



**COUNCIL OF EUROPEAN MUNICIPALITIES AND REGIONS
CONSEIL DES COMMUNES ET REGIONS D'EUROPE**

CEMR response

to the consultation
on the review of existing legislation on
VAT reduced rates

Brussels, May 2008

Key points of CEMR's response

1. VAT is a relevant source of income for the state and therefore any reduction should be carefully considered. It is the political choice of the Member States what financial instrument to choose in order to provide assistance or create an incentive.
2. We share the Commission's view that locally supplied services to the private individual or to local public bodies are unlikely to distort competition in the internal market.
3. With the increasing demand for care services, reduced taxation for these services can play an important role for the provision of these services within an affordable financial framework.
4. Reduced rates for other labour-intensive services supplied at local level should continue to be allowed, since many of them are provided by small and micro enterprises; this can stimulate and encourage this sector.
5. Locally provided services of general interest should in any event qualify for the application of reduced VAT rates.
6. In the housing sector, a reduced VAT rate can be an instrument to provide affordable housing to people in need.
7. CEMR would be in favour to add other locally provided services, such as services in relation to waste and water treatment to the list of services allowed for a reduced rate; a more in depth consultation with our members could result in more suggestions.
8. A reduced VAT rate for environmentally friendly and energy efficient products could be an incentive for customers; the definition of the criteria should be part of the legislation process and take place in a democratic and transparent manner.
9. Reduced rates for private individuals for electricity and gas should also be retained; 'green' energy provision should, however, have its own preferential rate.
10. On the other hand, environmentally damaging products should be deleted from the scope of reduced rates, provided serious non-damaging products exist in the market.
11. Other services, like those provided by undertakers and crematoria, should not be deleted from the list, since they are essential and mainly provided locally.

**CEMR response to the European Commission Consultation on the
Review of existing legislation on VAT reduced rates**

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1. The Council of European Municipalities and Regions (CEMR) is the European umbrella organisation of 51 national associations representing regional and local government in 37 countries.
2. CEMR welcomes the practical approach of the European Commission aiming with this consultation to gather views and opinions on the question how to clarify the situation of reduced VAT rates on locally supplied services.
3. We understand that the current situation is disparate and complex due to a legal framework with a number of derogations for Member States and that there is a need for clarification and the establishment of equal opportunities to all Member States.
4. We take notice that the Council of Ministers has invited the European Commission to prepare for a discussion on the economic impact of the application of reduced rates
5. Therefore, the main objectives of the review are
 - a. the preparation for the debate in the Council whether reduced VAT rates are an appropriate instrument for sector political aims and
 - b. the preparation of a coherent and definite legal framework in which the Member States will be allowed to apply reduced rates on goods and services.
6. We share the Commission's view in the consultation paper that locally supplied services to the private individual or to local public bodies are unlikely to distort competition in the internal market, and fully support its view that the services mentioned are by their very nature largely provided directly to final consumers, mainly locally.
7. CEMR does not have expertise to respond to all questions raised in the consultation paper; however, we wish to express our view on some of the issues addressed.

Locally supplied services including labour intensive services

Question 1:

8. CEMR would like to confirm that reduced rates for labour intensive locally supplied services can have a positive effect on the local economy. It can, amongst other factors, be an incentive to create official jobs and employment and help to fight against 'black economy'.
9. With an increasing ageing population, the demand for care services is growing and more and more people opt for staying in their homes as long as they can, provided they can afford assistance and individual

care. Reduced taxation for these services play an important role in order to provide such care services within an affordable financial framework.

Question 5:

10. We support the continuation of the reduced rate for at least the labour-intensive services currently allowed till 2010. An extension of the annex to the Directive 1999/85/EC “concerning VAT on labour intensive services” to other services, as reasoned in chapters 3 to 6 of the consultation paper, should also be taken into consideration. Since many local services are provided by small and micro enterprises, a lower rate for such services can also help to stimulate and encourage this sector, including small start-ups.
11. From regional and local governments’ point of view, locally provided services of general interest should in any event qualify for the application of reduced VAT rates. Many of these services are listed in annex III of the VAT Directive 2006/112/EC, and the proposed additions (annex 1 of the consultation paper) mention relevant services (e.g. care services, care of the elderly, recycling and refuse collection, sewage and water treatment).

Question 8:

12. As far as the housing sector is concerned, a reduced VAT rate can be an instrument to provide affordable housing to people in need. The test of “social policy” should relate to whether the housing stock in question will be *substantially* for persons in need (including poverty, disability etc.). This could be important in relation e.g. to the construction of a block of flats which are mainly but not wholly for social housing.
13. We have not yet reached a final view on the idea of an extension of the reduced rate to the repair and renovation all forms of private housing, but tend to the view that a reduced rate for this type of service may be beneficial for the reasons set out above (paragraph 9).

Other issues

Question 11:

14. As mentioned above, CEMR would be in favour of adding other locally provided services to the list in annex III to the VAT Directive, such as services in relation to waste and water treatment. A more in depth consultation with our members could result in more suggestions.

The context of a more global revision of the reduced rates scope

Question 12:

15. A reduced VAT rate for environmentally friendly and energy efficient products could be an incentive for customers to buy these goods and should be introduced in line with the European environment and energy policy. The definition of the criteria could be a part of the legislation process and should take place in a democratic and transparent manner.

Question 13:

16. CEMR supports the retention of the reduced rate for private individuals for electricity and gas, since any additional costs here would be to the disadvantage of the poorest sections of the community. "Green" energy provision should however have its own preferential rate.

Deletion from the list of certain categories currently eligible for a reduced rate

Question 15:

17. With reference to our answer to question 12, we would support the deletion of environmentally damaging products from the scope of reduced VAT rates, provided that there exist serious non-environmentally damaging products in the market.

Question 16:

18. CEMR is not in favour to delete services such as those provided by undertakers and crematories; these services are essential and mainly provided locally.

Final general comment

19. In the context of the discussion, one needs to take into consideration that VAT is a relevant source of income for the state and constitutes an important part of the national budget.
20. Any reduction of the VAT rate has an impact on the income of the state and should therefore be carefully considered.
21. It is very much a political choice what financial instrument to choose in order to provide assistance or create an incentive. This can either be done in an indirect way via a reduced VAT rate or in a direct way with a financial contribution from the state. With reference to the principle of Subsidiarity, this choice should be left to the Member States and the national legislator. This means that reduced rates, where justifiable, should be discretionary but not mandatory.
22. The planned proposal of the European Commission should provide the legal framework and set the principles.
23. CEMR and its members appreciate the public consultation procedure and wish to express their interest and willingness to provide further information and input during the preparation process.

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