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REPORT

on the proposal for a Council directive amending Directive 77/388/EEC as regards reduced rates of value added tax
(COM(2003) 397 – C5-0359/2003 – 2003/0169(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Christa Randzio-Plath

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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PROCEDURAL PAGE

By letter of 1st August 2003 the Council consulted Parliament, pursuant to Article 93 of the EC Treaty, on the proposal for a Council directive on amending Directive 77/388/EEC as regards reduced rates of value added tax (COM(2003) 397 – 2003/0169(CNS)).

At the sitting of 1st September 2003 the President of Parliament announced that he had referred the proposal to the Committee on Economic and Monetary Affairs as the committee responsible and the Committee on Employment and Social Affairs and to the Committee on Industry, External Trade, Research and Energy for their opinions (C5-0359/2003).

At the sitting of 9 October 2003 the President of Parliament announced that he had also referred the proposal to the Committee on Culture, Youth, Education, the Media and Sport for its opinion.

The Committee on Economic and Monetary Affairs had appointed Christa Randzio-Plath rapporteur at its meeting of 1st September 2003.

The committee considered the Commission proposal and draft report at its meetings of 30 September 2003, 7 October 2003, 4 November 2003 and 24 November 2003.

At the latter meeting it adopted the draft legislative resolution by 27 votes, with 6 abstentions.

The following were present for the vote: Christa Randzio-Plath, (chairwoman and rapporteur), José Manuel García-Margallo y Marfil (vice-chairman), Philippe A.R. Herzog (vice-chairman), John Purvis (vice-chairman), , Richard A. Balfe (for Jonathan Evans), Hans Blokland, Renato Brunetta, Hans Udo Bullmann, Manuel António dos Santos (for Helena Torres Marques), Harald Ettl (for David W. Martin), Francesco Fiori (for Generoso Andria pursuant to Rule 153(2)), Robert Goebbels, Lisbeth Grönfeldt Bergman, Marie-Thérèse Hermange (for Jean-Louis Bourlanges pursuant to Rule 153(2)), Mary Honeyball, Christopher Huhne, Giorgos Katiforis, Christoph Werner Konrad, Wilfried Kuckelkorn (for Fernando Pérez Royo), Werner Langen (for Hans-Peter Mayer), Klaus-Heiner Lehne (for Othmar Karas pursuant to Rule 153(2)), Alain Lipietz, Astrid Lulling, Erika Mann (for Bernhard Rapkay), Simon Francis Murphy (for Peter William Skinner), Elly Plooij-van Gorsel (for Carles-Alfred Gasòliba i Böhm), Alexander Radwan, Karin Riis-Jørgensen, Herman Schmid (for Armonia Bordes), Olle Schmidt, Bruno Trentin, Ieke van den Burg (for Pervenche Berès) and Theresa Villiers.

The opinion of the Committee on Industry, External Trade, Research and Energy is attached. The Committee on Culture, Youth, Education, the Media and Sport decided on 6 October 2003 and the Committee on Employment and Social Affairs decided on 7 November 2003 not to deliver an opinion.

The report was tabled on 25 November 2003.

DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the proposal for a Council directive on amending Directive 77/388/EEC as regards reduced rates of value added tax
(COM(2003) 397 – C5-0359/2003 – 2003/0169(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2003) 397)¹,
 - having regard to Article 93 of the EC Treaty, pursuant to which the Council consulted Parliament (C5-0359/2003),
 - having regard to Rule 67 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Industry, External Trade, Research and Energy (A5-0410/2003),
1. Approves the Commission proposal as amended;
 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
 3. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
 4. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
 5. Instructs its President to forward its position to the Council and Commission.

Text proposed by the Commission

Amendments by Parliament

Amendment 1 RECITAL 4

(4) The Commission has accordingly proposed a phased action plan designed to bring about, in the short term, the required practical improvements in the current system. This will involve a review *and a rationalisation* of the rules and derogations applicable to the reduced rates of VAT.

