

A FATAL CUT?

**A SUBMISSION TO GOVERNMENT ON
BEHALF OF THE IRISH HAIRDRESSERS
FEDERATION**

Prepared by: Octavian Economics

20th January 2023



LOW VAT: ESSENTIAL FOR INDUSTRY SURVIVAL

THE GOVERNMENT'S DECISION TO CUT VAT ON NEWSPAPERS TO 0% FROM JANUARY 2023 SHOWS THAT THE PRINCIPLE OF LOWER VAT IS NOW ACCEPTED GOVERNMENT POLICY TO SAVE INDUSTRIES IN DIFFICULTY.

AS THE BODY REPRESENTING THE INDUSTRY MOST ADVERSELY AFFECTED BY LOCKDOWN THE IRISH HAIRDRESSERS' FEDERATION CALLS ON THE GOVERNMENT TO NOT ONLY MAINTAIN THE 9% VAT RATE FOR OUR INDUSTRY BUT REDUCE IT TO 5% - CONTEMPORANEOUSLY WITH THE REDUCTION OF VAT TO 0% FOR THE NEWSPAPER INDUSTRY - IN ORDER TO COMBAT RISING COSTS, WAGES AND NEW EMPLOYER OBLIGATIONS.

FAILURE TO ACT COULD CONSTITUTE A FATAL CUT FOR OUR VULNERABLE INDUSTRY.

Our domestic economy faces the same challenge as in 2011, when VAT was first cut, only worse: Energy and labour costs – the latter added to by pension and sick leave obligations – are now higher.

The Government's own research shows that our industry rewarded the 2011 cut in VAT by boosting employment by VAT. But our industry – which cannot digitize its core service – was much more exposed than other sectors to lockdown, and to the current economic downturn and inflation.

FOR ALL THESE REASONS, VAT MUST NOT ONLY BE KEPT AT 9%, BUT CUT FURTHER TO 5%

The case for this on grounds of public policy grounds is overwhelming, on several levels:

- The Government's own research – a 2018 Department of Finance study – shows how our industry rewarded the last cut in VAT by boosting employment by 25%
- Our industry was not just partially but entirely shut down by lockdown leading to a loss of staff and skills. It is highly sensitive to economic slowdown
- Unlike hotels we cannot pass on VAT to customer and we are far more exposed to the shadow economy. Like hotels, we cannot digitise the service we provide.
- We are allies of Government in renewing towns and villages. We provide a vital unpaid social service for the elderly.
- We are employers of young people and women in rural and regional economy but the abolition of trainee rates hampers our ability to take on young staff.
- We are crucial allies of Government the front line against a shadow economy.
- We are a vital community hub for news and opinion and provide unpaid social support for the elderly and job opportunities for young people.

KEY TAKE-AWAYS (KTAS)

- In reducing VAT to zero on newspapers, **Government already accepts that cutting VAT is needed for vulnerable industries.**
- Employment in our industry stood at 18,000 in 2018 and based on our analysis below has growing to 21,000, close to 1 per cent of total employment. **This is 5 times the level for the newspaper industry, according to that industry's official representative body [1].**
- As analysis of its recent history during the pandemic shows, employment in **hairdressing is significantly more volatile and responsive adverse economic developments. And as latest economic data and industry survey show the sector faces, once again, an existential crisis**
- We are an Industry that is highly reliant on energy to provide our services. **Our Members say they have experienced increases of up to 70% per unit price of electricity/energy in the last year.**
- More positively, as both Department of Finance analysis of the impact of the 2011 VAT reduction and, also, recent employment trends demonstrate, **the hairdressing industry rewards positive stimulus with significant jobs growth.** But the abolition of Trainee rates of pay in 2018 hampers our industry's ability to hire young people without skills.
- Hairdressing is a vital ally of the Government in promoting **rural and regional "town and village centered" recovery** as well as in promoting skills and employment in those areas in younger, economically vulnerable population cohorts.
- Hairdressers are key sources of community news, social engagement **and opinion.** This aspect of our industry justifies a VAT reduction as will be implemented next month for newspapers.
- Hairdressing is **vulnerable to - and is a vital ally in the fight against - the shadow economy** Between 2012 and 2016, the average annual cost of the VAT reduction for the Hairdressing sector was just €26 million. But recent estimates put the cost of the shadow economy at over twice this amount. And once a hairdresser leaves the legitimate economy, this net loss is exacerbated by the cost of legitimate operators leaving the industry and by higher costs of fighting tax evasion.

