












Procedure file

Basic information		
CNS - Consultation procedure Directive	2018/0005(CNS)	Awaiting final decision
Rates of value added tax		
Amending Directive 2006/112/EC	2004/0079(CNS)	
Subject	2.70.02 Indirect taxation, VAT, excise duties	

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 Economic and Monetary Affairs	 BELKA Marek	25/01/2022
		Shadow rapporteur	
		 FERBER Markus	
		 CHASTEL Olivier	
		 BECK Gunnar	
		 MOŹDŹANOWSKA Andželika Anna	
		 MACMANUS Chris	
	Former committee responsible		
	 Economic and Monetary Affairs		23/01/2018
	Former committee for opinion		
	 Legal Affairs	The committee decided not to give an opinion.	
Council of the European Union			
European Commission	Commission DG Taxation and Customs Union	Commissioner MOSCOVICI Pierre	

Key events			
18/01/2018	Legislative proposal published	COM(2018)0020	Summary
08/02/2018	Committee referral announced in Parliament		
03/09/2018	Vote in committee		
06/09/2018	Committee report tabled for plenary, 1st reading/single reading	A8-0279/2018	Summary

02/10/2018	Debate in Parliament		
03/10/2018	Results of vote in Parliament		
03/10/2018	Decision by Parliament	T8-0371/2018	Summary
09/12/2021	Formal reconsultation of Parliament		
09/12/2021	Amended legislative proposal for reconsultation published	14754/2021	Summary
28/02/2022	Vote in committee		
02/03/2022	Committee report tabled for plenary, reconsultation	A9-0036/2022	
09/03/2022	Decision by Parliament	T9-0061/2022	Summary
06/04/2022	Final act published in Official Journal		

Technical information

Procedure reference	2018/0005(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Directive
	Amending Directive 2006/112/EC 2004/0079(CNS)
Legal basis	Treaty on the Functioning of the EU TFEU 113
Other legal basis	Rules of Procedure EP 159
Stage reached in procedure	Awaiting final decision
Committee dossier	ECON/9/07952; ECON/8/12106

Documentation gateway

Legislative proposal	COM(2018)0020	18/01/2018	EC	Summary
Document attached to the procedure	SWD(2018)0007	18/01/2018	EC	
Document attached to the procedure	SWD(2018)0008	18/01/2018	EC	
Committee draft report	PE621.118	02/05/2018	EP	
Amendments tabled in committee	PE622.094	07/06/2018	EP	
Committee report tabled for plenary, 1st reading/single reading	A8-0279/2018	06/09/2018	EP	Summary
Text adopted by Parliament, 1st reading/single reading	T8-0371/2018	03/10/2018	EP	Summary
Commission response to text adopted in plenary	SP(2018)755	21/11/2018	EC	
Amended legislative proposal for reconsultation	14754/2021	09/12/2021	CSL	Summary
Committee draft report	PE719.571	23/02/2022	EP	
Committee final report tabled for plenary, reconsultation	A9-0036/2022	02/03/2022	EP	
Text adopted by Parliament after reconsultation	T9-0061/2022	09/03/2022	EP	Summary

Additional information

Research document

[Briefing](#)

Final act

Directive 2022/542
OJ L 107 06.04.2022, p. 0001

Rates of value added tax

PURPOSE: to grant Member States greater flexibility in setting value-added tax (VAT) rates.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow the opinion of the European Parliament.

BACKGROUND: the rules on VAT rates as currently contained in the VAT Directive ([Council Directive 2006/112/EC](#)) were designed more than two decades ago and based on the original principle.

In its [2016 VAT Action Plan](#), the Commission proposed to replace the current transitional arrangements for the taxation of trade between Member States by definitive arrangements based on the principle of taxation in the Member State of destination in order to create a robust single European VAT area.

At the same time the Commission announced that taxation at destination would allow to grant Member States more flexibility in setting VAT rates and that all currently existing reduced rates, including derogations, legally applied in Member States should be maintained and could be made available to all Member States, ensuring equal treatment.

