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# Effects of increase in VAT rate for the hotel sector

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Effects of increase in VAT rate for the hotel sector

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# Summary


The Netherlands currently applies a reduced VAT rate of 9 percent to accommodation. The government has decided to increase this VAT rate to 21 percent in order to increase tax revenues and simplify the tax system. The intended VAT increase should take effect on 1 January 2026. Commissioned by Koninklijke Horeca Nederland, the Centre of Expertise leisure, tourism & hospitality (CELTH) and Decisio the impact on the sector.

It can be concluded from this research that:

1. The VAT increase is expected to yield less for the government than budgeted. Where the government assumed an estimated 364 million euros in tax revenues from the hotel sector due to the VAT increase, this remains limited to approximately 250 million euros in our analysis. We use the same assumptions for price elasticity and passing on to the guest as the government has used. We do not have a detailed breakdown of the structure of the government's VAT calculation, but we expect that it difference mainly comes from:
   a. The VAT increase only applies to the room rate portion and not the other income from the hotel.
   b. Business guests reclaim their VAT. c. Corporate income tax decreases, as hotel margins fall.
2. To collect this 250 million euros in taxes, it is Dutch business community loses around 400 million euros in turnover. The turnover of hotels decreases by 340 million euros, that of other tourist companies by 120 million euros. This is offset by 60 million from Dutch tourists who no longer spend their money on a hotel holiday, but elsewhere in the Netherlands. Dutch municipalities also miss out on 20 million euros in tourist tax.
3. It is important that the VAT increase leads to less spending by foreign tourists. Dutch tourists who no longer stay in a hotel spend most of their money on something else in the Netherlands. Foreign tourists are no longer spending their money in the Netherlands. We expect spending in the Netherlands to fall by almost 100 million euros per year, because foreign tourists are staying away as a result of the price increase.
4. The VAT increase does not affect all hotels equally. The 4- and 5-star segment in the big cities with a large share of business guests, is less affected than the budget segment with many tourist guests. The budget segment also fulfils an important function

for school trips and associations. For a large group it becomes more attractive to travel an hour further by bus, if the overnight stay there is considerably cheaper. Or it is decided not to stay overnight or to stay for a shorter time in order to stay within budget.

5. We expect the impact to be greatest in the border regions and outside the major cities. Outside the major cities, the share of business tourism is low and in the border regions there is more competition from foreign hotels that have a lower VAT rate. The VAT rate of 9% is already above that of Belgium and Germany. With a rate of 21%, the differences are even greater bigger.

6. If hotels do not cut costs, it is expected that hotel profits will decrease by an average of 35 percent. There are major differences in the impact of the VAT increase, depending on the hotel segment, region and composition of guests. For some hotels, profitable operations are not possible, for other hotels the impact will remain limited. We expect a major impact especially for hotels without (or with a limited share of) business guests in the lower segment. Their margins are smaller and their guests are more price-sensitive. Our example calculation shows that a decrease in profit margin of 70 to 80 percent for this category of hotels cannot be ruled out. This will jeopardize necessary investments in innovation and sustainability and the viability of a large group of hotels.

7. When hotels disappear completely from a tourist region, it has a major impact. We see that for every euro that a hotel loses due to a decline in the number of overnight stays, regional businesses lose approximately 60 cents in income because the hotel also purchases less in the region and guests do not spend money on transport, outings, catering and retail.

8. In addition to the direct economic impact, there are other impacts. Hotels fulfil functions in the preservation of cultural heritage (country houses, castles, historical buildings) and often play a role in social cohesion in smaller towns and villages: as a café, restaurant, meeting location or party room for residents and associations. And to house organizers, participants and visitors of events. If investments lag behind, these functions will also come under pressure.

9. The higher VAT rate for accommodation does not simplify the tax system. It is likely that hoteliers will be creative in their pricing strategy to include as many items as possible (within the limits of what is legally possible) under the low rate. This makes control by the tax authorities more complex and may reduce the expected VAT revenues even further than calculated (in our calculations we have not assumed other pricing strategies). Administrative burdens increase.

10. Our calculations do not take into account purchasing power measures, investments or avoided cutbacks by the state that are made possible by the higher VAT revenues. Specifically, the focus is on the consequences for the sector from which the tax revenues must come. It is important to note that hotels are expected to benefit less from the income measures than other sectors: a large proportion of their guests are foreign and they do not receive any form of income compensation. In addition, conservative assumptions have been made for the impact calculations at national level for Dutch guests who move abroad and foreign guests who save on their other expenditure during their stay due to the higher overnight price: both are assumed to be zero.

Sensitivity analyses with different assumptions about the price sensitivity of hotel guests and the passing on of the VAT increase in the overnight price do lead to different figures, but not to different conclusions.

The Dutch hotel market is immediately good for almost 100,000 jobs

The Dutch hotel market, good for around 65 million hotel nights a year, contributes 0.4% to the Dutch GDP with a turnover of around 7.7 billion euros. This means that the sector has an added value of 3.8 billion euros. With a total of around 97 thousand people working in the hotel sector, it also contributes 0.8% to employment (in FTE) in the country. Guests who visit a hotel also spend around 3 billion euros locally outside the hotel on catering, retail, activities and transport.

The Amsterdam market differs from the rest of the Netherlands The number of hotel overnight stays has increased in recent years (2012-2024), except for the corona period. Foreign visitors grew faster (93% in this period) than domestic visitors (61%). This increase in foreign tourists has a particular impact on hotels in Amsterdam: here, 80% of hotel guests are international, compared to 40% in the rest of the Netherlands. The share of business guests in Amsterdam is significantly lower

than in the rest of the Netherlands. Amsterdam has a share in the hotel supply of approximately 30 percent, the different profile of the hotel guest and the different hotel policy of the city, a market in itself.

Methodology

In order to calculate the impact of the VAT increase, we have developed a model in which the reaction of hoteliers (what part of the VAT increase do they pass on in their prices?) and tourists (how do they react to a price increase?) determines the impact on the economy.

price elasticity is estimated at -0.75, which means that for every percent price increase the number of hotel nights decreases by 0.75%. In addition, it is assumed that hoteliers pass on 75% of the VAT increase in their price and the rest is at the expense of their margin.
These starting points are in line with the assumptions that the government also made in its calculation. With these assumptions, the impact on the number of overnight stays, the expenditure and thus the turnover (excl. VAT) and VAT payments of hotels, the rest of the tourist sector and so-called substitution of tourists who can spend less on other things because of the higher VAT, or more because they no longer spend the night in a hotel, has been considered. The impact of the government and the way in which it will spend the collected VAT have not been calculated.

Hotels lose 340 million euros in turnover, profit margin below 7 percent
We expect that the price increase due to the VAT increase will lead to a decrease in the number of tourist overnight stays by 6.2%. The number of business overnight stays may even increase slightly if hoteliers do not pay the full VAT pass on the increase in the price. After all, business guests pay the price excluding VAT. Hotel turnover (excl. VAT) is expected to fall by approximately *€340 million euros.* For the most part, that is the room turnover: fewer guests are coming and hotels do not charge the full VAT and therefore reduce their price excluding VAT. But also the turnover from food and beverages and other activities is decreasing: guests who don't come to sleep, don't come to eat and drink either. A large part goes at the expense of profits: hotels can (without structurally changing their business operations) to reduce costs by approximately EUR 100 million with this decrease in guests. This means that their profits will decrease by approximately 240 million euros. The margins drop by 35 percent, from the current healthy 10 percent to less than 7 percent. It is important to note that these are averages. Per hotel and region the differences are great: the higher segment in the Randstad with many business overnight stays are affected to a limited extent. The lower segment, mainly with non-business guests in the border region are hit the hardest.

*Table S 1 Impact on the hotel sector (in million euros per year)*

| Total impact hotel sector | Amsterdam | Rest The Netherlands | Total |
|---|---|---|---|
| Impact on hotel sector turnover (excl. VAT) | -€120 | -€222 | -€342 |
| Impact on profits (before tax) | -€85 | -€ 159 | -€ 244 |

Large part of VAT is reclaimed by business travelers
The hotels will initially pay an additional €447 million in VAT the government. However, business guests can reclaim their VAT. And also the corporate income tax decreases due to lower hotel margins and a decline in guests. As a result, we expect the hotels to ultimately generate approximately €250 million pay extra taxes.

*Table S 2 Impact on national taxes (in millions of euros per year)*

| Taxes Government hotels | Amsterdam | Rest The Netherlands | Total |
|---|---|---|---|
| VAT revenues hotels 2023 | € 178 | €458 | €636 |
| VAT revenues from hotels after VAT increase | €330 | €753 | €1,082 |
| Change in VAT income | € 152 | €295 | €447 |
| VAT refund for business overnight stays 2023 | €31 | € 146 | € 177 |
| VAT refund for business overnight stays after VAT increase | €61 | €254 | € 315 |
| Net VAT payments hotels 2023 | € 147 | € 312 | €459 |
| Net VAT payments hotels after VAT increase | €269 | €499 | €768 |
| Change in net VAT payments | €122 | € 187 | €309 |
| Corporate income tax 2023 | €44 | €122 | € 166 |
| Corporate income tax after VAT increase | €25 | €86 | €111 |
| Change in corporate income tax | -€19 | -€36 | -€55 |
| Total change in government income | €102 | € 151 | €254 |

A euro spent in a hotel is 1.60 euros for the region The increase in VAT for the hotel sector not only affects the hotels, but also adjacent tourist sectors. Tourists who stay away also no longer spend money at restaurants, retail, attractions and museums. And the tourist sector also buys fewer goods and services from suppliers. This has an impact, especially for regions that are heavily dependent on tourism.

In total, we estimate that the VAT increase will lead to approximately EUR *118 million* less in local spending by tourists and a further *EUR 100 million* because hotels and the rest of the tourist sector will purchase less locally from suppliers. Every euro that a hotel loses costs the region another 60 cents in this extra lost turnover. The regions where tourism stays away therefore lose another 220 million in income from other regional businesses on top of the 340 million euros in turnover from hotels. Municipalities also lose tourist tax: a total of 20 million euros. The municipality of Amsterdam with a high tourist tax is particularly affected.

Dutch business community loses out on almost 400 million euros

Domestic tourism that no longer spends money on a hotel will do so on something else. This is called substitution. Substitution is also accompanied by VAT revenues. Foreign tourists who stay away will also spend their money elsewhere, but not in the Netherlands. As a result, the Netherlands loses out on approximately 100 million euros in foreign spending. Ultimately, the following overview results in spending in the Dutch economy. The turnover of the Dutch business community decreases by 391 million euros, in order to collect approximately 250 million euros in additional tax for the government. If we also take into account

If the tourist tax is taken into account, this amounts to 228 million euros in additional tax revenue for the joint Dutch authorities.

*Table S 3 Total impacts on spending and taxes (in million euros per year)*

| Impact | The Netherlands |
|---|---|
| Impact on hotel sector turnover (excl. VAT) | -€342 |
| Impact on other tourism sectors during holidays/travel (excl. VAT) - € 118 | |
| Substitution of expenditure elsewhere in the Netherlands (excl. VAT) | €69 |
| Total impact of turnover of Dutch companies | -€ 391 |
| Impact on VAT revenues hotel sector (incl. refund for business travelers) € 309 | |
| Impact on VAT revenues from other tourism sectors | -€16 |
| Impact on VAT revenues due to substitution | €10 |
| Impact on hotel profit tax | -€55 |
| Impact on tourist tax hotels | -€21 |
| Total change in tax revenues | €228 |

The change in spending also has an impact on added value and the employment generated by Dutch businesses. The total impact amounts to approximately €300 million in added value and a loss of 1,500 full-time jobs (FTE).

*Table S 4: Impact on added value (mln. €) and employment*

| Impact | The Netherlands |
|---|---|
| Change in added value of hotel sector | -€281 |
| Change in employment in the hotel sector (FTE) | -950 |
| Change in added value of other tourism sectors | -€48 |
| Change in employment in other tourism sectors (FTE) | -750 |
| Change in added value of other sectors as a result of substitution | 22 |
| Change in employment in other sectors as a result of substitution (FTE) | 210 |
| Change in added value (in basic prices)1 Dutch companies total | -€ 307 |
| Change in employment in Dutch companies total (FTE) | -1,490 |

Decline in international competitiveness is a permanent effect Tourism is a sector that attracts above-average foreign spending.

This means that it is expected that there will also be a net increase in the long term

1 Basic prices are the prices excluding product-related taxes, such as VAT and tourist tax. In market prices where positive effects on taxes are included, the impact is approximately 25 million euros negative.

welfare effect is from the loss of tourist spending. Even if the labor market recovers and people in the tourist sector have other jobs, a loss of welfare is expected to occur.

Social impacts Hotels come in many shapes and sizes. And the importance of a hotel for a region can also vary. There are hotels that make an important contribution to the preservation of historical buildings. In some centres, the hotel can also be the only restaurant, or the location for parties and celebrations, and thus fulfil an important function. If such a function disappears, this has an impact on the total liveability of a village. The cheaper segment, such as hostels, plays an important role for school trips, family outings or sports club outings. These therefore fulfil a social function in themselves.

And besides these direct social interests, there is also the indirect interest that is related to the direct economic interest. Regions that are strongly dependent on tourism become less attractive in a broad sense if fewer tourists come for all types of companies. When regional employment decreases, the total level of facilities of schools, shops, general practitioners, etc. also comes under pressure. Hotels are not only a luxury good, but can also be of greater significance for regions and social institutions.

Risks and uncertainties

The calculations in this study are based on a number of assumptions. And they were performed for the Dutch market as a whole. In practice, we expect major differences in the impact between regions and hotel segments, with the border region being hit harder than the Randstad. Firstly, because the VAT rate in Germany and Belgium is lower and therefore competition is fiercer. Secondly, because in the large cities (with the exception of Amsterdam) the business segment is more important and business guests are only affected to a limited extent by the VAT increase. Finally, the cheaper segment already has lower profit margins: healthy business operations will therefore come under pressure the fastest.

We tested a number of important assumptions. These influence the figures but not the conclusions. In the context of this research, we did not have access to the full elaboration of the calculations of the government.
We cannot therefore trace differences in expected returns.

# 1. Introduction

## 1.1 Reason

In the Netherlands, the reduced VAT rate of 9 percent currently applies to accommodation. The cabinet has decided to increase this VAT rate to 21 percent in order to to increase tax revenues and simplify the tax system. The The intended VAT increase should take effect on 1 January 2026. On behalf of Koninklijke Horeca Nederland, the Centre of Expertise leisure, tourism & hospitality (CELTH) and Decisio the impact on the sector.

Industry organisations such as Koninklijke Horecasector Nederland (KHN) fear that the increase in the VAT rate will have negative consequences for the sector, citizens and society. They fear that the abolition of the reduced VAT rate will lead to a decrease in turnover and employment in hotels and guesthouses. KHN has asked Decisio and Centre of Expertise leisure, tourism & hospitality (CELTH) to conduct research into the economic consequences of the increase in VAT on accommodation: for the hotel sector and beyond.

Considerations for increasing the VAT rate In 2023, Dialogic conducted an evaluation2 of the reduced VAT rate. This involved research into the effectiveness and efficiency of the reduced VAT rate per product group. VAT rate as a policy instrument. The researchers conclude in the evaluation that it is the various product groups it is difficult to determine whether the reduced VAT rate is effective and efficient. Let alone that the information is available to quantify this. In addition, according to the researchers, the policy objectives are often difficult to operationalize. Following the evaluation, an official file bundle was drawn up3. File 20 is relevant to this research and concerns accommodation and campsites. This file indicates that the reduced VAT rate is probably effective for the objectives of stimulating (international) tourism and supporting the sector. The efficiency could not be determined. A reduced

VAT rate is in a broad sense (almost all goods and services) not effective in sparing the less well-off: households with higher incomes consume more and therefore also benefit more from a reduced VAT rate.

The official file bundle largely repeats the conclusions from the evaluation of the reduced VAT rate. For accommodation it is stated that the effectiveness and efficiency of the reduced VAT rate is difficult to determine. It is also stated that the Netherlands would be out of step with other countries in Europe if the reduced VAT rate were abolished.

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2 Dialogic and Significant APE (2023). Evaluation of the reduced VAT rate.
3 Ministry of Finance (2023). Official factsheet bundle following the evaluation of the reduced VAT rate.

A number of calculations have been made in the official file bundle. The most important starting points and conclusions from these calculations are set out below. We test these conclusions in the present study:
The abolition of the reduced VAT rate will be substantially passed on in a price increase (70% to 80%), which will lead to an approximately 8% higher price for consumers.
The price increase is largely due to domestic tourists: in non-corona years, domestic tourists accounted for around 60-65% of total tourist expenditure. The remaining 35-40% is due to foreign tourists. In 2015, households spent an average of 1.6% of their budget on accommodation. Without compensatory policies, the price increase leads to a limited deterioration in purchasing power of around 0.1%. For higher incomes, the loss of purchasing power is greater (0.2%) as they spend relatively more on accommodation. Estimates of the price elasticity vary between -0.5 and -1.2, depending on the type of accommodation4. Assuming a price elasticity of -0.75, a price increase of 9% means that the demand for accommodation would decrease by 6.75%. Based on the assumptions about the shifting of burden and price elasticity, an increase in the rate from 9% to 21% leads to a turnover loss of 9%.

