Basic information

2008/0143(CNS) CNS - Consultation procedure Directive	Procedure completed
Value added tax (VAT): reduced rates Amending Directive 2006/112/EC 2004/0079(CNS) **Subject** 2.70.02 Indirect taxation, VAT, excise duties	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	VAN DEN BURG Ieke (PSE)	24/09/2008

Committee for opinion	Rapporteur for opinion	Appointed
IMCO Internal Market and Consumer Protection	SCHMIDT Olle (ALDE)	10/09/2008

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2922	2009-02-10
Economic and Financial Affairs ECOFIN	2940	2009-05-05
Economic and Financial Affairs ECOFIN	2894	2008-10-07
Economic and Financial Affairs ECOFIN	2919	2009-01-20
Economic and Financial Affairs ECOFIN	2931	2009-03-10
Economic and Financial Affairs ECOFIN	2911	2008-12-02
Economic and Financial Affairs ECOFIN	2901	2008-11-04

European Commission

Commission DG	Commissioner
Taxation and Customs Union	KOVÁCS László

Key events

Date	Event	Reference	Summary
07/07/2008	Legislative proposal published	COM(2008)0428	Summary

04/09/2008	Committee referral announced in Parliament		
07/10/2008	Debate in Council		Summary
04/11/2008	Debate in Council		Summary
02/12/2008	Debate in Council		Summary
20/01/2009	Debate in Council		
10/02/2009	Debate in Council		Summary
11/02/2009	Vote in committee		Summary
11/02/2009	Committee report tabled for plenary, 1st reading/single reading	A6-0047/2009	
19/02/2009	Decision by Parliament	T6-0072/2009	Summary
19/02/2009	Results of vote in Parliament		
19/02/2009	Debate in Parliament		
05/05/2009	Act adopted by Council after consultation of Parliament		
05/05/2009	End of procedure in Parliament		
09/05/2009	Final act published in Official Journal		

Technical information

Procedure reference	2008/0143(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Amendments and repeals	Amending Directive 2006/112/EC 2004/0079(CNS)
Legal basis	EC Treaty (after Amsterdam) EC 093
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/65277

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE416.275	21/11/2008	
Amendments tabled in committee		PE418.064	18/12/2008	
Committee opinion	IMCO	PE415.345	22/01/2009	
Committee report tabled for plenary, 1st reading/single reading		A6-0047/2009	11/02/2009	
Text adopted by Parliament, 1st reading/single reading		T6-0072/2009	19/02/2009	Summary

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2008)0428	07/07/2008	Summary
Document attached to the procedure	SEC(2008)2190	07/07/2008	
Document attached to the procedure	SEC(2008)2191	07/07/2008	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES0347/2009	25/02/2009	

Additional information

Source	Document	Date
National parliaments	IPEX	
European Commission	EUR-Lex	

Final act

Directive 2009/0047
OJ L 116 09.05.2009, p. 0018 Summary

Value added tax (VAT): reduced rates

2008/0143(CNS) - 07/10/2008

The Council took note of the presentation by the Commission of three working documents on reduced rates of VAT, following on from a ministerial discussion at an informal meeting in Nice on 13 September 2008. It held an exchange of views, on that basis, on the economic and budgetary impact of reduced VAT rates, their advantages and disadvantages, and on whether they were an appropriate instrument for achieving sectoral policy objectives.

Last December, the Council agreed to conduct a policy debate on the impact and usefulness of reduced rates. In July 2008 the Commission submitted an initial proposal (see the summary dated 7 July 2008), which will be examined by the Council at its November meeting.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 19/02/2009 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted, by 636 to 14 with 18 abstentions,

a legislative resolution amending the proposal for a Council directive amending Directive 2006/112/EC as regards reduced rates of value added tax.

The amendments – made in the framework of the consultation procedure - highlight the fact that reduced VAT rates would have a positive impact in reshaping many service sectors as they would reduce the level of undeclared work. In this context, Member States should provide clear and accessible guidance to undertakings on the scope of reduced VAT rates.

With regard to the housing sector, an amendment stresses that the Directive also makes it possible for Member States to apply reduced VAT rates to renovation and repair work aimed at increased energy savings and efficiency.

The following points are added to the Annex as eligible for reduced rates:

- supplies of goods and services of a kind normally intended for use in agricultural production, including machinery, with the exception of capital goods, such as buildings;
- children's clothing, children's footwear.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 02/12/2008

The Council examined a draft Directive revising the rules on reduced rates of VAT (value-added tax).

The Presidency noted that there was **no unanimous agreement on the proposed compromise at this stage**. It pointed out that the proposed Directive was an element in the responses to the economic slowdown identified in the Commission communication to the European Council and would therefore be one of the measures raised at the next European Council.

