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VAT: Reviewing reduced rates for more efficient tax systems

Citizens, businesses and other stakeholders are being asked for their opinion on certain reduced VAT rates, in a public consultation launched by the Commission today. They are also asked to consider what a change in EU rules in this area might imply. The consultation is part of the wider work being done to fundamentally reform the EU VAT system, in order to make it simpler, more efficient and more robust. It will run until 3 January 2013.

Algirdas Šemeta, Commissioner for Taxation, Customs, Anti-fraud and Audit, said: "It is high time that we take a fresh look at reduced VAT rates. Member States need new revenue sources, while businesses need simpler tax systems with fewer compliance costs. Today we are asking whether certain reduced VAT rates are delivering what they seem to promise, or whether they pose more problems than they are worth."

In line with the principles set out in the EU VAT Strategy (IP/11/1508), today’s consultation focuses on 3 specific areas where reduced VAT rates need to be reviewed. First, respondents are asked whether any current reduced rate is distorting competition within the Single Market. Secondly, the list of goods and services which can benefit from a reduced rate was agreed by Member States many years ago, and EU policy has developed and evolved since then. Therefore, respondents are asked whether certain reduced VAT rates now contradict EU policy objectives. Here, answers should be concentrated on the reduced rates for water, energy, waste management and housing. Finally, the consultation asks how similar goods and services should be treated for VAT purposes, taking into account technological developments.

This consultation is part of an assessment process, and the Commission is not proposing the abolition or introduction of any reduced VAT rate at this stage. The results of the public consultation will feed into the preparation of new proposals on VAT rates, which the Commission will present next year.
Background

Under the EU VAT Directive, Member States must apply a standard VAT rate of at least 15%. However, they have the option of applying one or two reduced VAT rates, of minimum 5%, to goods and services included on a restrictive list annexed to the Directive. This list must be strictly interpreted i.e. Member States may not apply a reduced rate to a good or service which is not on that list.

This simple structure, however, is complicated by a multitude of derogations which are included in the Directive or were granted to certain Member States, for example, in Acts of Accession or negotiations in Council.

In the VAT Strategy, which the Commission presented last year to launch of a deep reform of the EU VAT system, a review of reduced VAT rates was highlighted as a priority. Three principles which should guide this review were listed:

• Abolition of those reduced rates which constitute an obstacle to the proper functioning of the internal market;

• Abolition of reduced rates on goods and services for which the consumption is discouraged by other EU policies;

• Similar goods and services should be subject to the same VAT rate and progress in technology should be taken into account in this respect;

It is on the basis of these principles that the Commission drew up the consultation paper published today, and will continue its assessment with a view to bringing forward proposals on VAT rates in 2013.

The public consultation will run for 12 weeks, it is available on: http://ec.europa.eu/taxation_customs/common/consultations/tax/index_en.htm

A general overview of the various derogations mentioned above can be found here: http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf

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