Impact analysis of potential reductoin of Hungarian concert and festival VAT rates

Executive Summary

2020

Executive summary

Background and purpose of the analysis

Every year, more than 1,000 live music festivals and nearly 50,000 concerts are organized in Hungary, which provide work and performance opportunities for nearly 10,000 artists, as well as recreation and entertainment for millions. Among other reasons that make the circumstances more difficult, the Hungarian market suffers from exceptionally high VAT rates (27% and 18%) in international comparison. The COVID-19 epidemic further amplified and made it more visible that the sector faces serious difficulties. Live concerts have almost completely become inaccessible, which as a result left all parties in the sector without any income. The pandemic is not the only challenge for the sector owing to the absence of festivals and concerts. **The restart of live events will predictably also start out difficult because of the expected constraints on the maximum number of participants allowed at any event as well as the changing consumer habits and expectation along with the increasing costs caused by safety precautions.**

With this in mind, **the Hungarian Music Association**, which represents the entire industry and includes 14 music industry departments, has **asked PwC Hungary to carry out a study examining the effects of VAT reductions on concert and festival tickets.**

The aim of the analysis is to reveal the specifics of concert and festival organization and the complexity and economic significance of the sector. Quantifying the expected direct and indirects effects and benefits from the reduction of the VAT rate of 27% (in case of live concert tickets) and 18% (in case of festival tickets) to 5% to the central budget of the concert and festival sector.

Concert and festival sector and its main challenges

The concert and festival sector is characterized by a high degree of complexity; each actor may appear in a number of roles and the organization may follow different revenue models. According to our calculations, in 2019 (which is the last year without compromised data) over 7 million tickets were sold in total to different concerts and tickets in Hungary, generating net ~45 billion HUF ticket income (gross ~54 billion HUF) for the industry. Additionally to the ticket incomes, other services also generate estimated net profit of around 29 billion HUF. In 2019 the industry paid over 9 billion HUF in VAT just for the ticket sales. **In the case of larger individually organized concerts and popular festivals, the proportion of foreign guests is significant**. According to our calculation, in total they contributed more than net 18 billion HUF in spendings to the Hungarian economy in 2019.

In addition to their economic and touristic importance, concerts and festivals are of outstanding cultural significance: **they have a major role in our culture, spreading awareness, strengthening tolerance, preserving traditions, creating community strength and values, or self-realization.** These effects benefit the life of a settlement, a region or even an entire country, as they **increase cohesion, provide a useful form of recreation for the population, strengthen identity and help to preserve traditions.**

Despite the development, economic and cultural achievements of the concert and festival sector so far, it faces several challenges simultaneously. The termination of the Corporate Income Tax allocation to cultural organizations has highlighted the importance of cultural patronage: **solely based on the market it is not necessarily financially rentable to organize a festival.** The exceptionally high VAT rate in international context makes it difficult to acquire foreign performers and to achieve an international presence. High royalties and other fixed costs, as well as the recent sharp **deterioration in exchange rates**, further complicate the situation. The profits available in the sector, and thus the amount of reserves that can be formed, are also moderate. In addition to all these challenges, the **COVID-19 pandemic has highlighted the vulnerability of**

the sector, as long-term revenue shortfalls can only be covered by limited reserves for a short period of time. The initial value for 2020 could only reach one tenth of the expected live music market.

The reduction of the VAT rate can be an optimal response for the problems showcased above, so that it can offset the difficult circumstances that are expected for the restart of the industry.

Impacts on the sector

In the course of the analysis, we assumed that the players in the sector **would not reduce their ticket prices**, and thus **90% of the additional resources from the reduction of the VAT rate would be accumulated as a reserve, while the remaining 10% would be used for additional concerts**[1].

	M.e.	2019 final	CHANGE Direct effect	 Indirect effect	2019 fictional	CHANGE Total
Industry impact						
Net ticket income	m HUF	41 041	+ 6 692	+ 2 729	50 462	+ 9 420
Other incomes (eg. sponsorships)	m HUF	6 720	+ 0	+ 0	6 720	+ 0
Licence fee	m HUF	1 664	+ 293	+ 171	2 127	+ 463
Ticket sales commision	m HUF	1 585	+ 257	+ 136	1 979	+ 394
Performer, artistic payment	m HUF	21 814	+ 3 908	+ 1 853	27 574	+ 5 761
Other organizational costs	m HUF	18 579	+ 1 411	+ 373	20 362	+ 1 783
Organizational result	m HUF	4 120	+ 823	+ 196	5 140	+ 1 019
Hospitality effect (net income)	m HUF	29 376	+ 0	+ 1 847	31 222	+ 1 847
Total	***m HUF***	***70 417***	***+ 6 692***	***+ 4 575***	***81 684***	***+ 11 267***

Due to the direct effect of the VAT reduction, the industry can acquire an additional net revenue of 6.7 billion HUF per year, from which 58% (3.9 billion HUF) goes to performers, artists and their staff, 21% (1.4 billion HUF) will largely go to subcontractors in the form of other organizational costs. Additionally the VAT reduction will also increase the organizers' reserves, compared to the 2019 value 20%, **which makes the industry more crisis resistant.** However, despite the reserves, new concerts will take place, which will provide an additional 2.7 billion HUF in additional ticket sales revenue for the industry. Due to the organization of additional concerts, catering revenue will also be generated, with an estimated value of ~1.8 billion HUF.

