ECONOMIC VALUE OF HAIR & BEAUTY MARKET IN IRELAND A REPORT PREPARED FOR HABIC

BY JIM POWER

SEPTEMBER 2020

Jim Power economics

HABIC

HAIR AND BEAUTY INDUSTRY CONFEDERATION IRELAND

HABIC's vision is 'to be part of a revolution in which the Hair and Beauty industry is highly supported, included, and truly valued by all stakeholders as a key industry that makes a significant economic impact to the national GDP and labour force.

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REPORT HIGHLIGHTS

9,286
HAIR & BEAUTY SALONS

The regional footprint of the sector is an **important presence on the streets of the villages, towns, and cities** all over the country.

TOTAL EMPLOYMENT
IN THE HAIR & BEAUTY SECTOR IS EQUIVALENT TO...

2.1%
OF **TOTAL EMPLOYMENT IN THE ECONOMY** AT THE END OF 2019

TURNOVER
for **HAIR & BEAUTY sector** is estimated at

€2.6bn in 2019

BLACK MARKET
IS WORTH
€400m
COSTING THE EXCHEQUER
€55M

88.9%
EMPLOYEES ARE FEMALE

TOTAL CONTRIBUTION to GDP of the HAIR & BEAUTY SECTOR IS ESTIMATED AT €2.79bn

IMPACT OF COVID-19

15 WKS OF CLOSURE

CLOSED

€580m IN LOST TURNVOER

EXPENDITURE HAIRDRESSING + HAIR & BEAUTY SERVICES in 2019

€1.44bn

EXPENDITURE HAIR PRODUCTS, COSMETIC & SKINCARE PRODUCTS in 2019

€1.2bn

HAIR & BEAUTY SECTOR HIGHLY VALUED

- SELF-CONFIDENCE
- MENTAL HEALTH
- WELL BEING

HAIR & BEAUTY SALONS

ARE ANCHOR TENANTS IN ALL HIGH STREETS & SHOPPING CENTRES, THEY ARE AN IMPORTANT

DRIVER *OF* **FOOTFALL**

EXECUTIVE SUMMARY

The hair and beauty sector delivers a service that is highly valued and important, not only from a physical grooming perspective, but also for the valued additional benefits of the self-confidence, mental health, and wellbeing that the services deliver. The sector is comprised of Hair and Beauty services, and Hair Products, Cosmetics and Skincare Products.

The Hair and Beauty sector is a labour-intensive activity, where practitioners spend a lot of time with their customers. This is the fundamental characteristic of the sector. At the end of 2019, 25,800 people were employed in 9,286 Hair and Beauty salons all over the country. The regional footprint of the sector is very strong, and it makes a significant economic, employment and financial contribution in every county in the country. It is an important presence on the streets of the villages, towns, and cities all over the country.

There is less data available on the numbers employed in the sale of Hair Products, Cosmetics, and Skincare products. However, based on turnover of €1.2 billion, employment is estimated at around 5,000.

Turnover for Hair and Beauty services is estimated at €1.44 billion in 2019, and turnover for sales of Hair Products, Cosmetics, and Skincare products is estimated at €1.2 billion. In total, **turnover in the Hair and Beauty sector is estimated at €2.6 billion.**

The demand for hair and beauty services is driven to a significant extent by the health of the economy and the general trend in consumer expenditure. From 2010 to 2013, turnover was stagnant in line with the general economic environment, but recovery started in 2014. Between 2014 and 2019, turnover is estimated to have increased by 26.4 per cent, yet profit margins remain extremely low.

Like many other segments of the economy, price compression is a feature of the hair and beauty sector. Between January 2010 and June 2020, the average consumer price of hairdressing services increased by 6.5 per cent; the average price of health and beauty treatments declined by 3.6 per cent; the average price of hair products declined by 20.6 per cent; and the average price of cosmetic and skincare products declined by 33.6 per cent.

Following the increase in the VAT rate for hairdressing services from 9 per cent to 13.5 per cent in Budget 2019 (VAT increase of 4.5 per cent), a rise in the National Minimum Wage and the removal of training rates, the average price of hairdressing services increased by 3 per cent in January 2019.

In an environment where pricing power is limited, and where input costs such as labour are rising, margins are being squeezed and there is pressure to manage costs carefully and diversify the product offering.

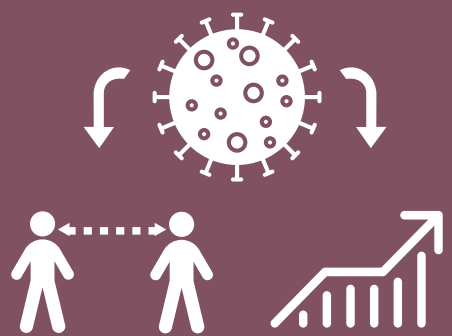
The Total Economic Contribution of the Hair & Beauty Sector

- The Direct Contribution to GDP of the Hair and Beauty Sector based on output value of €2.6 billion is estimated at €1.47 billion.
- The Indirect Contribution to GDP of the Hair and Beauty sector based on output value of €2.6 billion is estimated at €546 million.
- The Induced Contribution to GDP of the Hair and Beauty sector based on output value of €2.6 billion is estimated at €780 million.
- The total contribution to GDP of the Hair and Beauty sector is estimated at €2.79 billion.
- The industry supports 30,800 jobs directly and 18,480 jobs indirectly in the economy. The total employment supported by the Hair and Beauty sector is estimated at 49,280 jobs. This is equivalent to 2.1 per cent of total employment in the economy at the end of 2019.

KEY CHALLENGES & ISSUES:

The key challenges and issues facing the Hair and Beauty sector include:

- Direct impact of COVID-19 and physical distancing on the sector.
- The increase in the VAT rate from 9 per cent to 13.5 per cent for hairdressing services in Budget 2019.
- The ongoing growth of the black market for hair and beauty services, which is now likely to be somewhere between 30 per cent and 50 per cent of the turnover of the legitimate sector and is worth at least €400 million and costs the Exchequer at least €55 million. This issue must be addressed by the authorities to protect legitimate operators and create a level playing field.
- The abolition of the 'training rate' in March 2019.
- The more challenging economic environment post-COVID.
- The growth of environmental customer preferences.
- Creating an education and training model of excellence in the sector.



COVID-19 and the Hair and Beauty sector.

The hair and beauty sector has been impacted very significantly by COVID-19. It is estimated that the 15 weeks of closure would have cost the sector around €580 million in lost turnover. Until a vaccine is developed and delivered, the nature of the hair and beauty business will be fundamentally altered. The necessary measures will increase costs and reduce client turnover, at the recommended 2 metre physical distance salons are operating at 50 per cent client capacity. It will in summary be a much more challenging environment for the sector on all levels. The key imperative is that clients and employees will have to feel safe in the working environment.

POLICY SUPPORT ESSENTIAL.

- The growing and very damaging black market in hair and beauty must be addressed in a meaningful way.
- An amendment to the current apprenticeship model, to bring equality to pre and post 2016 apprenticeships, this should be achieved by paying an off the job training allowance as per pre-2016 craft apprenticeships
- Re-introduction of training rates for structured training programmes delivered in the workplace by employers.
- Additional support for a CPD programme, the development of a CDP framework and enhanced education qualifications with a strong focus on business development, management, and leadership.
- Reform of the commercial rent system should become a policy priority for the new Government. In many countries, '% turnover rents' are the norm.