In December 2007, the Council agreed that in 2008 it would conduct a policy debate on the impact and usefulness of reduced rates. The Commission submitted an initial proposal for a Directive in July 2008. In addition, the Commission is currently preparing a communication on the application of reduced VAT rates to environmental goods and services.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 10/02/2009

The Council discussed the issue of reduced rates of value-added tax (VAT), in the context of the economic recovery plan approved by the European Council in December.

The presidency indicated that it will reflect on how to take the dossier forward in response to the European Council's request to settle the issue by March 2009. A further discussion is expected at the Council's meeting on 10 March, in the run-up to the next European Council, on 19 and 20 March.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 04/11/2008

The Council examined a proposal for a Directive amending the rules on reduced rates of VAT (value added tax), pending an in-depth review of the rules. It requested the Permanent Representatives Committee (Coreper) to continue to examine the outstanding issues, to enable the Council to take a decision by the end of the year.

The proposal is intended to allow Member States to apply reduced rates – indefinitely – to certain locally-provided services, including catering services, for which there is no risk of unfair competition in the internal market.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 07/07/2008 - Legislative proposal

PURPOSE: to amend Directive 2006/112/EC as regards reduced rates of value added tax with particular reference to locally supplied services including labour-intensive services and restaurant services.

PROPOSED ACT: Council Directive.

BACKGROUND: the Commission adopted a Communication on VAT rates other than standard VAT rates ("the 2007 Communication"), which explores ways forward in the field of reduced VAT rates, as the starting point of a broad political debate in the other EU Institutions and with all stakeholders (see CNS/2007/0136). In parallel, the Commission tables a limited legislative proposal amending the provisions of Directive 2006/112/EC ("the VAT Directive") relating to urgent issues, which do not require any substantial additional study other than that referred to in its Communication and detailed in the Commission staff working document. This proposal should be regarded as a first action concerning reduced VAT rates. The exercise involves changes to Title VIII (Rates) of the VAT Directive.

The Commission's objective is to ensure equal opportunities for Member States as well as more transparency, consistency and a smooth functioning of the internal market as regards reduced VAT rates for locally supplied services including labour-intensive services and restaurant services.

Whilst an in depth review of the whole structure of VAT reduced rates will be carried out, the Commission considers it is important to **tackle the most urgent issues**. These are legal and political problems which have arisen either because of divergent interpretations of the directive or because of a lack of a level playing field for all Member States as regards the possibility of applying reduced rates in those areas where the proper functioning of the

internal market is not affected. In particular, the Commission considers that there is room to grant more autonomy to Member States in setting reduced rates for certain local services in line with the efforts to improve the business environment for SMEs which is one of the priority action areas under the Lisbon strategy for growth and jobs, and in particular the Small Business Act (see COM(2008)0394).

CONTENT: this proposal essentially covers the main temporary provisions expiring at the end of 2010 concerning local services. It thus proposes permanent, updated provisions on the labour-intensive services listed in Annex IV of the VAT Directive which expire on 31 December 2010. It also proposes the addition of certain other locally supplied services, including restaurant services, to the current Annex III of the VAT Directive (list of the goods and services eligible for a reduced rate). The technical adaptations included in this proposal concern either legal drafting improvements, clarifications, updating to take account of technical progress or removal of current inconsistencies.

Accordingly, the Commission proposes to provide Member States with the flexibility to apply reduced VAT rates for some specific services on a permanent basis. The Commission proposal covers areas where there is sufficient evidence that reduced rates do not create problems for the proper functioning of the Internal Market. The sectors concerned are mainly so called labour-intensive services and locally supplied services, including **restaurant services**, and the main points include the following:

- the housing sector will no longer be limited to services linked to a social policy, as it is currently, but will be broadened to include the supply and construction of all housing, as well as all services related to the housing sector (including renovation, maintenance, cleaning.)

the supply of restaurants and catering services, excluding alcoholic beverages are included;

- labour-intensive services will be permanently included in the list of services eligible for reduced rates. Moreover, the category is broadened to other locally supplied services of a similar nature. That is: minor repair of tangible movable goods, including bikes but excluding other means of transport (examples include shoes, clothes, computers, watches); cleaning and maintenance services of all these goods and, in this case, other means of transports are included; domestic care services (e.g. home help and care of the young, elderly, sick or disabled); all personal care services (including hairdressing, beauty services); gardening services; renovation and maintenance services provided to places of worship, cultural heritage and historical monuments, as recognised by Member States.

In addition a number of small clarifications are proposed. The category of **pharmaceutical products is widened** to cover all absorbent hygiene products, notably including children's nappies. Concerning medical equipment for the disabled, the Commission proposes widening this category to cover all specially designed or adapted material or equipment for the exclusive personal use of the **disabled** (including specially adapted cars, Braille keyboards).

