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**REPORT FROM THE COMMISSION**

**on reduced VAT rates drawn up in accordance with Article 12(4) of the Sixth Council Directive of 17 May 1977 on the harmonisation of the laws of the Member States relating to turnover taxes -  
Common system of value added tax: uniform basis of assessment**

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## **1. INTRODUCTION**

1. Article 12(4) of the Sixth Council Directive 77/388/EEC<sup>1</sup> requires the Commission to submit this report to the Council so that the latter can review the scope of the reduced rates and decide whether alterations are needed. As with any issue relating to the harmonisation of VAT rates, this review is based on the principle enshrined in Article 93 of the Treaty, namely that provisions are to be adopted wherever such harmonisation is necessary to ensure the establishment and the functioning of the internal market.
2. The Commission's last report under these provisions was dated 13 November 1997 [COM(1997)559 final]<sup>2</sup>. Since then the question of reduced rates has been discussed at length in the Council, especially in the context of labour-intensive services<sup>3</sup>.
3. This report describes and analyses recent developments in the matter of reduced rates with a view to assessing the impact of the structure of VAT rates on the working of the single market.
4. Its findings are based on the information, positions, objections, requests for reduced rates or complaints routinely received by the Commission from traders or their representatives (national associations, European federations, members of parliament, etc.). It is also informed by the many questions put to the Commission by members of the European Parliament. Of a hundred or so questions handled by the VAT department of the Directorate-General for Taxation and Customs Union in the period 1997-2000, almost half concern VAT rates.

## **2. VAT RATES: THE RULES AND THEIR APPLICATION BY THE MEMBER STATES**

### **2.1. Community legislation since 1998**

5. The first subparagraph of Article 12(3)(a) of the Sixth VAT Directive (hereinafter "the Sixth Directive") requires the Member States to apply to the supply of both goods and services a single standard rate fixed as a percentage of the taxable amount.
6. Directive 2001/4/EC fixing the standard rate of VAT applicable to 31 December 2005 was adopted by the Council on 19 January 2001<sup>4</sup>. This Directive sets a minimum standard rate of 15%<sup>5</sup>.

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<sup>1</sup> OJ L 145, 13.06.1977, p. 1. Directive last amended by Directive 2001/4/CE (OJ L 22, 24.01.2001, p. 17; corrigendum published in OJ L 26, 27.01.2001, p. 40).

<sup>2</sup> Another report was to have been drawn up in 1999, but discussions in the Council concerning rates, especially on labour-intensive services, caused it to be postponed.

<sup>3</sup> This report does not go into the issues covered in COM(97) 559 because nothing has changed since that report was published. There will therefore be no discussion of special arrangements such as those applicable to works of art, collectors' items and antiques or the taxation of agricultural products other than those belonging to category 1 of Annex H (mainly cut flowers, ornamental foliage, bulbs, roots and similar products, firewood) nor of the rates applicable to gold, which are now covered by Directive 98/80/EEC of 12 October 1998. Nor will we be examining in depth the categories of Annex H covered by a chapter in the last report.

<sup>4</sup> Directive 2001/4/EC of 19 January 2001 amending the sixth Directive (77/388/EEC) on the common system of value added tax, with regard to the length of time during which the minimum standard rate is to be applied (OJ L 22, 24.01.2001, p. 17; corrigendum: OJ L 26, 27.01.2001, p. 40).

<sup>5</sup> Since the last Commission report the Council has adopted Directive 1999/49/EC of 25 May 1999 setting the standard rate of VAT to 31 December 2000 (OJ L 139, 2.6.1999, p. 27).

## **2.2. Provisions on reduced rates**

7. The third subparagraph of Article 12(3)(a) of the Sixth Directive allows Member States to apply one or two reduced rates. These reduced rates, which may not be lower than 5%, may be applied only to supplies of the categories of goods and services specified in Annex H to the Directive.
8. Article 12(3)(b) of the Sixth Directive also allows the Member States to apply a reduced rate to supplies of natural gas and electricity on two conditions: (a) that they notify the Commission and (b) that there is no risk of distortion of competition. Greece was allowed to do so by a Commission decision of 26 February 1999<sup>6</sup>.
9. Moreover, during the transition period provided for in Article 281 of the Sixth Directive, Article 28(2) governs the conditions permitting certain Member States, by way of exemption, to maintain various measures concerning reduced rates of VAT. These specific exemptions are ultimately destined to disappear from the Community system of VAT rates. They were granted to Member States at the time of the adoption of directives setting rates or accession negotiations. They concern either the application of reduced rates lower than the authorised 5% minimum (super-reduced rates), the maintenance of reduced rates for goods or services not covered by Annex H to the Sixth Directive or the application of a reduced rate no lower than 12% (the "parking" rate).