POLICY SUPPORTS ESSENTIAL IN THE CONTEXT OF COVID-19;

- The VAT rate for hair and beauty should be cut to 5 per cent until the end of 2021, and then revert on a permanent basis to the 9 per cent rate that prevailed prior to the increase in Budget 2019.
- Continuation of the wage subsidy scheme.
- Financial support to cover commercial rates is essential.
- Business Recovery Supports as per Small Business Recovery Plan

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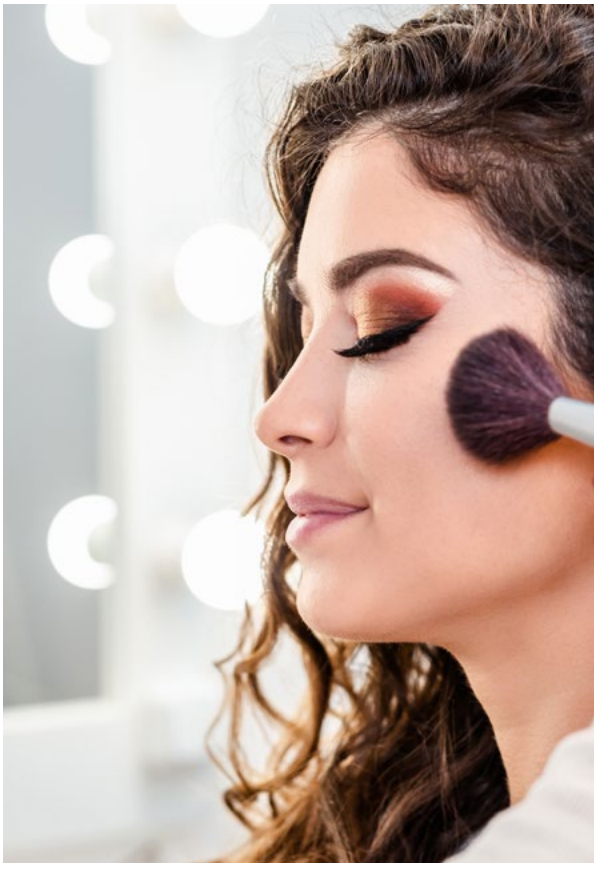


INTRODUCTION

COVID-19 demonstrated the importance of hair and beauty services in Irish life.

Following the closure of these businesses in March, the financial impact on the operators was severe, but the impact on the national psyche was equally severe. The reopening of these businesses on June 29th was universally greeted and helped lighten the mood of the nation.

The hair and beauty sector is a very important component of the economy. It provides valuable employment all over the country; it makes a significant contribution to the Exchequer; it provides a very strong training to staff; and most importantly of all, it delivers a very important service to the public.

Hair and beauty businesses have an important presence on the pressurised streets of villages, towns, and cities around the country. These businesses are anchor tenants in all high streets and shopping centres around the country and are an important driver of footfall. In addition, these businesses generally have a very positive and innovative physical appearance and certainly contribute in a positive way to the streetscape.

The hair and beauty sector delivers a service that is highly valued and important, not only from a physical grooming perspective, but also for the valued additional benefits of the self-confidence, mental health, and wellbeing that the services deliver.

The sector is made up of skilled and trusted professionals who build up a strong relationship with their clients. These professionals deliver a valuable service in a professional, efficient, hygienic, and sanitary manner.

To date, there has been no comprehensive attempt made to quantify the value that the industry creates for the Irish economy. The official data available is fractured and sparse. This report attempts to collate and interpret all available data and based on interviews with stakeholders in the sector, extrapolate all available evidence to quantify the contribution the sector makes to the Irish economy and Irish society.

This report was commissioned by the Hair and Beauty Industry Confederation (HABIC) to evaluate and assess the contribution that the sector makes to the regional and national economy.

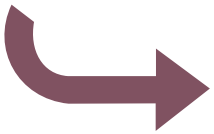
The analysis includes the number and geographical spread of the sector, with a specific emphasis on the economic contribution it makes at a regional level; the employment supported directly and indirectly in the sector; the financial contribution it makes through wages and other business costs; and the contribution it makes to the Exchequer.

The report also looks at the issues and challenges facing the sector, particularly from the growth of the 'black economy' and COVID-19. The growth of the 'black economy' in hair and beauty is doing serious damage to the legitimate industry and is robbing the Exchequer of valuable resources. COVID-19 represented a massive shock to the sector and will continue to have a negative impact for the foreseeable future. The sector was effectively shut down for almost four months, during which times business costs continued to accumulate, but revenues collapsed. For an already low margin and challenged business sector, this has created a very challenging environment, and one which threatens the viability of many valuable businesses and considerable employment. The sector will need the same financial supports as many other businesses throughout the damaged economy for the foreseeable future. If such assistance is not forthcoming, many businesses will not survive, which will destroy jobs, undermine the health of the high streets around the country, and damage the Exchequer finances.

The needs of the collective hair and beauty industry have not traditionally been supported through a strong and united voice. HABIC aims to be that united voice that will drive positive change in the industry; enhance its reputation; and create an awareness and appreciation of the contribution that it makes to the Irish economy and Irish society. It is a confederation of key professionals, organisations, and stakeholders from across the Irish Hair and Beauty industry.

The report was prepared using a few different approaches, including interviews with many stakeholders in the sector; desk-based research, reference to research in the UK on the Beauty Industry, and official statistical agencies.

The analysis in this report seeks to measure the contribution of Hairdressing, Beauty Treatments, Hair Products and Cosmetics and Skincare. *See Appendix 1 for details of activities covered in this report.*



SECTION 1: Provides a profile of HABIC, and ISME, of which HABIC is a member.

SECTION 2: Outlines employment in the sector, both from the perspective of recent trends, but also the employment contribution at a county level. Its strong regional footprint and contribution is emphasised.

SECTION 3: Estimates the economic and financial contribution that the hair and beauty sector makes to the Irish economy, broken down by direct, indirect, and induced impacts.

SECTION 4: Looks at recent trends in the hair and beauty sector.

SECTION 5: Looks at the various issues and challenges facing the sector now and in the future. These issues include the increase in the VAT rate in Budget 2019; the informal hair and beauty sector; the abolition of training rates in March 2019; the impact of COVID-19; and the more challenging economic environment ahead.

01

SECTION 1: ABOUT HABIC AND ISME

HAIR AND BEAUTY INDUSTRY CONFEDERATION IRELAND (HABIC)

The Hair and Beauty industry is a rapidly growing sector in the Irish economy. It is a dynamic sector that is constantly evolving, changing, and adapting to customer needs. HABIC is the representative body for all sectors of the industry.

Its role and commitment is to driving industry standards, job creation, personal development and enhancing the reputation of the sector and its contribution to the economy.

The Mission Statement of HABIC is that it 'is a non-profit, national organisation designed to support and enhance the sustainable development of the Irish Hair and Beauty industry. It is a progressive and transformative organisation working on behalf of its members to deliver a comprehensive action plan which ensures the voice and needs of the industry are recognised by all stakeholders'.

Its vision is 'to be part of a revolution in which the Hair and Beauty industry is highly supported, included, and truly valued by all stakeholders as a key industry that makes a significant economic impact to the national GDP and labour force. Where the entrepreneurial and creative nature of the industry is valued, and the reputation of the industry is held in high esteem'.

HABIC has developed a five-year strategy with the aim of enhancing the reputation of the industry, further improve industry quality and standards, provide increased learning and development opportunities for members, and help raise innovation, social awareness, and professional competencies.

Specifically, **HABIC has nine strategic goals**:[i]

1. Become a **clear, focused, coherent, united industry voice**.
2. **Build upon the current successes**, which raise and enhance the collective reputation and value of the industry.
3. Actively drive **sustainable industry and economic growth**.
4. Enable and support **workforce development**.
5. Safeguard and raise industry **standards and quality**.
6. **Work collaboratively** to build strong alliances with key stakeholders to help future-proof the industry.
7. **Support members during Brexit** and **economic downturns** via networks and advisory.
8. **Create a strong, inclusive, and supportive community** of practice for all those involved within the industry.
9. Be a **worldwide exemplar in social innovation**.

IRISH SMALL AND MEDIUM ENTERPRISES (ISME)

ISME is the independent representative association for Small and Medium Enterprises. It has more than 10,500 members and accounts for more than 100,000 employees in the Irish economy, spread across many diverse sectors. Its mission includes 'to represent what is best in the SME sector' and 'to anticipate and decisively articulate the needs of the sector.'

It is now the established voice of smaller businesses in Ireland and is increasingly pushing the needs of SMEs up the political agenda.

ISME
Irish SME Association

JIM POWER

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02

SECTION 2: EMPLOYMENT LEVELS IN THE HAIR AND BEAUTY SECTOR

There are two components of the Hair and Beauty sector – *Hair and Beauty Services, and Hair Products, Cosmetics and Skincare Products*.

