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REPORT

on the proposal for a Council directive amending Directive 2006/112/EC as regards reduced rates of value added tax
(COM(2008)0428 – C6-0299/2008 – 2008/0143(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Ieke van den Burg

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***. In the case of amending acts, passages in an existing provision that the Commission has left unchanged, but that Parliament wishes to amend, are highlighted in **bold**. Any deletions that Parliament wishes to make in passages of this kind are indicated thus: [...]. 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). Suggested corrections of this kind 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 2006/112/EC as regards reduced rates of value added tax
(COM(2008)0428 – C6-0299/2008 – 2008/0143(CNS))**

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2008)0428),
 - having regard to Article 93 of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0299/2008),
 - having regard to Rule 51 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 the Internal Market and Consumer Protection (A6-0047/2009),
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 the Commission.

22.1.2009

OPINION OF THE COMMITTEE ON THE INTERNAL MARKET AND CONSUMER PROTECTION

for the Committee on Economic and Monetary Affairs

on the proposal for a Council directive amending Directive 2006/112/EC as regards reduced rates of value added tax
(COM(2008)0428 – C6-0299/2008 – 2008/0143(CNS))

Rapporteur: Olle Schmidt

SHORT JUSTIFICATION

The proposal seeks to amend the provisions of Directive 2006/112/EC ("the VAT Directive") in order 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.¹ The proposal allows Member States to apply reduced VAT rates for labour-intensive services and locally supplied services on a permanent basis. These services are temporary listed in Annex IV of the VAT Directive applicable until the end of 2010. It also proposes to add certain other locally supplied services to the list of the goods and services eligible for a reduced rate (Annex III), including services related to the housing sector, to personal care and to restaurants, along with some technical adaptations. The proposal is part of the small business act as SMEs dominate the sectors concerned. The proposal does not alter the principle that the application of reduced rates is optional for Member States.

The rapporteur supports the objective of the proposal as a means to creating a tax system that promotes jobs, increases productivity and reduces the 'black' economy. The rapporteur strongly supports the Commission's effort to harmonise the exemptions of VAT as it is necessary to ensure a balanced and equal treatment between member states and to avoid adverse affects when implementing such rates. Making the temporary provisions permanent will reduce certain insecurities for business.

Reducing rates for VAT on locally provided and labour intensive services will have a positive impact as it would reduce the level of undeclared work, which will become a less attractive choice, and will create more demand in the 'formal economy'. Reduced rates can also play a

¹ VAT is primarily a revenue-raising tax, with a broad base that applies the standard rate to the vast majority of goods and services. Reduced rates can be used to achieve economic, social or environmental policy objectives.

role in addressing the regressivity of VAT, because the savings for consumers that arise from the VAT reduction will usually be higher — as a proportion of income — for lower income groups. However, reduced rates should be applied with care in order not to cause real detriment to the smooth functioning of the Internal Market. Clear conditions for reduced rates must be set; for services they should apply mainly to labour intensive services, provided to final consumers, mainly local and should not cause distortion of competition. Reduced rate should be applied only when it increases productivity, long term employments and better income equality. Therefore a balanced approach is needed.

Since this proposal is only tackling the most urgent issues, because of a lack of level playing field for all Member States, the rapporteur emphasises the need of the broad political debate on the whole structure of reduced VAT rates with regard to the functioning of the Internal Market, as announced earlier by the Commission.

The rapporteur suggests to amend the proposal in order to emphasise the reduction of undeclared work as the main policy objective of reduced VAT rates, to address possible administrative burden or lack of information on reduced VAT rates and to avoid confusion on the scope of this directive.