## **2.3. Reduced rate of VAT for labour-intensive services**

10. The European Council, in the conclusions of its extraordinary meeting on employment in Luxembourg in November 1997 and its Vienna meeting of December 1998, recommended examining the possibility of reducing the rate of VAT on labour-intensive services as a job-creation measure. The Council adopted Directive 1999/85/EC to this end on 22 October 1999<sup>7</sup>.
11. This Directive, which is mainly aimed at creating jobs and reducing the scale of the shadow economy, creates a legal framework allowing Member States wishing to do so to test the working and impact of a reduction in VAT on the labour-intensive services specified in a new Annex K<sup>8</sup>.
12. Member States wishing to introduce the measure had to inform the Commission before 1 November 1999. They were required to confine the experiment to no more than three of the categories of services listed in Annex K. The duration of this optional experiment was limited to three years, from 1 January 2000 to 31 December 2002.

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<sup>6</sup> Commission Decision 1999/200/EC of 26 February 1999 (OJ L 69, 16.3.1999, p. 17).

<sup>7</sup> Council Directive 1999/85/EC of 22 October 1999 amending Directive 77/388/EEC as regards the possibility of applying, on an experimental basis, a reduced VAT rate on labour-intensive services (OJ L 277, 28.10.1999, p. 34).

<sup>8</sup> Small services repairing bicycles, shoes and leather goods, clothing and household linen; renovation and repair of private dwellings; window cleaning and cleaning in private households; domestic care services; hairdressing.

13. Nine Member States submitted applications under this Directive. Seven chose the housing sector, four small repair services, four domestic care services, three hairdressing and two window- and household-cleaning services. These applications were the subject of a decision adopted by the Council on 28 February 2000<sup>9</sup>.

#### **2.4. Transitional arrangements granted to the Republic of Austria and the Portuguese Republic<sup>10</sup>**

14. The transitional arrangements accorded to Austria and Portugal in the matter of VAT rates have been extended.

15. Austria's Act of Accession authorised it to apply a reduced rate to the letting of immovable property for residential use until 31 December 1998<sup>11</sup>.

16. Austria argued that the derogation remained necessary because the move to the normal rate would have been inconsistent with its housing policy.

17. Prior to January 1991 Portugal applied a reduced rate to restaurant services, for which it obtained authorisation in 1992. Portugal subsequently abolished this measure, only to re-apply for it later. In 1996 it argued that maintaining the standard rate would have adverse effects. A new derogation was granted.

18. No complaints having been received, and there being little risk of distortion of competition, the Council, acting on a proposal from the Commission, granted the derogations requested on 30 March 2000, confining their application to the transitional period referred to in Article 28 of the Sixth Directive 77/388/EEC.

#### **2.5. Evolution in VAT rates applicable in the Member States**

19. Annex 1 describes the trend in VAT rates applicable in the Member States. When current rates are compared with those applicable in 1997, it is apparent that rates continue to vary considerably. The standard rates applied in the Member States range from 15% to 25% and reduced rates from 5% to 17%<sup>12</sup>. The average standard rate in the Community is about 19.5%, while the average reduced rate is just over 8%.

20. Moreover, six Member States (EL, E, F, IRL, I and LUX) continue to apply a reduced rate lower than the minimum laid down in Article 12(3) (a "super-reduced" rate) and three (B, IRL and LUX) still apply a reduced rate no lower than 12% (the "parking" rate). Five Member States (B, DK, I, SU and SV) also grant exemptions with refund of tax paid at the previous stage (zero rate) on a marginal and restricted basis. Only Ireland and the United Kingdom continue to make extensive use of this derogation.

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<sup>9</sup> Council Decision 2000/185/EC of 28 February 2000 authorising Member States to apply a reduced rate of VAT to certain labour-intensive services in accordance with the procedure provided for in Article 28(6) of Directive 77/388/EEC (OJ L 58, 4.3.2000, p. 10).

<sup>10</sup> Council Directive 2000/17/EC of 30 March 2000 amending Directive 77/388/EEC on the common system of value added tax - transitional provisions granted to the Republic of Austria and the Portuguese Republic (OJ L 84, 5.4.2000, p.24).

<sup>11</sup> Act of Accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Community (OJ C 241, 29.8.1994, p. 335).

<sup>12</sup> The 17% rate is applied by Finland to certain foodstuffs for the duration of a transition period. Otherwise the highest reduced rate applied in the Community is 12.5%.

### **3. VAT RATES AND THE WORKING OF THE SINGLE MARKET**

#### **3.1. Introduction**

21. Analysis of the current structure of VAT rates, and the scope of reduced rates in particular, reveals two factors which could obstruct the smooth working of the internal market and create distortions of competition: the discretionary or optional nature of the application of reduced rates and the lack of common definitions of the categories making up Annex H. The fragmented structure of rates is exacerbated by the above-mentioned derogations and Directive 1999/85/EC.
22. The link between the structure of VAT rates and the overall working of the single market does not necessarily call for rates to be altered under the transitional VAT system currently in force. It is, however, only fair to cite the views, some of them critical, received by the Commission on the subject.
23. Traders' objections concern the following aspects:
- a) the discretionary nature of the application of reduced rates;
  - b) the difference between reduced rates, which range from 5% to 14%, and super-reduced rates;
  - c) the lack of Community definitions of the categories of goods and services figuring in Annex H and the restrictive nature of the Annex;
  - d) the piecemeal application of reduced rates: Member States availing themselves of the option are not obliged to apply the reduced rate to all goods and services of the category or categories chosen;
  - e) the conflict between the principle of a single rate of VAT and the possibility of applying reduced rates: derogations from the principle should be explicitly worded and strictly applied<sup>13</sup>;
  - f) the complexity caused by the fact that some derogations are permanent and others transitional.

