

Value added tax (VAT): reduced rates

2008/0143(CNS) - 07/07/2008 - Legislative proposal

PURPOSE: to amend Directive 2006/112/EC as regards reduced rates of value added tax with particular reference to locally supplied services including labour-intensive services and restaurant services.

PROPOSED ACT: Council Directive.

BACKGROUND: the Commission adopted a Communication on VAT rates other than standard VAT rates ("the 2007 Communication"), which explores ways forward in the field of reduced VAT rates, as the starting point of a broad political debate in the other EU Institutions and with all stakeholders (see [CNS/2007/0136](#)). In parallel, the Commission tables a limited legislative proposal amending the provisions of Directive 2006/112/EC ("the VAT Directive") relating to urgent issues, which do not require any substantial additional study other than that referred to in its Communication and detailed in the Commission staff working document. This proposal should be regarded as a first action concerning reduced VAT rates. The exercise involves changes to Title VIII (Rates) of the VAT Directive.

The Commission's objective is to ensure equal opportunities for Member States as well as more transparency, consistency and a smooth functioning of the internal market as regards reduced VAT rates for locally supplied services including labour-intensive services and restaurant services.

Whilst an in depth review of the whole structure of VAT reduced rates will be carried out, the Commission considers it is important to **tackle the most urgent issues**. These are legal and political problems which have arisen either because of divergent interpretations of the directive or because of a lack of a level playing field for all Member States as regards the possibility of applying reduced rates in those areas where the proper functioning of the internal market is not affected. In particular, the Commission considers that there is room to grant more autonomy to Member States in setting reduced rates for certain local services in line with the efforts to improve the business environment for SMEs which is one of the priority action areas under the Lisbon strategy for growth and jobs, and in particular the Small Business Act (see [COM\(2008\)0394](#)).

CONTENT: this proposal essentially covers the main temporary provisions expiring at the end of 2010 concerning local services. It thus proposes permanent, updated provisions on the labour-intensive services listed in Annex IV of the VAT Directive which expire on 31 December 2010. It also proposes the addition of certain other locally supplied services, including restaurant services, to the current Annex III of the VAT Directive (list of the goods and services eligible for a reduced rate). The technical adaptations included in this proposal concern either legal drafting improvements, clarifications, updating to take account of technical progress or removal of current inconsistencies.

Accordingly, the Commission proposes to provide Member States with the flexibility to apply reduced VAT rates for some specific services on a permanent basis. The Commission proposal covers areas where there is sufficient evidence that reduced rates do not create problems for the proper functioning of the Internal Market. The sectors concerned are mainly so called labour-intensive services and locally supplied services, including **restaurant services**, and the main points include the following:

- the housing sector will no longer be limited to services linked to a social policy, as it is currently, but will be broadened to include the supply and construction of all housing, as well as all services related to the housing sector (including renovation, maintenance, cleaning.)

the supply of restaurants and catering services, excluding alcoholic beverages are included;

- labour-intensive services will be permanently included in the list of services eligible for reduced rates. Moreover, the category is broadened to other locally supplied services of a similar nature. That is: minor repair of tangible movable goods, including bikes but excluding other means of transport (examples include shoes, clothes, computers, watches); cleaning and maintenance services of all these goods and, in this case, other means of transports are included; domestic care services (e.g. home help and care of the young, elderly, sick or disabled); all personal care services (including hairdressing, beauty services); gardening services; renovation and maintenance services provided to places of worship, cultural heritage and historical monuments, as recognised by Member States.

In addition a number of small clarifications are proposed. The category of **pharmaceutical products** is **widened** to cover all absorbent hygiene products, notably including children's nappies. Concerning medical equipment for the disabled, the Commission proposes widening this category to cover all specially designed or adapted material or equipment for the exclusive personal use of the **disabled** (including specially adapted cars, Braille keyboards).

Printed books, under current legislation, may be subject to reduced rates. The Commission proposes widening the definition of books to include **audio-books**. These are defined as 'CDs, CD-ROMs or any physical support that predominantly reproduce the same information content as printed books' and which do not include other material such as games.