HAIR AND BEAUTY SERVICES

The Hair and Beauty Services sector is a labour-intensive activity, where practitioners spend a lot of time with their customers. This is the fundamental characteristic of a sector that provides a flexible and very family-friendly working environment. Census data from 2016, estimate that 88.9 per cent of employees in the sector are female. In particular, the sector employs many young females, who have limited formal education. As such, it offers a viable career path to younger people who have limited formal National Framework Qualification (NFQ) education. This is very important from a socio-economic perspective.

Additionally, the Hair and Beauty sector has an extremely high level of creative and dynamic female entrepreneurs, who have carved out successful businesses and careers in the ever expanding and highly competitive hair and beauty sector.

Under the NACE Rev 2 business classification Code 9602, 'Hairdressing and other beauty treatment', the occupations it includes are Barber, Beard trimming, Beautician, Beauty consultant, Beauty parlour, Beauty specialist, Beauty treatment activities, Coiffeur, Electrolysis specialist, facial massage, Hair clinic, Hairdressing activities, Hairdressing salon, Make-up beauty treatment, Manicurist, Pedicure, Trichologist, Beauty salon, Hair styling, and Tooth whitening/bleaching. Most of these occupations are captured within the Hair and Beauty industry in Ireland, except tooth whitening/bleaching, where employment levels are very small.

FIGURE 1: EMPLOYMENT IN HAIRDRESSERS & RELATED SERVICES

Source: CSO Labour Force Survey

The Hairdressing and Beauty services sector is a very labour-intensive part of the economy. In the final quarter of 2019, there were 25,800 employees working in the sector. Employment in the sector has increased by 14.7 per cent over the past five years. However, during 2019, there was a decline of 2,200 or 7.9 per cent in the numbers employed. This reflects the fact that many trainees once their employment position was vacant where not replaced in 2019 due to the extremely high costs involved in the training and upskilling and the abolishment of the training rates.

Figure 1 shows the trend in employment for Persons aged 15 years and over in employment (ILO) classified by three-digit SOC (2010). The employment category '*Hairdressers & Related Services*' includes '*Hairdressers & barbers*' and '*Beauticians*' and related occupations.

In 2019, there were 9,286 Hair and Beauty salons in Ireland. Table 1 provides a breakdown of the salons and employment by county.

The Hair and Beauty sector has a very strong and broad regional footprint, with a significant number of businesses and employment in every county in the country.

TABLE 1: BREAKDOWN OF EMPLOYMENT & NUMBER OF SALONS BY COUNTY

County	Number of Employees	Number of Salons
Carlow	289	136
Dublin	6,965	2,131
Kildare	1,184	416
Kilkenny	555	161
Laois	462	155
Longford	201	97
Louth	753	316
Meath	1,145	331
Offaly	480	183
Westmeath	482	198
Wexford	877	288
Wicklow	885	269
Clare	632	232
Cork	2,910	1,048
Kerry	810	344
Limerick	1,037	413
Tipperary	913	383
Waterford	573	256
Galway	1,331	533
Leitrim	183	95
Mayo	746	280
Roscommon	320	116
Sligo	359	158
Cavan	441	194
Donegal	921	392
Monaghan	346	145
Not Stated	0	16
Total	25,800	9,286

Source: CSO Labour Force Survey, & Census 2016

HAIR PRODUCTS, COSMETICS AND SKINCARE PRODUCTS

There is less data available on the numbers employed in the sale of Hair Products, Cosmetics, and Skincare products. However, based on turnover of €1.2 billion, employment is estimated at around 5,000.

03

SECTION 3: THE ECONOMIC AND FINANCIAL CONTRIBUTION OF THE HAIR AND BEAUTY INDUSTRY

The Hair and Beauty industry is a familiar and very valuable presence on the streets of the villages, towns, and cities of Ireland. These businesses are anchor tenants in all high streets and shopping centres around the country and are an important driver of footfall. In addition, these businesses generally have a very positive and innovative physical appearance and generally contribute in a very positive way to the streetscape.

The sector employs thousands of people; its activities make a significant contribution to local authorities and the Exchequer; it makes a significant contribution to economic activity, and most importantly, it provides a very valuable and valued service to the general population.

In addition to the economic and financial contribution that the sector makes, it is important to recognise the less tangible contribution that the sector makes to society. Physical grooming is important for its positive emotional benefits, its impact on self-confidence, and its impact on mental health and wellbeing. These non-tangible benefits were highlighted vividly during the COVID-19 closure of the industry.

In the area of Hair Products, Cosmetics and Skincare Products, there is a growing number of businesses evolving in Ireland, operating alongside around 10 large and well-established players. The new firms are characterised by entrepreneurship and innovation. These firms have significant potential to expand and grow and develop strong export as well as domestic market presence. This sector needs to be recognised and supported.

The economic and financial contribution that the Hair and Beauty industry makes to the Irish economy can be measured using a standard means of analysis called an 'economic impact assessment'. This type of analysis seeks to quantify the impact of three channels of expenditure undertaken by the industry.

- **Direct impact** – this relates to the employment, contribution to GDP, and tax generated by the industry's operational expenditures.
- **Indirect impact** – the economic activity and employment stimulated along the industry's supply chain by its procurement of inputs of goods and services from outside the sector.
- **Induced impact** – this comprises the wider economic benefits that arise from the payment of wages by businesses within the industry and along their supply chain to their employees, who spend their earnings in retail, leisure, and other outlets. It includes the economic activity stimulated in these outlets' supply chains.

TURNOVER IN THE HAIR AND BEAUTY SECTOR

The scale of the industry's contribution to the economy is primarily driven by Irish consumer spending on the products and services of the sector.

Using data from the CSO's *Household Budget Survey 2015-2016*, and the *CSO's Consumer Price Index Introduction of Updated Series*, it is possible to estimate the amount of money that Irish consumers spend on Hair and Beauty services.

In 2016, Personal Care accounted for 3.4168 per cent of average household expenditure. This means that in 2018, an estimated €3.65 billion was spent by consumers on personal care, and €3.84 billion in 2019.

There are two components of the sector that are considered in the analysis in this report– Hair and Beauty Services; and Hair Products, Cosmetics

and Skincare Products.

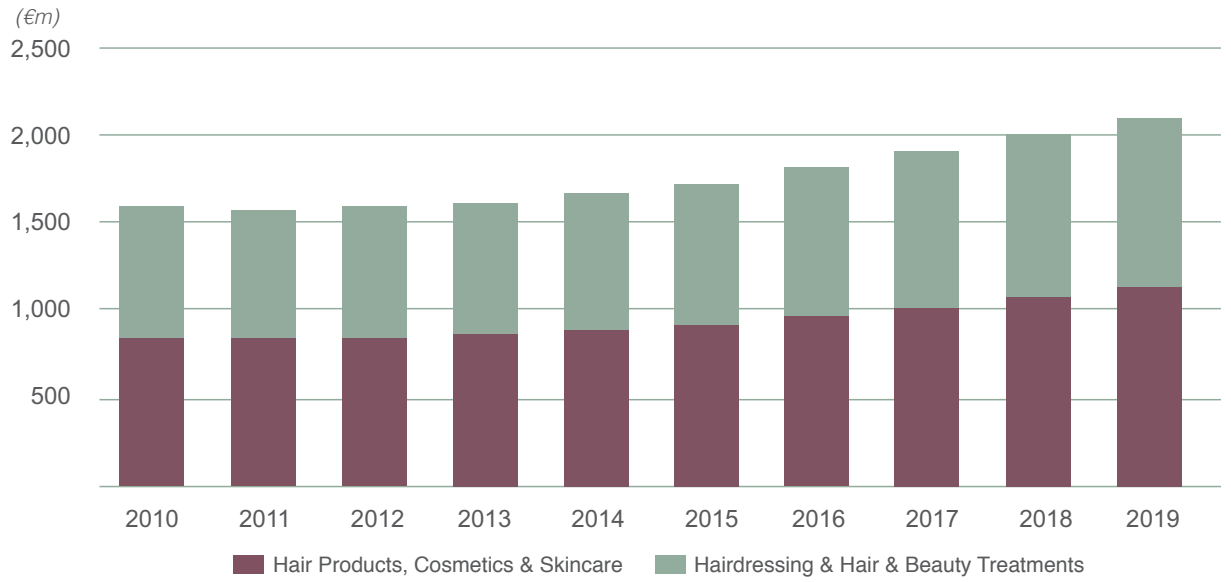
Within Personal Care:
Hairdressing and Hair & Beauty Services have a weighting of 1.28 per cent. Specifically, this means that on average, Hair and Beauty Services expenditure accounts for around 1.28 per cent of household expenditure.