The current initiative is part of the Fair Taxation package for the creation of a single EU value added tax area (VAT). The package includes two proposals to modify the VAT Directive, one as regards the [definitive VAT system](#) for cross-border trade and one adopted together with this initiative as regards [small enterprises](#), and a proposal for a Council Regulation on [combating fraud](#) in the field of VAT.

IMPACT ASSESSMENT: the preferred option would address the issue of derogations by removing the constraints that created the need for such derogations, namely the list of goods and services to which reduced VAT rates can be applied (Annex III) and the 5% minimum for additional reduced rates.

CONTENT: the proposed amendment to the VAT Directive provides for greater flexibility for the Member States to benefit from reduced and zero rates as they existed in other Member States.

The proposal allows Member States, in addition to the two reduced rates of a minimum of five percent and an exemption with deductibility of the VAT paid at the preceding stage currently allowed, to apply another reduced rate between 5% and 0%.

Member States will have to respect that those reduced rates and the exemption must be for the benefit of the final consumer and must be in the general interest.

The list of goods and services eligible for reduced VAT rates (Annex III) would be deleted and replaced by a new negative list of products (Annex IIIa) at which the standard rate of 15% or a higher rate would still be applied.

Moreover, Member States shall ensure that the weighted average VAT rate applied to those transactions for which VAT cannot be deducted always exceeds 12%.

By 31 December 2026 and every five years thereafter, the Commission shall submit to the Council a report on the scope of Annex IIIa, accompanied by any proposals to amend that Annex, where necessary.

Rates of value added tax

The Committee on Economic and Monetary Affairs adopted, following the consultation procedure, the report by Tibor SZANYI (S&D, HU) on the proposal for a Council directive amending Directive 2006/112/EC as regards rates of value added tax.

The proposal to amend the VAT Directive provides for greater flexibility for Member States to benefit from reduced or zero rates in force in other Member States. It allows Member States to apply a maximum of two reduced rates of a minimum of 5%.

Member States may, in addition to the two reduced rates, apply a rate lower than the minimum of 5% and an exemption with deductibility of the VAT paid at the preceding stage.

The committee responsible recommended that the European Parliament approve the Commission proposal subject to the following amendments:

Standard VAT rate: Members considered that the standard rate shall permanently remain at least 15 % and shall not exceed 25 %.

General interest: Members stressed reduced rates and exemptions applied shall benefit the final consumer and shall be applied to pursue, in a consistent manner, an objective of general interest. Priority shall be given to goods or services having a positive impact on the general interest,

such as cultural, social or environmental benefits. They stressed that Member States should avoid using reduced VAT rates for harmful or luxury products.

Members also considered allowing Member States to apply reduced rates, including reduced rates without a minimum threshold, to printed publications and electronic publications to ensure the transfer of economic benefits to consumers, thereby promoting reading, and to publishers, thereby encouraging investment in new content and, in the case of newspapers and magazines, should reduce reliance on advertising.

In addition, it shall be possible to apply reduced VAT rates to publications in adapted formats and audio formats intended to facilitate access to books, newspapers and periodicals for people with a visual impairment.

Web portal: it is proposed that the Commission, in cooperation with the Member States, shall establish a comprehensive, multilingual and publicly accessible Union VAT Web Information Portal on which businesses and consumers can quickly and effectively obtain accurate information on VAT rates.

Negative list of products (Annex IIIa): Members proposed adding pacemakers and hearing aids to the list of supplies of goods and services in the Annex. The Commission shall be empowered to amend the scope of Annex IIIa by means of an implementing act, when necessary and provided there is evidence related to distortion of competition justifying the update of the list of supplies of goods and services.

By 31 December 2021 and every two years thereafter, the Commission shall submit to the European Parliament and the Council a report on the scope of Annex IIIa, accompanied by any proposals to amend that Annex, where necessary.

