Value added tax (VAT): reduced rates

2008/0143(CNS) - 05/05/2009 - Final act

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.

LEGISLATIVE ACT: Council Directive 2009/47/EC amending Directive 2006/112/EC as regards reduced rates of value added tax.

CONTENT: the Council adopted a directive allowing – on a permanent basis – the optional use of reduced rates of value-added tax (VAT) for certain labour-intensive local services, including restaurant services, for which there is no risk of unfair competition between service providers in different Member States.

Adoption of the Directive follows political agreement reached at the Council's meeting on 10 March.

The optional use of reduced VAT rates in certain sectors is one of the actions identified by the economic recovery plan approved by the European Council in December. EU rules on VAT rates, set by Directive 2006/112/EC, require Member States to apply a minimum 15 % standard rate to most goods and services. Member States are, however, allowed to apply one or two reduced VAT rates to a limited number of supplies. Where a reduced rate is allowed, this must amount to at least 5 % of the value of the supply. The current rules are the outcome of a variety of initiatives over the years, including the 1992 decision on the harmonisation of VAT rates in the context of the EU single market, a 2000 decision to allow reduced VAT rates on labour-intensive local services with a view to stimulating employment, and derogations allowed in 2004 for newly acceding Member States.

Reduced rates on labour-intensive local services have so far only been allowed on a temporary basis.

Under this Directive Member States that so wish may apply reduced VAT rates, on a permanent basis, to:

1) the following labour-intensive local services:

- minor repairs of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);
- window cleaning and cleaning in private households;
- domestic care services such as home help and care of the young, elderly, sick or disabled;
- hairdressing;
- the renovation and repair of private dwellings, excluding materials which account for a significant part of the value of the service supplied;

2) restaurant and catering services;

3) books, on all physical means of support (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising).

In addition, Portugal may apply a reduced VAT rate to tolls on bridges in the Lisbon area, Cyprus is allowed to apply a reduced VAT rate to the supply of liquid petroleum gas in cylinders, and Malta may maintain a zero VAT rate for the supply of foodstuffs and pharmaceuticals.

ENTRY INTO FORCE: 01/06/2009.