[1] Some 4,000 are employed in the newspaper industry according to News Brands Ireland's website.

KEY RECOMMENDED ACTIONS (KRAS)

- We call on the Government to reduce the VAT rate on the Hairdressing industry to 5%
- As vital employers – particularly of young people – in towns and villages, the IHF seeks and offers full stakeholder partnership in implementing “Our Rural Future” and town and village renewal strategies and in developing Local Economic Community Plans.

Consequently we are seeking a dialogue with Government as soon as possible to work towards:

- A commitment to 1% of the estimated €855 million in the National Training Fund surplus in developing a properly accredited system of skills and Continuous Professional Development, consistent with the development of Apprenticeship and NFQ^[2] qualifications in the industry.
- An increase from the current level of €2,000 per Apprentice to a level of €6,000 in payment support for new apprenticeships.
- Support for industry specific management and leadership skills to drive sustainable development of the sector.

[2] National Framework of Qualifications.

INTRODUCTION: 2023 – A DARKENING ECONOMIC OUTLOOK

THE ORIGIN OF THE 9% VAT RATE

The current rate of VAT applied to the Hairdressing industry was introduced in July 2011. To see how the importance of maintaining this low rate has not only remains but has increased, a brief comparison of the latest economic trends for the third quarter (Q3) of 2022 with economic outcomes for 2011 as a whole is a necessary starting point. But it is only a starting point as, since 2011, business costs have escalated.

While still growing, Gross Domestic Product in the latest period of measurement (Q3 2022) was weaker in quarter-on-quarter terms than the full year outturn for 2011. Gross National Income modified [3] (GNI*) is also performing worse than in 2011 with clear declines evident since interest rates began rising in July.

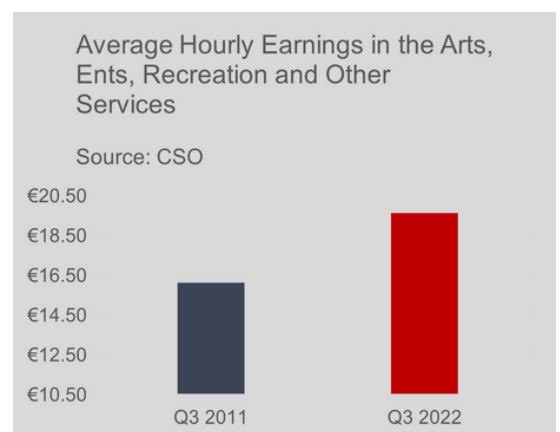
And the outlook is darkening: Major forecasters such as the OECD are sharply revising their forecasts for overall Irish economic performance and there is little doubt that behind the evidence of weak GDP growth – sustained only by multinational Pharma and High Tech exports – the indigenous economy is set for recession as the full impact of interest rate rises begins to be felt in earnest.

2023 –V– 2011: BACK TO THE FUTURE?

2011	GDP + 2.8%	GNI* -0.8%
2022 Q3 Quarterly Change	GDP + 2.3%	GNI* -1.1%

This is happening against the backdrop of higher costs:

Since the commencement of the 9% VAT rate in third quarter of 2011 and the third quarter of 2022, Average hourly earnings have risen by 21.6 per cent, a rise of over one fifth in a low margin industry.



[3] Also referred to as Modified Domestic Demand.

THE SUCCESS OF THE 9% VAT RATE

The success of the 9% VAT rate is testified by the creation of thousands of new jobs in the industry since Q3 2011. In addition, our industry was instrumental in keeping footfall coming into the high streets of Ireland during the economic crisis of 2008–2013.

This is in spite of adverse conditions prevailing over much of the intervening decade during the Global Financial Crisis and its impact on the domestic economy (up until 2015) and since the pandemic of 2020, the impact of which still lingers in the form of depleted skills and more apprehensive customers.



DON'T MESS WITH SUCCESS

The success of the 9% VAT rate during difficult times was already evident from the Department of the July 2018 Finance report *“Review of the 9% VAT Rate – Analysis of economic and sectoral developments”*.

