

Position Paper

UEAPME's¹ reply to the European Commission Consultation paper "Review of existing legislation on VAT reduced rates"

QUESTIONS SUBMITTED TO THE PUBLIC AND ALL PARTIES INTERESTED

5.6 Conclusions that can already be drawn on the Single Market aspect

Q1 Are there any concrete situations that you are aware of whereby the application of a reduced rate on certain goods and services by one or more Member States is effectively resulting in material distortion of competition within the Single Market? Please explain and, if possible, give an indication of the economic impact of the distortive effects.

UEAPME has always granted great attention to this issue and it has been working on it for 15 years. In 1997, UEAPME together with some European branch association was leading the reduced VAT rates campaign for labour intensive services to compete undeclared work, which was and is a serious problem for many SMEs providing labour intensive local services in the European Union. In 1999 the European Council adopted a Directive which allowed a 3-year experimental application of reduced VAT rates to labour-intensive services. After several extensions of the trial period, in 2009 – just 3 years ago and in the framework of the Small Business Act – Member States obtained a permanent possibility reduce VAT rates for "labour-intensive services" in several sectors.

As the study of "Copenhagen Economics" of 2007 and the present consultation itself also demonstrate, there are **no situations – neither theoretically nor anecdotally – where the application of a reduced VAT rate is resulting in material distortion of competition within the Single Market**. The services covered by the directive are provided locally and imply a direct contact between customer and provider. Therefore, in these situations the distortion of competition amongst Member States, supposed to stem from the application of reduced VAT rate, is highly unlikely.

Furthermore, UEAPME and its members judge that **reduced VAT rates do not create additional and burdensome compliance costs for businesses**. We do not see how the application of a standard rate instead of a reduced rate could help the administrative simplification. *On the contrary, we strongly believe that the application of different VAT rates for different parts of one single invoice would create much more burden for small and medium enterprises. In this case, enterprises should carefully calculate and verify which parts of the work and consequently of the invoice, are subject to the application of the different VAT rates, making the current system more complex.*

In addition, it should be noted that the introduction of reduced VAT rates for labour-intensive services responds to several and different demands. As stated in previous occasions and as recognised by the European Commission, **labour-intensive services**, as currently covered by the directive, suffering most from

¹ UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

undeclared work and shadow economy and reduced VAT rates are an important pillar to fight such financially, socially and economically unhealthy developments.

Finally, even the Copenhagen Economics study recognises that reduced VAT rates in certain locally provided services help to fight undeclared work and do-it-yourself activities, **reducing the informal economy**.

Concluding, the internal market is in no way jeopardised by the application of different VAT rates across the Member States and shall not be used as an argument to change or withdraw the system, which was so difficultly approved by the 2009 Council agreement.

6.4. HOUSING

Q5 In your view, how can the reduced VAT rate for housing be best applied in order to take the resource efficiency element into account, and how should/can this be achieved with a minimum of increase in the administrative burden for businesses, in particular SME's, providing supplies of goods and services in the housing sector?

Taking into account and representing the positions of its members, UEAPME advocates the idea that reduced VAT rates for provision, construction, renovation and alteration of housing, as part of social policy as well as renovation and repairing of private dwellings pushes the energy efficiency of housing in Europe, but must not be limited to this policy goal.

There is today a global trend in the market towards renovation works and within these there is an increasing share of renovation works aimed at energy efficiency. Thus, the application of reduced VAT rates to renovation and repairing of dwellings is naturally integrated in a general policy of sustainable development.

The limitation of reduced VAT rates only to the objective of resource efficiency is very hazardous because it could significantly reduce the total amount of renovation works that could be done in numerous buildings. It would be better to maintain as large an application field as possible in order to boost renovation works in general and indirectly **the energy performance of housing thanks to the high number of renovation works**.

Furthermore, there are other fundamental norms to comply with, such as the earthquake-proof legislation or the regulations concerning healthy buildings. Reduced VAT rates are also applied in these cases, in which maintaining the current benefits is imperative to support the renovation of the existing stock of buildings to better take into consideration the compliance with new legal criteria. This means that reduced VAT rates will **on the whole lead to better ways to construct**, and not only as far as energy-efficiency is concerned.

Since one of the main goals of the Commission is to make the system more efficient and reduce the burdens for SMEs, we strongly alert that any possible introduction of the obligation to justify the application of reduced VAT rates would have **opposite effects on simplification**. The same negative effects will be produced by the application of different VAT rates for different types of renovation works, which will make much harder for craftsmen and small enterprises to calculate their invoices.

A reduced VAT rate is a **complementary measure to pursue the goals set out in the Roadmap to a Resource Efficient Europe**. Nevertheless, the application of reduced VAT rates should not be narrowed to these achievements. The European Institutions already introduced several and positive provisions specifically targeted to energy efficiency. This is not the reason why three years ago the Commission allowed the permanent application of VAT reduced rates for the construction works.

Reduced VAT rates, along with fiscal and economic incentives at a national level for energy efficiency, training for new skills as well as the mandatory measures of Directive 2010/31/EU (Energy Performance of

Buildings Directive) and Directive 2012/27/EU (Energy Efficiency Directive) all together are heading towards a more energy efficient housing system.

Finally, a discussion about the impact of reduced VAT rates on the housing market should not only refer to environmental and energy-efficiency aspects; it also should keep in mind other aims of reduced VAT rates for this sector such as social housing and fight against undeclared work.

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For further information on this position paper, please contact:

Gerhard Huemer
Director Economic and Fiscal Policy
g.huemer@ueapme.com