



Business Support on Your Doorstep

## New EU-wide legislation for the use of reduced VAT rates



A European Commission directive focused on the optional use of reduced rates of value-added tax (VAT) for certain labour-intensive local services, including restaurant services, for which there is no risk of unfair competition between service providers in different member states, has been adopted on a permanent basis.

The optional use of reduced VAT rates in certain sectors is one of the actions identified by the economic recovery plan approved by the European Council back in December 2008.

Reduced rates on labour-intensive local services have so far only been allowed on a temporary basis.

Under previous legislation, Member States were required to apply a minimum 15% standard rate to almost all goods and services with one or two exceptions permitted to receive reduced VAT rates at a minimum level of 5%.

The provision for Member States to take a flexible approach to the application of reduced VAT rates is a consequence of a meeting by EU leaders at the European Council in 2008, aimed at tackling the current economic downturn.

Further to the potential fiscal benefit of such a move, the Commission also recognises the opportunity for the creation of long-term and sustainable jobs for low-skilled workers in sectors to which reduced VAT rates could be applied.

Article continued overleaf...



Under the newly adopted/amended VAT directive, member states may apply reduced VAT rates, on a permanent basis, to:

- **Labour-intensive local services** (including):

- Minor repairs 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 the young, elderly, sick or disabled;
- Hairdressing;
- The renovation and repair of private dwellings, excluding materials which account for a significant part of the value of the service supplied;

- **Restaurant and catering services.**

- **Books.** The new rules will be extended to include all broader definitions of books such as 'audio books' or any physical support that reproduces the same information content as printed books.

Should the UK choose to apply reduced VAT rates to any of the aforementioned goods and services this will involve the amending of national legislation. Details of any future changes to VAT rates will be available on the HMRC website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

For more details concerning this and all other items of EU VAT legislation and directives visit the European Commission's dedicated website for VAT & Customs at [http://ec.europa.eu/taxation\\_customs/index\\_en.htm](http://ec.europa.eu/taxation_customs/index_en.htm) or alternatively contact **Enterprise Europe Network (Midlands)** on **0121 455 0268** or by email at [een@birminghamchamber.org.uk](mailto:een@birminghamchamber.org.uk)