39.7%
Sweden	€3.5 billion	€519 million	15%	€2.94 billion	85%
UK	€11 billion	€4.130 billion	37.8%	€ 6.796 billion	62.2%
Total	€70.6 billion	€24.8billion	35.2%	€45.7 billion	64.8%

Source: Gira Foodservice, 2010⁷; Eurest (Austria)⁸; Sodexo (Luxembourg, Poland and Slovenia)⁴; VIMOSZ (Hungary)⁹;



Annex III: Number of employees in the contract catering sector in Europe

Country	Number of employees (total)	Private sector	Public sector
Austria	17500	8400	9100
Belgium	8500	5000	3500
France	78 026 (2010)	-	-
Hungary	60000	20000	40000
Italy	100 000	50 000	50 000
Netherlands	20000	-	-
Portugal	14000	8000	6000
Slovenia	39000	22000	17000
UK	114500*	59500*	55000*

* Full-time equivalents

Source: Eurest (Austria)⁶; Sodexo (Belgium, Italy, Slovenia⁴); SNRC, 2010¹⁰ (France); VIMOSZ (Hungary)⁹; Veneca (Netherlands)²; AHRESP (Portugal⁵); BHA (UK)¹¹



Annex IV: Public sector exemptions and deductibility of input VAT

Country	Are there public sector exemptions?	Deductibility/Refund schemes	Affected sectors/ activities for deductibility/refund schemes
Austria	Yes	Refund scheme for exempt services	Health sector
Belgium	Yes, the whole public sector	No	
Bulgaria	Yes	No	
Czech republic	Yes	No	
Cyprus	Yes	No	
Denmark	Yes	Refund scheme, both for non-taxable and exempt activities	All sectors
Estonia	Yes	No	
Finland	Yes	Refund scheme, both for non-taxable and exempt activities	All sectors
France	Yes	Refund scheme only for non-taxable activities	Fixed assets investments
Germany	Yes	No	
Greece	Yes	No	
Hungary	Yes	No	
Ireland	Yes	No	
Italy	Yes	No	
Latvia	Yes	No	
Lithuania	Yes	No	
Luxembourg	Yes	No	
Malta	Yes	No	
Netherlands	Yes	Not if the public body provides a service as a business Refund scheme only for non-taxable activities	All sectors
Poland	Yes	No	
Portugal	Yes	Refund scheme, both for	Certain listed activities, not



		non-taxable and exempt activities (<i>answer in questionnaire was no</i>)	including catering
Romania	Yes	No	
Slovakia	Yes	No	
Slovenia	Yes	No	
Spain	Yes (education and health)	No	
Sweden	Yes	Refund scheme, both for non-taxable and exempt activities	All sectors
UK	Yes	Yes, if the public body is not providing a service using these inputs Refund scheme for non-taxable activities	All sectors

Source: Naess-Schmidt et al. (2011)¹

¹ Næss-Schmidt, S. et al. (2011). VAT in the public sector and exemptions in the public interest. DG Taxation and Customs Union. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat_public_sector.pdf

² Veneca (2012). Own research

³ Hotrec (2011). Reply to the European Commission consultation on the future of VAT. Retrieved from http://www.hotrec.eu/Documents/Document/20110907110827-D-0511-149-DM-VAT_consultation-draft_HOTREC_reply.pdf

⁴ Sodexo, 2012. Own research

⁵ AHRESP (2012). Own research

⁶ Eurest (2012). Own research

⁷ Gira Foodservice (2011). The Contract Catering Market in West Europe 2006-2011.

⁸ European Commission (2012). VAT Rates Applied in the Member States of the European Union. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf

⁹ VIMOSZ (2012). Own research

¹⁰ SNRC (2010). Rapport annuel sur les salaires et la situation économique et sociale de la branche de la restauration collective en 2010. Retrieved from <http://www.snrc-site.com/emplois.php?rub=Rapport%20de%20branche&id=98>

¹¹ BHA (2012). Own research