#### **3.2. Requests to extend the scope of reduced rates**

24. Although traders object to the optional nature of reduced rates, the lack of common definitions and the great divergences between rates, they are nevertheless behind a number of requests asking the Commission to propose additions to the list of goods and services in Annex H.
25. Requests for the extension of Annex H are generally based on the argument that a reduction in VAT rates will affect prices and increase competitiveness. However, pricing is free and subject to a number of factors (profit margins, brands, quality, packaging, etc.).

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<sup>13</sup> Thus Greece and Portugal had to be expressly authorised to apply different rates for the same goods and services in certain regions of their territory by the Approximation of VAT Rates Directive (92/77/EEC) and the Act of Accession respectively. Similarly, a special directive was required to allow a reduced rate for timber used as firewood (transitional measure under Article 28(2)(i)).

26. Taxation therefore has only an indirect effect on prices. Where, however, there is a significant difference between the standard rate and the reduced rate, switching from one to another can affect prices. But this is entirely dependent on whether traders pass on the difference to customers or content themselves with raising profit margins.
27. There is, however, a downside. Traders in Member States which do not apply a reduced rate see the reduced rates applied in other Member States as a distortion of competition.

### **3.3. Breakdown of requests by sector**

#### *3.3.1. Food, agriculture, hotel industries*

28. The food<sup>14</sup>, farming<sup>15</sup> and hotel industries figure in Annex H to the Sixth Directive and are therefore eligible for a reduced rate. The fact that only some Member States apply reduced rates means that rates for such products or services can vary from 3% to 25%, much to the dissatisfaction of traders in Member States which have not reduced rates. Disparities between neighbouring Member States in the application of reduced rates, the failure to harmonise the level of reduced rates and the optional nature of the provisions in the matter can increase the risk of fraud in respect of cross-border purchases. Since these sectors belong to categories 1, 10 and 11 of Annex H respectively, it is, however, for the Member States to decide whether to apply a reduced rate.

#### *3.3.2. Floriculture*

29. Cut flowers are covered by a transitional derogation currently applied by 11 of the 15 Member States. Flower growers' representatives have asked the Commission to include the sector in Annex H on the grounds that doing so would lead to greater harmonisation of reduced rates.

#### *3.3.3. Health*

30. Operators in this sector have asked the Commission about the definition of products "normally used for health care" and equipment "normally intended to alleviate or treat disability". A request has also been made for the inclusion of diagnostic products and materials ("medical devices"). Not being medicines, these products are not covered by category 3 of Annex H.
31. Questions have also been raised about the fact that category 3 covers sanitary protection products for women but not nappies for babies or the incontinent. Traders see the list as incomplete.

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<sup>14</sup> Most of the criticism has come from French representatives of biscuit, chocolate and confectionery manufactures. They maintain that their products are suffering distortions of competition in border areas. In Luxembourg, for example, such products are subject to a super-reduced rate. The Commission has received a comparable request concerning milk.

<sup>15</sup> There are problems between Austria and Italy concerning cross-border purchases of fertilisers and between Germany and Luxembourg concerning cross-border purchases of plant-protection products by flat-rate farmers who pay VAT on these products in their Member State of origin, as the special scheme allows them to do as long as they do not exceed the threshold laid down in Article 28a(1a)(b) of the Sixth Directive (see COM(94) 584 final for an examination of this issue).

32. The issue of the taxation of "whole blood" as opposed to blood products has also been raised. VAT treatment depends on the type of product. Whole blood is exempt under Article 13(A)(1)(d) of the Sixth Directive, and blood products considered medicines or pharmaceutical products are eligible for a reduced rate. On the other hand, labile blood derivatives, such as plasma and blood cells of human origin, are not considered medicinal products and are accordingly subject to the standard rate. This lack of uniformity in the VAT treatment of transactions involving blood undermines the principle of the tax's neutrality.
33. The Commission also regularly receives requests for reduced or zero rates for goods and services intended for the disabled, especially motor vehicles specially adapted to their needs. Such goods and services are not included in category 4 of Annex H, which covers only medical equipment, aids and other appliances normally intended to alleviate or treat disability.

