EUROPEAN COMMISSION

Brussels, 04 SEP. 2009
C/2009/6650

Dear Mr President,

I wish to thank you for your letter of 6 May 2009 by which you have sent us the Italian Chamber of Deputies' Opinion on the Proposal for a Council Directive amending Directive 2006/112/EC as regards reduced rates of value added tax {COM(2008)428}.

In line with the Commission's decision to encourage national parliament to react to its proposals to improve the process of policy formulation, we welcome this opportunity to respond to your comments. I enclose the Commission's response. I hope you will find this a valuable contribution to your own deliberations.

While looking forward to continuing this fruitful exchange of information I remain,

Yours sincerely,

Margot WALLSTRÖM
Vice-President of the European Commission

Mr Gianfranco FINI
President of the Chamber of Deputies
Italy

EUROPEAN COMMISSION

Brussels, August 2009

COMMENTS OF THE EUROPEAN COMMISSION ON AN OPINION FROM THE ITALIAN CHAMBER OF DEPUTIES

COM(2008)428 - PROPOSAL FOR A COUNCIL DIRECTIVE AMENDING DIRECTIVE 2006/112/EC AS REGARDS REDUCED RATES OF VALUE ADDED TAX (VAT)

The European Commission would like to thank the Italian Chamber of Deputies for having examined and discussed the proposal for a Council Directive amending Directive 2006/112/EC as regards reduced rates of VAT (hereafter "the proposal") and for having provided its opinion.

The European Commission appreciates the support and favourable evaluation expressed by the Italian Chamber of Deputies, and in particular concerning the elimination of legal and economic uncertainty; the importance of the proposal for SMEs; and the effort to re-organise the Community reduced rates framework.

The European Commission has noted the further comments made by the Italian Chamber of Deputies, in particular regarding the fact that the political agreement of 10 March 2009 of the ECOFIN Council restricts the scope of the Commission's proposal to certain labour-intensive services, restaurant services, and books on any physical (including non-paper) support, and it expressly rules out the possibility of applying reduced rates of VAT to other categories of goods and services covered in the original proposal.

Moreover, the Italian Chamber of Deputies considers that it appears inconsistent with the objective, set out in the European Economic Recovery Plan, of extending the applicability of reduced rates of VAT to services supplied by European SMEs in order to encourage the recovery of growth and employment. It is also in direct conflict with the objectives established in the European Small Business Act and does not appear favourable to Italy, given the high number of SMEs in Italy. Finally, the abandonment of the attempt to rationalise reduced rates of VAT and the introduction of new derogations for individual Member States is also addressed.

These comments relate to the political agreement reached by the Council on the 10th March 2009, concerning reduced VAT rates, which followed a thorough discussion in the Council on the overall system of reduced VAT rates. In this respect, the European Commission would like to stress that this agreement is the result of difficult negotiations in the Council and it respects a fragile equilibrium of Member States' interests in the politically sensitive area of reduced VAT rates.

In this context, certain Member States agreed to the compromise, in the spirit of solidarity, even if they did not agree that reduced VAT rates are an efficient policy tool for, for example, job creation. Those Member States clearly stated that they do not wish to make use of the extended scope of reduced VAT rates. They called on other Member States to show similar restraint in the application of reduced rates in order to avoid contagious effects, and insisted that any future decision on reduced VAT rates should have the objective of reducing the overall scope for reduced rates. A number of Member States clearly rejected any further extension of the scope of reduced rates, implying no new unanimous agreement in the Council in the near future.

On 5 May, the Council formally adopted Directive 2009/47/EC[1] which translates the political agreement of 10 March 2009 into a legal text.

The European Commission also regrets that not all local labour-intensive services it proposed to be eligible for reduced rates were included in the text. On the other hand, in view of the political context in the area of reduced rates, the European Commission welcomes the agreement reached as a realistic approach which certainly avoids a stalemate at European level in this area. Although the content of the last mentioned Directive is narrower than its original proposal, the European Commission shares the view – especially in the context of the current economic crisis - that it is essential that Member States have at least the option to apply reduced rates of VAT to targeted sectors defined in this Directive.

All Member States will now *inter alia* have the option to apply reduced VAT rates, on a permanent basis, to a large part of the housing sector and restaurant and catering services. This has the potential to safeguard and create jobs, boost the activity for SMEs and reduce the black economy. It is an additional tool for Member States agreed at European level in their search for economic recovery and in particular for SMEs.

Considering that the Directive 2009/47/CE has been unanimously adopted by the Council, the Honourable Members of the Parliament will certainly understand that the European Commission is not in a position to further comment on the political agreement preceding this Directive or to justify its content.

As regards the rationalisation of the Community reduced rates framework and the introduction of new derogations, the European Commission again refers to the fragile equilibrium and reconciliation of Member States' interests to achieve agreement. However, as a matter of principle, the European Commission is not in favour of new derogations and zero rates and will continue to strive for rationalisation while allowing flexibility for Member States where the functioning of the internal market is not jeopardized.

---

[1] OJ L 116, 09.05.2009, p.18