

Value added tax (VAT): duration of the obligation to respect a minimum standard rate

2010/0179(CNS) - 24/06/2010 - Legislative proposal

PURPOSE: to maintain the minimum standard VAT rate at 15% for five years from 1 January 2011 to 31 December 2015

PROPOSED ACT: Council Directive.

BACKGROUND: Article 97(1) of Directive 2006/112/EC ("the VAT Directive") provides that from 1 January 2006 until 31 December 2010 the standard rate may not be less than 15%. The standard rate of value added tax (VAT) currently in force in Member States, combined with the mechanism of the transitional system has ensured that this system has functioned to an acceptable degree. With new rules on the place of supply of services which favour taxation at the place of consumption, the possibilities for exploiting differences in VAT rates through relocation have been limited further and potential distortions of competition reduced.

To prevent growing divergence in standard VAT rates applied by Member States from leading to structural imbalances in the EU and distortions of competition

in some sectors of activity, it is common practice in the field of indirect taxes to set minimum rates. It is still necessary to do so for VAT. Pending the outcome of consultations on a new VAT strategy which is expected to address future arrangements and corresponding levels of harmonisation, it would be premature to set a permanent standard rate level or to consider changing the minimum rate level.

LEGAL BASE: Article 113 of the Treaty on the Functioning of the European Union.

IMPACT ASSESSMENT: the measure concerned aims only to prolong the temporary provision concerning the length of time during which the current minimum standard VAT rate is to be applied. It has a technical nature and thus does not require an impact assessment.

CONTENT: the draft directive states that the current minimum standard rate of VAT in Member States, set at 15%, be extended from 1 January 2011 to 31 December 2015.

BUDGETARY IMPLICATION: the proposal has no implication for the European Union budget.