## 1.2 Delimitation

In a recent study5 conducted by Ginder on behalf of Hiswa-Recron, investigated the social effects of the VAT increase for the total accommodation sector and insight has been provided into the expenditure of overnight guests tourists. This research focuses specifically on the hotel sector. In doing so, we make a distinction between different hotel segments (Amsterdam vs. rest of Netherlands, luxury and budget segment) and we consider the chain effects. In To what extent are other sectors affected by the VAT increase?

In this report we make a distinction between the Amsterdam region and the rest of Netherlands. This is because the visitor composition of the Amsterdam region and also the price level deviates significantly from the Dutch average. Amsterdam is a market in itself: Amsterdam accounts for approximately 30 percent of overnight stays and supply of hotel rooms in the Netherlands. More than 80 percent of the foreign (non-business) tourists who land at Schiphol, stay in Amsterdam6.

We do not take into account alternative purchasing power measures. The VAT increase means that other taxes do not have to be increased or that the government has to cut back less. We leave this effect outside consideration.

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4 Dialogic and Significant APE (2023). Evaluation of the reduced VAT rate.
5 Ginder (2024), Social and economic impact of VAT increase on accommodation
6 Decisio (2023), Net spending effects of air passengers

## 1.3 Reading guide

In this report we discuss the effects of the announced VAT increase insightful for hotels and guesthouses. In chapter 2 we lay a theoretical foundation for the effects we expect based on economic theory and the Ginder study. We supplement this with findings from the literature and the consequences of the VAT increase in other sectors. We then calculate the effects of the VAT increase on hotels and guesthouses. In any case, we make the effect on turnover, employment and tax revenues insightful and do this also for the indirect effects on adjacent sectors. We then test the results using various sensitivity analyses. Finally, close

we conclude with an overview of the results for all sectors and draw conclusions.

# 2. Theoretical background

In this chapter we describe the theoretical background of the effects of the increase of the VAT rate for accommodation from 9 to 21 percent. On this basis we establish the principles that form the basis for calculating the effects on turnover, employment and tax revenues.

## 2.1 Effects of VAT increase

General economic theory dictates that at a higher price of a product demand decreases. Consumers will have to redistribute their budget and buy less of the product. This will reduce sales of selling parties, in this case the hotel sector. If hotels and guesthouses want to prevent sales from falling too much, they can choose to absorb the VAT increase themselves by lowering the price (excluding VAT) of the product, so that the price including VAT VAT increases less or not at all. The turnover (excluding VAT) of hotels and guesthouses then decreases due to a lower price (excluding VAT) and/or lower sales (fewer overnight stays).

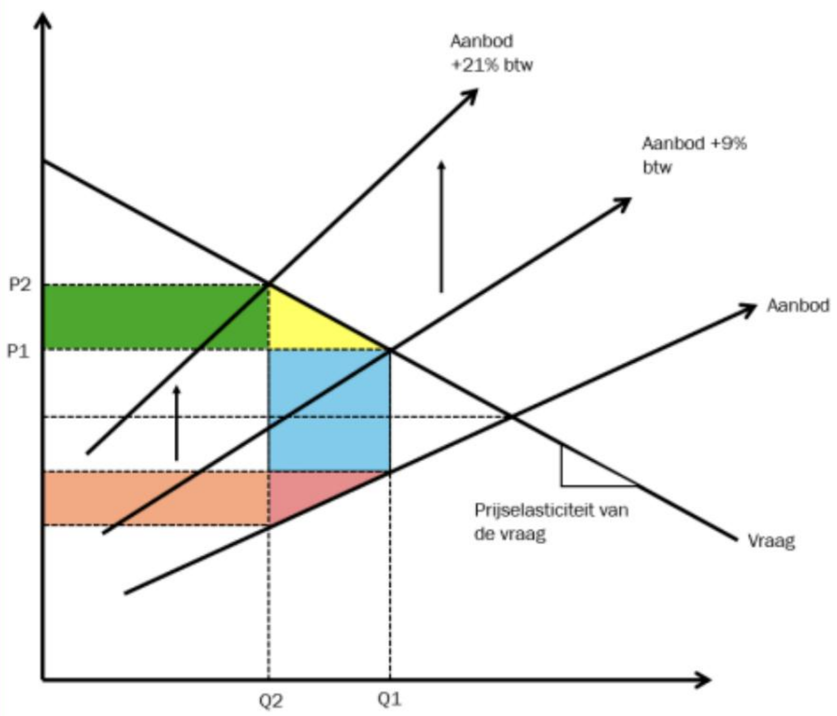
This means that hotels will have to cut costs or accept a lower operating profit. If the operating profit is modest and cost savings are not possible, there may even be

bankruptcies arise. To estimate the effects of a VAT increase for hotels and guesthouses two principles are leading. Firstly the extent to which a hotel or guesthouse passes on the VAT rate to the consumer. Secondly secondly, the extent to which the consumer is sensitive to a price change (price elasticity). Incidentally, these two aspects are related: if the consumer is very price-sensitive (demand is elastic), then hoteliers will do their best to keep prices low and to absorb a larger part of the VAT increase themselves. If the consumer is not price-sensitive (demand is inelastic), then the hotelier will be more likely to pass on the VAT increase. We will discuss this in more detail in the following paragraphs.

Box 1: Supply and demand graph as a result of VAT increase An increased VAT rate is an increase in the indirect tax paid by consumers and paid by hotels and guesthouses. This VAT increase will be passed on (fully or partly) to consumers in the price. This causes an upward shift in the supply curve and an increase in the sales price from P1 to P2 (see graph). As a result, sales fall from Q1 to Q2. Consumers lose part of their welfare because they can buy fewer overnight stays in hotels and guesthouses than they would actually like at the lower price, this is a loss of consumer surplus (the green plus yellow area). Producers lose part of their profit, or a loss in producer surplus (the red plus orange area). This is offset by tax revenues equal to the orange plus green, minus the blue area.

The sum of the yellow, blue and red areas is the social welfare loss.

*Figure 2.1: Theoretical representation of demand and supply curves for a VAT elevation*




Effects of VAT rate calculation in practice

Almost all member states of the European Union apply a reduced VAT rate on accommodation. In our neighbouring countries Belgium and Germany, a VAT rate of 6% and 7% applies respectively to overnight stays in hotels and guesthouses. However, empirical research into the effect of the reduced VAT rate on the consumption and price level of these products is scarce. In the literature, the effect of a change of VAT rates on the prices of hotels and guesthouses only a few times described. Italian research[7] from 2010, which calculated the effect of a reduction in the VAT rate from 10% to 5% for the hospitality sector, shows that a VAT reduction would not be fully passed on in the price. Research from Ireland also shows that a VAT reduction was partly passed on in the price, but not completely.[8] Other research[9] confirms this: VAT reductions are never fully passed on to the customer (maximum 82%, but sometimes hardly at all). This same research reports that in the case of VAT increases, on average a larger part is passed on to the customer. There are even examples where a VAT increase has led to price increases that exceeded the VAT increase. In Ireland, VAT on overnight stays has been reduced and increased several times in the past 20 years. Research into this structurally shows that tourism, employment and profitability decrease with a price increase and increase with a price decrease. The exact extent to which this happens varies and foreign situations are probably not directly applicable to the Dutch situation. The final effect is very market specific. The effect of a VAT change on the hotel price is strongly dependent on the price elasticity of supply and demand.

In addition, it is not possible to speak of a single hotel sector in the Netherlands. In the Randstad, at four- and five-star hotels with many business overnight stays, it is likely that an increase in the VAT rate will be passed on to a greater extent in the prices than in regions close to the border and where mainly tourists visit. Business visitors are less price-sensitive and can also pay VAT.
request back. Amsterdam is also a market in itself. Amsterdam attracts a completely different target group than the rest of the Netherlands: more than 80 percent are foreign visitors and a large part of them even come from outside Europe. The hotel price forms a smaller part of the travel budget for this group than for Dutch hotel visitors: the impact of a higher hotel price on the total holiday costs is then limited. On the other hand: this group also has more options to go to other countries and there is competition from other European capitals. Amsterdam attracts many tourist visitors without a business motive. Many of the intercontinental visitors want to visit Europe.

Amsterdam is one of the options[10]. Moreover, the intercontinental travel market is not yet at the level it was before corona: in 2019, a large number of Amsterdam hotels were full almost the entire year, but now the occupancy rate in Amsterdam no longer deviates from the Dutch average. Finally, Amsterdam has a different hotel policy. On the one hand, there is the hotel stop, which means that within

7 Manente, M., & Zanette, M. (2010). MACROECONOMIC EFFECTS OF A VAT REDUCTION IN THE ITALIAN HOTELS & RESTAURANTS INDUSTRY. *Economic Systems Research,* 22(4), 407–425. https://doi.org/10.1080/09535314.2010.526927
8 Indecon (2017), Impact of the VAT Reduction on Irish Tourism and Tourism Employment
9 Ministry of Finance, Malta (2009), The Impact of a Reduced Rate of VAT on Restaurants
10 Decisio (2023), Net spending effects of air passengers

Amsterdam competition is limited and existing hotels can raise their prices more easily. But on the other hand, Amsterdam has the highest tourist tax in Europe, which has eroded opportunities to absorb price increases and increased competition with hotels just outside Amsterdam.

The HOSTA report 2024 asked about the expected impact on hotel prices in the event of a VAT increase. 70 percent of hotel entrepreneurs indicated that they would pass on more than half or all of the VAT increase to the guest, slightly more than 20 percent would pass on less than half of the increase and slightly more than 5 percent do not intend to pass on the VAT increase to the guest in the price. In Amsterdam, hotel owners expect to pass on a smaller share to the guest than in the rest of the Netherlands. Our own survey (see Appendix 2 for detailed results) shows a similar picture. Amsterdam hotel owners also expect the VAT increase to have a slightly greater impact on the number of overnight stays than hotel owners in the rest of the Netherlands.

The Netherlands.

Two issues may come together here, which we will discuss in Chapter 3: the margins in Amsterdam are slightly higher than in the rest of the Netherlands, which means there is more room to absorb the VAT increase. And possibly, international visitors from further afield are more price-sensitive, because they can choose from many European cities to stay overnight. High hotel prices are given as a possible explanation for the recent absence of British tourists[11]. The basic assumption of the Ministry of Finance that a hotel will charge an average of 75% in the hotel price seems plausible.

## 2.2 Price elasticities

The sensitivity of a consumer to price changes is crucial to calculate the effects of an increased VAT rate: in economic theory, this concept is called the price elasticity of demand. The price elasticity shows what happens to the demand for a product if the price of that product increases by 1 percent. For example, a price elasticity of -2 means that if the price increases by 1 percent, demand falls by 2 percent.

Literature on price elasticities of hotel stays is scarce and results are mixed. The Italian study used a price elasticity of -
1.06, but the question is how relevant this research is for the Dutch

11 https://www.nbtc.nl/nl/site/download/geactualeerde-verwachting-woningstoerisme-2024#

hotel sector. The Ministry of Finance of Malta12 which conducted research has compared different European countries, shows that the demand for holidays is elastic (average elasticity of -1.13), but that for submarkets the demand is inelastic. After all, tourists book a holiday: the prices of transport, hotels or restaurants only form part of the total price. For a submarket such as restaurants an average elasticity of -0.65 was found. Rosenberger and Stanley gave an overview of 329 publications

in which the price sensitivity of the demand for recreational services was investigated. It was concluded that the average price elasticity was -0.99713. However, the authors indicate that studies with a strongly significant effect are more often published in scientific journals. A correction for this effect would lead to a lower price elasticity. This corresponds to the price elasticity used by the government. The government uses a mean value of -0.75 in a bandwidth of -0.5 to -1.214. The NYFER study specifies this to a

price elasticity of -0.5 to -0.7 for business hotel visitors and -0.6 to -0.8 for non-business hotel visitors15.

Ultimately, price elasticity depends on many things: is a product a basic need or a luxury good? What is ultimately the product: the holiday or the hotel? How many alternatives are there? This concerns both alternatives for accommodation/overnight stays (Airbnb, campsites, bungalow park), as well as alternative destinations (holiday/hotel elsewhere) or alternative spending in the broad sense (amusement park, cinema, eating out or new television instead of hotel stay). This differs per target group. Where a Dutch tourist will sooner decide to stay one night less and spend money on something else, a foreign tourist will sooner decide to go on holiday somewhere else16.

These matters will differ per region and hotel in the Netherlands. This is also evident from estimates by hotel consultants from Simon-Kucher who expect a different impact per country of origin. They arrive at a price elasticity varying from -0.2 to -
1.2 for European countries and from 0 to -0.5 for visitors from the United States.

12 Ministry of Finance, Malta (2009), The Impact of a Reduced Rate of VAT on Restaurants
13 Rosenberger and Stanley, 2010: Publication Selection of Recreation Demand Price Elasticity: A Meta-Analysis
14 https://www.rijksoverheid.nl/documenten/ambtsberichten/2023/09/15/ambtelijke-fichebundel-naar-aanleiding-van-de-evaluatie-van-het-verlaagde-btw-tarief 15 NYFER 2015, Hospitality and VAT
16 Decisio (2023), Net spending effects of air passengers

| Country | Impact on leisure volume with price increase from €146 to €162 |
|---|---|
| Netherlands | -2% tot -11% |
| Belgium | -3% tot -14% |
| Germany | -3% tot -8% |
| United Kingdom | -4% tot -10% |
| United States | 0% tot -6% |

Simon-Kucher is a leading consulting firm with more than 2,000 employees in 30 countries. The company specialises in pricing and investigated the impact of the VAT increase based on its own models and a survey among >2,000 Dutch hotel guests

Source: ABNA, Profit margins Dutch Hotels (presentation October 10, 2024)

The table below shows the varying outcomes of different research into the price elasticity of demand for hotels and tourism. Also data has been collected for aviation tourism, as this is one of the submarkets of a total travel or holiday product. Incidentally, the following applies side notes: in many studies, elasticity concerns the costs of a specific route. The same destination can also be reached via a different route whether a traveler can choose another holiday destination. The elasticity is very dependent on the distance: on long distances a traveller is less price sensitive than on shorter distances. That probably also plays a role hotels: hotels that attract visitors from further afield are expected to have on average less price-sensitive guests.

*Table 2.1: Price elasticities from the literature*

| Price elasticity | Source | Basic scenario | Low scenario | High scenario |
|---|---|---|---|---|
| General | Official file bundle | -0.75 | -0.50 | -1.20 |
| Business travelers | NYFER | -0.60 | -0.50 | -0.70 |
| Non-business travelers | Crouch[17] | -0.70 | -0.60 | -0.80 |
| Tourism | Ministry of Finance, Malta | -1.13 | 0 | -2.5 |
| Tourism submarkets (price level of either hotel, either travel, or restaurant, etc.) | Ministry of Finance, Malta | -0.65 | -0.2 | -1.0 |
| International business airline travelers | Gillen et al | -0.6 | -0.3 | -1.4 |
| International non-business air travelers | Gillen et al | -1.0 | -0.6 | -1.7 |

17 Crouch, Price Elasticities in International Tourism., 1994

Above we have shown that there are many nuances: the origin of the guests, the region in which the hotel is located and the price range of the hotel all determine the price sensitivity of the guests. The price elasticity will therefore differ per hotel. These nuances fall outside the scope of what is possible in this research. We therefore use the same price elasticities as the government: an average price elasticity of -0.75 for non-business travellers and -0.6 for business travellers. We perform sensitivity analyses out with other elasticities.

Much research into price elasticity of individual hotels, less total market

With the rise of dynamic pricing in the hotel market, a lot of research has been done on price elasticity. Hotels, supported by booking software and websites, continuously optimize hotel prices based on the expected demand at a certain price. Hotels no longer determine the price themselves: they can indicate a bandwidth, but ultimately 'the market' determines the price via booking websites. For individual hotels, the demand is quite elastic: there are many substitutes, especially in the low season. Then there is a lot of choice of hotels within the same city or region, there is a lot of competition and the price-quality can be compared well. A relatively small change in the hotel price can then already mean a big change in the demand for hotel rooms. In the high season, this is different: many are already fully booked, which makes guests less price-sensitive.

