


Procedure file

Basic information	
COS - Procedure on a strategy paper (historic) 1996/2157(COS)	Procedure completed
Common system of VAT: a programme for the single market	
Subject 2.70.02 Indirect taxation, VAT, excise duties	

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs, Industrial Policy	PSE RANDZIO-PLATH Christa	09/10/1996
Council of the European Union	Committee for opinion	Rapporteur for opinion	Appointed
	JURI Legal Affairs, Citizens' Rights	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	1960	11/11/1996
	Economic and Financial Affairs ECOFIN	1954	14/10/1996

Key events			
22/07/1996	Non-legislative basic document published	COM(1996)0328	Summary
05/09/1996	Committee referral announced in Parliament		
14/10/1996	Debate in Council	1954	
11/11/1996	Debate in Council	1960	
22/04/1997	Vote in committee		Summary
22/04/1997	Committee report tabled for plenary	A4-0164/1997	
10/06/1997	Debate in Parliament		
10/06/1997	Decision by Parliament	T4-0287/1997	Summary
10/06/1997	End of procedure in Parliament		
30/06/1997	Final act published in Official Journal		

Technical information	
Procedure reference	1996/2157(COS)

Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper
Legal basis	Rules of Procedure EP 142
Stage reached in procedure	Procedure completed
Committee dossier	ECON/4/08138

Documentation gateway

Non-legislative basic document		COM(1996)0328	22/07/1996	EC	Summary
Committee report tabled for plenary, single reading		A4-0164/1997 OJ C 167 02.06.1997, p. 0003	22/04/1997	EP	
Text adopted by Parliament, single reading		T4-0287/1997 OJ C 200 30.06.1997, p. 0017-0041	10/06/1997	EP	Summary
Economic and Social Committee: opinion, report		CES0774/1997 OJ C 296 29.09.1997, p. 0051	09/07/1997	ESC	Summary

Common system of VAT: a programme for the single market

OBJECTIVE: the Commission communication sets out the work programme it intends to follow in order to shift over to a new common system of VAT, which will be based on taxation in the country of origin of the goods. **SUBSTANCE :** the Commission believes that the present VAT system can be made to function more effectively but cannot be fundamentally changed. The creation of a unified European tax area, a vital element of the single market, is only possible through a complete recasting of the system. The new system envisaged would include the following elements : - reducing to only two the number of tax systems (intra-Community transactions and transactions with third countries); - registration and taxation of operators at a single place, whether for transactions within the operator's country or for intra-Community transactions; - so that Member States can receive the VAT revenue which is rightly theirs, the Commission proposes a mechanism based on a quantification of consumption by means of statistics (and not on the tax returns of taxable persons); - finally, to ensure the neutrality of VAT vis-à-vis the conditions of competition, a very large degree of harmonization is essential: as far as the standard rate is concerned, an approximation within a two-point band could prove sufficient, though a single rate would be a much better solution; as regards the reduced rates, only a small number of rates is compatible with the objective of simplifying the tax. The draft work programme leading to the new common system of VAT would be based on five steps: 1. before 31 December 1996: in addition to the proposal on the standard rate of VAT (15- 25%) which is already on the Council table, the Council will put forward proposals changing the status of the VAT Committee, improving the arrangements on mutual assistance on recovery, and a programme to establish a new spirit of administrative cooperation. 2. mid-1996 : presentation of the Communication on the broad lines of the new common system of VAT envisaged and the work programme. 3. mid-1997: the Commission will present its proposals concerning the broad general principles governing the operation of VAT and its essential features: determination of the physical scope of VAT (including the precise definition of taxable transactions); definition of the concept of the taxable person for VAT purposes; determination of the taxable amount for taxable transactions; maintenance, abolition and harmonization of exemptions; the right to deduct. Late 1997, the Commission will propose a second round in the approximation of Member States' VAT rates. 4. mid-1998 : the Commission will present proposals relating to: definition of the territorial scope of VAT; the place of taxation for transactions; Community-wide organization of the control of taxable persons. 5. late 1998/mid-1999: the Commission will present proposals relating to: the machinery for allocating the tax revenue; special schemes (abolition, harmonization); transitional measures. Finally, mid-1999, the Commission will present its proposals relating to the final round in the harmonization of rates. ?

Common system of VAT: a programme for the single market

Following a very narrow vote, the Committee adopted a report by Christa RANDZIO-PLATH (PES, D), endorsing the Commission's work programme for the creation of a common system of VAT. Although the Committee in principle supported the move to a system based on taxation in the country of origin, it underlined that this is not an opportune time to do so. For one thing, the Committee considered it politically difficult to narrow or widen the current band of standard tax rates, something that might be necessary. Furthermore, the Committee held, the move to a definitive system is a very long process, but the problems of the current system are of such a magnitude that they must be remedied urgently. Thus, the Committee called on the Commission to devote all its energy to improving the current, transitional system. In addition, the Committee requested that the Commission to put forward a proposal for amending Directive 92/77/EC in order to introduce reduced tax rates for certain labour-intensive services.?

Common system of VAT: a programme for the single market

When it adopted the report by Mrs Christa RANDZIO-PLATH (PPE, D), the European Parliament took the view that the introduction of a definitive VAT system based on the principle of taxation in the country of origin, while possessing some potential advantages, would be a long process. It therefore called on the Commission to submit proposals which could be implemented without too much difficulty within the framework of a provisional system. It called on the Commission to submit its initial proposals for its programme designed to modernize and

ensure the more uniform application of the current system of VAT with a view to remedying some of its shortcomings and to creating favourable conditions for the transition to the definitive system. The new VAT system must continue to be fiscally neutral so as to prevent distortion of competition. There must be no reduction in tax revenue in the Member States, and the system must prevent any shifts of revenue among the Member States. Parliament also emphasized the need to select VAT rates which made the tax socially fair and had a positive impact on employment and that an ecological tax reform must be supported. While deeming it politically difficult to widen or to narrow the current band of standard VAT rates, Parliament believed that it was essential to maintain the zero rate, to fix the reduced rate at 5% and for there to be a binding definition of all transactions falling into that category. It called for: - the application of the reduced rate or a zero rate to objects and services: - the improvement of the tax status of welfare organizations in the Union; - the application of the zero rate to the transactions of the medical professions and hospitals, to transactions carried out by social insurance funds and by welfare organizations recognized in the Member States and to transactions concerning social security, education, training and sport. Finally, having called for the introduction of a system of penalties for breaches of law that are uniform in nature and scale, Parliament called for the principle of majority decision-making on indirect tax issues to be introduced in the Council of Ministers. ?

Common system of VAT: a programme for the single market

The ESC considers that the timetable set by the Commission is unrealistic and that full implementation of the work programme will require a more extended timescale than that envisaged. The Committee welcomes the Commission's initiative and agrees in principle with the broad concept of its work programme. It has some reservations about how certain detailed concepts would work in practice and would urge the Commission to address these issues in consultation with the social partners and other interested bodies before bringing forward legislative proposals but criticisms of specific aspects should not be interpreted as calling into question the main thrust of the plan. ?