#### 3.3.4. *Environment*

34. A number of requests have been made to apply reduced rates to various products with a view to protecting the environment. The objective is to provide tax incentives for environment-friendly or energy-saving products. The principal products concerned are those carrying the European ecolabel, electric vehicles, products permitting rational energy use and renewable energy sources or biomass.
35. The Commission has so far taken the view that granting such requests would breach the principle of a single rate, i.e. that identical goods or services may not be subject to different rates.
36. Member States may nevertheless apply a reduced rate to operations in category 9 of Annex H, which covers the supply, construction, renovation and alteration of housing provided as part of a social policy. Thus, any overall supply of services including construction materials, energy-saving products among them, used in the course of such operations, as defined by each Member State, is eligible for the reduced rate of VAT.
37. Requests concerning energy are aimed at promoting clean fuels. Yet energy is normally subject to the standard rate. A reduced rate may, however, be applied to gas and electricity as long as there is no risk of distortions of competition and Member States wishing to avail themselves of the option notify the Commission beforehand. There is also a transitional derogation allowing Member States to apply a reduced rate to supplies of firewood.
38. The Commission has received complaints from French firms running heating networks using renewable energy sources or recovered energy because such heat is not eligible for a reduced rate under Article 12(3)(b) of the Sixth Directive, which covers gas and electricity only.
39. Gas cylinders (butane and non-natural) are not eligible for a reduced rate either, although certain Member States would like to apply a reduced rate for, in the main, welfare reasons. These cases highlight conflicting objectives and raise the issue of whether economic and social considerations should take precedence over the environment.
40. Other applications have been made with a view to reducing pollution. They concern the recycling of products such as aluminium and, more generally, waste treatment and recycling. Annex H covers only the collection and treatment of household waste. Waste recycling, however, involves operations carried out by intermediaries that are not directly destined for the consumer. The level of the rate is therefore irrelevant because those involved are normally entitled to deduct all the tax billed to them.



### 3.3.5. *Culture*

41. In this sphere the Commission has received repeated requests concerning the application of a reduced rate to digital media, e.g. CDs, CD-ROMs and DVDs, together with cultural and audiovisual activities writ large<sup>16</sup>. These requests are based on the argument that these media should be eligible for a reduced rate on the same grounds as books and newspapers.
42. Were the application of a reduced rate to be considered, thought would also have to be given to whether the hardware needed to use these media was eligible for the same rate. It would also raise the question of whether other media, such as video cassettes, or fees for access to internet-style information networks should also be included. Any extension of the reduced rate would have to be based on a new approach, and it is likely that cultural and educational considerations would not in themselves constitute an easily applicable criterion.
43. There have also been requests for reduced rates for musical instruments and sheet-music.

### 3.3.6. *E-commerce*

44. On 6 July 1998 the Council decided that the supply of products in electronic form should be treated as a supply of services for VAT purposes. Such services, and in particular the online supply of digital goods to consumers in the Community, are currently subject to the standard rate applied by the Member State in which the service-provider is registered.
45. The question of whether different rates can be applied to goods and services that have the same content but are supplied in a different form came up during the preparation of the Commission proposal concerning the VAT arrangements applicable to certain services supplied by electronic means<sup>17</sup>. The most frequently cited examples are newspapers and books, which can be sold in either paper or electronic form.

### 3.3.7. *Labour-intensive services*

46. Some sectors have argued that Annex K should be extended to encompass them. The removal, security/cash collection and delivery, gardening and beauty-treatment sectors all believe that they meet the conditions for a reduced rate.
47. There have also been requests to extend the application of the reduced rate to building work, most of them from cultural and architectural heritage bodies, particularly in the United Kingdom. These requests concern the restoration and upkeep of historic buildings, and in particular churches. These bodies argue that such a measure is warranted not only by the social and cultural importance of the monuments but on economic grounds. However, the reduced rate applies only to services relating to housing.
48. The VAT treatment of building services is a textbook example of the complexity of the rules on reduced rates. In principle, under the first subparagraph of Article 12(3)(a) of the Sixth Directive, the standard rate applies to supplies of goods and services connected with buildings. However, the legal base for applying the reduced rate provides for three types of arrangement:

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<sup>16</sup> In the course of the recent consultations on the Commission's working document concerning certain legal aspects related to cinematographic and audiovisual works, many professionals called for a reduced rate for a range of audiovisual goods, services and activities.

<sup>17</sup> COM(2000) 349 final of 7 June 2000.

- The third subparagraph allows Member States wishing to do so to apply a reduced rate to operation covered by category 9 of Annex H, namely the supply, construction, renovation and alteration of housing provided as part of a social policy.
  - Article 28(2) allows, for the duration of a transition period and subject to certain conditions, certain Member States to apply to housing - not otherwise defined - either a reduced rate lower than the minimum fixed by the third subparagraph of Article 2(3)(a), one of the two reduced rates laid down in that Article or a reduced not lower than 12%.
  - Article 28(6) (introduced by the Directive on labour-intensive services) provides for the application of a reduced rate for a period of three years. That rate is not, however, confined to social housing, applying instead to the renovation and repair of private dwellings, excluding materials which form a significant part of the value of the supply.
49. Lastly, there have been several calls to apply the reduced rate for labour-intensive services to the restaurant sector. That sector is ineligible to benefit because it does not figure in Annex K. Note that the Commission's initial proposal left the Member States free to choose the sectors, provided they met the conditions laid down<sup>18</sup>. The Council, however, opted for a short and specific list.
50. Other requests have been made to add the sector to Annex H, in particular because of the divergent treatment of fast-food and other restaurant services. The sale of takeaway meals by fast-food outlets is seen as a sale of foodstuffs covered by category 1 of Annex H and therefore eligible for a reduced rate. Restaurants, however, offer a service not covered by that Annex.
51. The French restaurant trade has been particularly vociferous. It has also complained that the application of a reduced rate to restaurant services by other Member States - notably Spain - is distorting competition. Spain applies a reduced rate by virtue of a transitional derogation under Article 28(2) of the Sixth Directive.