Rates of value added tax

The European Parliament adopted a legislative resolution by 536 votes to 87, with 41 abstentions, under a special legislative procedure (consultation) on the proposal for a Council directive amending Directive 2006/112/EC as regards rates of value added tax.

The proposal to amend the VAT Directive provides for greater flexibility for Member States to benefit from reduced or zero rates in force in other Member States. It allows Member States to apply a maximum of two reduced rates of a minimum of 5%. Member States may, in addition to the two reduced rates, apply a rate lower than the minimum of 5% and an exemption with deductibility of the VAT paid at the preceding stage.

Parliament approved the Commission proposal subject to the following amendments:

Towards convergence of VAT rates: Members stressed that under a definitive system where the supply of goods and services would be taxed in the Member State of destination, it should be possible to grant a certain degree of flexibility to Member States in setting rates. However, Member States should not ignore the objective of ensuring greater convergence of VAT rates.

Standard VAT rate: Parliament considered that the standard rate shall permanently remain at least 15 % and shall not exceed 25 %.

General interest: if reduced rates and exemptions benefit the final consumer and be applied to pursue, in a consistent manner, an objective of general interest, priority shall be given to goods or services having a positive impact on the general interest, such as cultural, social or environmental benefits. Members stressed that Member States should avoid using reduced VAT rates for harmful or luxury products.

Parliament also considered allowing Member States to apply reduced rates, including reduced rates without a minimum threshold, to printed publications and electronic publications to ensure the transfer of economic benefits to consumers, thereby promoting reading, and to publishers, thereby encouraging investment in new content and, in the case of newspapers and magazines, should reduce reliance on advertising.

In addition, it shall be possible to apply reduced VAT rates to publications in adapted formats and audio formats intended to facilitate access to books, newspapers and periodicals for people with a visual impairment.

Web information portal: with particular attention to the needs of SMEs engaged in cross-border business activities in the Union and in order to facilitate trade and enhance legal certainty in the single market, the Commission shall, in cooperation with the Member States, establish a comprehensive and publicly accessible Union VAT Web information portal for businesses. That multilingual portal shall provide quick, up-to-date and accurate access to relevant information about the implementation of the VAT system in the different Member States and in particular about the correct VAT rates for different goods and services in the different Member States.

Negative list of products (Annex IIIa): Members proposed adding pacemakers and hearing aids to the list of supplies of goods and services in the Annex. The Commission shall be empowered to amend the scope of Annex IIIa by means of an implementing act, when necessary and provided there is evidence related to distortion of competition justifying the update of the list of supplies of goods and services.

By 31 December 2021 and every two years thereafter, the Commission shall submit to the European Parliament and the Council a report on the scope of Annex IIIa, accompanied by any proposals to amend that Annex, where necessary.

Rates of value added tax

The Council reached agreement on a proposal to update EU rules on value added tax (VAT) rates. The European Parliament is consulted again on the amended legislative proposal.

Updating of the list of goods in Annex III to the directive

The Council's draft updates and modernises the list of goods and services for which reduced VAT rates are allowed (annex III of the VAT directive), taking into account the current needs of Member States and the EU's current policy objectives, in particular in the areas of health, the environment and the digital transition.

Equal treatment, flexibility

The update of the list was motivated by a number of principles, such as the benefit of the final consumer and the general interest. It also ensures that Member States are treated equally and gives them more flexibility to apply reduced and zero VAT rates.

To achieve this, the existing derogations which allowed some Member States to apply preferential rates for certain products have been opened up to all Member States, provided that they are compatible with the agreed principles.

Such equal treatment can be achieved by enabling all Member States to apply to the eligible goods and services, within defined limits, a maximum of two reduced rates of a minimum of 5 %, a reduced rate lower than the minimum of 5 % and an exemption with the right to deduct input VAT.

However, to avoid a proliferation of reduced rates, the Council decided to limit the number of items to which reduced rates could be applied.

Resilience of health systems

In order to allow Member States to apply reduced rates to strengthen the resilience of their health systems, it is proposed to broaden the scope of goods and services considered essential to support the provision of health care and to compensate for and overcome disability.