- Expenditure on Hairdressing, and Hair & Beauty Services would have amounted to around €1.37 billion in 2018, and to €1.43billion in 2019.
- Expenditure on hairdressing services is estimated at €1.07 billion, and on beauty services €360 million. Total expenditure €1.43 billion.

Hair Products, Cosmetics & Skincare Products have a weighting of 1.07 per cent. Specifically, this means that on average, Hair Products, Cosmetics & Skincare Products expenditure accounts for around 1.07 per cent of household expenditure.

- Expenditure on Hair Products, Cosmetic & Skincare Products would have amounted to around €1.11 billion in 2018 and €1.12 billion in 2019.

FIGURE 2: EXPENDITURE ON HAIRDRESSING, HAIR & BEAUTY TREATMENTS, HAIR PRODUCTS, COSMETICS & SKINCARE PRODUCTS



Source: CSO & Jim Power Economics Estimates

GROSS VALUE ADDED OF HAIR AND BEAUTY SECTOR

Gross Value Added is a measure of the contribution to an economy of an individual producer, industry, sector, or region. It is a measure of the value of goods and services produced. Specifically, it is the value of output of goods and services less intermediate consumption, and this is used in the calculation of GDP.

In 2019, the value of the output of Hair and Beauty services is estimated at €1.44 billion. Hair and beauty professionals spend a large amount of time with their customers, so a large share of the value that comes from the sale of their services is generated through the business' own compensation and profits rather than through the supply chain.

In 2019, the direct contribution to GDP of the Hair and Beauty Services sector based on output value of €1.44 billion is estimated at €879 million.

Table 2: Direct Contribution of Hair and Beauty Services (2019)

No. of Salons	9,286
Number of Employees	25,800
Wage Contribution	€627m
Tax Contribution	€157m
Turnover	€1,436m
Contribution to GDP	€879m

The sales of Hair Products, Cosmetics & Skincare Products generates turnover of €1.2 billion; supports 10,800 jobs; contributes €95 million in payroll taxes, and contributes of €588 million to GDP

Table 3: Direct Contribution of Sale of Hair Products, Cosmetics & Skincare Products

2019	
Number of Employees	5,000
Wage Contribution	€175m
Tax Contribution	€44m
Turnover	€1.2bn
Contribution to GDP	€588m

In total the Hair and Beauty sector makes a direct contribution of €1.46 billion to GDP.

Table 4: Direct Contribution of Total Hair and Beauty Sector

2019	
Number of Employees	30,800
Wage Contribution	€802m
Tax Contribution	€201m
Turnover	€2.6bn
Contribution to GDP	€1.46bn

INDIRECT IMPACT OF HAIR AND BEAUTY INDUSTRY

The Indirect impact of the hair and beauty sector is the economic activity and employment stimulated along the industry's supply chain by its procurement of inputs of goods and services from outside the sector.

Based on the analysis carried out in the UK, and applying similar analysis and multiplier effects to the sector in Ireland, it is estimated that the Indirect Contribution to GDP of the Hair and Beauty sector based on output value of €2.6 billion is estimated at €546 million.

INDUCED IMPACT OF HAIR AND BEAUTY INDUSTRY

The Induced impact considers the wider economic benefits that arise from the payment of wages by businesses within the industry and along their supply chain to their employees, who spend their earnings in retail, leisure, and other outlets. It seeks to measure the wage-financed consumer spending contribution.

It is estimated that every job in the Hair and Beauty sector supports 0.6 jobs elsewhere in the economy, through the impact of the wages spent by employees in the sector. This means that direct employment in the Hair and Beauty sector supports 18,480 jobs elsewhere in the economy.

The induced contribution to GDP is estimated at €780 million.

TOTAL CONTRIBUTION OF THE TOTAL HAIR AND BEAUTY SECTOR TO GDP (2019)

- The Direct Contribution to GDP of the Hair and Beauty Sector based on output value of €2.6 billion is estimated at €1.46 billion.
- The Indirect Contribution to GDP of the Hair and Beauty sector based on output value of €2.6 billion is estimated at €546 million.
- The Induced Contribution to GDP of the Hair and Beauty sector based on output value of €2.6 billion is estimated at €780 million.
- The total contribution to GDP of the Hair and Beauty sector is estimated at €2.79 billion
- The industry supports 30,800 jobs directly and 18,480 jobs indirectly in the economy. The total employment supported by the Hair and Beauty sector is estimated at 49,280 jobs. This is equivalent to 2.1 per cent of total employment in the economy at the end of 2019.

...direct employment in the Hair and Beauty sector supports 21,960 jobs elsewhere in the economy.

04

SECTION 4: RECENT TRENDS IN HAIR AND BEAUTY SECTOR

The operating environment for the hair and beauty sector has been challenging in recent years, despite the recovery in turnover since 2014. Wages have become a more significant and growing expense in recent years due to an undocumented national skills shortage; a reduction in trainee numbers following the abolition of the training rate; competition for staff from the large and growing informal sector; and the increase in the minimum wage. Staff costs could be as high as 70 per cent of turnover in parts of the industry, but for most it is above 60 per cent. Rent costs are also a significant issue.

In an environment of consumer price compression, high and rising costs, and unfair competitive pressures from the informal sector, margins have been squeezed and are now typically in a range of 0 to 3 per cent. It is now a very low margin industry.

Apart from economic forces at play, habits are also changing. It is estimated in the industry that in 2006, customers visited the salon 9 times per year, but industry research suggests that this is now closer to 6 visits per year. COVID-19 could exacerbate this trend, particularly due to the likely persistence of a much higher level of working from home.

TURNOVER TRENDS IN THE HAIR AND BEAUTY SECTOR

The demand for hair and beauty services is driven to a significant extent by the health of the economy and the general trend in consumer expenditure. From 2010 to 2013, turnover was stagnant in line with the general economic environment, but recovery started in 2014. Between 2014 and 2019, turnover is estimated to have increased by 26.4 per cent.

CONSUMER PRICE TRENDS IN THE HAIR AND BEAUTY SECTOR

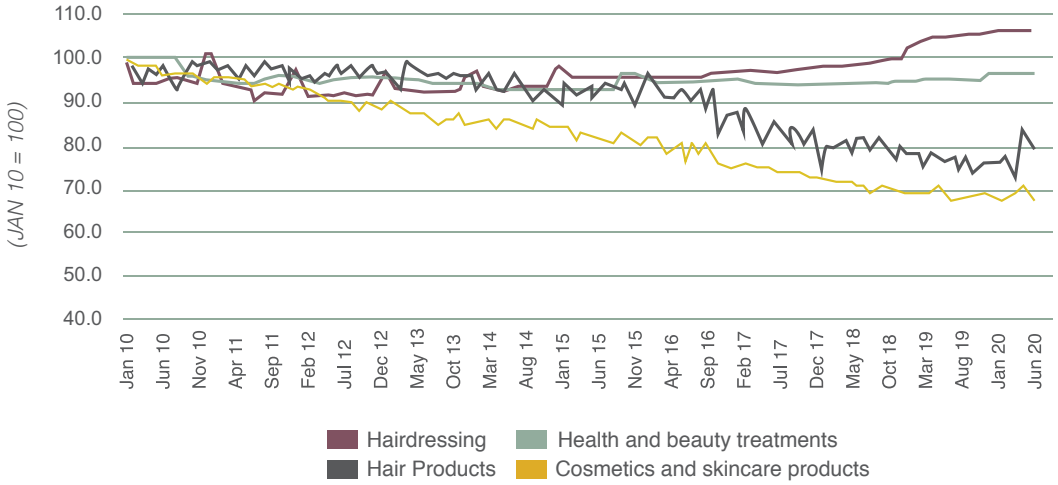
Like many other segments of the economy, price compression is a feature of the hair and beauty sector. Between January 2010 and June 2020, the average consumer price of hairdressing services increased by 6.5 per cent, the average price of health and beauty treatments declined by 3.6 per cent; the average price of hair products declined by 20.6 per cent; and the average price of cosmetic and skincare products declined by 33.6 per cent. Over the period from January 2010 to June 2020, average consumer prices across the economy increased by 7.8 per cent.