#### **4. CONCLUSIONS**

52. The optional nature of the arrangements for reduced rates and the discretion left to Member States can lead to situations that threaten the principle of VAT's neutrality, situations which traders perceive as a source of distortions of competition. As this report indicates, there are a variety of options: whether to apply a reduced rate, whether to apply one or two reduced rates, whether to apply a reduced rate to one or all categories of Annex H, etc.
53. The content of the lists of goods and services eligible for reduced rates can be explained in a number of ways: categories are chosen according to the needs of the moment or the needs expressed by Member States in negotiations in the Council. Since they do not necessarily reflect an objective body of predetermined criteria, they can be somewhat inconsistent.
54. The lack of consistency can also be ascribed to the numerous derogations. These are rendered even more complex by the fact that they can be permanent or transitional. These disparities between Member States in the scope of reduced rates is the primary cause of the distortions complained of by traders. The forthcoming review of rates should therefore address the current structure of reduced rates, which lies at the root of these disparities.

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<sup>18</sup> COM(1999) 62 final of 17 February 1999.

55. In short, as the Commission explains in its communication on the new VAT strategy, the internal market would work better with a VAT system based on taxation in the Member State of origin. This would simplify administration - thereby reducing costs to business - and limit the scope for fraud - thereby offering greater guarantees of stable tax revenue.
56. However, conditions are not yet right for rapid progress towards intensive harmonisation of rates and legislation or towards the introduction of a revenue-reallocation mechanism recognised as being wholly reliable. There are therefore no plans to change rates while the new strategy is being implemented.
57. With a view to improving the working of the internal market in the short term, the Commission plans to draw up a viable strategy geared to four main objectives: the simplification and modernisation of existing rules, more uniform application of current arrangements and a new system of administrative cooperation.
58. Further harmonisation of rates is therefore conceivable only in the long term. However, an in-depth review of the rules governing reduced rates is planned for the medium term. To prepare this review effectively, it will be necessary to give some thought to the present structure of reduced rates, the source of most of the petitions to the Commission, to refrain from introducing new derogations and to consider the possibility of abolishing some or all current derogations when the time comes to review reduced rates.
59. The discussion on the review of reduced rates will offer an opportunity to examine operators' grievances. Although their objections are substantially similar to those cited in previous reports, they are increasingly claiming that they are unable to benefit from a genuine internal market. Special attention will have to be given to the various facilities and whether they should be maintained.
60. For the rest, the European Union has already achieved a high degree of economic integration, and progress made in the tax sphere has improved the working of the internal market. The constant development of the internal market is a process set to accelerate, especially with the introduction of the Euro. As a result the shortcomings in the internal market perceived by traders, especially in the tax sphere, and in particular those resulting from differences in VAT rates, are a factor that has to be taken into account.
61. Although there will be no immediate pressure to harmonise rates, the introduction of the Euro will bring unprecedented price transparency throughout the single market. This will demand greater coordination of VAT rates.
62. In these circumstances, the Commission does not intend to review Annex H before the end of the experiment introduced by the Directive on labour-intensive services. When the experiment ends the Commission will submit to the European Parliament and the Council an overall evaluation report based on the Member States' reports and propose, if need be, appropriate measures permitting a final decision to be taken on the VAT rate on labour-intensive services. As the period laid down for examining the results of the experience is relatively short, a one-year extension of the Directive in its current form will no doubt be considered to permit this issue to be settled as part of the wider review of the structure of reduced rates announced in the communication on the new VAT strategy<sup>19</sup>.

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<sup>19</sup> COM(2000) 348 final of 07.06.2000.

63. This communication also provides for careful consideration to be given to the issue of the rates applicable to virtual - as opposed to traditional - products and to the use of reduced rates of VAT as an instrument of Community policy in other areas (environment,<sup>20</sup> employment, culture, transport,<sup>21</sup> etc.).
64. This report should launch a debate in business circles and the Member States on the role of reduced rates, their effectiveness as an instrument of various Community or national policies and any improvements and rationalisation needed.
65. One option could be to establish a structure based on two reduced rates (possibly with a specific band for each category) applicable to individual lists of goods and services:
- a reduced rate near the current minimum of 5% for a shortlist of goods and services which are either basic necessities or fulfil a social objective (possibly mandatory, since the great majority of Member States already apply a reduced rate to such goods and services);
  - and a higher reduced rate applicable to a list of goods and services which, for historical reasons or for reasons of economic expediency, should also be the subject of differentiated treatment in relation to the goods and services subject to the standard rate or which fulfil other objectives.
66. In this context, the following factors should be borne in mind:
- a) the properties of VAT, and in particular the obligation to guarantee its neutrality;
  - b) the need to establish clear criteria for applying reduced rates;
  - c) the long-term objective of further harmonising rates and rationalising derogations.