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¹ Not yet published in OJ..

Justification

Self-explanatory.

Amendment 2
RECITAL 5

(5) ***In any case, all modifications should be consistent with the*** Community's long term objective ***of*** moving to a definitive VAT system, based on the principle of taxation in the country of origin; this implies that there should be a continuation of ***the*** approach towards approximation of VAT rates.

(5) ***The*** Community's long term objective is moving to a definitive VAT system, based on the principle of taxation in the country of origin; this implies that there should be a ***gradual*** continuation of ***a systematic and coherent*** approach towards approximation of VAT rates, ***as needed and to the extent that this appears necessary to eliminate distortions of competition.***

Justification

The European Parliament is strongly committed to the introduction of the definitive system of VAT, but given the lack of progress in that regard, there is no urgent need to harmonise rates.

Amendment 3
RECTIAL 7

(7) The Commission's evaluation report of 2 June 2003,⁵⁰ which is based on the reports produced by the Member States which took part in the experiment on reduced rates for labour-intensive services, concludes that, as a result of the experiment, it is not possible to clearly identify any favourable impact on employment ***or a reduction in*** the black economy.

⁵⁰ COM(2003) 309 final of 2 June 2003.

(7) The Commission's evaluation report of 2 June 2003,⁵⁰ which is based on the reports produced by the Member States which took part in the experiment on reduced rates for labour-intensive services, concludes that, as a result of the experiment, it is not possible ***in the light of the information supplied by the Member States and given the limitations of the analysis methods used*** to clearly identify any favourable impact on employment. ***The Member States have supplied only a small amount of information on the impact of VAT reduction on*** the black economy. ***However, this same report admits the possibility that the evidence available in the evaluation report does not permit any definite conclusions to be drawn.***

⁵⁰ COM(2003) 309 final of 2 June 2003.

Justification

The Commission's evaluation of the effects of reducing VAT rates is hampered by disparities in the application of the reduced rate in the Member States and by the method of analysis used.

Amendment 4
RECITAL 7 A (new)

(7a) However, data presented to the European Parliament by the industries concerned demonstrate that there has been a significant net job creation. In addition, three years is a too short period to fully evaluate such a complex issue, and subsequent data has indicated that the scheme has been more successful in creating jobs compared with the evaluation made by the Commission.

Justification

Self-explanatory.

Amendment 5
RECITAL 7 A (new)

(7a) However, the report supplied to the Commission by one of the Member States stresses the positive effects this measure has had on the old buildings renovation sector. In particular it has benefitted employment and has made it possible to reduce illegal working very substantially. On the other hand, it is regrettable that this last factor was given very little consideration in the evaluation reports.

Justification

The French government's report is unequivocal on the effects of this measure in the construction sector, and stresses in particular its effects on reducing "black" working, which is very widespread in labour-intensive industries with very tight margins.

Amendment 6
RECITAL 8

(8) In view of the inconclusive results of

(8) In view of the inconclusive results ***and***

the experiment to apply reduced rates in labour-intensive services **and the need to improve the functioning of the internal market, the current structure of the reduced rates of VAT needs to be reviewed.**

insufficient time available for a full evaluation of the experiment to apply reduced rates in labour-intensive services, **and pending a definitive system, it is appropriate to continue allow Member States to apply the experiment.**

Amendment by Olle Schmidt

Amendment 7
RECITAL 9

(9) **The review must go beyond a revision of** the scope of the rates, the inclusion of new categories or the clarification of existing categories, and be extended to the various specific derogations applicable to them, with a view to their simplification and rationalisation. **It must also include appropriate measures to enable a definitive decision to be taken on the VAT rate for labour-intensive services.**

(9) **VAT rates need to be reviewed as regards not only** the scope of the rates, the inclusion of new categories or the clarification of existing categories, and be extended to the various specific derogations applicable to them, with a view to their simplification and rationalisation, **where necessary in order to remove distortions of competition, and, if possible, to ease the administrative burden for companies involved.**

Justification

Self-explanatory.

