



EUROPEAN COMMISSION

Brussels, 30/06/2009  
C/2009/5197

Dear Secretary General,

I wish to thank you for sending us the resolution approved by the Committee of Finances and Treasure of the Senate of the Italian Republic on a proposal for a Directive of the Council to modify Directive 2006/112/CE as regards reduced rates of value added tax {COM(2008)428}.

In line with the Commission's decision to encourage National Parliaments 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,

Yours sincerely

Margot WALLSTRÖM  
Vice-President of the European Commission

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Dott. Antonio Malaschini  
Segretario Generale  
Senato della Repubblica  
Piazza Madama  
00186 Roma



Brussels, June 2009

## **COMMENTS OF THE EUROPEAN COMMISSION ON A RESOLUTION FROM THE SENATE OF THE ITALIAN REPUBLIC**

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

The European Commission would like to thank the Italian Senate 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 a resolution and opinion on the proposal.

This responds to the invitation by the Commission to national parliaments to react to all new proposals and consultation papers so as to improve the process of policy formulation<sup>1</sup>.

The Commission appreciates the support and favourable evaluation expressed by the Italian Senate as regards the proposal, and in particular concerning the following points:

- the compliance of the proposal with the principles of subsidiarity and proportionality;
- the insertion of labour-intensive services (specifically, services connected with the housing sector including modernisation and repair work designed to increase energy savings and efficiency, domestic care, and restaurant and catering services in the scope of reduced rates of VAT);
- the adaptation of the provisions on reduced rates of VAT to technological progress, so making them applicable to all absorbent hygiene products and to audio books, CDs, CD-ROMs and any physical media that predominantly reproduce the same information contained in printed books.

With respect to the suggestions made by the Sixth Standing Committee (Finance and the Treasury) of the Italian Senate, the Commission would like to make the following comments.

On the suggested addition of the specification concerning the use of materials and construction techniques designed to save energy and to increase the use of automated home management technologies (home automation) to the categories relating to the building sector, the Commission would like to point out that these categories include transactions aimed at energy saving and home automation. The installation of these

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<sup>1</sup> [COM (2006) 211]

equipments and use of these techniques could be covered in the proposal either by the category concerning "supply and construction of housing" or by the category related to "supply of services consisting in the renovation, repair, alteration, maintenance and cleaning of housing, and of places of worship and of cultural heritage and historical monuments recognised by the Member State concerned".

Moreover, since reduced VAT rates are the exception in the VAT Community legislation, Member States may limit the scope of application of a reduced rate within a certain category eligible for reduced rates provided the principle of fiscal neutrality is respected. This enables each Member State wishing to apply a reduced rate of VAT to define its scope on its territory in accordance with its budgetary, socio-economic and other policy objectives.

Furthermore, the Sixth Standing Committee suggests that consideration be given to including among the operations subject to the reduced rate the supply of goods and services for public works carried out by local bodies or administrative entities with limited territorial jurisdiction where the total value does not require European tendering procedures and so are compatible with the rules for safeguarding competition.

Finally, it also suggests giving consideration in the future to extending the reduced rate to media that reproduce music or film as well, which will also help to combat piracy and increase copyright protection.

The Commission has noted these suggestions made by the Committee. The Commission would like to recall the narrow scope of the proposal which mainly concentrates on allowing reduced rates for local services, for sectors for which an element of urgency (precise deadlines in the current legislation) is present and/or where sufficient elements are available to correctly assess the impact of applying a VAT reduced rate.

In the light of the above, the issues mentioned by the Committee would need to be reflected on in the framework of a possible future review of the Community legislation on reduced rates of VAT which will have to incorporate rationalisation and simplification of the current rules. Additionally, in any debate on reduced VAT rates the question is to be raised whether VAT reductions are the most effective and efficient tool to achieve policy objectives.

In this respect, the Commission would like to point out that, before the adoption of the resolution and opinion at issue, in the 2931st meeting of the Council Economic and Financial Affairs, Brussels (ECOFIN) held on 10 March 2009 the EU Ministers of Finance reached a unanimous political agreement on the use of reduced rates of VAT in general and in certain sectors in particular<sup>2</sup>. In order to clearly demonstrate the political consensus between Member States on the use of reduced rates, the Commission considers it worth mentioning the relevant items of the agreement.

"The December 2008 European Council requested the Council (ECOFIN) to settle, by March 2009, the issue of: "the possibility, for the member states that so wish, of applying reduced VAT rates in certain sectors".

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<sup>2</sup> See document 7048/09 (Presse 54) – Press release of the 2931st meeting of the Council ECOFIN of 10.03.2009 - [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/106576.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/106576.pdf)

The Council (ECOFIN) had a thorough discussion on the overall system of reduced VAT rates, as a result of which it acknowledged that reduced VAT rates may, depending on the circumstances, have positive and negative economic effects, so that more efficient alternative solutions should always be considered before a member state decides to use the option to apply reduced VAT rates and reached political agreement :that all Member States, by amending Directive 2006/112/EC, should have the option to apply reduced VAT rates on a permanent basis to:

- (1) Without prejudice to ANNEX III of directive 2006/112/EC services in Annex IV of directive 2006/112/EC
  - minor repairing of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);
  - window-cleaning and cleaning in private households;
  - domestic care services such as home help and care of young, elderly, sick or disabled;
  - hairdressing;
  - renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied.
- (2) Restaurant services;
- (3) Books on all physical means of support;

and that all the other items of the 2008 Commission proposal shall not be eligible for a reduced VAT rate."

The Council (ECOFIN) also took note, in line with the outcome of relevant economic studies evaluating the impact of reduced VAT rates for environmental reasons, that reduced VAT rates as a tool for achieving environmental policy objectives are relevant only to a certain extent.

Further, in the statements in the Council Minutes 8 Member States declared not to wish to make use of the extended scope of reduced VAT rates and called on other Member States to show similar restraint; they also underlined that any future decision on reduced rates should reduce the overall scope for reduced VAT rates.

On 5 May, the Council adopted Directive 2009/47/EC (OJ L 116, 09.05.2009, p.18) which translates the political agreement of 10 March 2009 into a legal text.

Although the content of this Directive is narrower than its original proposal, the Commission shares the view – especially in the context of the current economic crisis - that it is essential that Member States have the option to apply reduced rates of VAT targeted to the sectors defined in this Directive.