

Response to VAT Consultation Document

Options for the Future VAT Treatment of Food Supplements

In responding to the Department's submission, recognises the four options presented in the Consultation document of 18 April but believes an alternative option should be considered. We call for the retention of 0% rate on food supplements, and for this to be confirmed in legislation.

Applying 23% to all food supplements would have a detrimental effect:

- **Health:** The cost increase will deter those reliant on health foods from purchasing food supplements and health foods; resulting in more pressure on an already overburdened health system.
- **Economic impact** – As a small SME, family run for 28 years, we are nervous of the possible loss of jobs or even closure.
- **Policy grounds** – Food supplements are clearly a type of food and regulated as such by the FSAI in Ireland, therefore they should attract 0% VAT.

IMPACT ON HEALTH

Everyday we hear wonderful positive stories about the impact our health food supplements on consumers. Customer feedback varies from improved mobility, better brain function, more energy to overall improvement in health. Our customers are interested in maintaining their own health – living on the premise that “Prevention is better than the Cure”. With the threat of 23% VAT, we were told anecdotally that people were angry; they felt it was a form of double taxation and were fearful that their affordability would be limited, resulting in less food supplements for health maintenance and therefore inevitably leading to an increased burden on an already overburdened health system.

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 75,000 concerned citizens signed the petition earlier in 2019 to retain the 0% VAT rate.

Another issue is quality. As a supplier of high-quality food supplements at a reasonable price, we are satisfied that our consumers are getting the best available supplements to manage their health. 23% VAT will lead consumers to shop online, import from other continents that may not have the same standard of regulation, resulting in cheaper, lower grade products being imported.

The Government have spent a lot of money and time in creating the Healthy Ireland initiative – aimed at improving the health and wellbeing of everyone living in Ireland. This is a great initiative, but in my opinion, the intention to add 23% VAT to health food supplements is contradictory to the governments own health policy.

It is ironic that you can purchase a hamburger in a fast food outlet at 13.5% VAT, white sugar at 0% and cakes and biscuits at 13.5%, yet revenue intend to apply 23% VAT on health food supplements. We need to encourage our citizens to choose healthy options, not levy them for doing so.

People take food supplements to help maintain their health or treat a condition. Below are just some of the approved health claims for food supplements.

- Essential fatty acids are needed for normal growth and development of children.
- Iron contributes to normal cognitive development of children
- Biotin contributes to the maintenance of normal mucous membranes
- Calcium contributes to normal muscle function
- Calcium contributes to the normal function of digestive enzymes
- Choline contributes to the maintenance of normal liver function
- Chromium contributes to the maintenance of normal blood glucose levels
- Copper contributes to the normal function of the immune system
- Folate contributes to normal psychological function
- Folate contributes to the reduction of tiredness and fatigue
- Iodine contributes to normal thyroid function
- Magnesium contributes to normal functioning of the nervous system
- Molybdenum contributes to normal sulphur amino acid metabolism
- Niacin contributes to normal functioning of the nervous system
- Pantothenic acid contributes to normal energy-yielding metabolism
- Potassium contributes to the maintenance of normal blood pressure
- Riboflavin contributes to the maintenance of normal vision
- Riboflavin contributes to the protection of cells from oxidative stress
- Selenium contributes to normal spermatogenesis
- Selenium contributes to the maintenance of normal hair and nails
- Thiamine contributes to the normal function of the heart
- Vitamin B12 contributes to normal homocysteine metabolism
- Vitamin B6 contributes to the regulation of hormonal activity
- Vitamin C contributes to normal collagen formation for normal cartilage function
- Vitamin K contributes to normal blood clotting
- Zinc contributes to normal DNA synthesis
- Zinc has a role in the process of cell division

As you can see, these are real benefits to health, and as such people should be encouraged to manage their health and not penalised for doing so.

ECONOMIC GROUNDS

Applying 23% VAT will have a detrimental effect on small businesses. As a small business, we are nervous of the negative impact to our business as it will cause job losses and possibly business closure. Increasing the cost of a product by 23% will inadvertently reduce sales by approx. 20-30%. When whey protein moved from 0% - 23% VAT, sales reduced by nearly 50%. People were forced to purchase online to keep costs down.

Our wholesaler partner distributes our products to 250 health stores and 1200 pharmacies nationwide. 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 ageing population depends on their products.

Businesses already work with tight margins to remain competitive with our UK competitors, so we 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. We cannot understand why a change to current practice is needed.

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.

Over the past 10 years, companies have worked strenuously to adhere to new regulation as set out by EFSA (European Food Safety Authority) which analyzed all nutrients, resulting in a database of approved health claims to be used on health food supplements. This resulted in relabeling at a huge cost, but for the benefit of consumers so that they were informed when making a purchase. To add 23% VAT to a supplement because of a health claim is unfair and a step backwards for our industry.

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
- No back-dated demands from Revenue on items previously allowed to be sold at 0%.

In summary, argues that the proposed VAT treatment of health foods at the standard rate should be rejected. The incremental benefit to the exchequer will be outweighed by the increase in health expenditure, compromised health outcomes, job loss and business closures.

Thank you for the opportunity to respond to the VAT consultation document.

Yours Sincerely,