



To the point!

Cross-Asset- and Strategy-Research

No more special treats for restaurants

There is no longer a reason for the lower VAT rate for restaurants

Few industries have been hit as hard by Covid-lockdowns as the hospitality sector. The German government supported the industry through direct payments to cushion the drop in sales. In addition, the value-added-tax (VAT) was cut to the reduced rate: first from 19% to 5% from July to the end of 2020, and to 7% thereafter.

This sizeable VAT-tax cut was designed from the outset to be temporary. On January 1, 2024, the standard rate of 19% will once again kick in also for food consumed in restaurants. Unless, that is, parliaments extends the lower tax rate once again. Politically, this is quite conceivable. The reduced tax rate has already been extended twice, most recently to relieve restaurateurs of the burden of high energy prices.

The reflex to call for state support must stop

It is thus not surprising that the possible extension of privileges is being discussed passionately at the (still tax-privileged) regulars' tables. And not only there. In political Berlin, too, the lobby machinery is running hot. Finance Minister Christian Lindner, who otherwise vigorously plays the role of a stern penny-pincher, appears sympathetic to the request to extend again. The fact that the state would thereby forego an estimated three billion euros in revenue is apparently not that important. Nor does the fact seem to matter that the VAT-tax cut of twelve percentage points was hardly passed on to guests at all (see figure).

The demand of the restaurant lobby is legitimate and, from their point of view, quite understandable. From a less parochial point of view, however, it is only the latest example of a bad habit, that has become more common: In the case of economic misfortune,



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The tax break for restaurants was understandable in 2020. It is no longer.

Price index "Eating out": The tax cut was hardly passed on to the guests



Source: LBBW Research, Destatis, Consumer Price Index Series CC13-111 ("Food and beverages in restaurants, cafés, bars, etc.", 2020=100)

one asks the government for help. Since the generous state aid during the Covid and energy crises, people have gotten used to it. Yesterday it was the call for lower [industrial electricity prices](#), today tax privileges for restaurants. Who will be next?

It's high time that instead of the helping hand of the taxpayer, the "invisible hand" takes over again. This is what Adam Smith, the father of classical economics, called the market-based control via the price mechanism. Provided there is no market failure (there isn't here!), the market leads not only to greater efficiency but also to the promotion of the common good.

It is true that labor shortages raise the costs for restaurants. But that affects crafts and other service providers just as much. It does not justify a permanent tax subsidy for restaurants.

Restaurants tax advantage is socially unjust

Not only from a regulatory point of view is there nothing to be said in favor of extending the VAT rebate. It is also to be rejected for reasons of distributive fairness. After all, one thing seems clear: poorer households eat out in restaurants relatively rarely. They simply lack the means to do so. The author of this column, by contrast, likes to eat out rather more frequently. But I don't need or deserve a permanent subsidy to do so. On the other hand, poorer families pay indirectly for my privileges, when taxes rise elsewhere or services are cut to compensate for the loss in tax revenue due to lower VAT in restaurants.

The government must resist the attempt to score cheap popularity points after last week's regional elections from which all coalition parties emerged badly bruised. Instead, the government should stand firm and end the tax support that had been given to restaurants explicitly as a temporary exception. Thankfully, the exceptional Covid lockdowns have long since disappeared.

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The invisible hand must take over again

Guess what: poorer families rarely go to restaurants