Following the increase in the VAT rate for hairdressing services from 9 per cent to 13.5 per cent in Budget 2019, the average price of hairdressing services increased by 3 per cent in January 2019.

The pricing power of the hair and beauty sector is clearly challenged. This reflects the general lack of inflationary impulses both domestically and internationally. Indeed, prior to COVID-19 policy makers across the world were focused on trying to generate some inflation in the global economy, rather than fighting inflation, which has traditionally been the role of central banks.

There are other factors that are more specific to the hair and beauty sector. These include a more subdued consumer sector in the years of economic recovery, due to a combination of subdued wage growth, high and rising property costs, the onerous personal tax burden, and a general level of consumer caution following the collapse in the economy after 2008. In addition, the growth of the informal hair and beauty sector has created an unfair market and has suppressed the ability of the legitimate operators in the sector to increase prices.

FIGURE 3: CONSUMER PRICE TRENDS



Source: CSO Consumer Price Index, Detailed Sub-Indices

In an environment where pricing power is limited, and where input costs such as labour are rising, margins are being squeezed and there is pressure to manage costs carefully and diversify the product offering.

05

SECTION 5: ISSUES FOR THE HAIR AND BEAUTY SECTOR

THE VAT TREATMENT OF THE HAIR AND BEAUTY INDUSTRY

On July 1st 2011, the Department of Finance cut the VAT rate from 13.5 per cent to 9 per cent for a range of activities, including Hairdressing. The Beauty sector did not get this VAT reduction. Analysis conducted by the Department of Finance (2018)[ii] showed that between 2011 and 2016, employment in the sector increased by 25 per cent. CSO data suggest that between the second quarter of 2011, just before the 9 per cent VAT rate was introduced and the final quarter of 2018, employment in the sector increased by 36.6 per cent.

In terms of boosting employment in the sector, the VAT reduction was effective and contributed to the significant growth in employment that occurred. In Budget 2019, a decision was taken to increase the VAT rate for the sector back to 13.5 per cent. This is even though the sector accounted for less than 4 per cent of the 9 per cent VAT activities. This increase of 50 per cent in the VAT burden resulted in an increase of 3 per cent in the average price of hairdressing services in January 2019. This price increase elicited a negative consumer reaction and pushed more customers towards the informal operators who pay no VAT or any other taxes.

It goes without saying that the higher the tax burden, the more operators will be pushed into the informal segment of the industry.

THE BLACK MARKET IN HAIR AND BEAUTY

The black market describes those parts of the economy such as labour and business that is hidden from monetary, regulatory, and institutional authorities. The growth of the black market is justifiably regarded as a very serious issue by the formal hair and beauty sector.

The growth of these activities is profoundly negative from several different perspectives.

- It is threatening and undermining the legitimate hair and beauty industry and is undermining professionalism and standards.
- Legitimate businesses who pay tax, commercial rates, insurance, and other costs, and who must abide by standards such as health and safety requirements, employment law, and company legislation, are being put at a severe competitive disadvantage.
- It is limiting the pricing power of legitimate operators and creating a lower margin and more difficult trading environment for them.
- It is creating a skills shortage within the industry, as many industry workers have left full-time employment as they find it much more attractive to work in the shadows and avoid paying tax on their income.
- It is depriving the Exchequer of valuable tax revenues.

By its very definition, it is impossible to measure the size of the black market. ISME (2016) has estimated that at a general economy level it could be as high as 15 per cent of GDP. The World Bank (2019)[iii] suggests that in advanced economies, informal output accounts for about 17 per cent of total output, and informal employment accounts for about 14 per cent of total employment.

Legitimate businesses in the hair and beauty sector correctly believe that the sector has a very high level of black-market activity. A limited survey carried out by the author of this report suggests a belief that it could account for between 30 and 50 per cent of the legitimate sector.

Given the nature of hairdressing and beauty and the experience during the COVID-19 closure of salons, it seems safe to assume that the black market in hair and beauty is likely to account for at least 30 per cent of the legitimate sector. This would imply turnover of at least €400 million, and lost tax revenues of at least €55 million. It places the legitimate sector at a severe competitive disadvantage.

A level playing field must be created.

There is no official effort made in Ireland to tackle the black market in the hair and beauty sector, not least because it would require vast resources to investigate and tackle illegal activity in the sector. One source of hope for the legitimate operators in the sector is that the move towards a cashless society that has been exacerbated by the COVID-19 health crisis, might undermine all 'cash over the counter' activities in the economy, and make every transaction more traceable.

It is incumbent on the authorities to clamp down on black market activities and not to turn a blind eye, which appears to be the situation now.

THE ABOLITION OF TRAINING RATES

In March 2019, under the Employment (Miscellaneous Provisions) Act 2018, the payment of training rates to trainee hairdressers was abolished.

Trainees over the age of 20 are now legally entitled to the National Minimum Wage. For trainees under the age of 20, lower hourly rates of pay can be paid. For those aged 18 or under, the minimum hourly rate of pay is €7.07; for those aged 18, it is €8.08; and for those aged 19, it is €9.09.

The National Minimum Wage was introduced in Ireland under the National Minimum Wage Act 2000. It was initially introduced at a rate of €5.59 per hour. In February 2020, it was increased by a further 3.1 per cent from €9.80 to €10.10 per hour.

Between January 2000 and May 2020, the national minimum wage has increased by 80.7 per cent. Over the period from January 2003 to May 2020, the average consumer price of hairdressing services increased by 46.7 per cent, and the average price of health and beauty treatments increased by 27.5 per cent.

The changes introduced in the Employment (Miscellaneous Provisions) Act 2018 has made it less attractive for operators to take on trainees. So rather than taking on the extra costs associated with trainees, many operators are now seeking to recruit more experienced staff, which in turn is pushing up wage costs. The ratio of trainees to total employees is estimated to have declined from just under 6 per cent in 2014 to just over 3.5 per cent in 2020.

Taking in trainees has become significantly less attractive for many operators, and the lack of trainees in the sector is becoming problematical now and will get worse in the future.

For the beauty sector, the training rate never applied as there is not an apprenticeship sector, and so this component of the industry was always operating at a cost disadvantage. In addition, the 9 per cent VAT rate did not apply to beauty services.

COVID-19

Hairdressing and other beauty treatment (S.96.02) has been identified as one of the sectors in the economy which is likely to have experienced the greatest disruption as a result of the public health measures used to curtail the spread of COVID-19[iv]. This is because it is a sector that relies completely on human interaction. Due to the nature of the activities, they cannot be delivered remotely and operators in the sector have suffered a calamitous decline in revenue due to the fact that hair and beauty salons were forced to close in March in the interests of public health.

It is estimated that the three months of closure would have cost the sector around €580 million in lost turnover.

During the period of closure, revenues disappeared and many of the operating costs remained in place. It is essential that operators get as much financial support as possible to enable them survive the period of closure with the consequent decline in reserves, and for a prolonged period after the reopening, given that the operating environment will be more challenging due to consumer caution, driven by health, safety, and financial concerns; social distancing requirements; and the various health protocols that will have to be implemented.

In hairdressing, barbering and beauty, there is a high level of personal contact, and this will necessitate very stringent health and safety protocols as long as the virus remains a threat, which is effectively until a vaccine is developed and delivered.

Until a safe and effective vaccine is developed and delivered, the nature of the hair and beauty business will be fundamentally altered. The necessary measures will increase costs and reduce client turnover. It will be a much more challenging environment for the sector on all levels. The key imperative is that clients and employees will have to feel safe in the working environment.