Much is known about the impact of prices for an individual hotel. There is less information about this for the total hotel market, as described above. After all, a hotel is part of the costs of a total trip. The demand is then less elastic: the holiday is selected on the basis of the price-quality of the total package of the tourist destination. What does the destination have to offer? And what does it cost (in time and money) to get there and stay? The hotel price then plays a relatively small role. If all hotels in the region become more expensive, the price elasticity is therefore smaller than with an increase in the price of a single hotel. This may result in a difference between hotels in border regions (where hotels across the border do not become more expensive) and hotels in the rest of the Netherlands. No studies are known at this level of detail. We therefore base ourselves on an expected average value.

## 2.3 Substitution

Guests who no longer stay in a hotel often spend their money on something else. Guests who pay the higher VAT have less to spend on other matters. We make a distinction between Dutch and foreign guests.

*Foreign guests*

Some of the guests will no longer come because of the higher hotel prices. They give then no longer spend money on food, drinks and outings in the Netherlands. A part of the spending of foreign guests therefore disappears across the border.

For guests who do continue to come, we expect them to bear the extra VAT costs and that this will not be at the expense of other spending in the Netherlands. There are concepts such as a 'fixed holiday budget', but there is little literature that provides a basis for what percentage of guests this applies. The Holiday Sentiment Survey of the NBTC does provide an indication: approximately half of Belgians and Germans indicate that they adjust their holiday behaviour due to rising prices. A quarter indicated that they do this (also) by saving on expenditure during the holiday.
The exact amount cannot be determined. Based on this survey, approximately 10 percent[18] of the foreign guests who continue to come despite the VAT increase will save on other items during their holiday. Given the relatively limited size and unknown amount of the saving, we assume in the calculations that foreign guests who pay the higher VAT do not save on other items such as food, drink and outings. The VAT revenues are additional. This is a conservative assumption from the perspective of this study: we use a slight underestimation of the negative impact on expenditure and a slight overestimation of the VAT revenues for the government.

*Dutch guests*

For the part of the Dutch guests who will spend less nights in a hotel, we assume that they will spend their money elsewhere in the Netherlands in line with their average consumption pattern (excl. fixed costs such as housing or healthcare). We do not expect that Dutch tourists will move abroad because of the price increase. Domestic and foreign holidays are limited substitutes[19]. A foreign holiday is generally more expensive and takes more time than a domestic holiday. A holiday closer by to save on travel costs seems a more logical change in behaviour if hotel prices increase. Of course, it also applies here that there may well be cities in Belgium and Germany just across the border that are an alternative to a weekend in Groningen or Maastricht. But this effect is expected to be relatively limited. Here too, we therefore use a conservative assumption for the impact on expenditure and the associated lost VAT revenues.

The additional VAT for Dutch guests who do continue to come is actually at the expense of their average consumption elsewhere (not at the holiday destination, but during the rest of the year: after all, a euro can only be spent once).

18 Approximately 50% indicate that they are changing their behavior, 25% of whom are doing so by spending less. That is 12.5% of the total group of respondents.
19 Decisio (2023), Net spending effects of air passengers

## 2.4 Assumptions to be used

Based on the literature found, we adopt the basic assumptions of the government in a basic scenario: a price elasticity of -0.75 and a 75% pass-through of the VAT increase in the hotel price.

As a sensitivity analysis we also calculate with a calculation in the price with 50 and 100 percent. As we work out in chapter 3 there are indications that a large part of the hotels cannot take the VAT increase for their own account,
without this putting pressure on its continued existence.

We also perform sensitivity analyses with a lower price elasticity (-0.5) and a higher price elasticity (-1). After all, there are factors that make it plausible that tourists are less price sensitive: all accommodation (and therefore many substitutes) in
The Netherlands is becoming more expensive and a hotel is only one part of the total travel
and accommodation costs. On the other hand, there are (outside Amsterdam) mainly domestic visitors for whom staying one night less is also an option and for whom a hotel does represent a large part of the holiday costs. And foreign tourists can decide to choose another destination: there is therefore no
only competition with Dutch hotels. Most Dutch tourists
will not be going abroad anytime soon due to the price increase: a foreign holiday is generally more expensive and takes more time.

For the substitution effects we therefore use the assumption that foreign
tourists who no longer stay overnight in a hotel, also no longer spend money outside in the Netherlands. For Dutch tourists, a change in spending due to the VAT increase, their normal consumption pattern in the Netherlands
replaces.

# 3. Market sketch

In this chapter we will explain a number of important characteristics of the Dutch hotel market. These form the basis for the final impact calculations.

## 3.1 Dutch hotel market

Figures on the Dutch hotel market are mainly based on two sources: Statistics Netherlands (CBS) and the HOSTA report Horwath HTL. In our calculations, we align as much as possible with the CBS figures, as this is the source with the largest sample. However, not all data are up-to-date and deepened enough: CBS provides insight into overnight stays up to and including 2024 (figures for 2024 are still provisional), but financial data are available from CBS up to 2022 (the last corona year). HOSTA also reports these for 2023 and also makes more detailed breakdowns by hotel segment. We use the HOSTA data to enrich the research.

In addition, we conducted a survey for this research with KHN, in which the financial situation for 2024 was also asked. The financial data entered in it turned out not to be all representative for the entire hotel sector in the Netherlands, but were used for testing. For the more qualitative expectations of respondents, we refer to paragraph 3.2.

### 3.1.1 Supply and economic interest

According to Statistics Netherlands, there were 3,842 hotels/guesthouses/youth accommodations in July 2024 (hereinafter referred to as hotels) in the Netherlands. These are only hotels with at least five sleeping places. These hotels housed a total of over 150,000 rooms, with almost 329,000 beds. The average number of beds per room was thus at 2.2. These figures are shown in Table 3.1 below.

*Table 3.1: Number of hotels, rooms and sleeping places per province as of July 1, 2024.*

| Region | Number of hotels | Number of rooms | Number of beds |
|---|---|---|---|
| Municipality of Amsterdam | 497 | 41,991 | 92,329 |
| Other Netherlands | 3,345 | 108,133 | 236,478 |
| Netherlands total | 3,842 | 150.124 | 328,807 |

Source: CBS

Together, these hotels provide employment to almost 100,000 people people (62 thousand FTE), they had a turnover of 7.7 billion euros in 2023 and were good for an added value of 3.8 billion euros. This contributed the sector directly contributes to 0.4% of Dutch GDP and 0.8% of the employment (in FTE). Outside the hotel, guests spent an estimated 3 billion euros in the local and regional economy.

*Table 3.2: Key figures for the hotel industry*

| Key figures hotel industry | 2023 |
|---|---|
| Number of nights (x1000) | 61,976 |
| Employees (x1000)* Number of | 97 |
| FTEs (x1000)* Turnover | 62 |
| (x mln. €)* Profits | €7,746 |
| before tax (x mln. €)* Added value (x | €747 |
| mln. €)* | €3,802 |

* Source CBS, financial data 2022 edited by Decisio based on hotel share in development of total accommodation sector period 2018-2023

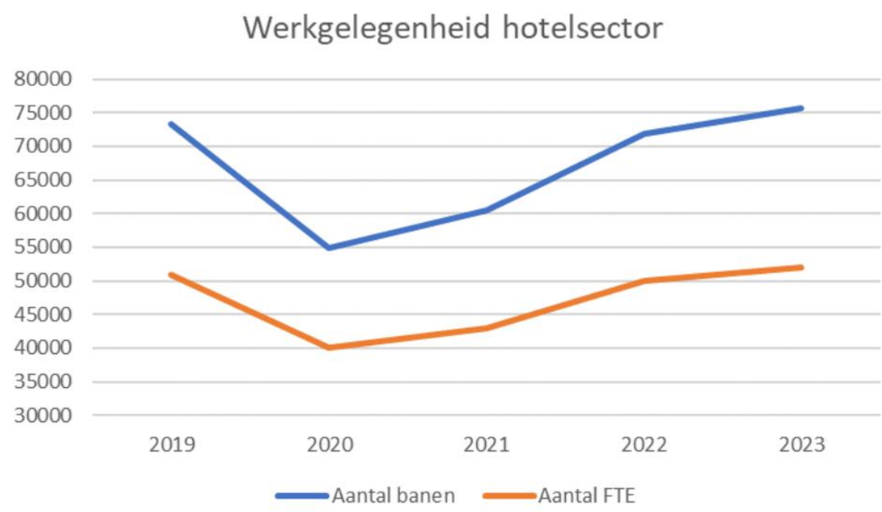
The development of the sector shows an increase in the number of overnight stays for 2024 (provisional figures CBS: 64.6 million). The expectation is that turnover has increased, but in the meantime it can be seen that room prices cannot increase with the increase in costs[20]. This is the first indication that margins are coming under pressure.

### 3.1.2 Employment in the hotel sector

The National Destination Management Organisation of and for the Netherlands (NBTC) has mapped out the development of employment in the hotel sector[21]. Employment in the hotel sector is rising again after a dip during the corona years and is now above the 2019 level.

20 HOSTA -2024 and ABN-Amro Analyses
21 labor marketmonitor.nbtc.nl

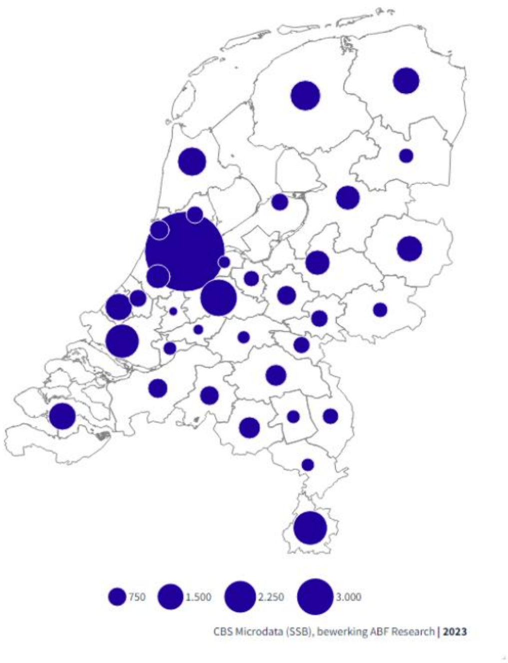
*Figure 3.1: Employment of hotel sector workers.*




Source: NBTC based on CBS Microdata (NB: self-employed persons and hotel owners who are not on the payroll are not included in these statistics)

Employment is not evenly distributed across the Netherlands. Amsterdam is jumping out and the other major cities in the Randstad also have relatively many employment in the hotel sector. In addition, there are many tourist jobs along the coast, in South Limburg, Twente and the north of the Netherlands.

*Figure 3.2: Number of FTEs in hotels per labor market region.*




Source: NBTC based on CBS Microdata

If we look at the share, we see that after Amsterdam, Zeeland, South Limburg and Friesland (including four Wadden Islands) follow. The hotel sector is directly good for about 1 percent of employment here. And the hospitality sector as a whole has a share of more than 6 percent in these regions. That is the direct employment. Regionally, there are also suppliers and service providers who are indirectly dependent on the sector: from the supermarket to the hotel accountant. Tourism therefore plays an important role in the economy through the purchases of tourist companies from these regions.

*Table 3.3: Top 5 importance of hotel and hospitality sector*

| Top 5 hotel sector size | | Top 5 hotel sector shares | | Top 5 hospitality sector shares | |
|---|---|---|---|---|---|
| Labor market region | Number of FTE (2023) | Labor market region | Share hotel sector | Labor market region | Share sector |
| Greater Amsterdam | 14520 | Greater Amsterdam | 1.5% | Greater Amsterdam | 10.4% |
| Central Utrecht | 3165 | Zeeland | 1.2% | Zeeland | 7.6% |
| South Limburg | 2665 | South Limburg | 1.1% | South Kennemerland and IJmond | 6.5% |
| Rhine Estuary | 2635 | Friesland | 0.8% | South Limburg | 6.2% |
| Friesland | 2115 | North Holland North | 0.8% | North Holland North | 6.1% |

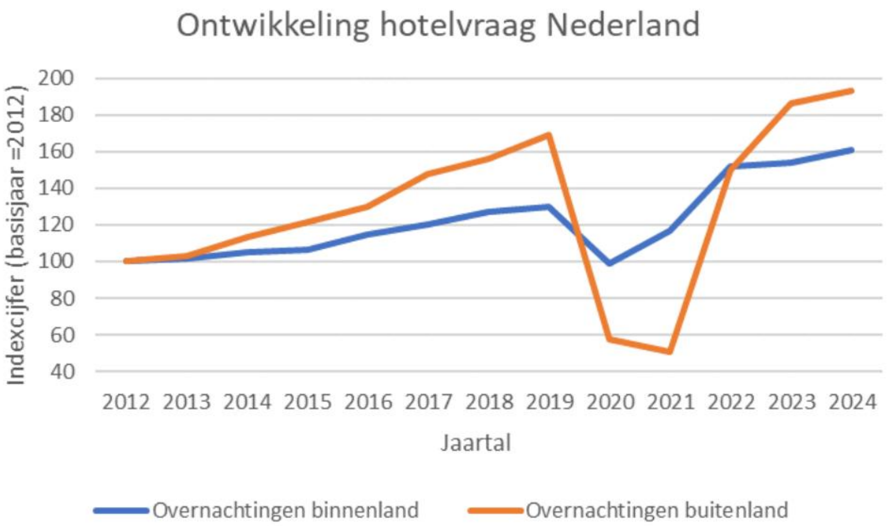
Source: NBTC, edited by CELTH and Decisio

The employees in the hotel sector differ from the average employee. majority of the employed persons in the hotel sector are women (57%). The The average age of workers is very low at 34.2 years. And a relatively a large proportion of workers (34%) do not have a starting qualification: that This means that this group will also have relatively difficulty finding a job elsewhere. About 35 percent have completed an MBO education, 15 percent HAVO/VWO and 16 percent are higher educated (HBO/WO). The sector is characterized by many flexible workers: only 34% of workers in the hotel sector have a permanent contract. In general, employees are satisfied about their work. More than 75% indicated that they were satisfied with it and again 17% indicate that they are neither satisfied nor dissatisfied.

### 3.1.3 Demand and development of demand

Dutch hotels offer overnight accommodation for guests from home and abroad abroad. Based on figures from Statistics Netherlands, we can see the course of the demand development of the hotel sector over the past years (2012-2024). This is shown in Figure 3.3 below. It is clear from this that the demand for hotel stays has increased in recent years (2012-2024). With With the exception of the corona period, demand from the foreign market increased (93%) faster than the demand from the domestic market (61%).

*Figure 3.3: Development of hotel demand in the Netherlands. Source: CBS*




Because in this study we make a distinction between hotels in Amsterdam and the rest of the Netherlands, the demand development for this has also been mapped (see Table 3.4 below). The market has grown throughout the Netherlands, but most strongly in Amsterdam. If we delve a little deeper into the Dutch regions, we still see growth in every region, but also that in the tourist regions such as Limburg, Friesland (including the Wadden Islands) and Zeeland this is around 2 to 3 percent and in the Randstad above 5 percent in the period 2012 - 2024.

*Table 3.4: Annual average increase in demand (in number of overnight stays) by origin of hotel visitor. Source: CBS*

| Area | Origin | Annual average demand increase 2012-2024 | Annual average demand increase 2018-2024 |
|---|---|---|---|
| Amsterdam | Total | 5.9% | 3.9% |
| | Domestic | 5.7% | 3.7% |
| | Abroad | 5.9% | 4.0% |
| Netherlands total | Total | 4.9% | 3.8% |
| | Domestic | 4.1% | 4.1% |
| | Abroad | 5.6% | 3.6% |

*Composition of the question*

The growth of foreign tourism has an impact mainly on the number of overnight stays in Amsterdam. While in the rest of the Netherlands the share of foreign overnight stays is around 40 percent, in Amsterdam it is more than

80 percent. With a large share of visitors from outside Europe, while that group hardly plays a role in the rest of the Netherlands.

*Table 3.5: Overnight stays (in millions) by region and country of origin*

| 2023 | Amsterdam | Rest of the | Total |
|---|---|---|---|
| Netherlands | 3.6 (18%) | 25.1 (60%) | 28.7 (46%) |
| Belgium | 0.5 (3%) | 2 (5%) | 2.5 (4%) |
| Germany | 2 (10%) | 5.2 (12%) | 7.2 (12%) |
| Rest of Europe | 8.4 (41%) | 6.6 (16%) | 15.1 (24%) |
| Rest of the world | 5.8 (28%) | 2.7 (7%) | 8.5 (14%) |
| Total 2023 | 20.4 | 41.6 | 62.0 |
| 2024* | Amsterdam | Rest of the | Total |
| The Netherlands | 3.5 (17%) | 26.6 (64%) | 30.1 (49%) |
| Belgium | 0.6 (3%) | 2.2 (5%) | 2.8 (4%) |
| Germany | 2.1 (10%) | 5.3 (13%) | 7.4 (12%) |
| Rest of Europe | 8.9 (44%) 6 | 6.5 (16%) | 15.4 (25%) |
| Rest of the world | (29%) | 2.9 (7%) | 8.9 (14%) |
| Total 2024 | 21.0 | 43.6 | 64.6 |

Source: CBS, * preliminary figures

Part of the hotel demand is business and part is touristic. Based on figures from the CBS it can be concluded that in the Netherlands an average of 27 to 28 percent of demand is business (see Table 3.6). The business share is 17 percent in the municipality of Amsterdam, which is considerably lower than in the rest of the Netherlands (almost 32%). The number of business overnight stays has also fallen considerably since the Corona crisis: until 2019, the share was approximately 10 percentage points higher.