	M.e.	2019 final	CHANGE Direct effect	 Indirect effect	2019 fictional	CHANGE Total
Touristic impact						
Net spending of tourists in the country	m HUF	18 776	+ 0	+ 3 738	22 513	+ 3 738

The total effect of the VAT rate reduction is thus net 9.4 billion HUF on ticket sales revenue, net ~1.8 billion HUF on concert-related hospitality revenue and ~3.7 billion HUF on related tourism revenues, i.e. a **total surplus of ~15 billion HUF.**

Implications of the central budget

The reduction of the VAT rate means a direct 6.6 billion HUF loss to the central budget from the industry that originally paid ~20.2 billion HUF in taxes, which is caused by the reduction of VAT on ticket sales revenue. Due to the increased efficiency, the corporate tax and the local business tax compensate to a small extent.

The **organization of additional concerts provides further compensation for lost VAT revenues: the central budget additionally receives ~1.2 billion HUF,** and local governments receive an estimated 82 million HUF **in revenue** (mainly due to increased tourism).

[1] The study also explains another scenario: where the full VAT rate saved is fully recycled by the actors to organize further concerts.

	M.e.	2019 final	CHANGE Direct effect	CHANGE Indirect effect	2019 fictional	CHANGE Total
Budget impact						
Central budget		**20 197**	**- 6 618**	**+ 1 213**	**14 793**	**- 5 404**
VAT payment on ticket sales	m HUF	9 079	- 6 692	+ 136	2 523	- 6 555
VAT payment on hospitality	m HUF	7 931	+ 0	+ 499	8 430	+ 499
VAT payment on tourism	m HUF	2 816	+ 0	+ 561	3 377	+ 561
Corporate Tax	m HUF	371	+ 74	+ 18	463	+ 92
Local government budget		**671**	**+ 56**	**+ 82**	**809**	**+ 138**
Local business tax	m HUF	309	+ 56	+ 10	375	+ 66
Tourism tax	m HUF	362	+ 0	+ 72	434	+ 72
Total	***m HUF***	***20 869***	***- 6 562***	***+ 1 295***	***15 602***	***- 5 267***

The total impact of the reduction of the VAT rate on concert and festival tickets is thus a HUF 5.3 billion loss of revenue in the central budget. However, this is a source with more than double leverage not only for the actors of the sector, thus, **looking at the entire national economy as a whole, it creates a positive balance of ~9.7 billion HUF.**

Summary:

In addition to the effects outlined so far, the reduction in the VAT rate also has benefits that cannot be quantified, or are difficult to quantify:

- Cultural life can be enriched and our cultural values can be preserved, thereby making it more profitable to stage productions for emerging or even for niche audiences.
- **Hungary's competitiveness for international performers can be improved** by increasing the amount of the net pay for performers, so more major concerts can be organized, **which increases economic performance and budget revenues.**
- **Major international concerts also improve the utilization of large multifunctional infrastructures such as stadiums and sports halls, thus reducing the need for typical budget funding.**
- The additional resource can **increase the crisis resilience of the sector**, which means that in cases such as the COVID-19 pandemic, actors will have to resort to the **means of reducing wages or downsizing at a later stage. The main benefit of this is that an excellent team of professionals that is difficult to be replaced can be retained.**
- The increased number of concerts and the broadenedoffer of the music festivals increase the number of foreign visitors to Hungary, which further strengthens the image of the country. Thus, the **concert and festival sector can make a significant contribution to boosting tourism in the post-COVID-19 period.**
- Due to the COVID-19 pandemic, it may be possible to organize a safe concert with a smaller number of people in the future, and more will have to be spent on creating safe conditions, which may further increase the cost of organizing concerts and festivals. **These effects can be offset by a more moderate VAT payment, thus avoiding price increases and stabilizing current ticket prices.**

Our research highlights the economic and cultural significance of concerts and festivals, and also emphasizes that a reduction in the VAT rate would have a positive impact on all players in the sector. A proper recovery and start-up after the downtime caused by COVID-19 requires a **support tool that helps individual actors to assess real performance on a market basis, assessing real performance, such as reducing the VAT rate on concert and festival tickets to a uniform 5%.**

Restrictions

It is not possible for PwC to assess with any certainty the implications of COVID-19, both generally in terms of how long the current crisis may last and more specifically in terms of its impact on concerts and festivals, and on consumer behaviour.

Our analysis is not considering the time value of money, therefore every calculation is made using 2019 vales.

We articulate that the expected results shown in this study may significantly differ from future factual values. PwC is not responsible for the fulfilment of expected values.

Important message to any person not authorised to have access to this report

Any person who is not an addressee of this report or who has not signed and returned to PwC Hungary a Release Letter, is not authorised to have access to this report.

Should any unauthorised person obtain access to and read this report, by reading this report such person accepts and agrees to the following terms:

1. The reader of this report understands that the work performed by pwC Hungary was performed in accordance with instructions provided by our addressee client and was performed exclusively for our addressee client's sole benefit and use.
2. The reader of this report acknowledges that this report was prepared at the direction of our addressee client and may not include all procedures deemed necessary for the purposes of the reader.
3. The reader agrees that PwC Hungary, its partners, principals, employees and agents neither owe nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature which is caused by any use the reader may choose to make of this report, or which is otherwise consequent upon gaining of access of the report by the reader. Further, the reader agrees that this report is not to be referred to or quoted and not to distribute the report without prior written consent of PwC Hungary.