



EUROPEAN BUILDERS CONFEDERATION

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REPLY

EN

8th May 2008

EBC Reply to the European Commission Consultation paper “Review of existing legislation on VAT reduced rates”

Established in 1990, the European Builders Confederation - E.B.C. - is a European professional organisation representing national associations of Craftsmen and SMEs working in the construction sector. Through its national members, E.B.C. represents 600,000 micro, small and medium sized enterprises from the construction sector employing 2.5 million workers. The European construction sector is composed at about 99% of Small and Medium-sized Enterprises (SMEs), who produce 78% of the construction industries output. The small enterprises (less than 50 employees) ensure 60% of the production and employ 70% of the sectors working population.

QUESTIONS SUBMITTED TO THE PUBLIC AND ALL PARTIES INTERESTED

8.1. In the context of the first limited Commission proposal 2008

Locally supplied services including labour intensive services

1) Regarding the application of reduced rates for labour-intensive services, locally supplied services, the housing sector and restaurants, what kind of effects, if any, have you experienced? Do you have any figures regarding the impact on prices, demand, employment, administrative or compliance costs for business, environment or any other effect?

The application of reduced VAT rates to maintenance and renovation of private dwellings has been for more than 10 years now a priority for the European Builders Confederation and its member organisations representing crafts and SMEs in the construction sector.

In the EU Member States where this measure has been implemented and evaluated, it has been a success in terms of job-creation and fight against undeclared work (see comments below).

Today 18 Member States have chosen to apply reduced VAT rates to labour-intensive services and 14 to maintenance and renovation of private dwellings.

Unfortunately, we do not have figures for each of those Member States applying reduced VAT rates, but there is no doubt that reverting to a normal VAT rate for renovation and maintenance work on housing – the traditional activities of craftsmen and SMEs of the construction sector – would lead to several hundreds of thousands of job losses all over Europe and would dramatically encourage undeclared work.

FRANCE

A study carried out in France by the ‘Institut Plus Consultants’ in May 2005 indicated that reduced VAT rates applied to renovation and maintenance of private dwellings have been responsible for increasing turnover and creating jobs since the introduction of the experiment in 1999. The results of the study revealed:

- Turnover increased by 2 billion euro (7%) in the sector under the reduced rates

- 53,000 new jobs have been created since 1999 in the building sector and related sectors
- 66,000 jobs would be lost if reduced VAT rate measures were ended

If the measure were repealed in 2006 one can expect a loss of 66.000 jobs. This would be about 25% more than jobs created as a result of the measure. This result which is linked to the asymmetric character of employment in relation to the variation of activity was easily identified through the analysis of historical data.

The study also indicated that the scheme has resulted in 500 million euro net public profit, disproving arguments that claim the scheme is very costly to public finances. Loss of tax income due to the VAT rate reduction has been more than compensated by income resulting from job creation (unemployment fees decrease, social income increase), new tax income (higher turnover, company tax income and general tax income) and the withdrawal of former tax assistance for building repairs.

Study available in French and English on EBC website at the following link :
http://www.ebuilders.org/news.asp?ID=vat_1_en

According to the evaluation reports provided by governments in 2002, the impact of reduced VAT rates on the construction sector have been identified as follows:

BELGIUM

Activity covered: renovation, refurbishment and repair works in private dwellings older than 5 years

According to the Belgian government, the measure met the objectives as to growth in both turnover and employment. Growth rates in the activities covered were well above general growth. The scheme should therefore be renewed.

ITALY

Italy also presents positive results. It is estimated that the reduced VAT rate led to the emergence of about 35,000 enterprises, many of which were working in the shadow economy before. The number of new jobs directly attributable to this scheme is estimated to be between 65,000 and 75,000.

PORTUGAL

Renovation, refurbishment and repair of existing private dwellings

Only a limited number of enterprises used this opportunity. However, those who did enjoyed a 20-25 % growth in the period covered. This is well above the average and should have created jobs accordingly.

SPAIN

Renovation, refurbishment and repair of existing private dwellings (masonry)

It is possible that this scheme helped to maintain the income of construction enterprises in an increasingly difficult economic environment.

In spite of the economic slowdown, the number of registered enterprises increased significantly in 2000. This might indicate that certain enterprises left the shadow economy.