Amendment 8
RECITAL 12

(12) Member States should be afforded equal opportunity to apply reduced rates in certain areas and to rationalise the numerous derogations currently applying to rates **so as to avoid potential distortion** of competition.

(12) Member States should be afforded equal opportunity to apply reduced rates in certain areas **and Member States should take the necessary steps** to rationalise the numerous derogations currently applying to rates **insofar as this is necessary to avoid or remove distortions of competition. All such individual derogations should be set out in detail in an Annex to Directive 77/388/EEC.**

Justification

In the interests of legal certainty, individual derogations should be spelt out within the 6th

Directive itself rather than being scattered around a large number of different legal acts. In addition, in keeping with the principle of subsidiarity, derogations should only be phased out where necessary in order to avoid a real distortion of competition.

Amendment 9
RECITAL 14

(14) The derogations applying to rates must also be revised to maintain only those relating to goods and services eligible for reduced rates so as to produce a single reference list for the application of rates other than the standard rate. This represents a substantial simplification and rationalisation of the structure of VAT rates designed to improve the functioning of the internal market. ***deleted***

Justification

This is not necessary at this stage.

Amendment 10
ARTICLE 1, POINT 2(A)
Article 28, paragraph 2, introductory part (Directive 77/388/EEC)

2. Notwithstanding Article 12(3), points (a) to (e) shall apply ***during the transitional period referred to in Article 28l.***

2. Notwithstanding Article 12(3), points (a) to (e) shall apply ***until the definitive arrangements for the taxation of intra-Community trade provided for in Article 28l are adopted.***

Justification

This seeks to further underline the European Parliament's commitment to a move to the definitive system, based on the taxation in the country of origin.

Amendment 11
ARTICLE 1, POINT 2(A)
Article 28, paragraph 2 a, subparagraph 2 (Directive 77/388/EEC)

The derogation laid down in the first subparagraph may relate only to supplies

The derogation laid down in the first subparagraph may relate only to supplies

of goods or services of one of the categories listed in Annex H.

of goods or services of one of the categories listed in Annex H *or in Annex Ha.*

Justification

A new annex should be added listing those additional categories of goods to which only one Member State applies a reduced rate, for which there is no risk of a distortion of competition in the Single Market.

Amendment 12

ARTICLE 1, POINT 2(A)

Article 28, paragraph 2 b, subparagraph 1 (Directive 77/388/EEC)

(b) Member States which, under the terms of Article 12(3), were obliged to increase their standard rate as applied at 1 January 1991 by more than 2%, may apply a reduced rate lower than the minimum laid down in Article 12(3) in respect of the reduced rate for supplies of categories of goods and services specified in Annex H.

(b) Member States which, under the terms of Article 12(3), were obliged to increase their standard rate as applied at 1 January 1991 by more than 2%, may apply a reduced rate lower than the minimum laid down in Article 12(3) in respect of the reduced rate for supplies of categories of goods and services specified in Annex H *or Annex Ha.*

Amendment 13

ANNEX H, Category 4

The supply of medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, and apparatus and electrical, electronic or other equipment and means of transport, designed or specially adapted for the disabled

The supply *and repair* of medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, and apparatus and electrical, electronic or other equipment and means of transport, designed or specially adapted for the disabled

Repair of such goods.

Child car seats

Justification

Child car seats should be included with other similar products (see below)

Amendment 14
ANNEX H, Category 6

The supply, including on loan by libraries, books (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 substantially devoted to advertising matter.

The supply, including on loan by libraries, **of** books (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 substantially devoted to advertising matter.

Justification

Self-explanatory.

Amendment 15
ANNEX H, Category 6 a (new)

The supply of music whether recorded on compact discs and similar formats, including for hire.

Justification

Music should be given a uniform treatment with other cultural goods such as books. In addition, it is not logical that printed (sheet) music is eligible for the reduced rates, but not recorded music. Member States should therefore have the right to also apply a reduced rate to recorded music irrespective format.

