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## **REPORT**

on the proposal for a Council directive amending Directive 77/388/EC by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia  
(8754/2004 – COM(2004)0295 – C6-0074/2004 – 2004/0810(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Ian Stewart Hudghton

### ***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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## **DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION**

**on the proposal for a Council directive amending Directive 77/388/EC by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia  
(8754/2004 – COM(2004)0295 – C6-0074/2004 – 2004/0810(CNS))**

### **(Consultation procedure)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (8754/2004 - COM(2004)0295)<sup>1</sup>,
  - having regard to Article 93 of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0074/2004),
  - having regard to Rule 51 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A6-0058/2004),
- A. reaffirming its support for the experimental scheme of reduced rates of value added tax for labour-intensive services, as expressed in its positions of 20 November 2002<sup>2</sup>, of 4 December 2003<sup>3</sup> and of 15 January 2004<sup>4</sup>,
1. Approves the Commission proposal;
  2. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
  3. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
  4. Instructs its President to forward its position to the Council and Commission.

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<sup>1</sup> Not yet published in OJ.

<sup>2</sup> OJ C 25 E, 29.1.2004, p. 177.

<sup>3</sup> OJ C 89 E, 14.4.2004, p. 138.

<sup>4</sup> OJ C 92 E, 16.4.2004, p. 382.

## **EXPLANATORY STATEMENT**

### **1) Background**

With this legislative proposal, we return once more to the experimental reduced rates of VAT for certain labour-intensive services, a scheme that was launched in 1999 with strong support from the European Parliament, and in particular from its Committee on Economic and Monetary Affairs. Its objective is to study the - hopefully beneficial - effect of reduced taxation on job preservation and creation in specific, labour-intensive sectors of the service industry.

It should be recalled that this experiment was originally due to expire by 31 December 2002, and was then extended until 31 December 2003. As such, it would close in any case before enlargement became effective on 1 May 2004. It was therefore not included in the accession negotiations, and the relevant - temporary - modification to Directive 77/388(CE) is not covered by the respective Acts of Accession.

The scheme's somewhat unexpected extension until 31 December 2005 (again strongly supported by Parliament, following the recommendations of this committee) completely changed these circumstances. All accession states were now duly consulted, and Poland and the Czech Republic announced their intention to apply the reduced rates, and have indeed done so since 1 May 2004:

Poland applies a VAT rate of 7% (as opposed to 22%) to small repair shops for bicycles, shoes etc., while the Czech Republic chose to apply the scheme to the cleaning and domestic care sectors, which are taxed at 5% instead of 19%.

The present Proposal for a Directive is therefore intended to provide an urgently needed - indeed, retroactive - legal base for current practice in these two countries, which is in line with that of nine of the "old" Member States currently applying the scheme until its expiry in 2005.

### **2) Procedure**

While the original Commission proposal was based on the "tidying-up" clause (Art. 57) of the Act of Accession, allowing adoption by qualified majority in Council without consultation of Parliament, the Council chose to change the legal base to Article 93 of the Treaty, so the consultation of Parliament is now required - as is unanimity in Council.

### **3) Assessment**

It would appear that opinion in Council remains divided more or less along the lines of overall approach to the reduced VAT issue, with those Member States that were unconvinced by the experiment in the first place opposing any extension of it.

However, far from introducing any new provisions, the proposal under consideration merely opens an existing scheme to two new Member States, whose share of GDP will hardly skew the statistical data of this experiment. The issue should thus be considered, not as a question of tax policy principle, but as a simple matter of equal treatment for the newly joined Member States.

Your rapporteur therefore recommends approving the legislative proposal without delay.

## PROCEDURE

<b>Title</b>	Proposal for a Council directive amending Directive 77/388/EC by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia		
<b>References</b>	(8754/2004 – COM(2004)0295 – C6-0074/2004 – 2004/0810(CNS))		
<b>Legal basis</b>	Article 93		
<b>Basis in Rules of Procedure</b>	Rule 51		
<b>Date of consulting Parliament</b>	30.6.2004		
<b>Committee responsible</b> Date announced in plenary	ECON 15.9.2004		
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	EMPL 15.9.2004		
<b>Not delivering opinion(s)</b> Date of decision	EMPL 20.9.2004		
<b>Enhanced cooperation</b> Date announced in plenary			
<b>Rapporteur(s)</b> Date appointed	Ian Stewart Hudghton 21.9.2004		
<b>Previous rapporteur(s)</b>			
<b>Simplified procedure</b> Date of decision			
<b>Legal basis disputed</b> Date of JURI opinion			
<b>Financial endowment amended</b> Date of BUDG opinion			
<b>European Economic and Social Committee consulted</b> Date of decision in plenary			
<b>Committee of the Regions consulted</b> Date of decision in plenary			
<b>Discussed in committee</b>	4.10.2004	22.10.2004	30.11.2004
<b>Date adopted</b>	30.11.2004		
<b>Result of final vote</b>	for:	25	
	against:	1	
	abstentions:	1	
<b>Members present for the final vote</b>	Zsolt László Becsey, Pervenche Berès, Udo Bullmann, Ieke van den Burg, Paolo Cirino Pomicino, Elisa Ferreira, Robert Goebbels, Gunnar Hökmark, Ian Hudghton, Othmar Karas, Wolf Klinz, Christoph Konrad, Guntars Krasts, Astrid Lulling, Gay Mitchell, Cristobal Montoro Romero, John Purvis, Alexander Radwan, Dariusz Rosati, Peter Skinner, Margarita Starkevičiūtė, Ivo Strejček		
<b>Substitutes present for the final vote</b>	Harald Ettl, Thomas Mann, Diamanto Manolakou, Antonis Samaras, Corien Wortmann-Kool		
<b>Substitutes under Rule 178(2) present for the final vote</b>			
<b>Date tabled – A6</b>	2.12.2004	A6-0058/2004	
<b>Comments</b>	...		