For the foreseeable future the following protocols are required:

- All clients are **screened** for signs or symptoms of COVID-19 before treatment.
- Services will be by **appointment** where possible and procedures should be developed for **walk in** services. COVID-19 questions will be displayed and other protocols. Vulnerable and elderly clients will require specific treatment times.
- **Entering** the Salon/Barber shop: Hygiene and salon protocol will be visible and sanitation stations will be available on entry and exit points.
- **Reception and Retail**: Social distancing protocols, protective screens, contactless payments and regular cleaning and disinfecting.
- **Sanitation Zones** will have to be established throughout the salon.
- 2 metre **physical distance** between clients.
- Reduced **client capacity** in line with physical distancing recommendations.
- Use of **face masks** and face covering.
- **Gowns and towels**: Where disposable towels and gowns are used, they will have to be destroyed after every use, and non-disposable will have to be laundered to a minimum temperature of 60 degrees.
- **Consultation** and service should be performed in a safe manner.
- No shared **reading material**.
- **Extended time** must be dedicated to cleaning and sanitising all workstations, treatments areas, implements and tools before and after each client.
- All high touch **surfaces and restrooms** to be cleaned and disinfected regularly.

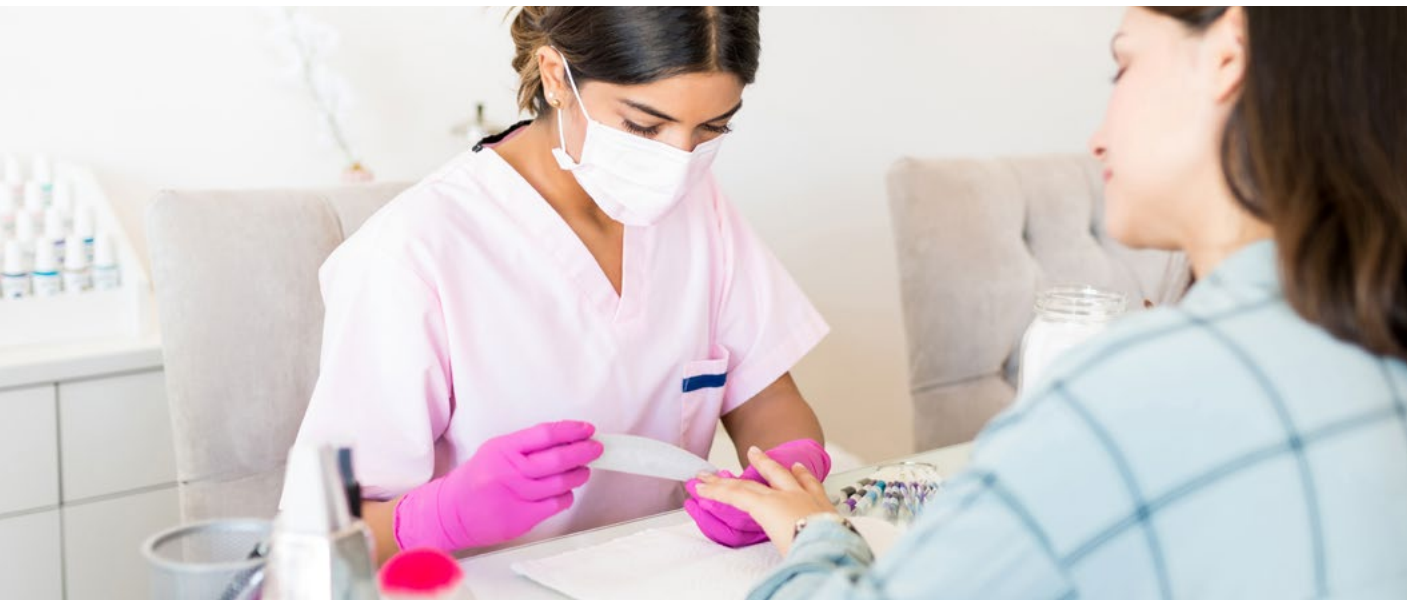
THE POST COVID-19 ECONOMIC ENVIRONMENT

The impact of COVID-19 on the economy has been severe, due to the closing down of large segments of the economy. There is considerable uncertainty about what the economic environment will look like over the next 18 months or so. However, it appears very likely that unemployment will be high; the public finances will be in significant deficit; and the overall economy will be performing well below its potential.

For the hair and beauty sector, the consumer dynamics of the economy will be crucial. Consumer confidence collapsed from 77.3 in March to 42.6 in April, which is the largest monthly drop in consumer confidence in the survey's 24-year history. It rebounded to 52.3 in May, and there was a further rebound to 61.6 in June. The improvement reflects a sense that the economy is re-opening and that employment and general economic prospects are now improving.

FIGURE 4: CONSUMER CONFIDENCE

Source: KBC Bank



There is still considerable uncertainty about what the next couple of years will bring, but the safest assumption is that consumer behaviour will be more cautious than in recent years, largely due to labour market uncertainties, and for all consumer-facing businesses the environment will be more challenging. For the hair and beauty sector, price compression is likely to remain a feature of the landscape, due to a more financially pressurised personal sector, and further growth in the informal economy.

INCREASED PRESSURE FOR GREEN AND SUSTAINABLE BUSINESS PRACTICES

Customers of hair and beauty services are becoming increasingly focused on the 'green agenda' and the 'sustainability' credentials of the industry. In Europe, there is strong growth in Green and environmentally sustainable products and services, but the growth is coming from a very low base. This demand is now becoming stronger in Ireland, and the Irish industry will have no choice other than to satisfy this customer demand or risk becoming obsolete. It is a business opportunity, but also a business necessity.

EDUCATION AND TRAINING

There is a crisis within the hair and beauty industry, which primarily involves a lack of professional recognition, which in turn is resulting in skill shortages, skill gaps and safety issues. The top three skill gaps involve technical skills, business knowledge, and retail skills. These issues threaten the future sustainability of the legitimate industry and must be addressed as a matter of urgency.[v]
There is an immediate requirement to boost the professional status of the industry, so that people will consider it as a valuable and worthwhile career choice, and that professionals will be retained within the mainstream business market. At the moment there is a lack of recognition of the industry; it is not regarded as a valuable career choice; and there is a skills gap which is manifesting itself in increasing difficulty in sourcing the required skillsets to sustain a business.

Until recently, there was no nationally recognised apprenticeship for hairdressers in Ireland that was mapped to the National Framework of Qualifications (NFQ). This is now being addressed, which is of crucial importance for the future development of the industry. The first nationally recognised hairdressing qualification has been developed by Limerick and Clare Education and Training Board in conjunction with the Industry Consortium Steering Group which is made up of HABIC/Image Skillnet, Hairdressing Council of Ireland, Irish Hairdressers Federation, Synergy Hair Group, Peter Mark, Wayne Lloyd and Catherine Cusack. The programme is being designed to deliver a nationally recognised standard that will be responsive to the needs of the industry.

The qualification involves an apprenticeship, which is defined as a programme of structured education and training. It combines learning in the workplace with learning in an education or training centre.
There is a skills shortage in the industry and many salons are struggling to find suitably qualified hairdressers to sustain and grow their business. The objective of the National Hairdressing Apprenticeship is to provide a nationally recognised qualification to the sector and provide a skilled pool of talent to meet the growing needs of the industry and add value to the employer's business.

Within the beauty sector, qualifications are offered in a formal college setting, delivered in either public or private colleges. Qualifications offered to the learners vary significantly from provider to provider. Figures from the Further Education Training sector (2018), show the dominance of females, under 25 years of age, completing a level 4 or 5 qualification in the hair and beauty industry.

In 2018, there were 6,006 unique learner enrolments across all categories for hairdressing, barbering and beauty.

310 learners completed a combination of hair, barbering and beauty courses.

For **hairdressing and barbering**, 2,055 unique learners were enrolled in FET courses.

- 94 per cent of these learners were female and 6 per cent were male.
- 62 per cent of learners were under 25.

For **beauty** related courses, 3,638 unique learners were enrolled in FET courses.

