Value added tax VAT: extending reduced rates to labour-intensive services (amend. Directive 77/388 /EEC)

2003/0317(CNS) - 16/12/2003 - Legislative proposal

PURPOSE : to extend the period of application of the facility allowing Member States to apply reduced VAT rates to some labour-intensive services, and amend directive 77/388/EEC. PROPOSED ACT : Council Directive. CONTENT : in 1999, the Council adopted Directive 1999/85/EC amending Directive 77/388/EEC (the 6th VAT Directive) as regards the possibility of applying on an experimental basis a reduced VAT rate on labour-intensive services. Its purpose is to allow Member States that so wish to test the impact of a targeted reduction of VAT on these services in terms of job creation and a reduction of the underground economy. Article 28(6) of the 6th VAT Directive authorises the experimental application of a reduced rate of VAT on labour-intensive services up to 31 December 2003. It requires Member States that have applied such reduced rates to draw up a detailed report by 1 October 2002 assessing the measures' effectiveness in terms of job-creation and efficiency. On the basis of the assessment reports submitted by the Member States that have applied the reduced rate, the Commission submitted a global evaluation report on the experiment, and in 2003, the Commission adopted a proposal for a Directive introducing a general review of reduced rates of VAT to simplify and rationalise them. The proposal takes account of the conclusions of the evaluation report and fits into the framework defined in the Commission's Communication on a strategy to improve the operation of the VAT system within the context of the internal market. Since the Council has not yet been able to reach an unanimous decision to adopt the proposed Directive, in order to avoid legal uncertainty from 1 January 2004 and give the Council time to take a decision on the general proposal regarding reduced rates of VAT, the first subparagraph of Article 28(6) of Directive 77/388/EEC and the first paragraph of Article 1 of Decision 2000/185/EC should be amended to extend the validity of the authorisation for two years up to 31 December 2005 at the latest. This would allow the nine Member States currently applying a reduced rate of VAT to labour-intensive services to continue to do so for another two years under the same conditions, without changing or extending the scope of the experiment.