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<sup>20</sup> See also the Green Paper on integrated product policy (COM(2001) 68 final).

<sup>21</sup> See White Paper "European transport policy for 2010: time to decide" (COM(2001) 370 final).

**ANNEX 1**  
**Evolution of VAT rates applied in the Member States**

MEMBER STATES AND DATES	REDUCED RATE	STANDARD RATE	INCREASED RATE <sup>22</sup>	PARKING RATE <sup>23</sup>
<b>Belgium</b>				
1/01/1971	6	18	25	14
1/01/1978	6	16	25	-
1/12/1980	6	16	25   25+5	-
1/07/1981	6	17	25   25+5	-
1/09/1981	6	17	25   25+8	-
1/03/1982	1   6	17	25   25+8	-
1/01/1983	1   6	19	25   25+8	17
1/04/1992	1   6   12	19.5	-	-
1/01/1994	1   6	20.5	-	12
1/01/1996	1   6	21	-	12
1/01/2000	6	21	-	12
<b>Denmark</b>				
3/07/1967	-	10	-	-
1/04/1968	-	12.5	-	-
29/06/1970	-	15	-	-
29/09/1975	9.25	15	-	-
1/03/1976	-	15	-	-
3/10/1977	-	18	-	-
1/10/1978	-	20.25	-	-
30/06/1980	-	22	-	-
1/01/1992	-	25	-	-
<b>Germany</b>				
1/01/1968	5	10	-	-
1/07/1968	5.5	11	-	-
1/01/1978	6	12	-	-
1/07/1979	6	13	-	-
1/07/1983	7	14	-	-
1/01/1993	7	15	-	-
1/04/1998	7	16	-	-
<b>Greece</b>				
1/01/1987	3   6	18	36	-
1/01/1988	3   6	16	36	-
28/04/1990	4   8	18	36	-
8/08/1992	4   8	18	-	-
<b>Spain</b>				
1/01/1986	6	12	33	-
1/01/1992	6	13	28	-
1/08/1992	6	15	28	-
1/01/1993	3   6	15	-	-
1/01/1995	4   7	16	-	-

<sup>22</sup> Abolished by Council Directive 92/77/EEC of 19 October 1992 (Article 1(4)).

<sup>23</sup> Introduced by Article 28(2)(e) of the Sixth Directive.

MEMBER STATES AND DATES	REDUCED RATE	STANDARD RATE	INCREASED RATE	PARKING RATE
<b>France</b>				
1/01/1968 <sup>24</sup>	6	16.66	20	13
1/12/1968	7	19	25	15
1/01/1970	7.5	23	33.33	17.6
1/01/1973	7	20	33.33	17.6
1/01/1977	7	17.6	33.33	-
1/07/1982 <sup>25</sup>	4   5.5   7	18.6	33.33	-
1/01/1986	4   5.5   7	18.6	33.33	-
1/07/1986	2.1   4   5.5   7   13	18.6	33.33	-
17/09/1987	2.1   4   5.5   7   13	18.6	33.33	28
1/12/1988	2.1   4   5.5   7   13	18.6	28	-
1/01/1989	2.1   5.5   13	18.6	28	-
8/09/1989	2.1   5.5   13	18.6	25   28	-
1/01/1990	2.1   5.5   13	18.6	25	-
13/09/1990	2.1   5.5   13	18.6	22	-
29/07/1991	2.1   5.5	18.6	22	-
1/01/1993	2.1   5.5	18.6	-	-
1/08/1995	2.1   5.5	20.6	-	-
1/04/2000	2.1   5.5	19.6	-	-
<b>Ireland</b>				
1/11/1972	1   5.26	16.37	30.26	11.11
3/09/1973	1   6.75	19.5	36.75	11.11
1/03/1976	10	20	35   40	-
1/03/1979	1   10	20	-	-
1/05/1980	1   10	25	-	-
1/09/1981	1.5   15	25	-	-
1/05/1982	1.8   18	30	-	-
1/03/1983	2.3   23	35	-	-
1/05/1983	2.3   5   18	23   35	-	-
1/07/1983	2   5   18	23   35	-	-
1/05/1984	2   5   8   18	23   35	-	-
1/03/1985	2.2   10	23	-	-
1/03/1986	2.4   10	25	-	-
1/05/1987	1.7   10	25	-	-
1/03/1988	1.4   5   10	25	-	-
1/03/1989	2   5   10	25	-	-
1/03/1990	2.3   10	23	-	-
1/03/1991	2.3   10   12.5	21	-	-
1/03/1992	2.7   10   12.5	21	-	16
1/03/1993	2.5   12.5	21	-	12.5
1/01/1996	2.8   12.5	21	-	12.5
1/03/1997	3.3   12.5	21	-	12.5
1/03/1998	3.6   12.5	21	-	12.5
1/03/1999	4   12.5	21	-	12.5
1/03/2000	4.2   12.5	21	-	12.5
1/01/2001	4.3   12.5	20	-	12.5

<sup>24</sup> Until 1.1.1970 VAT rates were applicable to a price including VAT. Since then VAT has been applied to the price before VAT.