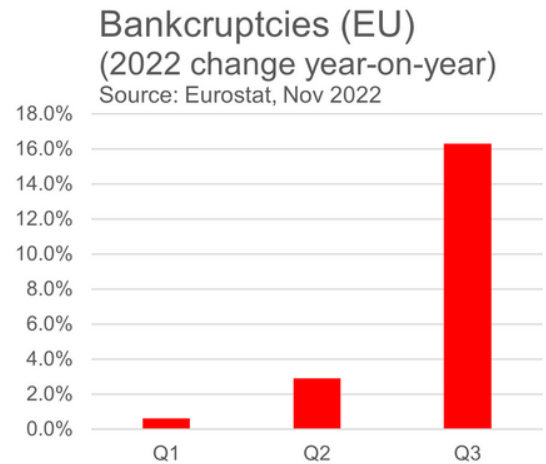
As shown in 2018 Department of Finance research findings industry employment grew by 25 per cent from 2011 and 2016 despite the long delay in domestic Irish economy recovery in that period. This success should not be tampered with

While tempting in our currently full employment economy to conclude that protecting jobs is less necessary, this would be very mistaken for several reasons:

Firstly, alarming trends in bankruptcies – a sudden 16 per cent year-on-year rise in Q3 of this year – point to a darkening outlook across the European economy as interest rates rise. Our industry is on the front line of this challenge.

Secondly, even though overall unemployment remains low by historical standards, unemployment within the Hairdressing industry has the capacity to rise very rapidly, as shown by the table below which tracks how the broader *“Other Personal Service Activities”* sector declined during lockdown.

Thirdly, consumer sentiment has now reached levels unseen since 2008 and demand in our industry is (see below) very sensitive to external conditions. Having faced an existential crisis in 2020, the industry requires much longer than others to fully recover, particularly in the coming challenging economic environment.



Pandemic impact in *“Other Personal Service Activities”*

Industry indicator	Pandemic impact (2020 level -v- 2019 level)
Distribution and Services Enterprises	-11.3%
Personnel Costs	-24.5%
Persons engaged	-32.9%
Turnover	-7.6%

Source: CSO data (Category NACE 96)

A woman with short blonde hair is speaking into a microphone with the RTE logo. The background is a blurred outdoor setting. The text is overlaid on the right side of the image.

"Soaring energy prices and rampant inflation are now taking their toll and we face a very challenging period, both socially and economically."

European Economy
Commissioner, Paolo Gentiloni

A VOLATILE, VULNERABLE INDUSTRY THAT AFFECTS THE SMALL TOWN ECONOMY

While unavailable for the Hairdressing industry on its own, CSO data for the broader "Other Personal Services activities" – which is dominated by Hairdressing and Other Beauty Treatment services and is a good benchmark for our industry's responsiveness to the broader economy – clearly shows how vulnerable our industry is to both economic downturn and recovery:

The first trend to notice in the chart below is how, over the course of 2019, employment in Other Personal Services declined despite robust overall economic growth with a fall of over 2,000 being recorded in industry employment in that year. This reflects the first round impact of the abolition of trainee rates and the temporary reversal of the 9% VAT Rate introduced in 2011.

But as demonstrated by subsequent developments, employment collapsed due to lockdown. Unlike other sectors that have received favourable treatment in the form of a VAT reduction – newspapers being a key example – the core service of hairdressing and beauty treatment services cannot be digitized.

The positive side to the story is that, subsequent to the restoration of the reduced VAT rate and pre lockdown normality, the industry has once again demonstrated its capacity to reward positive Government action by delivering an even higher rate of employment – driving employment in the broader "Other Personal Services" category to a new height of over 43,000.

The key question is: Does the Government want to reward and encourage this success? At this critical juncture when the industry is likely – as suggested by the results of our latest member survey – to experience a significant deterioration in demand (and at a time of rising costs) – Government action, or inaction, could yield decisively positive, or negative, results.

The future of the industry is literally – now and in a very significant way – in the hands of Government. Government action will be decisive and will be seen to be so, one way or another.



AN INDUSTRY ON THE BRINK

The results of our latest membership survey strongly suggest that not only has employment in our industry reached as high as it can, but that the industry stands on the brink of a significant deterioration as a combination of rising costs and falling demand make operators non-viable.

When asked about the change in levels of customer demand in the preceding six months (May to October), almost half (47.5 per cent) of respondents said demand had declined (just over one quarter indicated that demand was unchanged)

As this period captures only the impact of the first two of four European Central Bank interest rate increases, subsequent rate rises and the emergence of indicators of a downturn in consumer confidence and economic performance both bear out these survey results and imply a worsening of industry sentiment over the coming year, with more respondents moving from reporting unchanged to decreased levels of demand.

The comments section of our survey is overwhelmingly negative with respondents reporting growing levels of debt, anxiety and concern about maintaining employment.