Amendment 16
ANNEX H, Category 10

The supply, construction, renovation, alteration, repair, maintenance and cleaning of housing. The rental of housing insofar as this service is not exempted under Article 13

The supply, construction, renovation, alteration, repair, maintenance (including gardening) and cleaning of housing **and of listed buildings and monuments including buildings operated by bodies recognised by Member States as non-profit making charities for purposes other than the**

making of taxable supplies. The rental of housing insofar as this service is not exempted under Article 13. ***The supply of goods used in the construction, alternation or repair of housing, which have the effect of improving energy efficiency.***

Justification

Self explanatory.

Amendment 17
ANNEX H, Category 15

The supply of goods and services by organisations recognised as charities by Member States ***and engaged in welfare or social security work***, insofar as these supplies are not exempt under Article 13.

The supply of goods and services by ***non profit making organisations or*** organisations recognised as charities by Member States, in so far as these supplies are not exempt under Article 13.

Justification

The restriction to those charities which are “engaged in welfare or social security work” is unnecessary and would cut across the charity sector in an arbitrary way. It would be harmful because it excludes many charitable organisations, including those involved in medical research, conservation and environmental protection and the training of disabled people. There is no good reason for excluding charities involved in these essential projects which are of significant benefit to the community.

Amendment 18
ANNEX H, Category 20 a(new)

Minor repair services of bicycles, shoes and leather goods, clothing and household linen, as well as, laundry and dry-cleaning services, and hairdressing.

Justification

To include the remaining aspects of Annex K.

Amendment 19
ANNEX H, Category 20 b(new)

Children's clothing and shoes, as well as, child car seats.

Justification

In the interest of clarity and transparency, this exemption which is used by three Member States at present and which does not seem to pose any problems as regards distortions of competition between Member States should be added to Annex H. This amendment also seeks to include car seats which were previously contained in Category 4 (Medical Equipment)

Amendment 20
ANNEX H a (New)
Title

***LIST OF INDIVIDUAL DEROGATIONS
IN FORCE IN ONLY ONE MEMBER
STATE***

Justification

A new annex should be added in which all individual derogations in force in the Member States, which do not distort competition, should be listed. It is up to the Member States to complete this list as the issue is being examined in Council. This is incidentally something that should have been done a long time ago.

EXPLANATORY STATEMENT

In July this year the Commission published, with several months delay, its long awaited proposal on the reform of the system of reduced rates of VAT. In short, the Commission is proposing three changes to the current regime:

First, it proposes to discontinue the experimental application of reduced rates of VAT to certain labour intensive services, at least as regards two of the five categories of services contained in the so called Annex K.

Second, it seeks to restructure and enlarge the scope the list of goods eligible for reduced rates contained in Annex H, in particular by adding several new categories.

Third, it seeks to abolish most transitional arrangements granted to Member States at various times, by including a new reference that only goods listed in Annex H could be eligible for the reduced rates, whereas other products such as children's clothing no longer would benefit from the reduced rate, but instead be taxed at the standard rate in the future.

Critical Appraisal

Before examining these these aspects in detail, your rapporteur would like to make a few general remarks on her approach to the Commission proposal.

The proposed streamlining of the rates is part of the move towards a definitive system of VAT based on taxation in the country of origin, and it is clear that, at that point, it would be helpful to have a single rate band, with as few derogations as possible, as VAT accounting and controls by administrations otherwise would be quite difficult.

Although your rapporteur is a staunch supporter of a move to the definitive system, she is also realistic enough to realise that that will regrettably not happen in the foreseeable future. Progress in Council has been non-existent on crucial measures in this field, even less ambitious one such as the proposed reform of the 8th VAT Directive in order to allow for cross border deduction and thus abolish (de facto) the cumbersome refund procedure for VAT paid in another Member State.

It is against this background that one must ask oneself the following question: Given the lack of progress in replacing the transitional system of VAT with a definitive system, is it necessary at this point to press for greater harmonisation of rates?

