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**From:** [Redacted]  
**Sent:** 24 May 2019 09:42  
**To:** Finance Foodsuppl  
**Cc:** [Redacted]  
**Subject:** Retail Excellence submission - Consultation on the VAT Treatment of Food Supplement Products  
**Attachments:** Retail Excellence response to Dept Finance consultation on VAT on food supplements 7.5.19.pdf

Dear Sir, Madam,

Please find attached the submission to the above consultation, in support of the continuation of the current VAT position on health food products.

We look forward to participating further in this consultation process over the coming months, as part of the tax strategy group, in support of our members.

If you have any queries in relation to any aspect of the submission, please contact me.

Kind regards,

[Redacted]



**Retail Excellence's response to the Department of Finance  
Consultation on VAT Treatment of Health Supplements  
April 2019**

24 May 2019

Response sent by email to: [foodsuppl@finance.gov.ie](mailto:foodsuppl@finance.gov.ie)

## **Executive summary**

In responding to the Department's submission, Retail Excellence respectfully rejects all four options presented in the Consultation document of 18 April. Instead, we call for the retention of 0% rate on food supplements, and for this to be confirmed in legislation.

Retail Excellence opposes the proposed VAT treatment of food supplements at the standard rate (23%) for the following reasons:

- Health impact– cost increase will deter those reliant on health foods from purchasing food supplements and health foods;
- Economic impact – 2,000 businesses importing, distributing and supplying health foods across Ireland. Estimated 200 store closures and loss of 1,800 jobs if the standard rate is applied;
- Policy grounds – the argument advanced in support of the standard rate of VAT is unconvincing; food supplements are clearly items of food and should attract 0% VAT. Retail Excellence calls for legislation to copper-fasten the existing VAT regime.

## **About Retail Excellence**

Retail Excellence is the dominant retail representative organisation in Ireland, representing almost 2,000 members and 13,000 stores. Our mission is to represent, support and train our members and the retail industry as a whole, and provide a network of progressive, growing retailers.

There are now over 285,000 people employed in the retail industry in every part of the island of Ireland – one in six of every employee in the state. Retail generates some €7 billion for the Irish exchequer annually.

Our organisation counts amongst its members a wide representation of interested parties in this public consultation process. This includes several internationally recognised health store chains operating in Ireland, as well as a considerable number of independent health food stores.

Retail Excellence also represents hundreds of pharmacies across the country, many of which are vendors of health foods and food supplements. There are over 2,000 businesses that produce and supply food supplements in Ireland, and the sector employs thousands of retail and operative staff.

## **Preamble**

As Ireland's dominant retail representative body with 2,000 members, Retail Excellence welcomes the opportunity to comment on the proposed future VAT treatment of food supplements as outlined in the Consultation document.

Our health store members vehemently reject the imposition of a 23% VAT on what would represent the majority of their product lines. We contend that the increase to 23% VAT is so significant as to be unprecedented, dramatic and damaging. We oppose the proposal for the following reasons.

## Health grounds

As part of the consultation, Retail Excellence notes and welcomes the intention of the Minister for Finance to consult with the Minister for Health on the role of food supplements in health restoration and maintenance.

The VAT proposal must be seen in the context of the billions that are spent on healthcare each year from the exchequer. In this regard, prevention is many times better – and cheaper – than a cure. The HSE estimates that it costs around €856 a day to run an existing hospital bed. This includes staffing, theatres, labs and cleaning costs. Health policy should therefore be to support every positive dietary initiative possible that keeps people out of the healthcare system.

From a consumer protection point of view, we believe that the increase in VAT to the standard rate will have a demonstrably negative impact on health in society. The increased cost will deter people from purchasing health and food supplements, items that they regularly consume to maintain good health or to manage a range of conditions. Earlier this year, the media reported many personal stories from people on how food supplements have become a staple in their diet.

An iReach survey commissioned by industry body IHTA found that 71% of Irish people buy vitamins, minerals and other food supplements all year round, with 73% of those regular customers saying that they do so “to maintain and improve ongoing adult health”. There is significant public support for the status quo to remain – some 60,000 concerned citizens signed the petition earlier in 2019 to retain the 0% VAT rate.

Another outcome of the considerable increase in price will be to drive many consumers to reject our high-street health food shops in favour of purchasing items online. Many health food online vendors are based outside the EU and may not conform to EU food and health safety standards. Clearly, this development would be unwelcome on a number of fronts.

The expansion over recent years of health stores and food supplements reflects a faster pace of life in society, one in which people are consuming more convenience foods and taking less time to cook from fresh. At the same time, consumers worldwide want to ensure that they maintain a healthy and balanced diet, and food supplements provide an inexpensive and convenient way to do so. This should be encouraged, not penalised. Government’s approach should reflect our modern consumer lifestyles rather than pointing towards a bygone era of fresh fruit and vegetables.