When asked what measures Government should take to help the industry, the response is overwhelmingly in favour of reducing or at least maintaining the VAT rate.

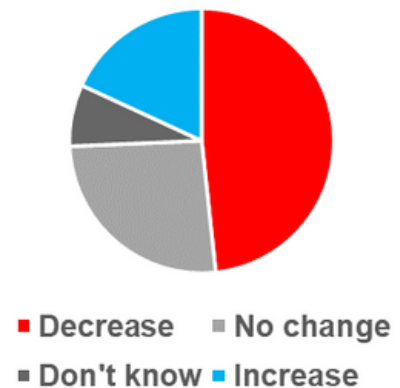
Respondents also report that they have experienced increases of up to 70% per unit price of electricity/energy in the last year. Our industry relies heavily on energy and we cannot provide our services without it.

For salons using the apprentice training model The National Hairdressing Apprenticeship is unable to meet industry demands due to its time restrictive intake, lack of nationwide providers, and limitation of only 14 apprentices per course. While the traditional salon trainee model is no longer a viable option for many salons due to the abolishment of trainee rates in 2019.

THIS IS AN INDUSTRY THAT DESERVES BETTER THAN IT IS GETTING. AS WE OUTLINE IN THE ENSUING SECTIONS, IT IS AT THE HEART OF ECONOMIC AND SOCIAL LIFE IN MANY TOWNS AND VILLAGE AROUND IRELAND AND PROTECTING IT IS NOT ONLY CONSISTENT WITH GOVERNMENT POLICY, BUT PROACTIVELY ALIGNED WITH IT.

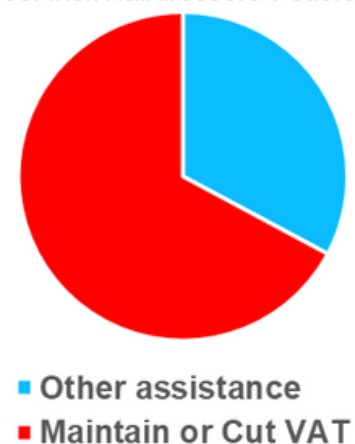
Change in customer demand in past six months

Source: Irish Hairdressers' Federation



What measures should government take to help the Hairdressing industry?

Source: Irish Hairdressers' Federation



WHAT WE GIVE TO ECONOMY AND SOCIETY

EU policy in relation to VAT requires “public policy” grounds to exist in order to justify a reduction in VAT rates. The minimum rate of VAT applicable to the Hairdressing industry according to EU law is 5 per cent. In asking for VAT to be reduced to this level, we do so not out of self-interest (our members operate mostly single outlets and on relatively low margins) but with genuine public policy justification, as follows:

A SIGNIFICANT EMPLOYER

Assuming that trends in the Hairdressing and Other Beauty Treatment sector mirror those of the broader “Other Personal Services” sector, then employment in the industry is likely to have grown from just over 18,000 in 2018 to approximately 21,000 as of Q3 2022, or 0.8 per cent of total employment. This is comparable to employment in the Funds industry, an industry strongly supported by Government.

A SIGNIFICANT CONTRIBUTOR TO THE LOCAL COMMUNITY

In its decision this year to reduce VAT to zero for the newspaper industry, the Government has implemented a key promise in its Programme for Government and, in doing so, laid down a principle that justifies our industry’s call for help: It has recognised not only the economic but also the social contribution of key industries to the wellbeing and welfare of our citizens.

SUPPORTING FLEXIBLE EMPLOYMENT FOR WOMEN AND THE RURAL ECONOMY

Assuming that trends in the Hairdressing and Other Beauty Treatment sector mirror those of the broader “Other Personal Services” sector, then employment in the industry is likely to have grown from just over 18,000 in 2018 to approximately 21,000 as of Q3 2022, or 0.8 per cent of total employment. This is comparable to employment in the Funds industry, an industry strongly supported by Government.

A SIGNIFICANT CONTRIBUTOR TO THE LOCAL COMMUNITY

Bearing in mind the foregoing analysis pointing to a decline in the domestic economy it should also be reminded that the rural and regional economy in Ireland depends more significantly on high street footfall, to which our industry contributed during the 2008 to 2013 economic downturn and, until recently, as the economy emerged from lockdown. And for women seeking to balance home life with the opportunity to work part time, the Hairdressing industry provides employment in a friendly community setting with social hours and short commuting distance.