Printed books, under current legislation, may be subject to reduced rates. The Commission proposes widening the definition of books to include **audio-books**. These are defined as 'CDs, CD-ROMs or any physical support that predominantly reproduce the same information content as printed books' and which do not include other material such as games.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 10/03/2009

The December 2008 European Council requested the Council (ECOFIN) to settle, by March 2009, the issue of the possibility, for the Member States that so wish, of applying reduced VAT rates in certain sectors.

The Council had a thorough discussion on the overall system of reduced VAT rates, as a result of which it acknowledges that reduced VAT rates may, depending on the circumstances, have positive and negative economic effects, so that more efficient alternative solutions should always be considered before a Member State decides to use the option to apply reduced VAT rates.

The Council reached political agreement:

(1) that all Member States, by amending Directive 2006/112/EC, should have the option to apply reduced VAT rates on a permanent basis to:

- without prejudice to ANNEX III of directive 2006/112/EC services in Annex IV of that Directive: (i) minor repairing of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration); (ii) window-cleaning and cleaning in private households; (iii) domestic care services such as home help and care of young, elderly, sick or disabled; (iv) hairdressing; (v) renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied;
- restaurant services;
- books on all physical means of support.

(2) that Portugal is allowed to apply a reduced VAT rate to tolls on bridges in the Lisbon area and that Cyprus is allowed to apply a reduced VAT rate to LPG in cylinders.

(3) that all the other items of the 2008 Commission proposal shall not be eligible for a reduced VAT rate.

The Council:

- takes note, in line with the outcome of relevant economic studies evaluating the impact of reduced VAT rates for environmental reasons, that reduced VAT rates as a tool for achieving environmental policy objectives are relevant only to a certain extent;
- takes note of the intention of the Commission to submit a proposal to prolong for two years the derogation for the United Kingdom concerning the reverse charge mechanism and declares its support for the prolongation;

- invites the Commission to submit, prior to the expiry of Malta's transition period for the maintenance of its VAT 0% rate instead of the reduced rate of 5% on the supplies of foodstuffs and pharmaceuticals on 31 December 2010, an appropriate proposal for the extension of that provision until the adoption of the definitive arrangements referred to in Article 402 of Directive 2006/112/EC and declares its support for the prolongation.

Value added tax (VAT): reduced rates

2008/0143(CNS) - 05/05/2009 - Final act

PURPOSE: to amend Directive 2006/112/EC as regards reduced rates of value added tax with particular reference to locally supplied services including labour-intensive services and restaurant services.

LEGISLATIVE ACT: Council Directive 2009/47/EC amending Directive 2006/112/EC as regards reduced rates of value added tax.

CONTENT: the Council adopted a directive allowing – on a permanent basis – the optional use of reduced rates of value-added tax (VAT) for certain labour-intensive local services, including restaurant services, for which there is no risk of unfair competition between service providers in different Member States.

Adoption of the Directive follows political agreement reached at the Council's meeting on 10 March.

The optional use of reduced VAT rates in certain sectors is one of the actions identified by the economic recovery plan approved by the European Council in December. EU rules on VAT rates, set by Directive 2006/112/EC, require Member States to apply a minimum 15 % standard rate to most goods and services. Member States are, however, allowed to apply one or two reduced VAT rates to a limited number of supplies. Where a reduced rate is allowed, this must amount to at least 5 % of the value of the supply. The current rules are the outcome of a variety of initiatives over the years, including the 1992 decision on the harmonisation of VAT rates in the context of the EU single market, a 2000 decision to allow reduced VAT rates on labour-intensive local services with a view to stimulating employment, and derogations allowed in 2004 for newly acceding Member States.

Reduced rates on labour-intensive local services have so far only been allowed on a temporary basis.

Under this Directive Member States that so wish may apply reduced VAT rates, on a permanent basis, to:

1) the following labour-intensive local services:

- minor repairs of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);
- window cleaning and cleaning in private households;
- domestic care services such as home help and care of the young, elderly, sick or disabled;
- hairdressing;
- the renovation and repair of private dwellings, excluding materials which account for a significant part of the value of the service supplied;

2) restaurant and catering services;

3) books, on all physical means of support (including brochures, leaflets and similar printed matter, children’s picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising).

In addition, Portugal may apply a reduced VAT rate to tolls on bridges in the Lisbon area, Cyprus is allowed to apply a reduced VAT rate to the supply of liquid petroleum gas in cylinders, and Malta may maintain a zero VAT rate for the supply of foodstuffs and pharmaceuticals.

ENTRY INTO FORCE: 01/06/2009.