UK (Isle of Man)

From the Isle of Man's perspective, the experiment has been successful in achieving its aims of creating employment and reducing the size of the shadow economy. All concerned have expressed the desire to continue with the regime and for it to become a permanent feature.

Link between Undeclared Work and VAT

EBC had welcomed the results of the study commissioned by the European Commission and published in July 2007 on the impact of reduced VAT rates. The study states that for specific applications in certain locally provided services reduced VAT rates help to fight undeclared work and do-it-yourself activities, whilst increasing the use of the 'formal economy'.

Furthermore, a special Eurobarometer dedicated to "Undeclared Work in the European Union" and published by the European Commission in October 2007, has shown very interesting results:

The total share of citizens involved in undeclared work as purchases – either of goods or services – amounts to 11% of the population (and 9% for services only).

The country with the highest share of citizens stating that they have acquired undeclared services or goods is Denmark (27%), followed by the Netherlands (27%) and Latvia (24%).

On the supply side, the total share of citizens who say they have done undeclared work – paid either with money or 'in kind' – amounts to 5%. The share of respondents is again the highest in Denmark (18%), followed by Latvia (15%) and the Netherlands (13%).

Among the services most frequently acquired undeclared, construction services have been mentioned in the third place, and by 16% of respondents.

The vast majority (66%) of those who buy goods or services stemming from undeclared work do so because of lower prices.

EBC Comments:

VAT rates as such were not mentioned in the questionnaire among the potential causes of undeclared work (a more general question was about the influence of taxes and/or social security contributions). However, we would like to stress that Denmark has the highest level of VAT rate (25%) among the Member States and does not apply any reduced VAT rates. It might be a coincidence. But it might also explain the high frequency of undeclared activities in this country.

2) Have you encountered problems with the application of different VAT rates, within your Member State or other Member States where you are not established? If so, which?

We have not been informed of any problem of this kind by our member organisations.

3) Does the current differentiation of VAT reduced rates restrict the potential development of your economic activity in other Member States? Explain why?

We have not been informed of any problem of this kind by our member organisations.

4) Do you see any possible problems for the functioning of the internal market? Have you experienced problems of this kind?

We have not been informed of any problem of this kind by our member organisations.

5) What is your view on the reasoning developed under chapters 3 to 6 regarding labour intensive services, locally supplied services, housing and restaurants and the possible extension of the possibility to apply reduced rates to all these services?

EBC shares the views of the Commission that maintenance and renovation of private dwellings are by their very nature not only labour-intensive; they are largely provided directly to final consumers, mainly locally, and the possibility for Member States to apply reduced rates to these services would be unlikely to distort competition in the internal market.

The case-file on a reduced VAT rate has been a priority for EBC and its member organisations for more than 10 years. Indeed, in September 1997, the EBC President had submitted the idea of a reduced VAT rate to the European Commissioner in charge of taxation, Mario Monti, in order to promote job-creation and to fight black-economy construction work.

In 1999 the European Council allowed a 3-year experimental application of a reduced VAT rate to labour-intensive services. This temporary provision was prolonged 3 times and is now valid until the end of 2010. Each extension required long and difficult discussions between Member States due to the unanimity rule governing taxation issues.

The positive impact on this measure has been demonstrated and no distortion of competition in the internal market has been observed.

18 Member States out of 27 have decided to apply reduced VAT rates to labour-intensive services.

It is now time to make this temporary provision a permanent one.

About the extension of the labour-intensive-services list to the whole housing sector, EBC points out that all construction works are locally supplied and are under the VAT regime of the Member State where the building is located. Therefore, different VAT rates among Member States have no incidence on the functioning of the internal market.

We do not see any reason why the Commission would not allow Member States to apply reduced VAT rates to the whole housing sector and to construction works in general.

6) Are there any additional arguments in favour or against the measure of reduced rates in this respect?

Reduced VAT rates applied to the maintenance and renovation of private dwellings have also contributed to the preservation, modernisation and improvement of existing residential buildings, including the energy efficiency of buildings.

7) Are you aware of specific cross-border distortions in trade due to the different VAT rates applied in two different Member States to restaurant services? Do you have any information on the impact of reduced VAT rates in this sector on the behaviour of the consumers? For instance, does a reduced VAT rate applied to restaurant services influence the choice of a holiday package or travel destination in general?

