



*President
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*Chairman
Standing Committee on
Foreign and European Affairs*

4 November 2019

H.E Jean-Claude Juncker
President
European Commission

Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC as regards rates of value added tax, Com (2018) 20.

The Committee understands that in its Proposal, which forms part of the Fair Taxation package, the European Commission aims at implementing a definitive VAT system for the supply of goods between Member States based on the destination principle, rather than the principle of origin which currently applies.

This proposal allows Member States to apply a maximum of two reduced rates of a minimum of 5%. In order to enable each Member State to continue applying the rates currently in place whilst ensuring equal treatment, they will also be allowed to apply one reduced rate for which no minimum of 5% is required and an exemption with the right to deduct input VAT.

The proposal introduces a new "negative" list which includes, inter alia, weapons, alcohol, electrical appliances, gambling and tobacco products, on which such reduced rates cannot be applied. Member States will have to ensure that the weighted average rate of VAT is always greater than 12%.

The Foreign and European Affairs Committee, after taking into consideration the proposals included in the abovementioned Proposal:

1. Notes that the above-mentioned draft legislative act does not breach the principle of subsidiarity;
2. Acknowledges that taxation at destination would grant Member States more flexibility in setting VAT rates;
3. Remarks that in another proposal related to the Definitive VAT System, Malta will not be able to continue applying a VAT exemption without deductibility on water supplied by a public body (currently applied by way of Article 387 of the VAT Directive).
4. Believes that all currently existing reduced rates, including derogations, legally applied in Member States should be maintained;

5. Expresses reservations about the mechanism for a minimum Weighted Average VAT Rate (WAR) of 12%, proposed in Article 99a of the proposal, since it does not provide flexibility, especially in times of crisis;
6. Notes that any variations resulting from the categories on which reduced rates and exemptions already apply, before the coming into force of the Definitive System, should not be included into the equation to establish the WAR level;
7. Believes that Article 103 should be retained and that the application of a reduced VAT rate on importation of works of art, collectors' items and antiques should also remain, since this reduced rate serves to increase the European Cultural Heritage, by encouraging the importation of masterpieces of art and collections that are presently outside the EU;
8. Remarks that any revisions to the VAT system should improve its legal certainty and not make it more complex or result in increased costs for businesses; and
9. Urges the European Commission to take into consideration the above concerns.



Dr Manwel Mallia

Standing Committee on Foreign and European Affairs

House of Representatives

Malta