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O P I N I O N

of the Committee on Social Affairs, Employment and the Working Environment

for the Committee on Economic and Monetary Affairs and Industrial Policy

on the proposal for a Council directive supplementing the common system of value added tax and amending Directive 77/388/EEC—approximation of VAT rates
(COM(87) 0321 final/2 - C3-0025/89)

Draftsman: Mr Elmar BROK

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* = Consultation procedure requiring a single reading

**II = Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment

**I = Cooperation procedure (first reading)

*** = Parliamentary assent which requires the votes of a majority of the current Members of Parliament

OPINION

(Rule 120 of the Rules of Procedure)

of the Committee on Social Affairs, Employment and the Working Environment
for the Committee on Economic and Monetary Affairs and Industrial Policy
Draftsman: Mr Elmar BROK

At its meeting of 21 March 1991 the Committee on Social Affairs, Employment and the Working Environment appointed Mr Brok draftsman.

At its meetings of 22 April and 14 May 1991 it considered the draft opinion.

At the latter meeting it adopted the conclusions contained therein by 15 votes to 1, with 1 abstention.

The following took part in the vote: van Velzen, chairman; Barros Moura, vice-chairman; Brok, draftsman; Alvarez de Paz, Buron, Cabezon Alonso, Carniti, Catherwood, Cushnahan (for De Vitto), van Dijk, Fayot (for Glinne), Hughes, McCubbin (for McMahon), Onur (for Megahy), Pagoropoulos, Sandbaek and Van Ouirve (for Salisch).

The Single European Act provides for the creation of an economic area without internal frontiers by the end of 1992 in which the free movement of goods, individuals, services and capital is guaranteed. This objective calls for the elimination of technical, material and fiscal barriers. In order that the conditions can be created for the abolition of tax barriers, national tax rates and structures must be more closely aligned with one another.

The proposals put forward by the Commission during the second half of 1987 for the harmonization of the value added taxes and excise duties levied by the Member States favour, in so far as the harmonization of VAT is concerned, which is the subject of this report,

- the introduction of a standard rate of between 14 and 20% and
- of a reduced rate of between 4 and 9%.

The reduced rate should, in the Commission's view, be confined to basic essentials and apply above all to the following categories of transactions:

- foodstuffs, including non-alcoholic beverages,
- passenger transport,
- energy products for heating and lighting,
- water supplies,
- pharmaceutical products.

The Council takes the opposing view that the Member States should be allowed to apply one or two reduced rates alongside the standard rate with it being left to the Member States to decide which of the items on the following exhaustive list of goods and services are to be subject to the reduced rate:

- foodstuffs for human and animal consumption (excluding alcoholic beverages),
- water supplies,
- pharmaceutical products,
- medical equipment for the disabled,
- passenger transport,
- books, newspapers and periodicals,
- admissions to shows, theatres, circuses, fairs, concerts, museums, zoos, cinemas, exhibitions, libraries and copyright,
- social housing,
- farm inputs,
- hotel accommodation,
- hire of camping sites,
- admission to sporting events,
- use of sporting facilities,
- welfare and charitable activities,
- funeral undertakings, cremation,
- medical care in hospitals, spas, dental services,
- street cleaning, refuse collection.

This list partly comprises essential products and also services fulfilling social or cultural policy objectives. Some are products and services which are not exportable and therefore cannot give rise to distortions of competition on the common internal market. Since Article 17 of the Single European Act states that indirect taxes should be harmonized only to the

extent necessary for the internal market, it would be appropriate to extend the reduced rate to these items.

It should not be forgotten in this context that the harmonization of VAT rates will result in considerable price rises in some countries. The Committee on Social Affairs draws particular attention to the social repercussions of this in those countries, namely a fall in purchasing power which will hit low-income groups particularly hard. The committee therefore takes the view that tax harmonization should not concentrate solely on economic considerations but must also take the social aspects into account.

The Committee on Social Affairs therefore welcomes the Council's efforts to allow sufficient flexibility in the harmonization of VAT rates, at least for a transitional period, to enable some countries to absorb the impact of price rises resulting from an increase in VAT.

In order to limit distortion of competition as far as possible, goods and services on this list suitable for trading between countries should not be subject to an optional reduced rate of tax, but all Member States must undertake to impose a reduced rate on such categories of goods and services.

The Committee on Social Affairs, Employment and the Working Environment therefore recommends introduction of the reduced rate of taxation for the following categories of transactions:

- foodstuffs for human and animal consumption,
- pharmaceutical products,
- medical equipment for the disabled,
- passenger transport,
- books, newspapers and periodicals,
- farm inputs,
- energy products for heating and lighting.

The reduced rate may at the same time be applied optionally to the following products and services:

- water supplies,
- admissions to shows, theatres, circuses, concerts, museums, zoos, cinemas, exhibitions, libraries and television licence fees,
- the output of writers, composers, performers and copyright,
- social housing,
- admission to amateur sporting events,
- use of sporting facilities open to the public,
- welfare and charitable activities,
- medical care in hospitals, spas, dental services.

Both lists should be regarded as exhaustive.

