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Cinemas and VAT in the European Union

A consequence of the financial crisis which began in late 2007 has been the widespread adoption of austerity policies across the European Union, not only in Eurozone countries subsequently affected by the Eurozone sub-crisis, but also in non-Euro countries like the United Kingdom.

Austerity means the state handing out fewer benefits to citizens while at the same time taking rather more taxes from them. This can mean more thorough enforcement of existing tax laws but mostly it means higher tax rates. As austerity policies depress levels of economic activity, in order to lift the tax take rate increases have to be even bigger to compensate for a shrinking tax base.

All member states of the European Union are required to impose value added taxes on most transactions, though the exemption of some goods and services is permitted, and a minimum standard rate of 15% is mandated. However, as well as the potential for exemptions, member states can elect to tax certain items at reduced rates.

Insofar as the cinema industry is concerned, the usual position is that the sale of refreshments is subject to value added tax at the standard rate. The sale of tickets is subject to a reduced rate in 18 countries, and the standard rate in the remaining ten.

In 2012 citizens of the EU made 1.24 billion visits to cinemas, spending €6.5 billion on tickets and a further €2.3 billion on refreshments. The contribution of this spending to national coffers is outlined in the table below.

VAT on Cinema Box Office and Concessions 2007-2012

€ million	2007	2012
Box office	6706.5	6512.0
Value added tax	548.2	664.9
Average rate %	8.17	10.21
Concessions	2017.3	2337.0
Value added tax	317.3	372.1
Average rate %	15.73	15.92

From this it can be seen that the cinema industry has considerably increased its contribution to taxes since 2007. Its total VAT bill has risen from €865.5 million to €1037, or by a fraction under 20%. (This, of course, takes no account of contributions from other sources, for example payroll and property taxes, and taxes on profits.)

These aggregate figures conceal a much more complex picture at national level. Rate rises have not been uniform between countries, and different markets are growing, or shrinking, at different speeds.

The table below looks at the seven countries where VAT rates applied to tickets rose fastest between 2007 and 2012, led by Greece where the (reduced) rate applied went from 4.5% in 2007 to 13% in 2012. While this increase resulted in more taxes for Greece's government, growth in the tax take amounted to less than half the increase in the rate, due to depressed demand for cinema. In Spain there was a similar if less extreme outcome.

But in most countries, despite economic difficulties, demand held up or increased – a phenomenon which must be ascribed to the underlying dynamism of cinema markets in these countries. The reason for the contrary experience in Greece and Spain most probably lies in very depressed general economic conditions, especially affecting young people – though obviously big tax increases have not helped.

Countries with Biggest VAT Increases on Box Office between 2007-2012

	% change in rate	% change in tax take
Greece	188.9	90.8
Latvia	140.0	148.7
Portugal	116.7	117.2
Spain	76.1	55.0
Czech Republic	55.6	74.6
Hungary	35.0	35.0
France	26.2	53.1

Conducting the same exercise in relation to concession spending gives much the same result, though as concessions are mostly taxed at the standard rate, rate hikes have been less extreme. Considerations of space, and the fact that concession data must usually be estimated, often using box office as an input, dissuades us from reproducing the data here.

What to conclude from all this? Austerity is a bit like pushing water uphill. The more taxes are raised, the more they have to be raised. And the weaker the economy, the more austerity will damage it further, in the short term anyway. Not rocket science, as they say.

Data above is taken from our database
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