Rialtas na hÉireann
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Government of Ireland

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Our Rural Future

Rural Development
Policy 2021-2025



“The rural and regional economy in Ireland depends more significantly on high street footfall, to which our industry contributed during the 2008 to 2013 economic downturn and, until recently, as the economy emerged from lockdown.”

COMMUNITY COMMUNICATION, MORALE AND SUPPORT

For many people a Hairdresser or Barber is more than just that. For many people the hairdressing industry is an unpaid source of community engagement, news and even counselling and advice.

In an Ireland where so many bank branches and Post Office branches have closed and where the digitised economy risks alienating more isolated members of smaller towns and villages from their surroundings, the hairdressing industry remains a focal point of human focused, person to person contact.

This point is particularly relevant to the stating – as is consistent with EU requirements in lowering VAT – the “public policy” case for policy action, as is done in the ensuing section.

WHY WE DESERVE 1% OF NATIONAL TRAINING FUND RESOURCE

When ascertaining the case for using National Training Fund resources for industry support, this proportion of employment underestimates the case for the level of desirable support for several reasons:

- We believe we make a contribution to society and the nation at large that is, in social and community terms, significantly larger than can be measured solely by headcount.
- Our industry is more vulnerable and volatile than more “resilient” export oriented sectors.
- As a non-traded sector, the industry does not receive support from Enterprise Ireland.
- The industry’s capacity to benefit from the success of Ireland’s FDI economy is limited to indirect demand effects with no capacity.
- By definition, the Hairdressing industry cannot digitize its services.

FOR MANY YEARS, THE HAIRDRESSING INDUSTRY HAS GIVEN FAR MORE THAN IT HAS RECEIVED. IT IS NOW TIME TO REDRESS THAT BALANCE AND HELP THE INDUSTRY IN A TIME OF URGENT NEED.

THE PUBLIC POLICY CASE FOR LOWER VAT IN THE HAIRDRESSING INDUSTRY: PROTECTING JOBS AND SMALL TOWN IRELAND

It would be foolish, both economically and politically, to think that the scars of lockdown have fully healed in Ireland's rural and regional economy. Soon after the end of lockdown, these wounds are now re-opening as rapidly rising inflation and the impact of resultant interest rate rises squeeze domestic demand. Those wounds are social as well as economic and in addressing them, we need to take inspiration from one of the opening paragraphs of the Programme for Government:

"The wellbeing of our nation, however, goes beyond the narrow confines of economic growth. Over the next five years, the Government will use wellbeing indicators as well as economic indicators to point out inequalities and help ensure that policies are driven by a desire to do better by people."

In making this submission, we have taken this principle to heart and presented our industry not just in terms of its employment and revenue contribution, but also its social value to the communities that it serves. But even the economic contribution of our industry is more nuanced than can be captured in economic statistics: The act of getting one's hair done is often an important engagement and, as a significant spending item, draws customers in to the main streets of our towns and village where they spend additional money on retailers and other community based service outlets.

The Government's own policy document "Our Rural Future" commits to revitalizing our town and village centers and to invest in amenities and, in particular through the "Town and Village Renewal Scheme – in revitalising derelict and vacant sites – to that end . Helping hairdressing operators to continue doing businesses in these communities – places where disposable income is often low and vulnerable to economic downturn – will help present new vacant and boarded up sites from emerging and encourage commerce to thrive in them.



Our Rural Future
Rural Development
Policy 2021-2025



CONCLUSIONS – AN INDUSTRY THAT DESERVES, AND NEEDS, A BREAK

A failure to support our industry at this critical juncture could constitute a fatal, final cut – pushing many of our members to close for good, throwing thousands of young workers onto the dole and depriving many elderly in rural and regional Ireland of one of the few remaining hubs for community engagement and socializing.

In this submission we have – using already available data, survey and research findings – presented our case for a reduction in the rate of VAT applied to our industry to the minimum allowable rate under EU law, 5 per cent. We have done so by pointing out the following:

- In implementing a zero VAT rate for the newspaper industry, Government has acknowledged the principle of lowering VAT on public policy grounds for vulnerable industries. Our industry employs five times the numbers employed in the newspaper industry.
- Our industry was rewarded the Government's last VAT rate cut (July 2011) and, subsequently, the restoration of that lower VAT rate post lockdown by boosting employment.
- Our industry is clearly more vulnerable than others to economic downturn and falls in consumer confidence and spending, falls that are now gathering momentum.
- Our industry contributes – out of proportion to its economic size– to youth employment, community connectedness (particularly for the elderly) and to footfall in towns and villages.
- Thus, our call for a reduced VAT rate is justified on “public policy” grounds.
- We are an ideal partner for Government in assisting local town and village renewal.
- We ask for our fair share of resources from the National Training Fund to alleviate skills shortages caused by both 2018 legislation and the 2020 lockdown, and for the fully fledged development of Apprenticeship, CPD, management skills training and professional recognition in our industry.