In reviewing the VAT application on food supplements, it would be remiss not to observe the irony of a VAT rate of 13.5% applied to on fatty and sugary foods yet a 23% rate on health foods. The Government’s avowed position for a healthier Ireland should be consistent with its fiscal and taxation approach. We need to encourage our citizens to choose healthy options, not levy them into oblivion.

From a healthcare perspective, there are clear trends that more and more GPs are persuaded as to the benefits of various health foods, so much so that they are prescribing health supplements alongside traditional medicines. This trend was widely reported during the public debate on the VAT increase on health foods earlier this year. This is hardly surprising as there is an increasing body of evidence that suggests food supplements can have tangible health maintenance benefits, for example “Study finds link between vision improvement and food supplements” (RTE, Nov 2017).

Therefore, if GPs are satisfied of the benefits of food supplements to the continued health of their patients, we hope that the Department of Health will similarly be supportive of a range of health foods.

### **Economic grounds**

From an economic point of view, we are convinced that the introduction of a 23% VAT rate will be a retrograde step and self-defeating even in the short term. 2,000 businesses produce and supply food supplements in Ireland. We are assured by our health store members that the income raised by such a VAT increase will be negated many times over by job losses (1,800) and shop closures (200 stores at risk) that are as good as guaranteed.

The proposed VAT increase will have a serious impact on towns in every part of the country, not just on health store members but also pharmacy members. This will be particularly keenly felt in small towns where health food shops have become mainstays of the main street, and where an aging population depends on their products.

This is a fast-growing sector with rising employment, stores expanding into new locations, meaning higher business rates, and more direct and indirect taxes generated for the Exchequer. At the same time however, margins are extremely tight and a business model has built up around a long-standing derogation from Revenue that food supplements will attract 0% VAT rate.

The sector feels that it has been unfairly singled out for a massive VAT hike, and unhelpful demands from Revenue for retrospective payment of VAT have been reported. Health stores will not be able to absorb the costs and will have to pass it on to the consumer – yet another unwarranted cost to small business that tilts the advantage in favour of online competitors.

For these reasons, we argue that the proposal by the Department of Finance is a punitive move and is anti-business.

### **Policy grounds**

Revenue has to date allowed for a 0% VAT rate on health supplements under a long-standing derogation of some 47 years. In this case it is clear that an established practice has become long-standing policy. There is no reason why this should be changed at this juncture and we are not aware of any explicit pressure from the EU to do so.

Foods and oral medicines currently attract a 0% VAT rate. Health supplements are most certainly a food type – they can be nothing else. Health supplements must be classified as food in order to pass food safety authority checks. Indeed, the EU has already clarified the issue in a Food Supplements Directive and has determined how they are to be defined. We understand that a previous determination from Revenue in 2011 ruled that food supplements are food and that this was available to view on the Revenue website as recently as last year.

Retail Excellence simply asks that this existing determination be respected – at 0%. We see the separation of certain items such as vitamin products, fish oil-related and Folic Acid (at 0%) from other health-related and food supplements as artificial and subjective. Certainly from a consumer point of view, people don't see any delineation. They should all be levied at the 0% rate.

We agree with the observation made in the Consultation document that the retention of 0% VAT rate on food supplements will mean that some items within the product range in health stores and pharmacies will attract 0%, other products will attract the standard rate. Far from causing confusion as seems to be argued, our members are well acquainted and comfortable with managing such VAT variances across many sectors in the retail industry. One need only look at coffee shops and small restaurants to see the range of VAT rates operating seamlessly. This will not present a difficulty to health stores.

The Health Store industry has been trying to adhere to the revenue rules and sought clarity as far back as 2016. However in looking for clarity, the industry certainly does not seek a huge increase in VAT and to conflate genuine enquiries with the proposed rate increases as is hinted at in the consultation document is misleading.

#### **Our requests**

- That the Minister legislates for the retention of 0% on food supplements, via Budget 2020
- That food supplements be clearly classified as 'food' items for the avoidance of doubt
- As part of the Tax Strategy Group, for the Dept of Finance to calculate the incremental VAT income that would be raised as a result of the increase.
- No back-dated demands from Revenue on items previously allowed to be sold at 0%.

#### **Conclusion**

In summary, Retail Excellence argues that the proposed VAT treatment of health foods at the standard rate should be rejected. The explanations supporting the move are without foundation, in our view. The incremental benefit to the exchequer will be outweighed by the increase in health expenditure, compromised health outcomes, job loss and store closures.

We hope we have outlined the basis for our opposition to the measure. We are available to discuss any points made in further detail. As always, we look forward to continuing to work positively and constructively with the Department of Finance and Revenue into the future.

