Basic information

2003/0169(CNS) CNS - Consultation procedure Directive	Procedure completed
Value added tax VAT: reduced rates (amend. Directive 77/388/EEC) **Subject** 2.70.02 Indirect taxation, VAT, excise duties	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	RANDZIO-PLATH Christa (PSE)	01/09/2003

Committee for opinion	Rapporteur for opinion	Appointed
ITRE Industry, External Trade, Research, Energy	PLOOIJ-VAN GORSEL Elly (ELDR)	22/09/2003
EMPL Employment and Social Affairs	HERMANGE Marie-Thérèse (PPE-DE)	24/09/2003
CULT Culture, Youth, Education, Media and Sport		

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2707	2006-02-14
Economic and Financial Affairs ECOFIN	2704	2006-01-24
Economic and Financial Affairs ECOFIN	2698	2005-12-06
Economic and Financial Affairs ECOFIN	2628	2004-12-07
Economic and Financial Affairs ECOFIN	2688	2005-11-08
Economic and Financial Affairs ECOFIN	2520	2003-07-15

European Commission

Commission DG	Commissioner
Taxation and Customs Union	

Key events

Date	Event	Reference	Summary
15/07/2003	Debate in Council		
23/07/2003	Legislative proposal published	COM(2003)0397	Summary
01/09/2003	Committee referral announced in Parliament		
24/11/2003	Vote in committee		Summary
24/11/2003	Committee report tabled for plenary, 1st reading/single reading	A5-0410/2003	
03/12/2003	Debate in Parliament		
04/12/2003	Decision by Parliament	T5-0547/2003	Summary
07/12/2004	Debate in Council		
08/11/2005	Debate in Council		
06/12/2005	Debate in Council		Summary
14/02/2006	Act adopted by Council after consultation of Parliament		
14/02/2006	End of procedure in Parliament		
22/02/2006	Final act published in Official Journal		

Technical information

Procedure reference	2003/0169(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Legal basis	EC Treaty (after Amsterdam) EC 093
Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/19934

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee report tabled for plenary, 1st reading/single reading		A5-0410/2003	24/11/2003	
Text adopted by Parliament, 1st reading/single reading		T5-0547/2003 OJ C 089 14.04.2004, p. 0034-0138 E	04/12/2003	Summary

European Commission

Document type	Reference	Date	Summary
	COM(2003)0397		

Legislative proposal		23/07/2003	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES1407/2003 OJ C 032 05.02.2004, p. 0113-0117	29/10/2003	

Additional information

Source	Document	Date
European Commission	EUR-Lex	

Final act

Directive 2006/0018
OJ L 051 22.02.2006, p. 0012-0013 Summary

Value added tax VAT: reduced rates (amend. Directive 77/388/EEC)

2003/0169(CNS) - 04/12/2003 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution drafted by Christa RANDZIO-PLATH (PES, D) making some amendments to the Commission's proposal. (Please see the summary of 24/11/03.) Parliament stated that Member States, which on 1 January 2003 applied a reduced rate to the supply of goods and services other than those referred to in Annex H or Annex Ha might, during a transitional period of five years from the date of implementation of the Directive, apply a reduced rate on condition that this rate was not less than 12%.

Value added tax VAT: reduced rates (amend. Directive 77/388/EEC)

2003/0169(CNS) - 14/02/2006 - Final act

PURPOSE : to afford Member States equal opportunity to apply reduced rates of VAT in certain fields PROPOSED ACT : Council Directive 2006/18 /EC amending Directive 77/388/EEC with regard to reduced rates of value added tax.

CONTENT : the Council adopted this directive enabling the Member States to continue to apply reduced rates of value-added tax for certain labour-intensive services until 2010.

The main features of the directive, which is based on directive 77/388/EEC, are as follows:

- In order to prolong the experiment, launched in 1999, of reduced VAT rates for certain locally provided labour-intensive services, the validity of annex K to directive 77/388/EEC is extended as from 1 January 2006 until 31 December 2010. All Member States may opt for the application of annex K, on condition that they apply for authorisation to do so by 31 March 2006;

- Member States are authorised to apply a reduced rate to supplies of district heating, provided that this doesn't create a distortion of competition;

- The Commission must present, by 30 June 2007, a report providing an assessment of the impact of reduced rates applied to locally supplied services, including restaurant services, in terms notably of job creation, economic growth and the internal market, on the basis of a study to be carried out by an independent economic think-tank.