*Table 3.6: Share of business hotel visitors in 2024. Source: CBS*

| Area | % business demand (2024) |
|---|---|
| Amsterdam | 17.3% |
| Other Netherlands | 31.9% |
| Total Netherlands | 27.2% |

### 3.1.4 Occupancy and room revenues

The number of hotel rooms in the Netherlands increased by more than 35% while the number of overnight stays increased by 75 percent. Since the demand has increased much faster than supply, it can be concluded that the room occupancy has increased nationally over the period 2012-2024. The most In recent years, however, the occupancy has come under pressure. Although the number overnight stays in the Netherlands are higher than in 2019, room occupancy is not yet equal to the period before corona. In 2023, room occupancy had not yet recovered, especially in the Amsterdam region, and figures for 2024[22] show that this is still

22 ABNA-Amro, based on STR market data

is not always the case. The growth in the number of overnight stays from outside Europe has slowed down there.

*Table 3.7: Average room occupancy per year.*

| Region | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Amsterdam and Schiphol | 85.3% | 26.3% | 31.4% | 62.3% | 77.6% |
| Other Netherlands | 73.5% | 45.8% | 47.9% | 68.5% | 72.6% |
| Netherlands total | 78.2% | 34.4% | 38.6% | 65.8% | 74.8% |

Source: HOSTA (2024)

The HOSTA report also provides insight into the average room occupancy rates. We see that the larger hotels have a better room occupancy than smaller hotels: hotels with more than 150 rooms have a 2 to 3 percent higher occupancy rate. What is particularly striking is that the hotels in the lower price segment have a lower occupancy rate. In the During the corona period it was the other way around: then the larger and more expensive hotels with the lowest occupancy rates.

*Table 3.8: Average room occupancy rate in 2023 by room price.*

| Price classification (average room price) | Average room occupancy rate |
|---|---|
| Low (< € 107.00) | 68.5% |
| Low-average (between €107.00 and €130.00) | 75.5% |
| Medium-high (between €130.00 and €175.00) | 76.5% |
| High (> € 175.00) | 76.7% |

Source: HOSTA (2024)

*Room revenues RevPAR and TRevPAR*

If we combine the average room occupancy rate and average room rate, we arrive at the RevPAR (Revenue per available room). This is the average turnover achieved per available room per night. The RevPAR only includes room revenues. Another important indicator in the hotel sector is the TRevPAR (Total Revenue per available room). This indicator also includes other expenditure in hotels by guests. Both the RevPAR and the TRevPAR were higher in 2023 than in 2022, driven by inflation. The revenues in Amsterdam and in the hotel category with 150 - 250 rooms are the highest. Furthermore, it can be seen that hotels outside Amsterdam generate a higher percentage of turnover from other matters than in Amsterdam. This can be explained by the very high density of day recreation and catering establishments outside the hotel in Amsterdam and the fact that room rates in Amsterdam are higher, making other sources of income less necessary.

*Table 3.9: RevPAR and TRevPAR by hotel type in 2023*

| Type of hotel | RevPAR | TRevPAR |
|---|---|---|
| Hotel in Amsterdam and Schiphol | €159.00 | €221.00 |
| Hotel in other Netherlands | €90.00 | € 179.00 |
| Average hotel in the Netherlands | €124.00 | €205.00 |
| | | |
| Hotel with less than 100 rooms | €108.00 | € 178.00 |
| Hotel with 100-150 rooms | €113.00 | €203.00 |
| Hotel with 151-250 rooms | €134.00 | €243.00 |
| Hotel with more than 250 rooms | €137.00 | € 191.00 |
| | | |
| Hotel with low price classification (< € 107) | €63.00 | €117.00 |
| Hotel with price classification low-average (between € 107 and €130) | €89.00 | € 184.00 |
| Hotel with price classification medium-high (between € 130 and €175) | €112.00 | €204.00 |
| Hotel with a high price rating (> € 175) | € 198.00 | €267.00 |

Source: HOSTA (2024)

### 3.1.5 Operating figures and cost structure

Up to and including 2022, CBS has turnover figures and cost structures of hotels in Netherlands. The total turnover of the entire hotel sector amounted to €6.8 in 2022 billion. The most important cost items besides personnel are the purchase value (food, drink, consumables, etc.), housing costs and depreciation. The profit margin / profit before taxes in 2022 was 8.4 percent. At hotel owners (not employed by their own hotel as a BV) is that the margin where they have to get their income from. The EBITDA (earnings before depreciation, interest payments and taxes) was at 18%: here hotels also have to future investments from financing. Based on the development of the production statistics of the total accommodation sector we have made an estimate for 2023. In 2023, the turnover of hotels in the Netherlands was 7.6 billion euros. The profit margin was estimated at around 10 percent and EBITDA at 19 percent. Before corona, in 2018 and 2019, this was 12 and 20 percent respectively. In the corona years 2020 and 2021 the sector suffered heavy losses, in 2022 the market had recovered somewhat, but not yet at the pre-corona level. Increased costs are an important cause of this. Turnover increased by 10 percent between 2019 and 2022, purchasing costs and investment costs increased by 30 percent, energy costs even doubled.

*Table 3.10: Cost structure of the Dutch hotel sector in 2022 (in € million)*

| | Amount | % of turnover | Estimate 2023 |
|---|---|---|---|
| Operating income | €6,833.00 | 100% | 100% |
| Purchase value turnover | € 1,294.00 | 18.9% | 18.3% |
| Gross margin | €5,539.00 | 81.1% | 81.7% |
| Personnel costs | € 2,029.00 | 29.7% | 30.6% |
| Energy consumption costs | € 290,- | 4.2% | 4.1% |
| Housing costs | € 912,- | 13.3% | 12.9% |
| Equipment and inventory costs | € 96,- | 1.4% | 1.6% |
| Costs of means of transport | €34,- | 0.5% | 0.5% |
| Sales costs | €251,- | 3.7% | 3.5% |
| Communication costs | €31,- | 0.5% | 0.4% |
| Other costs | €668,- | 9.8% | 9.4% |
| EBITDA | € 1,228.00 | 18.0% | 18.9% |
| Depreciation | €629,- | 9.2% | 8.9% |
| Interest | €77,- (-) | 1.1% (-) | -1.0% |
| Balance provisions | €3,- (-) | 0.0% | 0.0% |
| Balance of extraordinary income and expenses | €53,- | 0.8% | 0.7% |
| Result before taxes | €571 | 8.4% | 9.6% |

Source: CBS statline (SBI code 551), edited by Decisio

The CBS provides insight at national level. We use this for our calculations in the next chapter. But there are significant differences for different types of hotels and the data also differ per region. HOSTA shows for example, see that costs (excluding housing costs and depreciation) in Amsterdam accounts for 55 to 60 percent of turnover and outside Amsterdam for 70 percent. percent. After deducting fixed costs, we estimate the profit based on HOSTA for tax in Amsterdam at 10 to 13 percent of turnover and 8 to 11 percent in the rest of the Netherlands.

What does the sector say? Concern 1: Decline in investment and business viability – The impact on small and medium-sized investors The proposed increase in VAT from 9 to 21 percent on overnight stays in the Netherlands is expected to hamper the investment capacity of the hospitality sector. Financial institutions and real estate organisations warn that this tax increase could lead to a 6-7 percent decline in hotel overnight stays, a figure that may be conservative for border regions and operators. Many accommodation providers indicate that they will struggle to absorb the additional costs without passing them on to

consumers. This expected decline in occupancy directly threatens profitability, especially for small and family-run hotels, which often operate on thin margins. As a result, these businesses may be forced to postpone renovations, sustainability projects and digital modernization efforts.

Small and medium-sized investors in border regions and rural areas are most at risk, according to our interview partners who are active in Groningen, Zeeland and Vlissingen, among others. Many have already invested significant capital (€2-€40 million) in developing new hospitality projects, restoring historic properties and repurposing buildings for accommodation. The combination of rising material, labour and energy costs, together with the unexpected VAT increase, has drastically reduced the financial viability of these projects. Many investments were budgeted under the 9% VAT framework, making the new rate a critical blow to expected returns. This not only threatens existing developments, but also discourages future investments in regional hospitality infrastructure.

Unlike large hotel chains, which can redistribute financial losses across multiple markets or shift investments to lower-tax regions such as Belgium (6% VAT) and Germany (7% VAT), smaller investors lack the flexibility to offset these cost increases. Operators we spoke to indicate that tourist guests in particular are price-sensitive and cannot reclaim VAT –

and therefore either not stay overnight or opt for cheaper options such as Airbnb and other countries that are more competitive due to costs and taxes.

For projects currently under construction, particularly in regional hubs and small towns, the VAT increase makes many developments economically unsustainable. Investors are rethinking the way projects are completed and in some cases developments are being halted altogether. If left unmanaged, these developments could lead to an increase in unfinished projects, financial defaults and bankruptcies, affecting not only hotel operators but also contractors, suppliers and local businesses. The impact could extend beyond the hospitality industry, hampering the recovery of outstanding debts from the COVID-19 pandemic and reducing overall business activity in affected regions. This downturn is intertwined with job losses and local economic stagnation, further compounding the challenges outlined in Concern 3: Social and Employment Impacts (see section 4.4).

Source: CELTH analysis based on interview round with hoteliers, banks, investors and real estate developers

For the impact of the VAT increase it is important which part of the turnover actually affected by the increase. The HOSTA report also provides more insight into. In Amsterdam, rooms account for over 70 percent of turnover, outside Amsterdam for approximately 50 percent. In Amsterdam, therefore, a relatively large part of turnover directly affected by the VAT increase.

*Table 3.11: Operating figures in 2019 and 2023.*

| | Amsterdam & Schiphol | | Other Netherlands | |
|---|---|---|---|---|
| | 2019 | 2023 | 2019 | 2023 |
| Turnover rooms | 71% | 72% | 59% | 50% |
| Food turnover | 18% | 15% | 25% | 31% |
| Drink turnover | 6% | 5% | 9% | 12% |
| Turnover of small operational departments | 3% | 1% | 4% | 1% |
| Other turnover | 2% | 7% | 3% | 6% |
| Total turnover | 100% | 100% | 100% | 100% |

Source: HOSTA (2024)

Taxes

Hoteliers pay many different types of taxes. These taxes can be divided into share in national taxes and local charges. For the national government this concerns:

- *Sales tax:* Hoteliers pay on the largest part of their turnover currently the reduced rate of 9%, namely on the room revenues, food and non-alcoholic beverages. About the other part of the turnover is generally already standard rate – 21% - paid.
- *Profit tax.* This tax is paid on the profit that is made. On average we assume 22.5%. This is a conservative estimate estimate. For hoteliers who are registered as a sole proprietorship (not a BV) and with Dutch shareholders who later receive dividend in private pay out, the percentage will be higher.
- And then there are employer charges, utility taxes (gas, water, electricity) and insurance. In our analyses we will will not go into this further here. We assume that for the BV Netherlands the impact will be small: employees who leave a hotel will (eventually) work elsewhere. After all, the labor market is tight. Dutch people who do not go to a hotel, stay at home and pay tax on gas and water and light.

In addition, hoteliers often have to pay *local taxes* . The most important are:

- *Tourist tax:* the most important variable tax is the tourist tax. In Amsterdam this is on average €17 per person per hotel night. In the rest of the Netherlands € 2[23].
- In addition, many taxes are less directly dependent on the number overnight stays or turnover (in the long term of course): such as the Real estate tax, Sewerage and waste tax, Water board taxes, motor vehicle taxes, land taxes

23 Atlas Local charges 2024, COELO, Groningen

(if the land under the building, the terrace or advertising expressions belongs to the municipality) and advertising taxes (for expressions on the outside of the building).

Based on various public sources, an estimate has been made of the current (below the 9% VAT rate) tax burden of an average hotel (according to HOSTA data) in Amsterdam and beyond that is owned by the operator and does not pay any precario tax. For hoteliers in Amsterdam, this amounts to more than 26% of the room turnover including tourist tax and VAT and for hoteliers in the rest of the Netherlands to almost 23% of the room turnover including tourist tax and VAT. See appendix 1 for the breakdown and composition of this tax burden. The VAT increase

would increase this to 33% to 37% of room turnover. This is considerably higher than in our neighbouring countries, which apply a VAT rate of 6% (Belgium) and 7% (Germany). Especially for hotels in the border regions, competition with neighbouring countries becomes more difficult.

## 3.2 Viability of the hotel sector

Profit margin figures are averages. They say less about the viability of the hotel sector as a whole. There are large differences between companies in profit margins and also residual debts from, for example, the corona pandemic. In 2022, the hospitality industry (including restaurants) had an outstanding tax debt of 1.2 billion euros under the crisis measure scheme for deferring tax payments[24]. Approximately 45 percent of all hospitality entrepreneurs made use of the scheme. In the meantime, 12 percent of hospitality entrepreneurs find the tax debt problematic and the group that expects to still exist in 3 years is approximately 60 percent. That is 13 percent less than the average of other sectors in the Netherlands. Business confidence in the

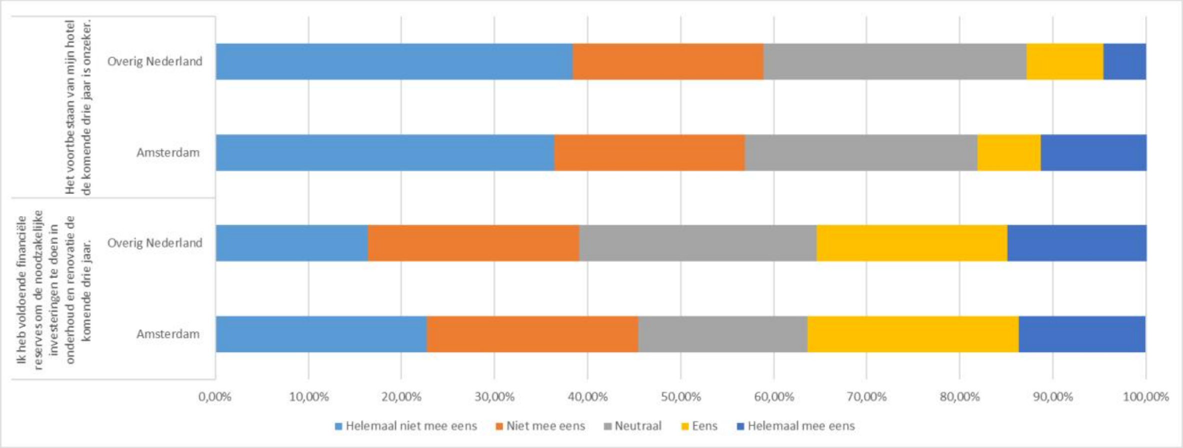
the hospitality sector leaves much to be desired.

In our own survey, statements were presented to hoteliers regarding the future-proofing of their hotel. This led to the following results (from completely disagree to completely agree):

24 General Audit Office (2024), Focus on corona tax debts

Machine Translated by Google

*Figure 3.4: Survey results sector viability and investments*

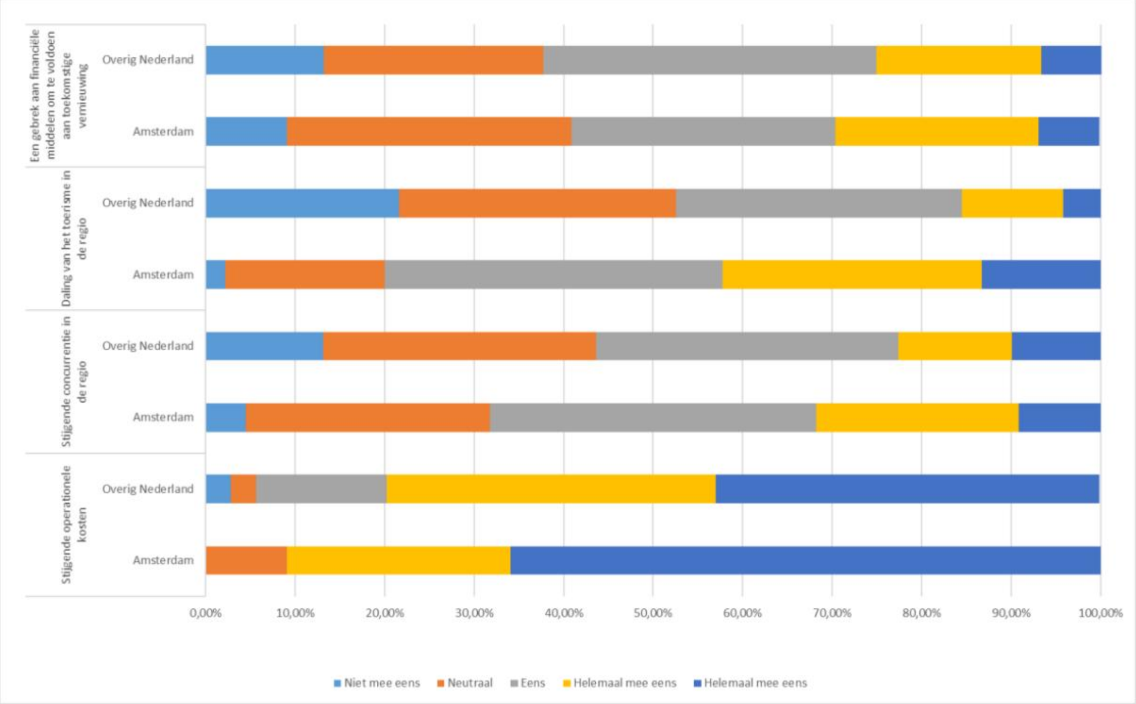



Source: CELTH / Decisio survey

From the above graph it can be concluded that a relatively large part of the hotels do not have sufficient financial resources to provide the necessary to make investments in maintenance and renovation over the next three years. In In Amsterdam this concerns 36.3% of the hotels and in the rest of the Netherlands this concerns 35.5% of the hotels. In Amsterdam, 18.2% indicate that the short-term survival (three years) is uncertain. In the rest of the Netherlands this percentage is lower at 12.8% but it is still significant.