Your rapporteur does not think that that is the case. The transitional system has the advantage that it is totally unaffected by differences in VAT rates, as goods are zero rated in the country of origin, and taxed at the rate in force in the country of consumption. Thus for business to business transactions, there is no risk of a distortion of competition. Equally, for business to consumer transactions, there is also little risk of distortions as the VAT induced price differences are unlikely to cause major diversions of trade.

Indeed, even the Commission notes in the explanatory statement attached to its proposal (para

35):

"Generally speaking there is no evidence that this system has created serious distortion of competition calling for radical measures to achieve greater harmonisation of VAT rates."

Given the evidence that your rapporteur has received, both individually, and at the public hearing organised by the Committee on Economic and Monetary Affairs on 7 October 2003, she considers that this matter must be approached with the utmost care.

Now is not, in your rapporteur's opinion, the time to make drastic changes for the sake of harmonisation alone. Instead, Member States should be allowed to retain a degree of flexibility to pursue social and cultural policies through indirect taxation. Although the Commission argues that this is not money well spent, your rapporteur considers that it is up to the Member States to determine this, in accordance with the principle of subsidiarity.

Reduced Rates of VAT on certain labour intensive services (Annex K)

Although she welcomes that the Commission has decided to make three of the five categories in Annex K permanent, she deplores the way in which this has been dealt with by the Member States. They were late in delivering the data necessary for the evaluation of this scheme, and as subsequent evidence has shown, the data has been challenged by all industries concerned. Indeed, the gloomy evaluations contained in the national reports, are in stark contrast to the upbeat assessments by the industries concerned.

Your rapporteur would like to stress that this is an initiative that originated in the European Parliament, and to which it attaches great importance. For instance, in her own report adopted on 10 June 1997, the Parliament specifically called for this. She considers that three years is a period much too short to evaluate this experimental application completely, and she thus considers that it is too soon to abolish it. In addition, were it to be abolished, significant price increases are likely to follow.

She is therefore proposing to include the remaining two categories (repair services and hairdressing) in Annex H.

Scope of Annex H

Your rapporteur can for the most part agree with the proposed extension of the scope of Annex H, in particular as regards restaurant services. She notes that many Member States already apply a reduced rate to the latter category, and she can see no harm in allowing the other ones to do the same. After all, the main point that must be borne in mind is that Annex H is permissive and not prescriptive - if a Member State does not want to apply the reduced rate to a given category it is not obliged to. It may be true that it could be difficult for domestic political reasons to explain why it chose not to apply a reduced rate in a given case, but that is hardly a reason to stop other Member States from doing so where there is no real risk of cross-border distortions of trade.

It is against that background that your rapporteur is proposing to include recorded music in the scope of Annex H, as several Member States have indicated a preference for this. She

does not see a real risk of distortion of competition as the reduction in retail price would not be of such a magnitude to merit a trip across the border. In addition, the current situation where only certain cultural goods - books - are eligible for reduced rates is highly unsatisfactory as these goods are in competition with each other.

Although some would argue that this is a good that is easily shipped, let us not forget that there is a special scheme in place where mail order is subject to the tax rate in force where the customer resides (subject to certain thresholds).

Your rapporteur would however like to call on all parts of the industry to make clear its commitment to pass on the reduction of VAT in full to consumers. If that is done, as was the case when the VAT on books was reduced in Sweden two years ago, a reduction of VAT can have a significant and sustained positive impact on demand.

Finally, as regards the current scope of Annex H, your rapporteur is proposing to delete the reception of broadcasting services. The Commission itself notes in its explanatory memorandum that maintaining the reduced rate for broadcasting services while it is not authorised for services supplied by electronic means "is likely to result in a problem of distortion of competition, in view of the prospect of increasing distribution of radio/TV programmes via the Internet, and vice versa, of Internet services via television".