The Council had adopted in December 2005, a directive extending the 15% minimum VAT standard rate applied by the member states until 2010. As a derogation to this general rule, permanent reduced VAT rates for a number of goods and services are allowed for under annex H to 77/388/EEC. Annex K, which is applied on a temporary basis and expired on 31 December, allows for reduced rates for a further list of services including small repair services, the renovation of private dwellings, window cleaning and private household cleaning, domestic care services and hairdressing.

ENTRY INTO FORCE : 22/02/2006.

DATE APPLICABLE : from 01/01/2006.

Value added tax VAT: reduced rates (amend. Directive 77/388/EEC)

2003/0169(CNS) - 06/12/2005

The Council held an exchange of views, on the basis of a compromise proposal from the presidency, on a proposal for a directive aimed at modifying EU rules on reduced rates of value added tax applied by the member states. It agreed to refer the dossier to the European Council on 15 and 16 December with a view to reaching an agreement.

To recall, current rules allow for reduced VAT rates for a limited list of goods and services, as well as temporary reduced rates until 31 December 2005 for certain labour-intensive services (small repair services, renovation of private dwellings, window cleaning and private household cleaning, domestic care services, hairdressing). Other derogations with a limited timeframe, most until the end of 2007, were introduced for the new member states by their respective acts of accession.

Value added tax VAT: reduced rates (amend. Directive 77/388/EEC)

2003/0169(CNS) - 24/01/2006

The presidency concluded that, pending confirmation by the Czech Republic, Poland and Cyprus by 29 January, the Council reached agreement on the following:

With a view to the outcome of the December 2005 European Council, the Council had an in depth discussion on the question of reduced rates of VAT and reached political agreement on the following:

In order to prolong the experiment of reduced rates for labour-intensive services, the validity of Annex K to Directive 77/388/EEC shall be extended as from 1.1.2006 until 31.12.2010. All Member States shall be authorised to opt for the application of Annex K. Member States wishing to make use of the provisions of Annex K may apply for such an authorisation until 31.3.2006. District heating shall be included in the option provided for by Article 12(3)(b) of the sixth VAT Directive.

The Council invites the Commission to present a report to the Council and the European Parliament, by the end of June 2007, providing for an overall assessment of the impact of reduced rates applying to locally supplied services, including restaurant services, in terms notably of job creation, economic growth and the internal market, based on a study carried out by an independent economic think tank.

Value added tax VAT: reduced rates (amend. Directive 77/388/EEC)