A person wearing a light blue surgical mask and a white long-sleeved shirt is holding a white rectangular sign in front of a window with horizontal blinds. The sign has the word "CLOSED" printed on it in large, bold, grey capital letters. The person's hands are visible at the top corners of the sign. The background consists of the horizontal slats of the window blinds.

CLOSED

“A FAILURE TO SUPPORT OUR INDUSTRY AT THIS CRITICAL JUNCTURE COULD CONSTITUTE A FATAL, FINAL CUT, PUSHING MANY OF OUR MEMBERS TO CLOSE FOR GOOD, THROWING THOUSANDS OF YOUNG WORKERS ONTO THE DOLE AND DEPRIVING MANY ELDERLY IN RURAL AND REGIONAL IRELAND OF ONE OF THE FEW REMAINING HUBS FOR COMMUNITY ENGAGEMENT AND SOCIALISING. BY CONTRAST, SUPPORTING OUR INDUSTRY WILL REPEAT THE SUCCESS STORY OF PAST SIMILAR MEASURES, PROTECTING AND BOOSTING JOBS AND SUPPORTING STRONGER TOWN AND VILLAGE CENTER ECONOMIES.”

APPENDIX I – SOURCES AND DATA USAGE

This submission was commissioned by the Irish Hairdressers' Federation (IHF) in December 2022 with a view to informing Government, public opinion and industry stakeholders of the need to reduce the rate of VAT for the Hairdressing industry.

It draws on both data kindly provided by the Central Statistics Office (CSO – see below), on IHF November member survey data (see below) and on further insights from industry sources. As a detailed primary analysis of the industry's contribution to the Irish economy is beyond the scope and timelines of delivery, inferences are drawn on the basis of data sources, surveys and further studies that were readily available at the time of writing.

Further and more in-depth analysis is encouraged to facilitate the development of Government policy towards an industry that, with a significant (21,000 or more) employment warrants further study.

A list of sources and brief notes on data usage is provided below:

Sources

Central Statistics Office on NACE category 96 and subcategories 96.02 (see below)

Our Rural Future (2021), Government of Ireland

Programme for Government (2020), Government of Ireland

Review of the 9% VAT Rate (2018), Department of Finance

Irish Hairdressers' Federation Pre (2022) Budget Submission (2021), Irish Hairdressers' Federation

Irish Hairdressers' Federation November 2022 Member Survey (2022)

Notes on Data usage

Data for the Hairdressing and related (including "Other Beauty Treatment" services – NACE category 96.02) are supplied by the Central Statistics Office courtesy of and with thanks to Stephanie Kelleher for the year 2018.

To analyse the industry's employment performance over time, time series data for the broader "Other Personal Services" category (NACE category 96) was used which, in addition to "Hairdressing and Other Beauty Treatment" includes "Washing and (Dry) Cleaning", "Funeral and related", "Physical well-being" and "Other Personal Services" activities.

The November 2022 Irish Hairdressers' Federation survey was undertaken between the 1st and 18th of November last with 268 respondents. Of these, 198 respondents gave a specific response to the question "What industry specific factors should government consider when developing specific supports for the personal services industry?".



ABOUT US

The Irish Hairdressers Federation was formed as a voluntary group in 1974.

Since its establishment, the Federation has worked tirelessly to raise the status of hairdressing as a profession in Ireland, to provide advisory services to its members, to provide creative and competitive platforms through which their members' skills can be developed, to promote professional standards of service within the industry, to promote a standardised system of hairdressing training in Ireland, and to offer opportunities for members to get together with like-minded professionals to discuss issues that affect their everyday working lives.

The Federation provides an Advice Line whereby members can get help or advice relating to trade or employment issues.

The Federation issues a regular Newsletter updating members on key issues and developments in the industry.

The Federation also publishes guidelines for its members on such issues as Salon Rules, Contracts of Employment, Health & Safety, Disciplinary Procedures, Payment of Wages and a Code of Ethics. The IHF is the only official voice for Irish Hairdressers.

We are members of the OMC, SFA and Coiffure EU.

Contact us at: info@irishhairfed.com

IHF EXECUTIVE COMMITTEE 2023



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