Parking Rates and Individual Derogations

Your rapporteur would like to agree with the Commission that the current situation is unsatisfactory as it lacks clarity and transparency, but she is not sure that she agrees with the Commission's proposed solution, namely to simply delete all products that are not included in Annex H. It is true that there probably are a number of goods and services which may have lost their significance, and the Member States should be invited to examine each and everyone of these as this dossier is being debated the Council working parties. Those categories of products that used only by one Member State should be included in a special, new Annex to the 6th Directive so at least there is legal clarity, and those that are used by more than one Member State should be added to Annex H.

It is unrealistic to simply abolish them as it is clear from discussions in Council that Member States are quite attached to some of them.

Conclusion

As indicated above, your rapporteur has a lot of sympathy for the logic behind the Commission proposal, but she considers that this is not the appropriate time for a significant reform of the reduced rates as the definitive system of VAT still is many years away. After all, simplifying the scope of the reduced rates is first and foremost a preparation for the definitive system, and this preparation can usefully be postponed in part until we know if and when that system will come about.

In the meantime, the Member States should be allowed to keep a degree of flexibility on how to use taxation to supplement other policies, especially where there is no single market arguments against rate differences.

Finally, the experimental application of VAT to certain labour intensive services should remain an option for those Member States who wish to still apply it. Three years was not long enough to fully evaluate this initiative, which, at least according to the industries concerned has been very successful.

4 November 2003

OPINION OF THE COMMITTEE ON INDUSTRY, EXTERNAL TRADE, RESEARCH AND ENERGY

for the Committee on Economic and Monetary Affairs

on the proposal for a Council directive amending Directive 77/388/EEC as regards reduced rates of value added tax
(COM(2003) 397 – C5-0359/2003 – 2003/0169(CNS))

Draftsman: Elly Plooij-van Gorsel

PA_Leg

PROCEDURE

The Committee on Industry, External Trade, Research and Energy appointed Elly Plooij-van Gorsel draftsman at its meeting of 22 September 2003.

It considered the draft opinion at its meetings of 7 October and 4 November 2003.

At the last meeting it adopted the following amendments by 34 votes to 2.

The following were present for the vote: Luis Berenguer Fuster (chairman), Yves Piétrasanta (vice-chairman), Jaime Valdivielso de Cué (vice-chairman), , Konstantinos Alyssandrakis, Per-Arne Arvidsson (for Guido Bodrato), Sir Robert Atkins, Ward Beysen (for Marco Cappato), Gérard Caudron, Giles Bryan Chichester, Concepción Ferrer, Francesco Fiori (for Dominique Vlasto), Norbert Glante, Michel Hansenne, Malcolm Harbour, Hans Karlsson, Bashir Khanbhai, Rolf Linkohr, Caroline Lucas, Eryl Margaret McNally, Erika Mann, Marjo Matikainen-Kallström, Ana Clara Maria Miranda de Lage, Elizabeth Montfort, Angelika Niebler, Reino Paasilinna, Paolo Pastorelli, Godelieve Quisthoudt-Rowohl, Imelda Mary Read, Mechtild Rothe, Christian Foldberg Røvsing, Paul Rübig, Konrad K. Schwaiger, Esko Olavi Seppänen, Claude Turmes, Alejo Vidal-Quadras Roca, Olga Zrihen Zaari

SHORT JUSTIFICATION

The present proposal from the Commission seeks to simplify the current Community rules on Value Added Tax (VAT) introduced by Directive 92/77/EEC¹. Under the current rules, Member states may apply one or two reduced rates to the goods and services contained in a restrictive list. However, as a result of the negotiations leading up to the Directive, a large number of specific derogations were agreed allowing certain Member States to apply different rules. The Commission proposal seeks to simplify the current rules by eliminating or phasing out these derogations and amending the list of goods and services to which Member States can apply a reduced rate of VAT. This would not imply that reduced VAT would apply to the same goods and services in each Member State, but rather that all Member States would choose from the same list when applying reduced rates of VAT to a particular good or service.

