


# Procedure file

Basic information		
CNS - Consultation procedure Directive	1999/0056(CNS)	Procedure completed
Value added tax VAT: reduced rate on labour-intensive services (amend. Directive 77/388/EEC)		
Subject 2.70.02 Indirect taxation, VAT, excise duties 4.15 Employment policy, action to combat unemployment		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs, Industrial Policy		23/02/1999
		PPE <a href="#">THYSSEN Marianne</a>	
Council of the European Union	Council configuration	Meeting	Date
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2245</a>	28/02/2000
	Social Affairs	<a href="#">2208</a>	22/10/1999
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2205</a>	08/10/1999
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2196</a>	12/07/1999
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2181</a>	25/05/1999
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2167</a>	15/03/1999
European Commission	Commission DG	Commissioner	
	<a href="#">Taxation and Customs Union</a>		

Key events			
17/02/1999	Legislative proposal published	COM(1999)0062	Summary
15/03/1999	Debate in Council	<a href="#">2167</a>	
12/04/1999	Committee referral announced in Parliament		
21/04/1999	Vote in committee		
21/04/1999	Committee report tabled for plenary, 1st reading/single reading	<a href="#">A4-0207/1999</a>	
03/05/1999	Debate in Parliament		
04/05/1999	Decision by Parliament	T4-0381/1999	Summary
25/05/1999	Debate in Council	<a href="#">2181</a>	

12/07/1999	Debate in Council	<a href="#">2196</a>	
22/10/1999	Act adopted by Council after consultation of Parliament		
22/10/1999	End of procedure in Parliament		
28/10/1999	Final act published in Official Journal		

### Technical information

Procedure reference	1999/0056(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
Legal basis	EC Treaty (after Amsterdam) EC 093; Rules of Procedure EP 050
Stage reached in procedure	Procedure completed
Committee dossier	ECON/4/10871

### Documentation gateway

Legislative proposal		<a href="#">COM(1999)0062</a> <a href="#">OJ C 102 13.04.1999, p. 0010</a>	17/02/1999	EC	Summary
Committee report tabled for plenary, 1st reading/single reading		<a href="#">A4-0207/1999</a> <a href="#">OJ C 279 01.10.1999, p. 0006</a>	21/04/1999	EP	
Text adopted by Parliament, 1st reading/single reading		T4-0381/1999 <a href="#">OJ C 279 01.10.1999, p. 0025-0105</a>	04/05/1999	EP	Summary
Economic and Social Committee: opinion, report		<a href="#">CES0555/1999</a> <a href="#">OJ C 209 22.07.1999, p. 0020</a>	26/05/1999	ESC	
Follow-up document		<a href="#">COM(2003)0309</a>	02/06/2003	EC	Summary
Follow-up document		SEC(2003)0622	02/06/2003	EC	

### Additional information

European Commission	<a href="#">EUR-Lex</a>
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### Final act

<a href="#">Directive 1999/85</a> <a href="#">OJ L 277 28.10.1999, p. 0034</a> Summary
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## Value added tax VAT: reduced rate on labour-intensive services (amend. Directive 77/388/EEC)

**PURPOSE:** allowing possible application on an experimental basis of a reduced VAT rate on labour-intensive services. **CONTENT:** this proposal for a directive is designed to amend the sixth VAT directive (77/388/EEC) by introducing an authorisation procedure by the Council, acting unanimously, for those Member States wishing to apply a reduced rate for certain local labour-intensive services. In view of this measure's experimental nature, it should be restricted for Member States to a fixed three-year period beginning on 01/01/2000 and ending on 31/12/2002 so that it can be assessed and the appropriate arrangements made. It should also be made subject to strict conditions to ensure that it remains verifiable and limited. To this end, the proposal: - lists the conditions that services must meet in order to qualify for a rate reduction; - spells out in detail the authorisation procedure set in place and the information to be provided by the Member States wishing to introduce the measure; - provides for the Commission to propose appropriate measures to the Council in the event of distortions of competition coming to light during the experiment; - requires those Member States which implement the measure to draw up a detailed report on its operation and its impact on employment.?