- 99 per cent of these learners were female and 1 per cent of these learners were male
- 73 per cent of learners were under the age of 25

Within the hair and beauty sector, there is a requirement for a full review process of learning and development of professionals to meet the needs of the industry, ensuring that qualifications are nationally recognised, fit for purpose and accessible.

In addition to the need for a nationally recognised qualification, there is an immediate requirement for the Government to support the introduction of a CPD framework for hair and beauty professionals. Such a framework would be beneficial in addressing the skill gaps. Ongoing structured training and development would increase confidence by teaching the requisite skills; would increase job satisfaction; and would enhance employee productivity. These attributes would enhance the sustainability and professionalism of the sector, and make it an attractive one to work in. This is of vital importance.

Elevating the professional status of the sector would create a public recognition of those working in the sector and would enable consumers make informed choices when choosing to utilise the services of black-market participants or a reputable professional business that operates to the highest professional technical and safety standards.

Government support of industry specific management and leadership skills is vital to drive sustainable development of the sector and to stimulate job creation now and into the future.

06

SECTION 6: POLICY SUPPORT FOR THE HAIR AND BEAUTY SECTOR

The Hair and Beauty sector is a very significant employer in every village, town, and city throughout the country. The operating environment for the sector has been very challenging in recent years, due to unfair competition from the black market; price compression; the increase in the VAT rate for hairdressers in Budget 2019; continuously rising input costs; and more recently, the devastating impact of COVID-19.

Several policy supports are urgently required. These include:

- The need to tackle the growing and very damaging black market.
- National apprenticeship supports and the re-introduction of training rates.
- Supports for CPD programmes and a formal education qualification review process.
- Reform of the commercial rent system should become a policy priority for the new Government. In many countries, '% turnover rents' are the norm. This option needs to be explored for Ireland, as it would make economic and commercial sense.

In the context of COVID-19, several specific measures are required:

The National Small Business Plan published by www.smerecovery.ie is based on 3 key principles.

These are:

- *'SMEs are vital to our social fabric. They provide critical jobs at a local level across the country and anchor our communities. They provide innovation and ingenuity at the heart of our communities.'*
- *'An SME Bailout is required. SMEs now need a bailout with recovery funds (capital and liquidity) on favourable terms of at least €15 bn to start the recovery of society and our economy.' And*
- *'SMEs need a post crisis boost to demand. There is no point in having well capitalised SMEs ready to do business if there is no demand.'*

These principles are totally applicable to the hair and beauty and they inform the suggested measures for the sector.

Hair and beauty businesses operate on tight margins and many have experienced serious cashflow difficulties since March.

In the provision of support, two distinct periods will need to be addressed:

- The losses suffered during the period of the shutdown; and
- The 12-month period following the reopening of the sector, during which time, business conditions will be more challenging, and costs will be higher.

(1) The VAT rate for hair and beauty should be cut to 5 per cent until the end of 2021, and then revert to the 9 per cent rate that prevailed prior to the increase in Budget 2019.

(2) Labour costs represent the biggest operating expense for hair and beauty businesses. This became a major issue for businesses that were forced to shut down, with a consequent collapse in revenues. The Government sensibly stepped in and provided a temporary wage subsidy of 85 per cent of take home pay up to a maximum weekly tax-free amount of €410 per week (TWSS). This was an essential initiative that helped businesses maintain an employment relationship with their employees.

The TWSS expired on 31 August, and from 1st September, it has been replaced by the Employment Wage Subsidy Scheme (EWSS), which is set to continue until 31st March 2021.

The EWSS allows employers to seek wage subsidies for a broader range of workers, including new hires and seasonal workers. However, the maximum subsidy per worker will fall from €410 to €203 per week and instead of being a percentage of the

employee's net pay, there will be two fixed rates: €151.50 or €203. Only workers earning above €151.50 and below €1,462 will be eligible for the EWSS.

Under the TWSS, a qualifying business had to forecast a loss of turnover of at least 25%, but under the EWSS, the threshold rises to a fall-off in business of at least 30%. In addition, the employer will have to have a valid Tax Clearance Certificate, showing that the tax affairs of the business and connected persons are in order.

For businesses in the hairdressing and beauty sector who have seen their turnover fall significantly during the COVID-19 crisis, these changes will impose considerable financial stress.

In Budget 2021, it is recommended that the wage subsidy scheme should be retained at TWSS levels until 31st March 2021. This recommendation is based on the fact that businesses in the sector have experienced a more significant decline in turnover than in most other sectors. The payments could be based on a graduated scale related to the decline in turnover.

(3) Commercial rates represent a major cost burden for many hair and beauty businesses. State intervention to cover 100 per cent of these costs is necessary for the three-month period of forced business closure. However, ongoing intervention in the form of a grant to cover these costs and keep the businesses solvent will be very important over the following 24 months.
A grant scheme to cover commercial rates on a gradually reducing basis using the following methodology is suggested:

- 50 per cent grant towards these costs where turnover is down between 50 per cent and 80 per cent on 2019 levels.
- 25 per cent grant towards these costs where turnover is down between 25 per cent and 50 per cent on 2019 levels.

These measures will be necessary for the survival of many SMEs throughout the economy, and hair and beauty businesses are no different and should not be treated any differently.

APPENDIX 1: AREAS OF ACTIVITY IN THIS STUDY

Hairdressing:

- Gents – dry haircut.
- Children's – dry haircut.
- Ladies – shampoo and set.
- Ladies – wash, cut and blow-dry.
- Ladies – hair colour and highlights.

Health and Beauty Treatments

Hair Products

Cosmetic & Skincare Products ready to do business if there is no demand

REFERENCES

i ‘Statement of Strategy 2020-2024’ HABIC.

ii ‘Review of the 9% VAT Rate’, Department of Finance, July 2018.

iii ‘Global Economic Prospects’, World Bank Group, January 2019.

iv ‘COVID-19 Regional Economic Analysis’, The Three Assemblies, May 2020.

v University of Limerick: Investigating the Development and Implementation of an Accredited Continuous Professional Development Framework within the Hair and Beauty Sector: Image Skillnet, University of Limerick, September 2020

vi British Beauty Council Oxford Economics: The Value of Beauty; British Beauty Council, Oxford Economic, July 2019

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HABIC

HAIR AND BEAUTY **INDUSTRY CONFEDERATION IRELAND**

The Enterprise Centre.
The Hill Road, Drumshanbo,
Co. Leitrim, N41 Y1F6

t: 071 96 15 200
e: info@habic.ie
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From: Minister for Finance <minister@finance.gov.ie>

Sent:28 July 2021 09:19

To: Mr. Paul Kehoe T.D. <Paul.Kehoe@oireachtas.ie>

Subject:FIN-MO-04258-2021

Our Ref: FIN-MO-04258-2021

Mr Paul Kehoe TD

(Paul.Kehoe@oireachtas.ie)

Dear Paul

I wish to acknowledge receipt of your recent email and attached Pre-Budget Submission from Ms Margaret O'Rourke on behalf of the Hair and Beauty Industry and to say that the contents will be considered in the context of the forthcoming Budget.

Yours sincerely,

Paschal Donohoe TD
Minister for Finance

The Minister is a Designated Public Official under the Regulation of Lobbying Act, 2015 (details available on www.lobbying.ie).