When considering VAT, it is worth remembering that labour-intensive services such as hairdressing, minor refurbishing of buildings (painting, plastering, etc.) or the repair of shoes, clothes and bicycles possess characteristics not shared by other goods and services. Firstly, they are often provided by small and micro-entreprises. Secondly, they are both provided and used locally. It is well-known that such small and micro-enterprises constitute a vital sector of the economy and belong to a category of businesses which suffers more heavily from red tape, which often pays higher taxes than larger companies and which - since the nature of their services make them inherently local - are also disfavored by lacking opportunities in advantages of scale.

In 1998, the Commission launched an experimental application of VAT rates to certain labour-intensive services for a period of two years starting 1 January 2000². The experiment was later extended by one year, thereby ending on 31 December 2002. Nine member states participated in this pilot project, each providing an evaluation report by the end of the project³. In its conclusions of the experiment, the Commission states that "none of the reports of the Member States that participated in the experiment provide any solid evidence of the VAT reduction measure having an impact on employment."⁴ There are two problems with this statement. Firstly, the data collection in some Member States was poor and the data inconclusive. This is clearly stated i.e. in the French report. Secondly, positive effects *were* recorded, but these vary from sector to sector and from one Member State to another. In the Netherlands, hair dressers provided 2000 new jobs in the period of the project - a sectorial increase of nearly 6%. Had the project been given more time, and had the Commission looked more carefully at national and sectorial differences, the conclusions to be drawn could easily have been reversed. As it stands, the experiment remains inconclusive as regards conclusions applicable to the entire Community.

Yet, in the current proposal the Commission seeks to exclude some of the services participating in the pilot project from the list of services to which the Member States may apply the reduced VAT. In the view of your draftsman, since the list is in no way mandatory to Member States, it should be as broad as possible as regards services provided

¹ OJ L 316, 31.10.1992.

² The experiment was introduced by Directive 99/85/EC.

³ The reports can be found at:

http://www.europa.eu.int/comm/taxation_customs/taxation/labour_intensive/labour_intensive_en.htm

⁴ COM(03)0309, page 24.

locally; that is: services which do not distort competition in the Single Market. It seems unreasonable to definitively close the possibility of reduced VAT on these services to Member States on the basis of a short-term experiment with data of limited validity.

Your draftsman welcomes the simplification of common VAT rules set out in the proposal, but also wishes to express her concern for any excessive limitation of the application of reduced VAT. There is a lack of qualitative and substantive evidence that reduced rates of VAT to locally based, labour-intensive services do not have a positive effect on employment and on the general structure of society in the medium and long term. With the additions of these sectors to the Annex H of the proposal, I recommend to approve the proposal as amended.

AMENDMENTS

The Committee on Industry, External Trade, Research and Energy calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following amendments in its report:

Text proposed by the Commission¹

Amendments by Parliament

Amendment 1 ANNEX H, point 3

3. The supply of pharmaceutical products of a kind normally used for health care, prevention of diseases and treatment for medical and veterinary purposes, including products used for contraception and sanitary protection

3. The supply of pharmaceutical products of a kind normally used for health care, prevention of diseases and treatment for medical and veterinary purposes, including products used for contraception and sanitary protection, ***nappies and incontinence pads***

Justification

This amendment is justified on social grounds.

Amendment 2 ANNEX H, point 10 a (new)

10a. The renovation, repair and maintenance of protected buildings and buildings officially listed for their architectural or historic merit.

¹ OJ C ... / Not yet published in OJ..

Justification

This will help to encourage the preservation of Europe's historical heritage by permitting reduced rates of VAT on this type of work.

Amendment 3
ANNEX H, point 20a (new)

20a. Hairdressing

Justification

Even under the uncertainties imposed by a very limited timeframe (2 years), exception of hairdressing from VAT in the Netherlands provided a considerable number of new jobs.

Amendment 4
ANNEX H, point 20 b (new)

20b. The supply of butane gas in containers

Justification

This amendment is justified on social grounds.