Where does this uncertainty come from? A number of the factors were asked in our survey. Results are included in the graph below.

*Figure 3.5: Survey results raise concerns in the sector*




The main concerns for hoteliers are the rising operational costs. In In Amsterdam, 90.9% of respondents are concerned about this. In the rest of In the Netherlands this percentage is 79.7%. It is striking that in Amsterdam people also is concerned about a decline in tourism in the region (42.2%), while people there is clearly less concern about this in the rest of the Netherlands (15.5%). That fits in the previous view that international tourism from outside the EU is less strong has recovered than other tourism and that Amsterdam is actively pursuing a policy to to discourage tourism through campaigns and high local taxes.

Trends and developments in the hotel sector

In order to make a sound estimate of the impact of the intended VAT increase, Finally, it is important to highlight the most important trends and developments in the hotel sector. Some of these (increasing demand, increasing prices, but also sharply rising (operational) costs) have already been mentioned. But there are more trends that affect the cost level, revenue model and level playing field influence and that are specifically affected by a VAT increase.

*Level playing field under pressure from private home rental (such as Airbnb)*

In many municipalities it is possible for homeowners to rent out their accommodation (temporarily) to tourists. This has become increasingly popular in recent years (certainly in urban areas). areas) have become increasingly popular. More and more hoteliers indicated that they also increasing competition from private home rental (such as Airbnb). In the Netherlands, temporary rental of homes is not exempt from VAT.

However, with the Small Business Scheme (KOR) it is possible to apply for an exemption from VAT. The disadvantage of this is that you cannot reclaim the VAT on the purchase. Certainly for small private landlords of holiday homes and B&Bs this still provides a competitive advantage over hotels. This advantage will only increase if the intended VAT increase is implemented. However, more and more cities (Amsterdam in the lead) are starting to restrict private home rental by, for example, regulating the

maximum number of nights that can be rented via websites such as Airbnb and payments of tourist tax. This has caused competition for the hotel sector from private home rental to decrease somewhat (in certain places). But with the difference in VAT rate, the difference between the two providers of overnight accommodation is increasing again.

What does the sector say? Concern 2: Market disruption and competitive disadvantage

The VAT increase on hotel stays in the Netherlands creates a significant disadvantage compared to neighbouring countries. Belgium (6% VAT) and Germany (7% VAT) already have a lower rate. With the Dutch rate increasing to 21%, there is a real risk of cross-border tourism loss, especially in border cities and regions. Visitors may choose to stay across the border to save costs while still visiting Dutch destinations.

The shift in consumer behaviour weakens the competitiveness of the Dutch hotel sector, especially for independent hotels and family-run businesses that cannot match the price flexibility of larger international chains. This could undermine long-term tourism strategies aimed at promoting the Netherlands as an attractive destination for visitors.

Financial institutions and real estate organisations have expressed concern that falling occupancy levels could create a downward cycle. Falling revenues lead to reduced investment in quality, innovation and modernisation. If Dutch hotels cannot compete with international standards, the sector could suffer lasting reputational damage, causing lasting shifts in consumer preferences.

Another critical concern is the lasting impact of COVID-19. Many hotels have not yet fully recovered, and a sudden VAT hike will put further pressure on financial reserves. Industry experts predict that rising costs could lead to closures, leaving empty properties and halted developments. This will negatively impact the real estate market in affected regions. As a result, the Netherlands risks becoming a less attractive destination for both leisure and business travellers, while weakening small town economies that rely on tourism.

Source: CELTH analysis based on interview round with hoteliers, banks, investors and real estate developers

*Growing Bleisure market*

'Bleisure', a contraction of the words Leisure and Business, is becoming increasingly popular. Bleisure is the addition of extra days at the beginning or end of a business trip to give employees some extra rest, fun and relaxation. In essence, a few days of free time at the destination of the business visit. According to Routespring, a renowned travel management platform that focuses on the growing market of bleisure travel, approximately 40% of business trips are extended to bleisure travel. Grand View Research conducted research into the Bleisure market and predicts a growth of 12.1% compound annual growth rate from 2023 to 2030.

*Exploitation of hotels*

In the recreation sector it is not an unknown phenomenon, because it has been happening in recreation parks for years: selling off. In the hotel sector we have also seen this happening more and more in recent years. With selling off, the ownership of the accommodations (in this case hotel rooms) is sold individually to private individuals. Sometimes (usually) an umbrella manager remains, but it is also possible that buyers themselves become responsible for maintenance and management. In the recreation park sector, this phenomenon has ensured that the sector has become much more short-term investment-driven instead of long-term exploitation-driven.

Selling holiday homes was a lucrative business model.
Consequences for the quality of recreation parks vary greatly per park, but in general less focus on long-term exploitation results in a decrease in quality in the long term. Increasing VAT on room rental ensures that operating a hotel becomes less interesting. This could accelerate the trend of selling off in the hotel market.

*COA reception in hotels*

The COA has been a fairly large buyer of hotel rooms over the past few years.
It is estimated that around 5,000 hotel rooms were occupied in the Netherlands for reception at the end of 2023[25]. That is more than 3 percent of the hotel supply in the Netherlands and in the regions where this happens (especially regions outside the Randstad with a significantly lower occupancy rate in the low season), the share is even higher. This has ensured a constant income stream for hotels in the lower and middle segments, but is also a risk. If this stream disappears, prices and margins will fall. Not only for the hotel itself, but also for the

surrounding hotels as supply increases again.

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25 Volkskrant, 19 Dec 2023

*Tourism discouraging policy*

In a number of places in the Netherlands it is becoming increasingly busy, partly due to the arrival of tourists. In some areas even 'overtourism' is experienced.

As a result, a tourism-discouraging policy is now being implemented in a number of areas. For example, Amsterdam, Haarlem and Maastricht have a (temporary) hotel stop and many municipalities are becoming more cautious about granting new permits. By increasing the tourist tax, the aim is sometimes to generate the same government income with a smaller number of visitors.

## 3.3 Tourist expenditure by hotel guests

Tourists who stay overnight in hotels in the Netherlands do not only spend money on a hotel room, but they also spend in the destination region. The CBS Holiday Survey (CVO) makes statements about the level of this expenditure in 2023. On average, guests spent a total of €80.00 per day or €113.00 per night on the hotel, guesthouse or B&B. They stay an average of 3.5 days or 2.5 nights, which amounts to an average expenditure of €279.00 per person per stay. If we zoom in on this expenditure, we see the following spending pattern (see Table 3.12).

*Table 3.12: Average expenditure per night and day by type of expenditure in 2023.*

| Type of issue | Expenses per night | Expenses per day |
|---|---|---|
| Accommodation | €59.00 | €42.00 |
| Transport | €13.00 | €10.00 |
| Hospitality | €28.00 | €20.00 |
| Trips and excursions | €4.00 | €3.00 |
| Souvenirs, shops and groceries | €6.00 | €4.00 |
| Other | €2.00 | €1.00 |

Source: CVO

Here too, there is a difference between spending in the Amsterdam region and beyond. The CVO sample is too small to make a thorough to make a statement about it. But based on the average figures for expenditure in North Holland is talking about at least 20 percent higher spending in Amsterdam compared to the rest of the Netherlands. Taking into account the fact that part of the catering expenditure on food and drinks also in the hotel takes place, we expect that tourists staying overnight in hotels will still approximately 3 billion euros spent on non-hotel expenditure.

# 4. Effects on hotel market

In this chapter we discuss the effects of the VAT increase on the hotel market. We briefly describe the impact model in broad outline. We then analyse the impact of the VAT increase from 9 percent to 21 percent on the hotel sector, the tourism sector, tax revenues and the Dutch economy.

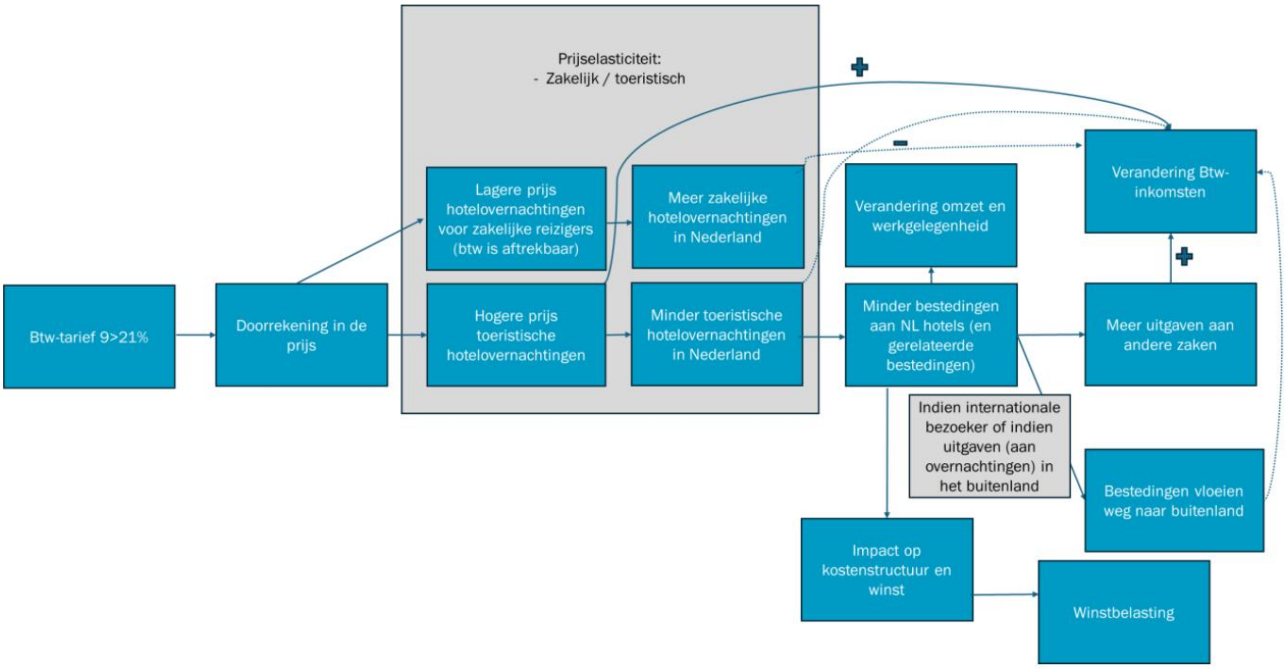
## 4.1 Description of the impact model

For this study we developed an impact model that:

1. Based on input parameters: the VAT increase, the part that is passed on is included in the room rate and price elasticity.
2. The change in demand for overnight stays is modelled: with a distinction between different target groups/segments (domestic, foreign, business, tourist)
3. Which has an effect on spending in the hotel market and tourism sector follows: and thus impact on turnover, profits and employment and VAT contributions from the sector.
4. And 'substitution' is taken into account: if Dutch tourists less overnight stays they spend their money on something else (in the Netherlands), extra spending on VAT is at the expense of spending on other products and services in the Netherlands. Foreign tourists who stay away no longer spend their money in the Netherlands.
5. With which we provide an integrated picture of the impact on: hotels, the tourism sector and the Dutch economy as a whole.

We do not take purchasing power measures or avoided measures into account in the model tax increases and government cutbacks paid from VAT revenues. It is important to note that purchasing power measures will benefit the tourism sector to a limited extent, because the sector largely depends on foreign guests who are not compensated in their income for higher prices.

*Figure 4.1: Schematic representation of impact model. Source: Decisio*




The figure above shows the model schematically. In the figure below
In the following paragraphs we will successively discuss the impact on 1) the hotel sector, 2) the broader tourism sector and 3) the Dutch economy as a whole.

## 4.2 Effects of increasing VAT rate on the hotel sector

In this section we describe the impact of the VAT increase on the hotel sector.
We distinguish between the Amsterdam market and the rest of the Netherlands.

### 4.2.1 Effects on price and demand

The effect of the VAT increase on the room rate depends on the extent to which hotels pass on their price. We choose a base scenario that matches the principles of the Ministry of Finance: 75% of the VAT increase will be included in the room price.

The table below shows the principles we use for the
impact model. The table shows, among other things, the price elasticity: the extent to which people are spending less on hotels due to a price increase. In a
price elasticity of -0.75 a price increase of 1% leads to a decrease in the

number of overnight stays by 0.75%. We use this elasticity for tourist overnight stays and it is equal to the elasticity that the government used as a starting point in its calculations[26].
For business overnight stays we assume a lower price elasticity, namely -0.6[27]. Business hotel guests will be less likely to change their behaviour as a result of a price change. Business guests also respond to the price excluding VAT, as they can reclaim their VAT

to ask.

With the price elasticity we can then calculate the impact of the VAT increase on the number of tourist overnight stays: these decrease by 6.2 percent. The number of business hotel overnight stays, on the other hand, increases. They can reclaim their VAT and therefore have a cheaper hotel overnight stay. The VAT increase is not fully passed on in the price and therefore leads to a price reduction excluding VAT.

*Table 4.1: Input impact model*

| Description | Amsterdam | Rest of the Netherlands | Total |
|---|---|---|---|
| Impact on price due to VAT increase of 9 to 21% | 11% | 11% | 11% |
| Price calculation | 75% | 75% | 75% |
| Price change incl. VAT | 8.3% | 8.3% | 8.3% |
| Price change excl. VAT | -2.5% | -2.5% | -2.5% |
| Price elasticity of tourist overnight stays | -0.75 | -0.75 | -0.75 |
| Price elasticity of business overnight stays | -0.6 | -0.6 | 0.6 |
| Impact on tourist overnight stays | -6.2% | -6.2% | -6.2% |
| Impact on business overnight stays | 1.5% | 1.5% | 1.5% |

The table below shows the change in the number of overnight stays as consequence of the VAT increase.

*Table 4.2: Effect of VAT increase on the number of overnight stays (x 1 million)*

| Overnight stays in 2024 | Amsterdam | Rest of the Netherlands | Total |
|---|---|---|---|
| Domestic tourist | -0.2 | -1,1 | -1.3 |
| Foreign tourist | -0.9 | -0.7 | -1.6 |
| Business domestic | 0.0 | 0.1 | 0.1 |
| Business abroad | 0.0 | 0.1 | 0.1 |

26 Official file bundle.
27 NYFER

The number of *tourist overnight stays* is decreasing as a result of the VAT increase. We estimate that this will amount to approximately 3 million overnight stays per year. The number of business overnight stays increases slightly, because the price for them actually decreases slightly if hoteliers do not charge the full VAT. This concerns approximately 100,000 extra overnight stays per year.

Ways to limit VAT increase
Hotels often offer services that fall under both high and low VAT rates. Think of a breakfast or dinner that falls under a low rate. Hotels will look for ways to optimize their price (within the margins that the tax authorities accept) so that the average VAT rate is as low as possible.

Currently, many hotels offer their breakfast cheaper if it is booked in advance, instead of on the spot. There are also packages where the additional costs for a dinner are relatively low. This can also be reversed: the room rate becomes cheaper if a breakfast or dinner is also booked in advance. The price of the breakfast or dinner can also be increased and the room rate kept as low as possible (as acceptable). The tax inspection of hotels does not become easier due to this measure.