<sup>25</sup> The 4% rate from 1.7.1982 to 1.1.1986 was provisional.

MEMBER STATES AND DATES	REDUCED RATE	STANDARD RATE	INCREASED RATE	PARKING RATE
<b>Italy</b>				
1/01/1973	6	12	18	-
1/01/1975	6	12	30	18
18/03/1976	6	12	30	18
10/05/1976	6   9	12	30	18
23/12/1976	1   3   6   9	12	30	18
8/02/1977	1   3   6   9   12	14	35	18
3/07/1980	2   8	15	35	18
1/11/1980	1   2   3   6   9   12	14	35	15   18
1/01/1981	2   8	15	35	18
5/08/1982	2   8   10   15	18	38	20
19/04/1984	2   8   10   15	18	30   38	20
20/12/1984	2   9	18	30	-
1/08/1988	2   9	19	38	-
1/01/1989	4   9	19	38	-
13/05/1991	4   9   12	19	38	-
1/01/1993	4   9	19	-	12
1/01/1994	4   9	19	-	13
24/02/1995	4   10	19	-	16
1/10/1997	4   10	20	-	-
<b>Luxembourg</b>				
1/01/1970	4	8	-	-
1/01/1971	2   5	10	-	-
1/07/1983	3   6	12	-	-
1/01/1992	3   6	15	-	-
1/10/1992	3   6	15	-	12
<b>Netherlands</b>				
1/01/1969	4	12	-	-
1/01/1971	4	14	-	-
1/01/1973	4	16	-	-
1/01/1976	4	18	-	-
1/01/1984	5	19	-	-
1/10/1986	6	20	-	-
1/01/1989	6	18.5	-	-
1/10/1992	6	17.5	-	-
1/01/2001	6	19	-	-
<b>Austria</b>				
1/01/1973	8	16	-	-
1/01/1976	8	18	-	-
1/01/1978	8	18	-	30
1/01/1981	13   8	18	-	30
1/01/1984	10	20	-	32
1/01/1992	10	20	-	-
1/01/1995	12   10	20	-	-
<b>Portugal</b>				
1/01/1986	8	16	30	-
1/02/1988	8	17	30	-
24/03/1992 <sup>26</sup>	5	16	30	-
1/01/1995	5	17	-	-
1/07/1996	5   12	17	-	-

<sup>26</sup> Portugal abolished the zero rate on 24 March 1992. All goods and services that were previously zero-rated are now subject to a rate of 5%.

<b>MEMBER STATES AND DATES</b>	<b>REDUCED RATE</b>	<b>STANDARD RATE</b>	<b>INCREASED RATE</b>	<b>PARKING RATE</b>
<b>Finland</b>				
1/06/1994	12   5	22	-	-
1/01/1995	17   12   6	22	-	-
1/01/1998	17   8	22	-	-
<b>Sweden</b>				
1/01/1969	6.38   2.04	11.11	-	-
1/01/1971	9.89   3.09	17.65	-	-
1/06/1977	11.43   3.54	20.63	-	-
8/09/1980	12.87   3.95	23.46	-	-
16/11/1981	11.88   3.67	21.51	-	-
1/01/1983	12.87   3.95	23.46	-	-
1/07/1990	13.64   4.17	23.46	-	25
1/01/1992	18	25	-	-
1/01/1993	18	25	-	-
1/07/1993	21   12	25	-	-
1/01/1996	6   12	25	-	-
<b>United Kingdom</b>				
1/04/1973	-	10	-	-
29/07/1974	-	8	-	-
18/11/1974	-	8	25	-
12/04/1976	-	8	12.5	-
18/06/1979	-	15	-	-
1/04/1991	-	17.5	-	-
1/04/1994	-	17.5	-	8
1/01/1995	8	17.5	-	-
1/09/1997	5	17.5	-	-



**ANNEX 2**

**Rates applied by Member States to the categories of goods and services figuring in Annex H to the Sixth VAT Directive**