## Value added tax VAT: reduced rate on labour-intensive services (amend. Directive 77/388/EEC)

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Under consultation procedure, the European Parliament adopted the report by Marianne Thyssen (PPE,BE), which approves the Commission proposal for a Council directive amending directive 77/388/EEC as regards the possibility of applying on an experimental basis a reduced VAT rate on labour-intensive services, subject to amendments, notably in the following areas: - noting that the proposed reduced VAT rate may, above all, have a favourable effect on the employment of semi- and unskilled workers, thus complying with one of the objectives of the employment guidelines and may also have a favourable effect on the protection of the environment; - providing that Member States' detailed assessment of the impact of the proposed reduced VAT rate should take account of its role as a disincentive for undeclared work and the undeclared economy, should at least contain specific information on the effect of the application of the reduced VAT rate on prices, private consumption, employment in each sector and the government's budget deficit and should be followed, no later than 31/12/2002, by a comparative report by the Commission on these Member States' reports in order to draw up sound conclusions and where appropriate, to promote the exchange of information and diffusion of best practices; - providing that the Commission's report shall also contain details of a proposal for the appropriate measures for definitive arrangements for the VAT rate for labour-intensive services; - providing that, no later than 31/12/2002, the Commission shall also forward a global evaluation report to the Council and the European Parliament accompanied, if necessary, by a proposal for appropriate measures for a final decision on the VAT rate applicable to labour-intensive services. - providing that the Council's authorisation of the application of the reduced rates by any Member State between 01/01/2000 and 31/12/2002 will be undertaken by qualified majority, rather than unanimity.?

## Value added tax VAT: reduced rate on labour-intensive services (amend. Directive 77/388/EEC)

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PURPOSE : to introduce on an experimental basis a reduced rate of VAT on labour-intensive services. COMMUNITY MEASURE : Council Directive 1999/85/EC amending Directive 77/388/EEC. CONTENT : the Directive provides that the Council, ruling by unanimity, can authorise a Member State to apply a reduced rate of VAT to certain local highly labour-intensive services, over a maximum period of 3 years running from 01.01.2000 to 31.12.2002. The services concerned are as follows : small repair services (bikes, shoes and leather articles, clothes and household linen); renovation and repair of private accommodation, excluding materials which represent an important part of the value of the service supplied; window washing and cleaning of private accommodation; domestic health services (eg: children, old people, ill or handicapped), and hairdressing. The services in question must fulfil the following conditions: they have to be highly labour-intensive, to be largely directly supplied to the final consumer and be principally local and unlikely to create distortions of competition. Lastly, there must be a direct link between the drop in price resulting from the reduced rate and a clear increase in demand for labour. In this respect, the Directive requires Member States that have applied such a measure to draw up a detailed report on its operation and its impact on employment. From 31.12.2002, the Commission will draw up an overall evaluation report and will propose, if necessary, a definite regulation on the rate of VAT applicable to labour-intensive services. ENTRY INTO FORCE : 28/10/1999.?

## Value added tax VAT: reduced rate on labour-intensive services (amend. Directive 77/388/EEC)

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PURPOSE : Assessment of an experimental application of a reduced rate of VAT to labour-intensive services. CONTENT : In 1998 the Council invited the Member States to experiment with a reduced rate of VAT on labour intensive services, which are not exposed to cross-border competition. The aim being to assess what impact, if any, such a policy would have on overall job creation. The labour intensive services covered included the repair of bicycles, shoe and leather goods and of clothing and household linen. Also included were renovation and repair of private dwellings, window cleaning, domestic care services and hairdressing. A total of nine countries took part in the experiment. In July 2002 a preparatory meeting was held between the Commission and the Member States to assess the results of the experiment. This Communication investigates and reports on the conclusions of that meeting. The results of the experiment would seem to vindicate the Commission's long-standing view that a reduced VAT rate has little or no impact on job creation. The Commission's assessment is based on the following conclusions. Firstly, the link between VAT reduction and job creation is not a direct one. When they conducted price surveys, Member States discovered that reduced VAT rates did not necessarily translate into reduced consumer prices. Instead, part of the VAT reduction was used to increase the margins of the service providers. In other words the reduced VAT rate acted as a subsidy for a particular sector. Secondly, the measure could only have an impact on firms, which already have legal status. Not those operating partly out of the black economy. With part of the work being done illicitly it is difficult to assess the impact the black economy will have on job creation. Thirdly, in certain cases, (though most notably that of bicycle repair), service providers refused to apply the reduced rate, arguing that the measure was too complex. Fourthly, the experiment took place at a time of economic growth and stability and at a time when there was a downward trend in unemployment. Thus, the possible effects of the VAT reduction were subsumed beneath the overall effect of economic growth. Fifthly, when some sectors actively tried to recruit more staff they encountered difficulty with recruitment. Thus, rather than employing more staff they resorted to over-time. To conclude, the Commission suggests that reducing VAT rates is not the most effective means to generate greater employment. According to Commission calculations, a reduction in labour charges creates 52% more jobs than a reduction in VAT rates in relation to the cost to the budget. Lastly, the Commission remains unconvinced that the experiment had any impact on reducing black market activity. To conclude therefore, the Commission recommends that the best way forward is to concentrate on the objectives of the new VAT strategy, namely to modernise the common system of VAT, simplify it, strengthen it and apply it in a more uniform fashion.?