### 4.2.2 Effects on turnover and costs of the hotel market

On average, hotels generate 56% of their turnover from room income[28]. For Amsterdam this is 72% and for the rest of the Netherlands 50%. We assume that of the other income (restaurant, hall rental, etc.) approximately half comes from overnight guests. The prices of these products and services do not change, but if guests no longer stay overnight, they will also no longer make these expenditures. The remaining part of the income does not depend on the number of overnight stays and is also not affected by the VAT increase.

28 Source: HOSTA data 2023

*Table 4.3: Effect of VAT increase on different types of turnover. Amounts in millions and turnover figures excluding VAT*

| Effects of turnover from overnight stays | Amsterdam | Rest The Netherlands | Total |
|---|---|---|---|
| Turnover 2023[29] (excl. VAT) | €2,040 | €5,628 | €7,667 |
| *% turnover from rooms* | 72% | 50% | 56% |
| Revenue from rooms (2023) | € 1,468 | €2,814 | €4,282 |
| Turnover from rooms after VAT increase (excl. VAT) | € 1,362 | €2,641 | €4,004 |
| Effect on room turnover (excl. VAT) | -€106 | -€ 172 | -€ 279 |
| VAT income 2023 (9% VAT) | €132 | €253 | €385 |
| VAT income after VAT increase (21% VAT) | €286 | €555 | €841 |
| Effect on VAT revenues | € 154 | €301 | €455 |
| **Effects of turnover from food and beverages** | **Amsterdam** | **Rest The Netherlands** | **Total** |
| *% turnover from food and beverages* | 20.0% | 43.0% | 36.9% |
| *Depending on hotel stays* | 10.0% | 21.5% | 18.4% |
| Turnover 2023 | €204 | €1,210 | €1,414 |
| Food and beverage turnover after VAT increase | € 194 | € 1,165 | € 1,359 |
| Impact on food and beverage hotel sector turnover | -€10 | -€45 | -€55 |
| VAT income 2023 (13% VAT) | €27 | € 157 | € 184 |
| VAT revenues after VAT increase (13% VAT) | €25 | € 151 | € 177 |
| Effect on VAT revenues from food and beverages hotel sector | -€1 | -€6 | -€7 |
| **Effects of turnover from small operating departments and other activities** | **Amsterdam** | **Rest The Netherlands** | **Total** |
| *% turnover from small operational departments and other* | 8.0% | 7.0% | 7.3% |
| *Depending on hotel stays* | 4.5% | 4.0% | 4.1% |
| Turnover 2023 | € 92 | €225 | €317 |
| Turnover of small operational departments and other after VAT increase | €88 | €221 | €309 |
| Impact on turnover of small operational departments and other hotel sector | -€4 | -€4 | -€8 |
| VAT income 2023 (21% VAT) | € 19 | €47 | €67 |
| VAT revenues after VAT increase (21% VAT) | €18 | €46 | €65 |
| Effect on VAT revenues from other hotel activities | -€1 | -€1 | -€2 |
| **Total impact hotel sector** | **Amsterdam** | **Rest The Netherlands** | **Total** |
| Impact on hotel sector turnover (excl. VAT) | -€120 | -€222 | -€342 |
| Impact on VAT revenues | € 152 | €295 | €447 |

The total turnover of the hotel sector will decrease by approximately €342 million as a result of the VAT increase from 9% to 21% and a 75% pass-through in the price. That is

29 CBS Statline (2022), 2023 estimate based on development of the accommodation sector.

a decrease of approximately 5 percent of the total turnover of the sector. The measure leads to €447 million in additional VAT payments from the hotel sector to the government. This does not take into account business guests who can claim this VAT. to ask back.

4.2.3 Effects on costs, profits and employment in the hotel market

When the number of guests and the turnover from the restaurant change, the costs and the deployment of required staff also change. This does not happen proportionally: a hotel needs to purchase less and can possibly get by with less staff for cleaning, making up rooms, breakfast, etc. But a large part of the costs also concerns fixed costs: maintenance, mortgage payments, gas, water and electricity, accounting, reception staffing, are all costs that (partly) remain intact when the number of guests decreases.

On average, a hotel has a profit margin before taxes of around 9.6 percent (see chapter 3). In Amsterdam probably just above 10 percent and in the rest of the Netherlands just above 8 percent (we do not make this distinction in the calculation).

Costs of booking websites

Booking websites charge a fee on the room price including VAT. A VAT increase also results in higher payments from hotels to booking sites and reduces the margin for a hotel once again. Because booking sites operate internationally and charge a fee on the price including VAT in every country, hoteliers indicate that it is difficult to make other agreements and make the fee dependent on the price excluding VAT that remains for the hotelier.

55% of a hotel's costs are fixed costs, 45% is variable30. Hotel turnover falls by 4.5% due to the VAT increase, partly due to the room rate reduction that is at the expense of the margin31 and partly due to the drop in demand of 3.2%. Variable costs decrease with the drop in demand, fixed costs remain the same. As a result, a 4.5 percent drop in turnover leads to a drop in profit of almost 35%. The profit margin drops from a healthy 10 percent to less than 7 percent. The impact is greater on hotels in Amsterdam because they account for a larger share of generate their revenue from rooms and less from restaurants.

30 FirmFocus (2020).

31 In this calculation, we assume that there will be no cuts in the service level of a hotel, or that the turnover of the restaurant or services will be strategically priced differently. A price reduction will therefore be at the expense of the margin. When hotels strategically change their prices, this will not only have an impact on profits and profit tax, but also on VAT revenues.

*Table 4.4 Impact of VAT increase on costs, profits and corporate income tax*

| | Amsterdam | Rest Netherlands | Total |
|---|---|---|---|
| Turnover (excl. VAT) 2023 | €2,040 | €5,628 | €7,667 |
| Costs 2023 | € 1,844 | €5,088 | €6,931 |
| *Of which fixed* | *€ 1,014* | *€2,798* | *€3,812* |
| *Of which variable* | *€830* | *€2,289* | *€3,119* |
| Profit before tax 2023 | € 196 | €540 | €736 |
| Turnover (after VAT increase) | € 1,919 | €5,406 | €7,326 |
| Costs | € 1,809 | €5,025 | €6,834 |
| *Of which fixed* | *€ 1,014* | *€2,798* | *€3,812* |
| *Of which variable* | *€795* | *€2,227* | *€3,022* |
| Profit before tax after VAT increase | €110 | € 382 | €492 |
| Corporate income tax 2023 | €44 | €122 | € 166 |
| Profit tax after VAT increase | €25 | €86 | €111 |
| Impact on corporate income tax | -€19 | -€36 | -€55 |

Assuming an average of a very conservative estimate32 of 22.5% corporate income tax, tax revenues from corporate income tax will fall by 55 million euro.

As with the total costs, the staff also accounts for approximately half fixed (minimum occupancy reception, breakfast, restaurant, etc.) and half variable (e.g. part room cleaning, kitchen and service). In this case the employment in the hotel sector will decrease by approximately 1.5%. This is equivalent slightly less than 1,000 FTEs spread over 1,500 jobs. The added value of the hotel sector is falling by approximately 280 million euros33 (consisting of approximately 240 million euro profit decline (before tax) and 40 million euros less personnel costs).

Risk of bankruptcy

The calculations were made for the average hotel. However, hotel margins are under pressure and have fallen in recent years due to cost increases (wages, purchasing, maintenance, energy and often local taxes have risen more than turnover). For entrepreneurs with low margins, the VAT increase means a real risk of bankruptcy.

After all, they no longer have any margin after the increase. We do not have exact figures on how many entrepreneurs are involved, only indications that the margins are lower in the cheaper hotel segment and that this is also the segment that is hit hardest because there are no business guests staying overnight who can reclaim VAT.

32 Based on the average corporate tax. Hotel owners who are registered as sole proprietorships, or who have dividends paid out in the Netherlands via their BV, pay a higher marginal rate.

33 This concerns the added value in 'basic prices'. In market prices, the added value of the sector increases: the VAT payments are then added to it.

#### 4.2.4 Effects of increase on tax revenues

In this section we consider the impact on total tax payments of the hotel sector. There are a number of elements for the VAT payment from the hotel sector of importance. The VAT increase only applies to the room rate. VAT revenues increase on that part of the turnover. Due to the drop in demand, VAT payments decrease (also on the part that is not affected by the VAT increase). In total, the hotel sector pays 447 million euros extra VAT to the tax authorities.

In addition, for business overnight stays, hotel guests must pay VAT can claim back. For this group of guests there is no net effect on VAT revenues. The additional VAT on business overnight stays amounts to 138 million euros.
The hotel sector will therefore pay an additional 309 million euros net to the tax authorities as a result of the VAT increase.

Finally, hotel profits are falling due to the VAT increase. This reduces the hotel sector's profit tax by 55 million euros. As a result, the hotel sector ultimately pays an additional 254 million euros to the tax authorities.

*Table 4.5: Change in government income from the hotel sector. Amounts in millions*

| Taxes Government hotels | Amsterdam | Rest The Netherlands | Total |
|---|---|---|---|
| VAT revenues hotels 2023 | € 178 | €458 | €636 |
| VAT revenues from hotels after VAT increase | €330 | €753 | €1,082 |
| Change in VAT income | € 152 | €295 | €447 |
| VAT refund for business overnight stays 2023 | €31 | € 146 | € 177 |
| VAT refund for business overnight stays after VAT increase | €61 | €254 | € 315 |
| Net VAT payments hotels 2023 | € 147 | € 312 | €459 |
| Net VAT payments hotels after VAT increase | €269 | €499 | €768 |
| Change in net VAT payments | €122 | € 187 | €309 |
| Corporate income tax 2023 | €44 | €122 | € 166 |
| Corporate income tax after VAT increase | €25 | €86 | €111 |
| Change in corporate income tax | -€19 | -€36 | -€55 |
| Total change in government income | €102 | € 151 | €254 |

A recent estimate by the central government assumed 364 million euros in additional income for the government due to the VAT increase on hotels and guesthouses. The above calculation shows that this is an overestimate. There are three reasons for this: 1) part of the turnover is not affected by the VAT increase, 2) the business overnight guests claim the VAT back and 3) the profit tax goes down.

This does not include the fact that foreign spending is also declining in other sectors, due to the drop in demand. We will elaborate on the effect of this in the next paragraph.

*Tourist tax*

At regional level, the decrease in the number of overnight stays leads to a change in the income from the tourist tax. However, this tax differs per municipality34. On average, a tourist pays 3 euros per night in Netherlands. In Amsterdam this amount is the highest: 17 euros per night at hotels, in the rest of the Netherlands this is an average of 2 euros. Also in other Dutch cities the amounts per night are relatively high. However, there are municipalities where this amount is considerably lower, less than one euro per night, as in the municipalities Barendrecht and Renswoude (0.75 euros per night). Ultimately, we expect a decrease in municipal tax revenues of €21 million.

*Table 4.6: Impact on tourist tax*

| Tourist tax | Amsterdam | Rest The Netherlands | Total |
|---|---|---|---|
| Impact on number of overnight stays (x1000) | -1,022 | -1,630 | -2,652 |
| Amount of tourist tax per night | €17.0 | €2.0 | |
| Tourist tax paid (mln. €) | -€17 | -€3 | -€21 |

## 4.3 Effects on regional tourism economy

The increase in VAT for the hotel sector not only affects hotels, but also adjacent tourist sectors. Tourists who stay away also no longer spend money at restaurants, retail, attractions and museums during their holiday or weekend/day away. And the tourism sector also buys fewer goods and services from suppliers. This has an impact, especially for regions that are heavily dependent on tourism. Each overnight stay leads to an average of 53 euros on expenditure outside the hotel35.

In total, we estimate that the VAT increase will lead to approximately *118 million* euros less in spending outside hotels. This will lead to *16 million euros* less in VAT revenue from the tourism sector. Total spending during holidays will decrease by *167 million euros,* of which almost 100 million euros is a loss of foreign expenditure. This is shown in the table below.

34Atlas Local charges (2024). COELO, Groningen

35 See Chapter 3. This has been corrected for expenditure in the hotel restaurant.

*Table 4.7: Change in expenditure and VAT revenues from other tourism sectors.*

| Impact on total expenditure in the Netherlands / Impact of VAT increase from 9 to 21% | Domestic tourists Non-business | Domestic tourists Commercial | Foreign tourists Non-business | Foreign tourists Commercial | Total |
|---|---|---|---|---|---|
| Expenditure in hotel sector (excl. VAT) | -€ 157 | € 1 | -€ 186 | € 0 | -€342 |
| Expenditure in other tourist sectors during holiday/travel (excl. VAT) | -€50 | €5 | -€78 | €5 | -€118 |
| VAT expenditure hotel | €135 | € 0 | € 174 | € 0 | €309 |
| VAT expenditure other sectors during holiday/ travel | -€6 | € 0 | -€10 | € 0 | -€16 |
| Sum of expenses during vacation | -€79 | €6 | -€99 | €5 | -€ 167 |

*Impact on added value and employment outside the hotel sector*

The decline in spending on the 'other tourism sectors' during a holiday, leads to a further decline in added value and employment within the tourism sector. This concerns sectors such as transportation, food and drink, and recreational outings (museums, amusement parks, activities, etc.). The added value in these sectors decreases by approximately 50 million euros and decrease in employment, with over 750 full-time jobs (FTE). These are mainly the tourist regions where this impact will occur.

*Table 4.8: Change in added value and employment in tourism sectors*

| Impact | Total |
|---|---|
| Spending in tourism sectors | - €118 million. |
| Added value | -€48 million. |
| Employment (FTE) | -750 |

*Indirect impact*

We also looked at the indirect economic effects resulting from the changed expenditure. Consider additional purchasing costs of companies in the sector. If hotels have less turnover, they will also have less purchasing from suppliers. The same applies to other tourism sectors where guests no longer spend money. Suppliers to the tourism sectors are expected to lose €150 million in turnover due to the decline in tourism. This is accompanied by an added value of more than €80 million and 700 full-time jobs.

*Table 4.9: Change in indirect impact of tourism sectors*

| Indirect impact | Total |
|---|---|
| Turnover suppliers hotels + other tourism sector | -€150 |
| Added value | -€82 |
| Employment (FTE) | -700 |

The above effects are estimated based on an input-output model developed by Decisio based on CBS statistics. This impact is calculated at national level. The expectation is that approximately half to three quarters of this impact will be reflected in the region where the hotels are located.

Ultimately, this means that for every euro that a hotel loses due to the VAT increase, 35 cents less is spent directly by hotel guests in the region and indirectly another 20 to 35 cents because hotels and other tourist companies buy less in the region. Every euro that the hotel loses, costs the region around 60 cents in turnover outside the hotel.

The regions where tourism is absent are therefore missing out on another 220 million euros in revenue from other regional businesses, on top of the 340 million euros in turnover from hotels.

## 4.4 Effects on the Dutch economy

The previous paragraphs described the effects for the tourism sector. In this paragraph we also look at the effects if we take into account substitution of spending by tourists and summarize the

economic effects together.

### 4.4.1 Effects due to substitution

A price increase, for example due to a VAT increase, mainly leads to a shift in (domestic) spending in many sectors. When spending increases or decreases in one sector, it changes in the opposite direction in other sectors. There are two effects for the hotel sector: due to the VAT increase, people who stay overnight spend more money on their hotel stay and therefore less on other sectors. Those who decide not to stay overnight anymore have money left over from their holiday and therefore spend it on products and services in other sectors. The Dutch spend the *79 million* euros they save on domestic hotel holidays on other things. This leads to approximately *69 million euros* in income for other sectors and *10 million euros* in VAT income. Foreign tourists spend the money they save on holidays in the Netherlands abroad. This does not end up in the Dutch economy in any other way.

*Table 4.10: Expenditures on other sectors as a result of substitution effects. Amounts in millions.*

| Impact on total expenditure in the Netherlands | Domestic tourists | | Foreign tourists | | |
|---|---|---|---|---|---|
| Impact of VAT increase from 9 to 21% | Non-business | Business | Non-business | Business | Total |
| Change in expenses during vacation | -€79 | €6 | -€99 | €5 | -€ 167 |
| Substitution of expenditure elsewhere in the Netherlands | €62 | €6 | € 0 | € 0 | €69 |
| VAT on expenditure elsewhere in the Netherlands | €10 | € 0 | € 0 | € 0 | €10 |

### 4.4.2 Effects on the total economy

The increase in the VAT rate will ultimately affect the Dutch economy in broad terms. The table below shows the main economic effects resulting from the change in spending as a result of the VAT increase.

*Table 4.11: Changes in expenditure and tax revenues as a result of VAT increase hotel sector. Amounts in millions.*

| Impact | The Netherlands |
|---|---|
| Impact on hotel sector turnover (excl. VAT) | -€342 |
| Impact on other tourism sectors during holidays/travel (excl. VAT) | -€118 |
| Substitution of expenditure elsewhere in the Netherlands (excl. VAT) | €69 |
| Total impact of turnover of Dutch companies | -€ 391 |
| Impact on VAT revenues in the hotel sector (incl. business tax refund) travelers) | €309 |
| Impact on VAT revenues from other tourism sectors | -€16 |
| Impact on VAT revenues due to substitution | €10 |
| Impact on hotel profit tax | -€55 |
| Impact on tourist tax hotels | -€21 |
| Total change in tax revenues | €228 |

The analysis shows that the turnover of Dutch businesses will fall by 391 million euros, in order to raise 228 million euros in additional tax revenue.