8) Concerning the housing sector, is it advisable to keep a reduced rate limited only to housing which is part of a social policy when there is no uniform definition of what that policy is in the EU? What do you understand by social policy in that sector, and would you be able to suggest a definition?

This question is ambiguous as it would limit the application of reduced VAT rates to 'social' housing, whereas they are currently – and should be permanently - applied to the maintenance and renovation of private dwellings.

According to the subsidiarity principle, EBC considers that it is important to leave it up to Member States to decide on their social housing policy and to define what they consider as social housing.

9) What would, in your view, constitute locally supplied services as envisaged in chapter 4, i.e. where the internal market is not affected? What concrete services could correspond to this notion of locally supplied services?

All construction works are locally supplied services.

10) Are you aware of domestic distortions between similar types of services or even between different sectors due to the application of a reduced VAT rates? Does a reduced VAT applied in a sector have a direct or indirect impact on other sectors not subject to reduced rates?

We have not been informed of any problem of this kind by our member organisations.

Other issues

11) Do you have other comments or suggestions in relation to chapter 7? There might be a need

for a modification of the list of categories of goods and products to which reduced rates may be applied in the Member States (Annex III to the VAT Directive) for technical reasons and for the sake of clarity. Do you agree with the cases already identified? Do you have any other suggestions which you could justify?

8.2. In the context of a more global revision of the reduced rates scope

Environmentally friendly and energy-saving goods/services

12) In your view, what are the relevant arguments either in favour or against applying reduced VAT rates to environmentally friendly products (such as water saving appliances), energy efficient products (such as computers, cars, white goods consuming substantially less energy than other similar goods) or energy saving goods (such as solar panels, specific IT equipment)? Which – necessary – criteria to differentiate products/services would you recommend? What kind of goods/services should be eligible for reduced rates in these cases?
Energy products

As part of the EU policy to fight climate change and to promote energy saving, VAT reduced rates could be extending to those construction works (and incorporated products) that contribute to the energy efficiency of buildings: heating and electricity, installation of renewable energy equipments, thermal insulation, etc.

13) What is your opinion on the reduced rate currently allowed for electricity and natural gas? Do you consider they create distortions of competition with other energy products, such as heating oil?

14) What is your view on the removal of reduced rates on some energy products? Indeed, a reduced VAT rate on energy will have the incentive of generating more consumption whilst, at the same time, a decrease of such consumption is sought by promoting energy saving

materials and energy efficient products.

Deletion from the list of certain categories currently eligible for a reduced rate

15) Should some reduced rates currently in force be abolished where they concern environmentally damaging products (such as chemical fertilizers, pesticides etc. see Annex 2)?

16) Would you recommend adding or deleting any other item to or from the list of goods and services eligible for a reduced VAT rate under EU VAT legislation? Why?
Efficiency and effectiveness of reduced VAT rates

17) The main purpose of VAT is to enable Member States to raise revenue and allocate these according to the budgetary and fiscal policies chosen. Also, reduced VAT rates are considered to be ill-targeted, e.g. a reduced rate on electricity might benefit the central heating of a house but would also benefit the heating of a luxurious swimming pool – wealthier final consumers benefit just as much as the target group of the less wealthy. Many economists therefore consider more targeted direct aids to final consumers with low revenue (e.g.: specific allowance for children's education, a specific rebate for heating or to have housing insulation installed, etc.) a superior instrument. What is your view on this?

18) There is an economic school of thought which advocates, in general terms, the shift from direct taxation to indirect taxation as a major source of finance for state budgets and as a means to create a more employment-friendly tax system. Would you, in this context, agree that lowering labour taxation and social costs while at the same time increasing indirect taxation will help promote growth and create jobs? Would you accept that, generally speaking, reducing VAT rates runs against this policy approach? Even if such a general policy were not pursued, would you consider that targeted reductions of social contributions, direct taxes, etc. would be a more suitable or even better tool than reduced VAT rates? Please substantiate your answers.

Other issues

19) Are you aware of distortion of competition due to the VAT rate differences in the field of reception of information, depending on the technical means of reception (radio and television broadcasting services or internet connection)?