*0 = zero rate (exemption with refund of tax paid); [ex] = exempt*

Category	B	DK	D	EL	E	F	IRL	I	L	NL	A	PT	FIN	S	UK
1 Foodstuffs	6 12 21	25	7 16	8	4 7	5.5 19.6	0 12.5 20	4 10	3	6	10	5 12 17	17	12 25	0
2 Water supplies	6	25	7	8	7	5.5	[ex]	10	3	6 19	10	5	22	25	0 17.5
3 Pharmaceutical products	6 21	25	16	8 18	4 16	5.5 19.6	0	10 20	3 15	6 19	20	5 17	8	25 0	0 5 17.5
4 Medical equipment for the disabled	6 21	25	7	8	7	5.5	0	4 20	3	19	20	17	22 [ex]	25 [ex]	0
5 Transport of passengers (+ see No VI)	6 0 [ex]	[ex] 0	7 16	8	7	5.5	[ex]	10 [ex]	[ex] 3	[ex] 6	10	5	8	6 0	0
6 Books, newspapers, periodicals	6 0/6 0/6	25 0/25 25	7 7 7	4 4 4	4 4 4	5.5/19.6 2.1/19.6 2.1/19.6	0 12.5 12.5	4 4 4	3 3 3	6 6 6	10 10 10	5 5 5	8 0/22 0/22	25 6 [ex]/25	0 0 0
7 Shows, ... Radio and television	[ex] 6 21	25	[ex] 7 16	[ex] 4 8 18	[ex] <sup>(1)</sup> 7 16	2.1 5.5 19.6	[ex] 12.5 20	4 10 20	3 15 [ex]	6 19	[ex] 10	[ex] 5 17	8 8	6 25 [ex]	17.5
8 Writers, composers, ...	6 21 [ex]	[ex]	7	8	7	5.5	20	[ex] 20	3	19 [ex]	20 10	17 [ex]	[ex]	6	17.5

(1) provided by public-law bodies or other welfare bodies recognised by the Member State concerned

0 = zero rate (exemption with refund of tax paid); [ex] = exempt

Category	B	DK	D	EL	E	F	IRL	I	L	NL	A	PT	FIN	S	UK
9 Social housing	6	25	16 7	8	4	5.5 19.6	12.5	4 10	3 15	19	20	[ex] 5	22	25 [ex]	17.5 0
10 Agricultural inputs	6 12 21	25	7	8	7	5.5	12.5	4 10 20	3	6	20 10	5	22 17	25	17.5
11 Hotel	6 [ex]	25	16	8	7	5.5	12.5	10	3	6	10	5	8	12	17.5
12 Sporting events	6 [ex]	[ex] 25	16	8	7 16	19.6	[ex]	10 20	3 [ex]	6	20	5	8 [ex]	[ex] 6	17.5
13 Use of sports facilities	6 [ex]	[ex] 25	[ex]	8	[ex] 16	19.6	12.5	20	3	19 6 [ex]	20 [ex]	5	8	6 [ex]	[ex] 17.5
14 Welfare charities	6 21 [ex]	25	7	8	7	19.6	[ex]	[ex] 4 10 20	3 15 [ex]	19	0 10	17 [ex]	[ex]	[ex] 25	[ex]
15 Undertaking services	6	[ex]	16	8	7 16	19.6	20 [ex]	20	3	[ex]	20	[ex]	[ex]	[ex]	[ex]
16 Medical and dental care	6 21 [ex]	[ex]	7 [ex]	8	7	19.6 5.5	[ex] 20	[ex]	3 [ex]	[ex] 19	10 [ex]	[ex] 5	[ex]	[ex]	[ex]
17 Street cleaning, etc.	21	25	[ex] 16	8	7	19.6 5.5	[ex] 20	10	3	19 [ex]	10	[ex] 5	22	25	0 17.5

### ANNEX 3

#### Rates applied by Member States to the categories of labour-intensive services contained in Annex K to the Sixth VAT Directive

ANNEX K	B	DK	D	EL	E	F	IRL	I	L	NL	A	PT	FIN	S	UK
<b>List of supplies of services referred to in Article 28(6)</b>															
<b>1. Small repair services:</b>															
a) Bicycles	6	25	16	18	16	19.6	12.5	20	6	6	20	17	22	25	17.5
b) Shoes and leather goods	6	25	16	18	16	19.6	12.5	20	6	6	20	17	22	25	17.5
c) Clothing and household linen (including mending and alteration)	6	25	16	8	16	19.6	12.5	20	6	6	20	17	22	25	17.5
<b>2. Renovation and repair of private dwellings</b> (excluding materials which form a significant part of the value of the supply)	6 <sup>27</sup>	25	16	18	7 <sup>28</sup>	5.5 <sup>29</sup>	12.5	10	15	6 <sup>30</sup>	20	5	22	25	5 <sup>31</sup>
<b>3. Window cleaning and cleaning in private households</b>	21	25	16	18	16	5.5	12.5	20	6	19	20	17	22	25	17.5
<b>4. Domestic care services</b> (e.g. home help and care of the young, elderly, sick or disabled).	21	25	16	8	16	5.5	[ex]	10	15	19	20	5	22	25	17.5
<b>5. Hairdressing</b>	21	25	16	18	7	19.6	12.5	20	6	6	20	17	22	25	17.5

<sup>27</sup> Renovation and repair of private dwellings more than five years' old.

<sup>28</sup> Masonry work to repair private dwellings.

<sup>29</sup> Renovation and repairs to private dwellings completed more than two years earlier.

<sup>30</sup> Painting and plastering for the renovation and repair of private dwellings more than 15 years' old.

<sup>31</sup> Only on the Isle of Man.