The decrease in the above expenditure leads (directly)36 to changes in the added value and employment within this hotel sector and other sectors. This is shown in the table below:

*Table 4.12: Change in added value and employment as a result of VAT increase in the hotel sector.*

| Impact | The Netherlands |
|---|---|
| Change in added value of hotel sector | -€281 |
| Change in employment in the hotel sector (FTE) | -950 |
| Change in added value other tourism sectors | -€48 |
| Change in employment in other tourism sectors (FTE) | -750 |
| Change in added value other sectors as a result of substitution | 22 |
| Change in employment in other sectors as a result of substitution (FTE) | 210 |
| Change in added value (in basic prices) 37 Dutch companies in total | -€ 307 |
| Change in employment in the Netherlands companies total (FTE) | -1,490 |

The table above illustrates the impact of the VAT increase on both the added value and the employment generated by companies. The total impact amounts to over €300 million in added value and a loss of 1,500 full-time jobs (FTE) because Dutch and foreign tourists spend less on Dutch businesses38.

36 We have not included the indirect impact on suppliers to the tourism sector in this overview. The expectation is that these are mainly regional effects, which have a limited impact at national level. For example: if a baker does not deliver bread to a hotel, someone at home buys that bread. At national level, these are mainly shifts in effects. That does not alter the fact that they can certainly be important for regions.

37 Basic prices are the prices excluding product-related taxes, such as VAT and tourist tax. In market prices where positive effects on taxes are included, the impact is approximately 25 million euros negative.

38 This does not include the effects that governments can reinvest the taxes collected in the Dutch economy.

#### 4.4.3 Long term effects

The table above mainly shows the short-term effects. In the long term, the labour market will reach equilibrium. People who no longer work in the hospitality industry will do other work, with which they will also contribute to the Dutch economy. However: with less pleasure and/or less productivity than in the tourism sector. Otherwise, people would have chosen another profession by now. In addition, the effect on the trade balance is also structural: tourism is a sector that attracts above-average foreign spending. This means that it is expected that in the long term, too, there will be a net welfare effect from the loss of tourism spending.

We expect a welfare loss of 5 to 10 percent[39] of the expenditure of foreign tourists who no longer go to the Netherlands. This leads to a net structural loss of 5 to 10 million euros per year.

If the new tax system were to become considerably simpler and thus lead to lower administrative burdens for entrepreneurs or implementation burdens for the government, such a loss could be compensated. That does not seem to be the case here. In fact, within the hotel sector we see an increase in complexity. The VAT increase therefore leads to price increases for a sector that has to compete internationally and attracts a lot of foreign spending and there is no simpler tax system or other advantage to compensate.

#### 4.4.4 Social impacts

As mentioned a few times, hotels come in many shapes and sizes. And the importance of a hotel for a region can also vary. In some centres, the hotel can also be the only restaurant, or the location for parties and celebrations, and thus fulfil an important function. If such a function disappears, this has an impact on the total liveability of a village.

The cheaper segment such as hostels, plays an important role for school trips, family outings or sports club outings. These therefore fulfil a social function in themselves. Hostels near villages are also used as meeting locations for municipal council parties or associations. These social functions come under pressure when guests leave.

The risk is particularly high in the border regions. For large groups – such as school trips - isn't a location just across the border much more expensive in terms of

39 Decisio (2023). Net spending effects of air passengers. Commissioned by the Ministry of Infrastructure and Water Management.

travel expenses and the VAT saves approximately 15 percent on the overnight price. The actual impact cannot yet be determined: the group bookings for next year (the first year in which the VAT increase takes effect) are only just being made and the effects on booking behaviour are therefore not yet visible. The VAT increase already poses a dilemma for hotels with many group bookings as to what price they should charge for next year. While most individual bookings are usually made a few weeks to days in advance and 'the market' determines the price at that time, group bookings are made well in advance and hotels must now already take into account the VAT rate that is expected to increase in 2026.

And in addition to these direct social interests, there is also the indirect interest that is related to the direct economic interest. Regions that are highly dependent on tourism become less attractive in a broad sense if fewer tourists come for all types of companies. When regional employment decreases, the total level of facilities of schools, shops, general practitioners, etc. also comes under pressure. After all, sufficient people must remain in the region to maintain it and tourists also contribute directly to maintaining the level of facilities with their spending. Here too, the risk is particularly high for regions close to the border with a relatively high dependence on non-business tourism.

What does the industry say? Concern 3: Social and employment implications
The VAT increase will disproportionately affect budget-conscious travellers, including families, students, sports and school groups and lower income groups, who may be forced to travel to Belgium and Germany where accommodation remains more affordable. An extra hour on the bus for a 10% saving on overnight costs is increasingly seen as a viable option. This reduction in domestic tourism will significantly impact local economies that rely on visitor spending, particularly in smaller towns and regional hubs where tourism is the backbone of economic activity.

A Deloitte survey indicates that most hoteliers expect shrinking profit margins, which will limit investments in sustainability, digitalization and modernization. While these investments are crucial for the competitiveness of the sector.

The knock-on effect on employment can be significant, particularly in rural and border regions, where a large percentage of jobs are directly or indirectly linked to the hospitality sector. Hotels, guesthouses and holiday parks act as employment anchors, supporting not only their own staff but also a network of restaurants, cultural attractions and transport services. As businesses struggle with higher costs and lower occupancy rates, staff reductions are inevitable, exacerbating unemployment and economic decline.

In addition to its economic role, the hospitality industry is important for social cohesion in small towns. Local accommodations provide infrastructure for village festivals, football and cycling competitions and cultural events. Major events have hotels and guesthouses necessary to accommodate organizers, entertainers, participants and visitors. The VAT increase threatens its viability and thus weakens social cohesion and community entrepreneurship.

An example is a Grand Café in a small town that also rents out a few guest rooms to make it profitable. If this becomes unprofitable under the new VAT rate and closes, it will not only result in job losses but also disrupt long-standing communal traditions, such as the Sunday morning coffee gatherings of a local walking club. Such changes, although subtle at first, have long-term effects that make villages and small towns less vibrant and less resilient.

Furthermore, the decline in hospitality will ripple through to retail, cultural venues and public spaces, leading to broader economic stagnation. Independent shops, museums and local attractions rely on the purchasing power of visitors – a decline in tourism will accelerate business closures and property depreciation, making it even harder for small communities to attract investment and economic renewal.

The VAT increase not only threatens the financial sustainability of companies, but also the cultural and social fabric of the villages and small towns in the Netherlands. Without careful policy intervention, this could lead to irreversible damage, further increasing concerns about Hotel sector concerns 2: market distortion and competitive disadvantage.

Source: CELTH analysis based on interview round with hoteliers, banks, investors and real estate developers

## 4.5 Sensitivity analyses

To assess the robustness and reliability of the results, we perform perform some sensitivity analyses using alternative assumptions. We view the results when 100% of the VAT increase is passed on in the price and when 0% is charged. We also have an analysis performed with lower price elasticities (-0.5 for non-business overnight stays and -0.3 for business overnight stays) and higher price elasticities (-140 for non-business overnight stays and -0.7 for business overnight stays). In the tables below we present the results of these analyses.

40 In the French study 'Etude d'impact – Hasse de TVA dans 'hôtellerie-restauration by Xerfi (2024), the price elasticity in the hotel sector is estimated at -1.0.

*Table 4.13: Results of sensitivity analysis: 100% and 0% calculation in the price.*

| Change | Basic (75% (calculation) | 100% billing | 0% billing |
|---|---|---|---|
| Hotel sector turnover (excl. VAT) | -€342 | -€359 | -€313 |
| Other turnover tourism sector (excl. VAT) | -€118 | -€ 171 | €42 |
| Expenditures (substitution) in other Dutch sectors | €69 | €86 | €22 |
| VAT income | €309 | € 307 | €310 |
| Corporate income tax | -€55 | -€48 | -€81 |

*Table 4.14: Sensitivity analysis: lower (-0.5 for non-business and -0.3 for business) and higher (-1 for non-business and -0.7 for business) price elasticities.*

| *Change* | Base (elasticity -0.75 not business and -0.6 commercial) | Elasticity of - 0.5 non-business, and -0.3 business | Elasticity of -1 non-business and -0.7 commercial |
|---|---|---|---|
| Hotel sector turnover (excl. (BTW) | -€342 | -€268 | -€425 |
| Other turnover tourism sector (excl. VAT) | -€118 | -€80 | -€159 |
| Expenditures (substitution) with other Dutch sectors | €69 | €2 | €128 |
| Change VAT income | €309 | €326 | €292 |
| Corporate income tax | -€55 | -€51 | -€66 |

Although results vary due to different starting points, the results of the basic analysis are called robust. The sensitivity analyses lead to tens of millions of euros difference in turnover and/or tax revenues compared to the basic analysis.

### 4.5.1 Example hotels (only for impact on hotel itself)

The impact of the VAT increase varies by type of hotel. For some hotels the change in turnover and profit margin will be minimal, while for other hotels this could affect their continued existence. Below we describe the possible impact of the VAT increase on two 'example hotels'
the financial situation of the hotel.

A successful *luxury hotel in the Randstad* has a room rate of more than 200 euros per night and is visited by relatively many business tourists and tourists with a large budget. This type of hotel generates a considerable turnover, has a relatively high profit margin (>10 percent) and has a low price sensitivity. The expected impact of the VAT increase on such a hotel is therefore limited.
Because the VAT increase has been passed on in the price, the price per night for business travellers can even be lower. This can lead to a higher number of overnight stays. Furthermore, tourists with a larger budget will be less likely to change their behaviour due to a price increase. This keeps the financial situation
of this type of hotel robust despite the VAT increase.

A *two-star hotel in a border region* has a room rate of less than 100 euros per night and is visited by tourists with a relatively limited budget. This type of hotel generates a modest turnover, has a relatively low profit margin (<10 percent) and has a higher price sensitivity. There are few to no business guests who can reclaim the VAT. The expected impact of the VAT increase on such a hotel is therefore expected to be significant. The increase in the price per night is expected to lead to a lower number of bookings.

Tourists with a smaller budget will change their behaviour more quickly due to a price increase. These tourists are expected to choose to stay overnight across the German border more quickly. As a result, the financial situation of this type of hotel may come under pressure due to the VAT increase. Profit margins will decrease and in some cases there will even be a case of closure of the business.

Corona debts Some
hotels still have an outstanding corona debt. This financial pressure makes these hotels extra vulnerable, especially when costs in the sector rise. The announced VAT increase could mean the tipping point between survival and closure for these hotels. While financially healthy hotels can adapt, the hardest hit companies have little room to pass on price increases.

As an indication, we have calculated the effects for the two example hotels.
is a global outline of the difference in impact In practice, the spectrum is

much wider range of hotels, with outliers at both ends of the spectrum and still much in between.

*Table 4.15: Impact of VAT increase on two 'example hotels'.*

| Impact on sample hotels | Budget hotel in border region | Luxury hotel with restaurant in the Randstad |
|---|---|---|
| Properties | | |
| Price elasticity | -1 | -0.5 |
| Number of rooms | 150 | 150 |
| Room price (€) | 100 | 200 |
| Revenue from rooms | 72% | 50% |
| Share of business guests | 17% | 32% |
| Occupancy rate (before VAT increase) | 65% | 80% |
| Profit margin before VAT | 8% | 12% |
| Effects of VAT increase | | |
| Turnover € million excl. VAT (at 9% VAT) | €4.9 | €17.5 |
| Turnover € million excl. VAT (at 21% VAT) | €4.6 | €17.0 |
| Profit before taxes at 9% VAT | €0.4 | €2.1 |
| Profit before taxes at 21% VAT | €0.1 | €1.7 |

The above analysis makes it clear that both hotels are impacted. But where one hotel's profit drops by 20 percent, but there is still a healthy profit margin of 10 percent, another hotel's profit drops by 70-80 percent and the margin drops below 3 percent. There is no longer a healthy return: viability comes under pressure and there is no more room for investment.

# 5. Conclusions

Our research into the impact of the VAT increase has led to the following conclusions:

1. The VAT increase is expected to yield less for the government than budgeted. Where the government assumed an estimated 364 million euros in tax revenues from the hotel sector due to the VAT increase, this remains limited to approximately 250 million euros in our analysis. We use the same assumptions for price elasticity and passing on to the guest as the government has used. We do not have a detailed breakdown of the structure of the government's VAT calculation, but we expect that it difference mainly comes from:
   a. The VAT increase only applies to the room rate portion and not the other income from the hotel.
   b. Business guests reclaim their VAT. c. Corporate income tax decreases, as hotel margins fall.
2. To collect this 250 million euros in taxes, it is Dutch business community loses around 400 million euros in turnover. The turnover of hotels decreases by 340 million euros, that of other tourist companies by 120 million euros. This is offset by 60 million from Dutch tourists who no longer spend their money on a hotel holiday, but elsewhere in the Netherlands. Dutch municipalities also miss out on 20 million euros in tourist tax.

3. It is important that the VAT increase leads to less spending by foreign tourists. Dutch tourists who no longer stay in a hotel spend most of their money on something else in the Netherlands. Foreign tourists are no longer spending their money in the Netherlands. We expect spending in the Netherlands to fall by almost 100 million euros per year, because foreign tourists are staying away as a result of the price increase.

4. The VAT increase does not affect all hotels equally. The 4- and 5-star segment in the big cities with a large share of business guests, is less hard hit than the budget segment with many tourist guests. The budget segment also fulfils an important function for school trips and associations. For a large group it becomes more attractive to travel an hour further by bus, if the overnight stay there is considerably cheaper. Or it is decided not to stay overnight or to stay for a shorter period of time in order to stay within budget.

5. We expect the impact to be greatest in the border regions and outside the major cities. Outside the major cities, the share of business tourism is low and in the border regions there is more competition from foreign hotels that have a lower VAT rate. The VAT rate of 9% is already above that of Belgium and Germany. With a rate of 21%, the differences are even greater bigger.

6. If hotels do not cut costs, it is expected that hotel profits will decrease by an average of 35 percent. There are major differences in the impact of the VAT increase, depending on the hotel segment, region and composition of guests. For some hotels, profitable operations are not possible, for other hotels the impact will remain limited. We expect a major impact in particular for hotels without (or with a limited share of) business guests in the lower segment. Their margins are smaller and their guests are more price-sensitive. Our example calculation shows that a decrease in the profit margin of 70 to 80 percent for this category of hotels cannot be ruled out. This jeopardizes necessary investments in innovation and sustainability and the viability of a large group of hotels.

7. When hotels disappear completely from a tourist region, it has a major impact. We see that for every euro that a hotel loses due to a decline in the number of overnight stays, regional businesses lose approximately 60 cents in income because the hotel also purchases less in the region and guests do not spend money on transport, outings, catering and retail.

8. In addition to the direct economic impact, there are other impacts. Hotels fulfil functions in the preservation of cultural heritage (country houses, castles, historical buildings) and often play a role in social cohesion in smaller towns and villages: as a café, restaurant, meeting location or party room for residents and associations. And to house organizers, participants and visitors of events. If investments lag behind, these functions will also come under pressure.

9. The higher VAT rate for accommodation does not simplify the tax system. It is likely that hoteliers will be creative in their pricing strategy to include as many items as possible (within the limits of what is legally possible) under the low rate. This makes control by the tax authorities more complex and may reduce the expected VAT revenues even further than calculated (in our calculations we have not assumed other pricing strategies). Administrative burdens increase.

10. Our calculation does not take into account purchasing power measures, investments or avoided government cuts that are made possible by the higher VAT revenues. Specifically, we focused on the consequences for the sector where the tax revenues

come from. It is important to note that hotels are expected to benefit less from the income measures than other sectors: a large proportion of their guests are foreign and they do not receive any form of income compensation. In addition, conservative assumptions have been made for the impact calculations at national level for Dutch guests who move abroad and foreign guests who save on their other expenditure during their stay due to the higher overnight price: both are assumed to be zero.

Sensitivity analyses with different assumptions about the price sensitivity of hotel guests and the passing on of the VAT increase in the overnight price do lead to different figures, but not to different conclusions.

# Appendix 1. Backgrounds

In this appendix we provide some detailed background information.

Survey

For this research, KHN conducted a survey among Dutch hoteliers in which figures from the hotels were requested. The main questions were for figures from 2024, but a comparison with 2023 and an estimate for 2025 were also often requested. A total of 488 respondents (partially) completed the survey. Of these 488 respondents, 258 completed the entire survey. This does not mean that these 258 respondents completed every question. Not all questions were mandatory in the survey. Questions about financial data were therefore completed by a substantially smaller number of respondents. For example, 19.3% of respondents indicated that they wanted to share information about turnover and 15.6% indicated that they were prepared to share information about costs.

to share.