The revised Annex III now includes (i) pharmaceutical products used for medical and veterinary purposes, including products used for contraception and female sanitary protection; (ii) medical protective equipment, including health protection masks, intended for use in health care or for use by the disabled.

In addition, a new provision in the VAT Directive has also been added to deal with possible future crises and to allow Member States to react quickly to exceptional circumstances, such as pandemics, humanitarian crises or natural disasters.

Contributing to a green and climate neutral economy

Member states should have the possibility to apply reduced rates to environmentally friendly supplies, while preparing for the phasing out of the existing preferential treatment for environmentally harmful products.

The Council agreed to phase out reduced VAT rates or exemptions on fossil fuels and other goods with a similar impact on greenhouse gas emissions by 1 January 2030. Reduced rates and exemptions for chemical fertilisers and chemical pesticides will end by 1 January 2032, to give small farmers more time to adapt.

In addition, the Council has introduced environmentally friendly goods and services for which reduced rates are allowed, such as solar panels, electric bicycles and waste treatment and recycling services.

In order to support the transition to the use of environmentally friendly heating systems, the possibility for Member States to apply a reduced rate to the supply and installation of high-efficiency, low-emission heating systems that meet the criteria of environmental legislation was also added to Annex III.

Digital transition

In order to address poor coverage of internet access services and to promote their development, Member States should be able to apply a reduced rate to such services. The application of a reduced rate to internet access services should be tailored to the objectives set out in the national digitalisation policy and accordingly limited in scope.

Furthermore, in view of the digital transformation of the economy, it should be possible for Member States to provide for the same treatment of live-streamed activities, including events, as those which, when attended in person, are eligible for reduced rates.

Social policy, culture

Directive 2006/112/EC is amended to allow the application of reduced rates for specific social policy purposes, to ensure clarity and to take account of the principle of neutrality, in this case by ensuring the same treatment, as regards VAT rates, of the renting or leasing and supply of certain goods.

The revised Annex III includes:

- the supply and construction of housing, as part of social policy, as defined by the Member States
- the construction and renovation of public buildings and buildings used for activities of general interest;
- the supply of goods and services by organisations engaged in social welfare and social security work;
- legal services supplied to people under a work contract and unemployed people in labour court proceedings, and legal services supplied under the legal aid scheme.

Annex III also includes the right of admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and cultural events and facilities.

Rates of value added tax

The European Parliament adopted by 612 votes to 14, with 71 abstentions, following a special legislative procedure (repeated consultation of the Parliament), a legislative resolution on the draft Council directive amending directive 2006/112/EC with regard to value added tax (VAT) rates.

Parliament approved the Council draft.

The Council's draft aims to update EU rules on value added tax (VAT) rates, taking into account the current needs of the Member States and the EU's current policy objectives, notably in the areas of health, the environment and the digital transition.

The draft amending Council directive provides for the following:

- extending the list of goods and services for which reduced VAT rates are allowed (e.g. Annex III of Directive 2006/112/EC). However, in order

to avoid the multiplication of reduced rates, the number of goods to which reduced rates may be applied is limited;

- existing derogations which allowed some Member States to apply preferential rates for certain products have been opened up to all Member States, provided that they are compatible with the agreed principles;
- the introduction of phasing-out periods for reduced rates applied to products with a negative impact on the environment. Reduced rates or exemptions for fossil fuels and other goods with a similar impact on greenhouse gas emissions, such as peat and firewood, should cease to apply by 1 January 2030 at the latest, and reduced rates or exemptions for chemical pesticides and chemical fertilisers should cease to apply by 1 January 2032 at the latest;
- the possibility for Member States to apply a reduced rate to internet access services in order to address the low coverage of internet access services and to promote their development;
- the inclusion of solar panels, electric bicycles and waste recycling services in the list of environmentally friendly goods and services for which reduced rates are allowed;
- the possibility to apply reduced rates for specific social and cultural policy purposes.