Value added tax (VAT): certain temporary provisions concerning VAT rates

2007/0136(CNS) - 05/07/2007 - Legislative proposal

PURPOSE: to prolong certain VAT derogations until 31 December 2012 by amending Council Directive 2006/112/EC.

PROPOSED ACT: Council Directive.

CONTENT: to recall, Council Directive 2006/112/EC on the common system of valued added tax, provides for certain derogations in the field of VAT rates, some of which are due to expire on 31 December 2007. Other derogations may last until the adoption of definitive arrangements.

Based on the findings of an evaluation report on European VAT rates, carried out for the Commission by "Copenhagen Economics", the Commission is proposing to prolong some of these derogations – in so far that they do no conflict with the smooth functioning of the internal market. By contrast, certain derogations that are either covered by general provisions or else conflict with the smooth running of the internal market will not be prolonged.

Specifically speaking, the Commission is proposing that the following derogations should not be prolonged:

- derogations granted to the Check Republic and Estonia for the supply of natural gas, electricity and district heating given that they are already covered by general provisions on reduced rates;

- the derogation granted to Estonia for the supply of coal, fuel and oil given that it conflicts with other Community policies

- the derogation allowing Poland to apply a super reduced rate to supply good and services of a kind normally intended for use in agricultural production given that it conflicts with the smooth functioning of the internal market;

- the derogations granted to Hungary and Slovakia given that those Member States have not applied, or no longer apply, a reduced rate.

On the other hand, the Commission is proposing that the following derogations should be prolonged until the 31 December 2010:

- a derogation applying to the Czech Republic to apply a reduced rate, of not less than 5%, to the supply of construction work for residential housing, not provided as part of a social policy and excluding building materials;

- am exemption for Poland with deductibility of VAT paid at the preceding stage in respect of the supply of certain books and specialist periodicals;

- a reduced rate for Poland, of not less than 7%, to the supply of restaurant services;

- a reduced rate for Poland, of not less than 3%, to the supply of certain foodstuffs (see Annex III for details);

- a reduced rate for Poland, of not less than 7% to the supply of services that are not provided as part of a social policy, for construction, renovation and alteration of housing (excluding building material) and to the supply before first occupation of residential buildings or parts of residential buildings.

Provisions for Cyprus, Malta and Poland have been put in place for a zero rate, or super reduced rate, for food, books and pharmaceuticals.