

EBC position on Commission proposals 2018/0005 (CNS) regarding rates of value added tax

About EBC

Established in 1990, the **European Builders Confederation (EBC)** is a European professional organisation representing national associations of micro, small and medium-sized enterprises working in the construction sector. EBC is a member and partner of UEAPME, the European association of SMEs, and Small Business Standards (SBS), the European association representing SMEs in standardisation.

The construction sector is of vital importance to the European economy. With 3.4 million enterprises and a total direct workforce of 18 million, the construction sector contributes at around 9% to the GDP of the European Union. 99.9% of the European construction sector is composed of micro, small and medium-sized enterprises, which produce 80% of the construction industry's output.

Reduced VAT rates should be accompanied by better information and coherence

On 18 January 2018 the European Commission presented the awaited third part of its value added tax (VAT) package. The draft guidelines on VAT rates include the following new/adapted elements:

- In addition to the two reduced rates with a minimum of 5%, which Member States can already apply, the proposal allows an additional super-reduced rate of below 5% and a VAT exemption.
- As a prerequisite for all reduced rates and exemptions, Member States need to ensure that reduced and zero rates benefit the final consumer and pursue an objective of general interest.
- A weighted average VAT rate of at least 12% is introduced in order to avoid unfair competition.
- A new Annex IIIa outlines a negative list of goods and services, to which reduced or zero rates cannot be applied.

Reduced VAT rates have been a priority for EBC and its member organisations since 1997, when EBC was amongst the promoters of a reduced VAT rates campaign. Since 1999 reduced VAT rates apply to labour-intensive services in the construction sector (first in a trial period and since 2009 on a permanent basis) such as provision, construction, renovation and alteration of housing, as part of social policy.

Given this, **EBC supports reduced rates and encourages further Member States to make use of them in order to renovate the building stock in the European Union.** However, it is important to keep in mind that a large diversity of VAT rates can lead to higher administrative burdens and compliance costs for SMEs, which needs to be avoided. This is especially true for construction SMEs engaging in border regions.

Furthermore EBC backs the new Annex IIIa, outlining a negative list of goods and services, to which reduced or zero rates cannot be applied, because it avoids uncertainty and increases consistency in the application of reduced VAT rates.

In order to limit complexity for enterprises and specifically construction SMEs that engage in cross-border activities, **the European Commission should publish the information it receives from Member States about applied reduced rates in all 24 languages and not just in English in the existing “Taxes in Europe” database (TEDB web portal) or a potentially new database.** Construction SMEs often struggle to fully

comprehend English which is necessary to completely rely and understand the published information. In addition, EBC facilitates that the database, upon request, informs companies automatically on changes of rates in other countries. This would avoid that rates have to be checked continuously for each new invoice and decrease red-tape.

EBC furthermore urges the European Commission to clarify the provision stating that reduced VAT rates and exemptions “shall only benefit the final consumer and shall be applied to pursue, in a consistent manner, an objective of general interest”. At this point it remains unclear what exactly is meant by both, the term final consumer and by the term to pursue an objective of general interest. Especially in the former case it makes a big difference whether the term only stands for a private person purchasing goods and/or services for personal use or also e.g. companies as final consumers.

Within this frame EBC recommends a further harmonisation of VAT rates and obligations between Member States, because it would stimulate cross-border work of SMEs and strongly reduce administrative burdens for enterprises engaging in more than one country. Thus, **EBC encourages the Member States to work towards a harmonisation of VAT rates and obligations in the near future and in this way drive a further integration of the internal market.**

Recommendations

- **Ensure that a large diversity of VAT rates does not lead to higher administrative burdens and compliance costs for SMEs by translating the existing “Taxes in Europe” or a potentially new database in 24 languages and add an automatic service that, upon request, informs on changes of rates in other countries.**
- **Clarify that a single VAT rate – reduced or normal – should apply independently if the buyer is a private person or a company.**