- The majority of respondents have a hotel in the 3-star or 4-star segment, respectively 39.0% and 40.9%. 5.0% of respondents have a B&B, 4.7% a budget 1-2 star hotel, 4.1% a hostel/shared accommodation, 3.2% a 5-star hotel, and 3.2% have chosen the other category.

- 69.8% of respondents have a hotel that is not part of a chain/hotel chain, 8.9% are part of a local/regional hotel chain and 21.3% are part of a national or international hotel chain.
- 16.9% of respondents had a hotel in Amsterdam and 83.1% in the rest from the Netherlands.

Composition

The HOSTA report provides a more detailed insight into the composition of the market than just corporate and non-corporate and also provides insight into groups.

*Market segment composition in 2023. Source: HOSTA*

| Market segment | % of guests Amsterdam and Schiphol | % of guests rest of the Netherlands | % of guests Netherlands total |
|---|---|---|---|
| Business individual | 18% | 30% | 25% |
| Tourist individual | 61% | 46% | 53% |
| Tourist groups | 5% | 6% | 5% |
| Business groups | 11% | 14% | 13% |
| Other | 5% | 4% | 4% |

Because the behavior of domestic and foreign guests affects the Dutch economy in a different way, we show the composition of guests based on nationalities below. In the table below we do this on basis of CBS and HOSTA.

*Visitor origins*

| Country | CBS Amsterdam & Haarlemmermeer (2024) | CBS other The Netherlands (2024) | HOSTA Amsterdam & Schiphol (2023) | HOSTA other Netherlands (2023) |
|---|---|---|---|---|
| The Netherlands | 23% | 71% | 27% | 56% |
| Belgium* | 3% | 7% | 3% | 7% |
| Germany | 9% | 8% | 6% | 11% |
| Other Europe | 41% | 10% | 30% | 15% |
| Abroad excl. Europe | 24% | 4% | 34% | 11% |

*' The HOSTA report combines demand from Belgium and Luxembourg. Here it was chosen to report this question entirely under Belgium.

Although the percentages from the two sources differ quite significantly, we do see similar pattern. For Amsterdam and Schiphol the foreign market is dominant. In this region, even a relatively large percentage of guests from outside Europe is drawn. For hotels in the rest of the Netherlands, the domestic market is strongly dominant. Belgium and Germany are the next largest source markets.

Pricing

The average pricing of hotels is, because they make frequent use of dynamic prices, often highly dependent on demand. For example, we saw during the corona period a much lower average room price. In the table below are the data from the HOSTA report (incl. segmentation) about the average room rates included in 2023.

*Average room rates in 2023 by hotel type. Source: HOSTA*

| Type of hotel | Average room price |
|---|---|
| Hotel in Amsterdam and Schiphol | €205.00 |
| Hotel in other Netherlands | €125.00 |
| Average hotel in the Netherlands | € 166.00 |
| | |
| Hotel with less than 100 rooms | €148.00 |
| Hotel with 100-150 rooms | €153.00 |
| Hotel with 151-250 rooms | €175.00 |
| Hotel with more than 250 rooms | € 181.00 |

Operating income and expenses

The HOSTA report provides insight into the revenue sources and costs of hotels.

*Operating figures in 2019 and 2023. Source: HOSTA*

| | Amsterdam & Schiphol | | Other Netherlands | |
|---|---|---|---|---|
| | 2019 | 2023 | 2019 | 2023 |
| Turnover rooms | 71% | 72% | 59% | 50% |
| Food turnover | 18% | 15% | 25% | 31% |
| Drink turnover | 6% | 5% | 9% | 12% |
| Small operational turnover departments | 3% | 1% | 4% | 1% |
| Other turnover | 2% | 7% | 3% | 6% |
| Total turnover | 100% | 100% | 100% | 100% |
| Purchase value | 7% | 8% | 11% | 12% |
| Gross profit | 93% | 92% | 89% | 88% |
| Personnel costs | 27% | 26% | 32% | 31% |
| Operational costs | 9% | 10% | 9% | 11% |
| Administrative costs | 6% | 4% | 5% | 6% |
| Marketing costs | 3% | 2% | 1% | 1% |
| Energy consumption | 2% | 3% | 2% | 3% |
| Real estate management | 3% | 4% | 3% | 7% |
| Total costs (for fixed costs) | 56% | 57% | 63% | 70% |
| Total profit (before fixed costs) | 44.1% | 43.4% | 37.3% | 30.2% |

Under the 'fixed costs' section, the HOSTA report provides insight into the paid 'lease and rent'. To a large extent this will be the housing costs. If we deduct housing costs from the profit percentages as in the table above (for fixed costs) we arrive at the following profit percentages.

*Housing costs. Source: HOSTA*

| | Amsterdam & Schiphol | | Other Netherlands | |
|---|---|---|---|---|
| | 2019 | 2023 | 2019 | 2023 |
| Total profit before fixed costs | 44.1% | 43.4% | 37.3% | 30.2% |
| Paid amount 'lease and rent' | 26.7% | 25.6% | 22.9% | 14.4% |
| Total profit after 'lease and rent' and before other fixed costs | 17.1% | 17.8% | 14.4% | 15.8% |

The report states that the impact of the COVID-19 crisis on accommodation costs depends heavily on the type of lease agreements that hotels had. Therefore, the rental amounts and percentages in the table above should be considered indicative and may not be representative of the market as a whole. For the purposes of this study, we nevertheless use these percentages to arrive at an indication of profit before tax.

To arrive at this, a number of fixed costs such as depreciation costs must be deducted. Looking at the CBS structure of 2022, this is approximately 10%. This percentage will be relatively high, because hotel turnover in 2022 was relatively low. Firm focus reports (pre-corona) depreciation costs of approximately 7.5% of turnover. It is therefore plausible that the other fixed costs will be approximately 7.5% of turnover. If we deduct this percentage from the remaining margin, we arrive at the following estimate of the profit margin.

*Hotel sector profit margins in 2019 and 2023 by location.*

| | Amsterdam & Schiphol | | Other Netherlands | |
|---|---|---|---|---|
| | 2019 | 2023 | 2019 | 2023 |
| Total profit after 'lease and rent' and for other fixed costs | 17.1% | 17.8% | 14.4% | 15.8% |
| Estimate of other fixed costs | 7.5% | 7.5% | 7.5% | 7.5% |
| Estimated profit before tax | 9.6% | 10.3% | 6.9% | 8.3% |

We can compare these margins with the profit margins as indicated in the own survey. These are as follows:

*Hotel sector profit margins from survey*

| Region | 2023 | 2024 | 2025 (estimate) |
|---|---|---|---|
| Amsterdam | 14.9% | 10.8% | 12.1% |
| Other Netherlands | 11.3% | 11.1% | 11.4% |

Source: survey

These percentages are slightly higher. Based on the comparison, the following profit margins (before tax) are plausible:

- Amsterdam: 10-13%;
- Rest of the Netherlands: 8-11%.

Taxes hotels Hoteliers

pay many different types of taxes. These taxes can be divided into national taxes and local charges. We start with national taxes: - *Sales tax:* Hoteliers pay most of their turnover

currently the reduced rate of 9%, namely on room revenues, food and non-alcoholic beverages. The standard rate of 21% is generally already paid on the other part of the turnover.

- *Profit tax.* This tax is paid on the profit that is made. How much is paid depends on the legal form of the company. The first type of profit tax is income tax. This is paid for a sole proprietorship, general partnership or partnership. It is tax on the profit as a private individual. The tax percentage depends on the amount of profit that is made. A second type of profit tax is corporate tax.

This must be paid to a BV or NV, where the company's profit is taxed. For the first €200,000 in profit, a rate of 19% applies. For profits above this amount, the rate is 25.8%. When paying out dividends, the shareholder must then pay 15% dividend tax. If the shareholder has a substantial interest (5% or more of the shares), an additional rate must be paid, after deduction of the 15% already withheld. The amount of this rate depends on the amount of the dividend payment.

- *Employer's charges:* Employer's charges are costs for, among other things, social security contributions, pension contributions and any other obligations such as holiday pay. These are in addition to the gross salary. According to Statistics Netherlands (CBS), employer's charges amounted to approximately 23% of total personnel costs in the Netherlands in 2023.
- *Utility Tax:* Tax must be paid on the use of gas, tap water and electricity. The amount of these taxes varies according to the amount of consumption. For example, the tax on electricity varies from €0.10154- €0.00321 per KWh and the tax on gas from €0.57816- €0.05385 per m3. For tap water, €0.425 per m3 will be charged in 2025 paid.
- *Insurance tax:* Companies must pay 21% insurance tax on insurance pay.

In addition, hoteliers often have to pay *local taxes* . The most important are:

- *Tourist tax:* many municipalities levy a tax on overnight stays of persons who do not reside in the municipality. The amount and method of levying vary greatly per municipality. Most municipalities levy a fixed amount per person per overnight stay. However, a number of municipalities levy a fixed percentage of the turnover per person per overnight stay. If guests stay longer than 90 consecutive nights in a hotel room, a municipality can choose to levy commuter tax instead of tourist tax. Rates for this also vary greatly per municipality.

- *Real estate tax:* real estate tax often has to be paid based on the determined WOZ value of the catering property. Property tax is divided into owner tax and user tax. Owner tax is paid by hoteliers only if they own the property. User tax is levied by a number of municipalities on the user of the property.
- *Sewerage tax:* sewerage tax is charged to the municipality or the water company paid for the connection to the sewer network. The amount of the sewer tax is different in each municipality.
- *Waste disposal tax:* in most municipalities, a waste processor collects the waste. Hoteliers pay waste disposal tax for this. The way in which the waste disposal tax is calculated and the costs for this vary greatly per municipality. local authority.
- *Water board taxes:* Hoteliers must pay water board taxes to the Water Board. Rates differ per water board but generally consist of two parts. The first part is the water system levy. This is calculated on the basis of the WOZ value. The second part concerns the purification levy. The costs for this are calculated per unit of pollution.

In addition, there are a number of other taxes that a number of hoteliers have to deal with. Think of motor vehicle taxes, precario taxes (if the land under the building, the terrace or advertising expressions belong to the municipality) and advertising taxes (for expressions on the outside of the building).

Based on various public sources, an estimate has been made of the current (below the 9% VAT rate) tax burden of an average hotel (according to HOSTA data) in Amsterdam and beyond that is owned by the operator and does not pay precario tax. For hoteliers in Amsterdam, this amounts to more than 26% of the room turnover including tourist tax and VAT and for hoteliers in the rest of the Netherlands to almost 23% of the room turnover including tourist tax and VAT.

| Type of tax | Region | Per room night 9% [21%] VAT | Per person-overnight stay 9% [21%] VAT | % of the price incl. VAT (9% room) and TB |
|---|---|---|---|---|
| Sales tax room rental | Amsterdam | €18.45 [€43.05] | €10.85 [€25.32] | 5.4% |
| | Other Netherlands | € 11.25 [€26.25] | €7.03 [€16.41] | 4% |
| Sales tax F&B | Amsterdam | €7.18 [€7.18] | €4.22 [€4.22] | 2.1% |
| | Other Netherlands | € 13.55 [€13.55] | €8.47 [€8.47] | 4.8% |
| Other sales tax | Amsterdam | €4.51 [€4.51] | €2.65 [€2.65] | 1.3% |
| | Other Netherlands | € 3.47 [€3.47] | €2.17 [€2.17] | 1.2% |
| Profit tax (based on income tax) | Amsterdam | €9.23 [€9.23] | €5.43 [€5.43] | 2.7% |
| | Other Netherlands | €6.75 [€6.75] | €4.22 [€4.22] | 2.4% |
| Employers' charges | Amsterdam | €17.03 [€17.03] | €10.02 [€10.02] | 5.0% |
| | Other Netherlands | € 17.83 [€17.83] | €11.14 [€11.14] | 6.3% |
| Utility Tax | Amsterdam | €2.96 [€2.96] | €1.74 [€1.74] | 0.9% |
| | Other Netherlands | €4.15 [€4.15] | €2.59 [€2.59] | 1.7% |
| Insurance-tax | Amsterdam | €0.60 [€0.60] | €0.35 [€0.35] | 0.2% |
| | Other Netherlands | € 0.53 [€0.53] | €0.33 [€0.33] | 0.2% |
| Tourist tax Amsterdam | | €25.63 [€25.63] | €15.07 [€15.07] | 7.5% |
| | Other Netherlands | € 3.74 [€3.74] | €2.34 [€2.34] | 1.3% |
| Real estate-business tax | Amsterdam | €3.09 [€3.09] | €1.82 [€1.82] | 0.9% |
| | Other Netherlands | € 2.13 [€2.13] | €1.33 [€25.32] | 0.8% |

| | | | | |
|---|---|---|---|---|
| Sewerage tax | Amsterdam | €0.34 [€0.34] | €0.20 [€0.20] | 0.1% |
| | Other Netherlands | €0.38 [€43.05] | €0.24 [€25.32] | 0.1% |
| Waste disposal tax | Amsterdam | €0.09 [€0.09] | €0.06 [€0.06] | 0.0% |
| | Other Netherlands | €0.09 [€0.09] | €0.06 [€0.06] | 0.0% |
| Water board taxes | Amsterdam | €0.15 [€0.15] | €0.09 [€25.32] | 0.0% |
| | Other Netherlands | €0.10 [€0.10] | €0.06 [€0.06] | 0.0% |
| Motor vehicles- tax | Amsterdam | €0.08 [€0.08] | €0.04 [€0.04] | 0.0% |
| | Other Netherlands | €0.09 [€0.09] | €0.06 [€0.06] | 0.0% |
| Precarious tax | Amsterdam | €0.00 [€0.00] | €0.00 [€0.00] | 0.0% |
| | Other Netherlands | €0.00 [€0.00] | €0.00 [€0.00] | 0.0% |
| Advertising tax | Amsterdam | €0.06 [€0.06] | €0.03 [€0.03] | 0.0% |
| | Other Netherlands | €0.00 [€0.00] | €0.00 [€0.00] | 0.0% |
| Total | Amsterdam | €89.38 [€89.38] | €52.57 [€52.57] | 26.3% |
| | Other Netherlands | €64.04 [€64.04] | €40.03 [€40.03] | 22.7% |

Impact of VAT increase on hotel prices and margins

Respondents to the HOSTA survey were asked about their expectations on the impact of the proposed VAT increase.

*Intentions to pass on VAT increase to location. Source: HOSTA*

| | | Amsterdam and Schiphol | Other Netherlands | Total Netherlands |
|---|---|---|---|---|
| Intentions 11% VAT increase by calculate | No | 10.7% | 5.5% | 6.5% |
| | With <5% | 35.7% | 15.1% | 22.2% |
| | With >5% | 10.7% | 28.2% | 25.0% |
| | Complete | 42.9% | 50.7% | 46.3% |
| Expected effect on the room occupancy | Increase >10% | 0.0% | 0.0% | 0.0% |
| | Increase 5-10% | 0.0% | 0.0% | 0.0% |
| | Increase <5% | 7.4% | 5.5% | 5.8% |
| | About the same | 33.3% | 37.0% | 35.9% |
| | Decrease <5% | 29.6% | 26.0% | 28.2% |
| | Decrease 5-10% | 22.2% | 24.7% | 23.3% |
| | Decrease >10% | 7.4% | 6.8% | 6.8% |

Our own survey also asked whether people intend to pass on the intended VAT increase to the guest in the prices:

*Intentions to pass on VAT increase by location – own survey*

| Calculation of prices | Region | Percentage |
|---|---|---|
| 0% | Amsterdam | 18.20% |
| | Other Netherlands | 5.2% |
| 1-25% | Amsterdam | 45.60% |
| | Other Netherlands | 8.60% |
| 26-50% | Amsterdam | 9.10% |
| | Other Netherlands | 20.70% |
| 51-75% | Amsterdam | 18.20% |
| | Other Netherlands | 39.70% |
| 76-100% | Amsterdam | 9.10% |
| | Other Netherlands | 25.90% |

Data from the HOSTA study differ greatly from data from our own survey. This makes it difficult to determine to what extent hoteliers intend to are the VAT increase to be passed on. It is noticeable that hoteliers in Amsterdam most likely a smaller share of the VAT increase will

than hoteliers in the rest of the Netherlands. This could indicate that hotels outside Amsterdam will have more difficulty absorbing the VAT increase than hotels in Amsterdam, or that the competition in Amsterdam with surrounding municipalities is now such that hotels in Amsterdam no longer see any room to increase their prices any further. The majority of hoteliers expect that their average room occupancy will either remain the same or decrease by 0-
10%.

DECISIO

CELTH Centre of Expertise leisure, tourism & hospitality

# Appendix 2. Scheme of the impact of the VAT increase hotel market