Postal services: value added tax system VAT, services generally taxable

2003/0091(CNS) - 05/05/2003 - Legislative proposal

PURPOSE : to amend the Sixth VAT Directive making services provided by the postal sector subject to VAT. CONTENT : until recently the European postal sector has been characterised by a monopoly situation with limited, publicly organised range of services, not subject to competition. VAT on postal services is exempted under the EU's Sixth VAT Directive dating from the 1970's - though the exact interpretation of the Articles exempting postal services from VAT is frequently open to interpretation. With the onset of privatisation and the growth in competition for postal services the exemption of VAT for public postal services is looking increasingly anachronistic whilst at the same time fuelling distortions in the postal market. On the question of market distortion the Commission, in particular, is concerned about the effects of "hidden" VAT. Since public postal services now operate in markets that are subject to competition, the fact that VAT exemption is limited solely to the public sector inevitable leads to a situation in which competition is distorted. This regularly gives rise to complaints on the part of both private and public operators. Also affected are other public operator based groups, such as transport companies, which are usually subject to the normal VAT rules and charge and deduct VAT. Such problems indicate that the principle of neutrality at the heart of the common system of VAT no longer applies. The simplest solution would be for the Commission to propose a tax on all postal services at a standard rate. However, the Commission recognises that such an approach would lead to price increases and in particular to postal services supplied to private consumers. The Commission is therefore proposing a more moderate approach. It suggests that a reduced VAT rate shall apply to standard postal services. This will include the majority of private mail but will also apply to some business mail. To be more specific the proposed change to the VAT treatment of postal services will mean, that for any addressed postal item below 2 kg there will be one rate of VAT for the standard service. This will be either at the standard rate or the reduced rate, depending on whether the Member State has taken up the option for the latter. For any postal item over 2 kg there are two possible rates. The services will be standard rated if the item is to be delivered within the Community and exempt with a right to deduct if it is to be delivered to a third country outside of the Community.