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Tá an fhaisnéis atá sa ríomhphost seo (agus in aon cheangaltáin) faoi rún agus is don fhaighteoir/do na faighteoirí beartaithe é agus é/iad sin amháin. Mura tusa an faighteoir beartaithe, níor cheart duit an teachtaireacht seo ná aon chuid di a úsáid, a nochtadh, a chóipeáil, a dháileadh ná a choinneáil. Sa chás gur trí earráid a fuair tú an ríomhphost seo, tabhair fógra dom láithreach faoi sin agus scrios gach cóip den ríomhphost seo ó do ríomhchóra(i)s. Tabhair faoi deara go bhféadfaidh an ríomhphost seo agus aon fhreagra air bheith faoi réir iarraidh ar a eisiúint de bhun an Achta um Shaoráil Faisnéise

From:	Minister (DFIN)
To:	"mo-finance@spf2.cloud.gov.ie"
Subject:	FW: VAT Rate for the Personal Grooming Industry
Date:	Tuesday 27 July 2021 12:34:01
Attachments:	Minister for Finance 19th of July 2021..pdf JIM_POWER_HABIC_ECONOMIC_IMPACT_REPORT_HAIR__BEAUTY_IND_2020.pdf

eCorr FIN Brian Fee AP- Pre Budget Submission

From: Paul Kehoe <Paul.Kehoe@oireachtas.ie>
Sent: Tuesday 27 July 2021 10:46
To: Minister (DFIN) <Minister@finance.gov.ie>
Subject: FW: VAT Rate for the Personal Grooming Industry

Dear Paschal,
Please see below correspondence from Margaret O'Rourke Doherty from the Hair and Beauty Industry Confederation regarding the VAT rate for the personal grooming industry for your consideration,
Kind regards,
Paul

From: [redacted]
Sent: Monday 26 July 2021 17:05
To: Paul Kehoe <Paul.Kehoe@oireachtas.ie>
Subject: VAT Rate for the Personal Grooming Industry

Dear Mr Kehoe,

As per my previous email, the Covid-19 pandemic has had a devastating impact on the hair and beauty industry. A recent report by economist Jim Power, as attached, showed that the black market in hair and beauty accounts for at least 30% of the legitimate sector. This would imply a loss in turnover of at least €400m, as well as lost tax revenues of at least €60m.

Apart from these serious financial implications, the huge growth in black market activity during the pandemic has also caused a staffing crisis for all salons, with many highly experienced professionals choosing to continue working illegally in the shadow economy, instead of returning to the workplace.

At present, the 9% VAT rate applies to hairdressing services, while the 13.5% VAT rate applies to beauty services. To assist in the recovery of the sector, one of the key recommendations in Mr Power's report is to temporarily reduce the VAT rate for these services to 5%, followed by the 9% VAT rate on a permanent basis.

Unfortunately, the Minister for Finance has advised us that the current EU VAT rules do not permit Ireland to apply lower rates than those already in place.

However, there is currently a proposal from the EU Commission under consideration by the Council of Economics & Finance Ministers (ECOFIN) that would allow member states to set significantly lower VAT rates for hairdressing and beauty services.

Therefore, it is essential for the future viability of our industry that the EU Commission's proposal is adopted by ECOFIN.

I have sent the attached letter to the Minister for Finance, Paschal Donohoe, seeking his support for the Commission's proposal and I would appreciate if you could make representations to him to ensure that this support is forthcoming.

As the VAT rate is a vital issue for the hair and beauty sector, I look forward to hearing from you as soon as possible.

Best Wishes,

Margaret O'Rourke Doherty
CEO

[redacted]
W: www.habic.ie

HABIC
HAIR AND BEAUTY INDUSTRY CONFEDERATION IRELAND

Hair and Beauty Industry Confederation,
The Enterprise Centre, Hill Road, Drumshanbo, Co. Leitrim. N41Y1F6

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HABIC
HAIR AND BEAUTY INDUSTRY CONFEDERATION IRELAND

19th of July 2021

Your Ref: FIN-MO-02521-2021

Mr Paschal Donohoe TD
Minister for Finance
Department of Finance
Merrion Street
Dublin 2

Dear Minister Donohoe

Thank you for your email dated 9th June 2021 in response to my letter of 20th April 2021.

You have advised that Article 118 of the EU VAT Directive precludes Ireland from applying the second reduced VAT rate of 9% to beauty services.

Article 118 restricts the application of the second reduced rate to goods and services that are specified in Annex III of the Directive. In this regard, it is possible for Ireland to apply the second reduced VAT rate of 9% to hairdressing services, since these services are already specified in Annex III. On the other hand, beauty services are not specified in the Annex and for that reason, these services are not currently eligible for the second reduced VAT rate. As you have pointed out, Article 118 provides a derogation for Ireland to apply a reduced rate of no less than 12% to beauty services.

As you know, there is currently a proposal under consideration by the EU Economic and Financial Affairs Council (ECOFIN) to extend the range of goods and services to which reduced VAT rates may be applied by EU member states.

Annex III of the VAT Directive is a 'positive list' of goods and services to which member states may apply a reduced VAT rate. Hairdressing is included in this 'positive list', but beauty services are excluded.

The original proposal from the EU Commission to ECOFIN would have abolished the 'positive list' in its entirety and replaced it with 'negative list' of goods and services - such as petrol, cigarettes, alcohol, electronic goods and financial services - to which a reduced VAT rate could never be applied. Member states would then be free to apply a reduced rate of VAT to any goods or services, including hairdressing and beauty services, that were not specified in this 'negative list'.

This proposal from the Commission would have automatically removed the present Article 118 impediment that prevents Ireland from having a reduced rate below 12% for beauty services.

I am attaching an update issued by ECOFIN on 4th June 2021 on the status of the proposal to amend the VAT Directive. It appears that ECOFIN is unwilling to adopt the Commission's proposal of establishing a 'negative list' and instead, wishes to expand the current Annex III 'positive list'.

The Hair and Beauty Industry Confederation (HABIC) is concerned with the final paragraph of the ECOFIN update which states the following:

Ensuring a level playing field in the VAT Directive in what concerns the application of VAT rates, by allowing all Member States the right to apply a zero rate or a super reduced rate to a limited set of supplies of goods and services.

Presidency proposed solution: Allow the application of these rates exclusively to certain supplies of goods and services that address basic needs and clear public policies (covering the categories related to food and water, medicines and health products, transport of persons, some cultural items and solar panels).

If this solution is adopted by the ECOFIN, the current 'positive list' in Annex III would be extended in a limited way to allow a reduced VAT rate for *'goods and services that address basic needs and clear public policies'* and it is not clear whether the amended Annex III would include beauty services or indeed, hairdressing services.

It is also significant that the EU Commission had previously proposed in July 2008 that *'personal care of the kind provided in hairdressing salons and personal grooming establishments'* should be added to Annex III - but this proposal was subsequently pared back to merely add *'hairdressing'* to the Annex, when it was adopted by ECOFIN the following year.

The 2008 Commission proposal was made at a time when the EU and the world were facing into a major financial crisis and it underscored the economic justification for extending the reduced VAT rate to labour intensive personal care services, such as hairdressing and beauty treatments. This economic justification has even more merit today, especially when the COVID-19 pandemic has had a far greater negative impact on the hair and beauty sector than the earlier 2008 financial crisis.

I am attaching once again the report prepared by economist Jim Power which highlights the extremely damaging impact of the COVID-19 pandemic on the hair and beauty sector and notes the numerous measures required to ensure it is sustained into the future. The permanent introduction of the second reduced VAT rate of 9% for both hairdressing and beauty services is a key measure in securing this objective.

Hairdressing and beauty services are very labour intensives and significantly, these services are supplied and consumed entirely in the local community. Accordingly, the permanent application of the second reduced VAT rate does not create any distortion in the operation of the EU single market.

Moreover, the failure to introduce the second reduced rate on a permanent basis for both hairdressing and beauty services would exacerbate the migration of these services into the black economy, which has already occurred during the pandemic and, of course no VAT whatsoever is charged by these non-legitimate operators.

Ireland already applies the reduced 13.5% VAT rate to beauty services by virtue of Section 46(1)(c), Schedule 3, Para. 21(1) of VATCA 2010 (Miscellaneous Services). Therefore, it is logical that Ireland would support the inclusion of these services in an expanded Annex III of the EU VAT Directive.

In the circumstances, I would appreciate if you could indicate your general position regarding the ECOFIN deliberations and specifically, whether Ireland will seek the inclusion in Annex III of the services already eligible for the reduced VAT rate here in accordance with Section 46(1)(c), Schedule 3, Para. 21(1) of VATCA 2010.

I would also appreciate if you could confirm that the proposed Annex III to the EU VAT Directive will retain the reduced VAT rate for hairdressing, as already provided for in the present Annex III.

Yours sincerely,

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Margaret O'Rourke Doherty
CEO
[redacted]

Copied:
John Hogan, Secretary General, Department of Finance.
Emma Cunningham, Tax Division, Department of Finance.
Gary Tobin, EU & International Division, Department of Finance.