AMENDMENTS

The Committee on the Internal Market and Consumer Protection calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following amendments in its report:

Amendment 1

Proposal for a directive – amending act Recital 4

Text proposed by the Commission

(4) In that Communication, it was concluded that different VAT rates applied to locally supplied services pose no **real detriment** to the smooth functioning of the internal market. It is therefore appropriate to allow all Member States the possibility to apply reduced VAT rates to services such as labour-intensive services covered by the temporary provisions applicable until the end of 2010, services related to the housing sector and to **the** personal care and restaurant services. **These changes will make it possible for** Member States **to**

Amendment

(4) In that Communication, it was concluded that different VAT rates applied to locally supplied services pose no **major risk** to the smooth functioning of the internal market **and could have positive effects in terms of job creation and the fight against the underground economy**. It is therefore appropriate to allow all Member States the possibility to apply reduced VAT rates to services such as labour-intensive services covered by the temporary provisions applicable until the end of 2010, **to** services related to the

apply reduced VAT rates to renovation and repair work aiming at increased energy-saving and efficiency.

housing sector and to personal care and restaurant services. ***Reduced VAT rates in these areas would have a positive impact in reshaping many service sectors as they would reduce the level of undeclared work.*** Member States ***should provide clear and accessible guidance to undertakings on the scope of*** reduced VAT rates.

Justification

Emphasise the main policy objective of reduced VAT rates

Amendment 2

**Proposal for a directive – amending act
Recital 4 a (new)**

Text proposed by the Commission

Amendment

(4a) With regard to the housing sector, this 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.

PROCEDURE

Title	Reduced rates of value added tax		
References	COM(2008)0428 – C6-0299/2008 – 2008/0143(CNS)		
Committee responsible	ECON		
Opinion by Date announced in plenary	IMCO 4.9.2008		
Drafts(wo)man Date appointed	Olle Schmidt 10.9.2008		
Discussed in committee	10.11.2008	15.12.2008	22.1.2009
Date adopted	22.1.2009		
Result of final vote	+: 31 -: 0 0: 0		
Members present for the final vote	Cristian Silviu Buşoi, Charlotte Cederschiöld, Janelly Fourtou, Evelyne Gebhardt, Martí Grau i Segú, Malcolm Harbour, Christopher Heaton-Harris, Iliana Malinova Iotova, Alexander Graf Lambsdorff, Kurt Lechner, Toine Manders, Nickolay Mladenov, Catherine Neris, Zita Pleštinská, Karin Riis-Jørgensen, Zuzana Roithová, Heide Rühle, Leopold Józef Rutowicz, Christel Schaldemose, Andreas Schwab, Eva-Britt Svensson, Marianne Thyssen, Bernadette Vergnaud, Barbara Weiler		
Substitute(s) present for the final vote	Emmanouil Angelakas, Wolfgang Bulfon, Colm Burke, Giovanna Corda, Brigitte Fouré, Joel Hasse Ferreira, Filip Kaczmarek, Olle Schmidt		
Substitute(s) under Rule 178(2) present for the final vote	Jean-Pierre Audy, Michel Teychenné		

PROCEDURE

Title	Reduced rates of value added tax
References	COM(2008)0428 – C6-0299/2008 – 2008/0143(CNS)
Date of consulting Parliament	1.9.2008
Committee responsible Date announced in plenary	ECON 4.9.2008
Committee(s) asked for opinion(s) Date announced in plenary	IMCO 4.9.2008
Rapporteur(s) Date appointed	Ieke van den Burg 24.9.2008
Discussed in committee	11.12.2008 20.1.2009
Date adopted	11.2.2009
Result of final vote	+: 30 -: 7 0: 2
Members present for the final vote	Mariela Velichkova Baeva, Paolo Bartolozzi, Zsolt László Becsey, Pervenche Berès, Sebastian Valentin Bodu, Sharon Bowles, Udo Bullmann, Christian Ehler, Elisa Ferreira, Ingo Friedrich, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Donata Gottardi, Benoît Hamon, Gunnar Hökmark, Karsten Friedrich Hoppenstedt, Sophia in 't Veld, Wolf Klinz, Andrea Losco, Astrid Lulling, Gay Mitchell, Sirpa Pietikäinen, John Purvis, Bernhard Rapkay, Dariusz Rosati, Heide Rühle, Eoin Ryan, Antolín Sánchez Presedo, Olle Schmidt, Peter Skinner, Margarita Starkevičiūtė, Ivo Strejček, Ieke van den Burg, Cornelis Visser, Sahra Wagenknecht
Substitute(s) present for the final vote	Mia De Vits, Werner Langen, Gianni Pittella, Eva-Riitta Siitonen