2003/0169(CNS) - 23/07/2003 - Legislative proposal

PURPOSE : to amend Directive 77/388/EEC as regards reduced rates of VAT in order to ensure uniform application. CONTENT : Council Directive 77/388/EEC of 17 May 1977 on the harmonisation of the laws of the Member States relating to the turnover taxes - Common system of value added tax: uniform basis of assessment authorises Member States to apply one or two reduced rates which may not be lower than 5% and are applicable only to a restrictive list of supplies of goods and services. In a communication in 2000 (COM(2000)348 final), the Commission set out a strategy designed to improve the way the VAT system works under the internal market. It proposed a viable strategy geared to four main objectives : the simplification and modernisation of existing rules, more uniform application of the current rules and a new system of administrative cooperation. The current situation as regards rates is far from satisfactory. The VAT rates applicable in the Community remain highly disparate and very complex. Yet the basic rules are simple: supplies of goods and services subject to VAT are normally subject to a standard rate of at least 15%, but the Member States may opt to apply one or two reduced rates of not less than 5% to goods and services listed in Annex H (restricted list of goods and services eligible for a reduced rate in the Member States). However, these simple rules are complicated by a multitude of derogations granted to certain Member States - in some instances a majority of Member States - during the negotiations preceding Directive 92/77/EEC or their Acts of Accession, derogations which are denied to the others. The rationale for these situations is far from clear and a final decision needs to be taken to either abolish the derogations or open them to all Member States. The situation has given rise to many complaints by traders, reflected in the Commission's 2001 report on reduced rates. Furthermore, in terms of effects on consumption, the Commission remains convinced that the reduction of VAT rates is not the best way of encouraging consumers to buy or use certain goods or services. VAT, unlike excise duty for example, is not designed to change consumer behaviour. Also, a reduction in VAT rates is never passed on in full in consumer prices: often it is negligible and temporary. The purpose of the proposal is to afford Member States equal opportunity to apply reduced rates in certain fields (e.g. restaurants, housing and the supply of gas and electricity) and to rationalise the numerous derogations currently applying in some Member States. The aim is to improve the functioning of the internal market and avoid potential distortions of competition, which have given rise to numerous complaints from traders. Following the experimental application of a reduced VAT rate to certain labour-intensive services, the Commission is convinced that the reduced rate had very little, if any, impact on prices or job creation. A reduction in VAT rates would therefore seem to be a waste of budget resources which could be deployed more usefully. The Commission's aim was to seek a balanced approach for the whole of the European Union. This required going beyond a review of the restrictive list of goods and services to which a reduced VAT rate may be applied (Annex H to the Sixth VAT Directive) and examining the various specific derogations available to some Member States, with a view to avoiding potential distortions ofcompetition. The proposal also includes appropriate measures for a final decision on the VAT rate applicable to labour-intensive services. It does not call into question the optional nature of reduced VAT rates: no Member State will be obliged to introduce new reduced VAT rates. The Commission has adopted the following guidelines to simplify and rationalise rates. Rationalisation of the list of goods and services to which the Member States have the option of applying reduced rates (Annex H) is based on the following: - the option of applying reduced

rates is not extended to new categories to which no Member State currently applies reduced rates; - the option of applying reduced rates is extended to categories of goods and services to which certain Member States are already applying reduced rates by virtue of specific derogations with no apparent detriment to the smooth functioning of the internal market. This measure concerns restaurants, housing and the supply of gas and electricity; - the option, currently granted on a transitional basis, of applying a reduced rate to cut flowers and plants is definitively incorporated into Annex H; - two technical changes have been introduced: category 4 (equipment for the disabled) has been clarified, as has the category concerning sewer, waste treatment and recycling services and street cleaning services. It is proposed that this be achieved by: - abolishing the derogations that permitted certain Member States to maintain reduced rates for goods and services not listed in Annex H ("parking rates"); - confining zero and super-reduced rates (below the 5% minimum) to goods and services listed in Annex H. Certain Member States have been authorised to apply rates lower than those they normally apply to take account of the special geographical situation of certain island or remote areas. These provisions are meaningful only if strictly confined to the local market. The Commission proposes rationalising these derogations in order to establish a clear legal basis for each of them and to prevent abuses by restricting their application to goods and services consumed in the areas concerned (e.g. the application of reduced rates to distance services supplied throughout the EU). The Member States concerned are Austria, Greece, France and Portugal. It is proposed that the scope of reduced rates be reviewed every five years rather than every two years: experience has shown that a period of two years is too short for genuinely new factors to emerge. Where absolutely necessary the Commission can present to the Council a proposal for a directive amending the rules applicable to rates before expiry of the five-year period. In conclusion, the proposed revision represents an important step in the improvement of the common VAT system with a view to improving the functioning of the internal market. It will greatly simplify VAT rates for the whole of the Union, yet safeguard the competence of Member States to decide the VAT rates applicableto their territories. The Commission is proposing neither to change the level of VAT rates nor to abolish the optional nature of the reduced rates. This step is a long way from fully achieving the harmonisation of rates started in 1992 with a view to the completion of the internal market: other steps must follow in due course. An initial review will at any rate take place as part of the revision of the VAT arrangements applicable to public authority activities, associated with the revision of the system of derogations for certain activities in the public interest provided for in Article 13 of the Sixth Directive. A number of existing categories on Annex H already concern goods and services provided by public bodies or for which a derogation is allowed: VAT applies only where bodies are privatised or such services are provided by undertakings which do not meet the conditions for exclusion from the scope of VAT or derogation. Provision is made for some reduced rates in this context. The review is planned for 2004 to allow an impact assessment, designed to analyse the economic, environmental and social impacts of a proposal, to be carried out. The issues of the applicable rates of VAT must of necessity taken into account in this context.