Value added tax VAT: level of the standard rate (amend. direct. 77/388/EEC)

1998/0331(CNS) - 30/11/1998 - Legislative proposal

PURPOSE: to amend directive 77/388/EEC on the common system of value added tax with regard to the level of the standard rate. CONTENT: One of the main characteristics of VAT is that it should be neutral with regard to the conditions of competition. Preserving the possibility of applying excessively divergent rates in different Member States might jeapordise this neutrality, influence the location of businesses and would therefore be inconsistent with the very principles of the single market. Consequently, this proposal is aimed at paving the way for the harmonisation of rates that is necessary in the context of the existing VAT system and, at the same time, preparing the next steps towards a gradual approximation of rates in order to permit the introduction of a common VAT system. It covers only the level of the standard rate and follows the same line of reasoning as the 1995 Commission proposal on the same subject. By means of this proposal, it is important to ensure that the degree of harmonisation already achieved is at least maintained, thereby ensuring that the transitional arrangements continue to function as satisfactorily as possible. Where the standard rate is concerned, although the disparities in the rates currently in force (between 15% and 25%) allow the single market to function more or less satisfactorily under the present tax system, laying down rules on these existing rates will provide an even stronger guarantee in this respect by preventing major distortions. The Commission has, therefore, concluded that it is appropriate to propose another rate band, which is the only instrument reflecting the political agreement of the Council in 1996. Accordingly, the lower limit of the standard rate band is fixed at 15% and the upper limit at 25%.