

# VAT hike kicks in as austerity plan makes itself felt

Utilities apply rate immediately while shops likely to absorb it as sales begin

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Spain's utility companies have taken immediate advantage of the government's decision to raise the value-added tax rate by two percentage points to 18 per cent as of the start of this month, applying the hike to bills for use of their services to the period immediately prior to the measure taking effect.

Despite protests from consumer organizations, the utilities say that they are applying the law, which says that all bills issued from July 1 incorporate the new VAT level.

The Economy Ministry hopes to garner an extra €5.1 billion over the next year from the increase. In 2009, the government collected some €33.3 billion in VAT.

The government's decision to increase VAT is part of a raft of measures to reduce the public deficit that include huge spending cutbacks.

The VAT increase will likely take a few months to make itself felt, with consumers wary of spending money, many shops will absorb the new rate by lowering their own prices.

In general, while lowering taxes is immediately reflected in the price of goods and services, the effect of tax increases tends to be diluted over time, or is not seen in the price. The last time that VAT was increased was five years ago — by one percentage point — it was accompanied by a lowering in Social Security contributions, which had the effect

of containing its impact. The rise also came at a time when inflation was much higher than at present, says a report by the Institute of Fiscal Studies.

The VAT increase was not reflected in the prices on supermarket shelves on Thursday. Food retailers had bought their goods at a 16 percent VAT rate. Shops, which have been making a great show of lowering their prices since the crisis kicked in, are offering discounts of between 50 percent and 70 percent.

"There has been no visible impact of the rise in VAT," said Miguel Ángel Fraile, the secretary general of the Spanish Confederation of Trade, on Thursday. But he predicted that the tax increase would likely begin to make itself felt later in the year.

There have been warnings that raising taxes would hit con-

## Retailers fear tax hikes could hit sales when economy remains vulnerable

sumption at a time when the economy was vulnerable to a slowdown. In some sectors, such as the motor trade, sales are likely to fall as people weigh up the added cost of buying a car. The government's cash-for-clunkers scheme to encourage consumers to trade in their old



With Spain bracing itself for austere times, a nun looks for bargains at the summer sales. / CARLES FRANCESC

cars to buy a new vehicle is about to end, although it did help the sector over the last year.

Bars and restaurants, to which the lower rate of 7 percent VAT had applied, will now have to charge 8 percent.

The tourism sector — still

Spain's biggest export earner, but likely to face a downturn this summer in the face of the stronger euro and growing numbers of northern Europeans likely to stay at home for their holidays — will be further hit. José Luis Zoreda, vice president of Exceltur, the tourism sector's

trade association, said on Thursday that it would be hard to measure the impact of the VAT rise. "Each company will do what it can to mitigate the effect: beach holidays will not go up in price, because the price of package deals have all been agreed several months ago," he said.