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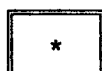
EUROPEAN PARLIAMENT

# SESSION DOCUMENTS

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A3-0136/91



## R E P O R T

of the Committee on Economic and Monetary Affairs and  
Industrial policy

on the Commission 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 - C3-0025/89)

Rapporteur: Mr Alman METTEN

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PE 148.345/fin.

A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations) Or. FR

\* = 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

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By letter of 26 July 1989 the Council consulted the European Parliament, pursuant to Article 99 of the EEC Treaty, on the Commission proposal for a Council directive supplementing the common system of value added tax and amending Directive 77/388/EEC - approximation of VAT rates.

At the sitting of 27 July 1989 the President of Parliament announced that he had referred this proposal to the Committee on Economic and Monetary Affairs and Industrial Policy as the committee responsible and to the Committee on the Environment, Public Health and Consumer Protection and the Committee on Transport and Tourism (20 November 1989) for their opinions.

At its meeting of 20 September 1989 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr Metten rapporteur.

At its sitting of 2 April 1990 the President of the European Parliament announced that he had received the motion for resolution by Mr Formigoni on the application of zero vat rating throughout the Community to special equipment and appliances for the disabled, particularly the visually disabled (B3-0454/90) which he referred, pursuant to rule 63 of the Rules of Procedure to the Committee on Economic and Monetary Affairs and Industrial Policy as the committee responsible and the Committee on Social Affairs, Employment and the Working Environment for an opinion.

At its meeting of 19 April 1990 the Committee on Economic and Monetary Affairs and Industrial Policy decided to consider this motion for a resolution together with the present report.

At its meetings of 25, 26 and 27 September 1990, 5, 6 and 7 November 1990, 5, 6 and 7 February 1991, 18, 19 and 20 March 1991, 24 and 25 April 1991, 2 and 3 May and 14 May 1991, it considered the Commission proposal and draft report.

At the last meeting on 14 May 1991 it adopted the draft legislative resolution by 30 votes to 6 with 2 abstentions.

The following took part in the vote: Beumer, chairman; Metten, rapporteur; Desmond, vice-chairman; Fuchs, vice-chairman; Barton, Beazley, Bofill Abeilhe, Cassidy, Caudron, Christiansen, Colom I Naval, Cox, Cravinho, de Donnea, de Piccoli, Ernst de la Graete, Friedrich, Herman, Lulling, Merz, Patterson, Pinxten, Read, Rogalla, Roumeliotis, Seal, Sboarina, Siso Cruellas, Stevens, Tongue, Wettig, David (for Donnelly), Dührkop (for Hoff), Falconer (for Ford), Randzio-Plath (for Mihr), Fitzgerald (for Lataillade), van der Waal, Ben Fayot, pursuant to Rule 111(2).

The Committee on the Environment, Public Health and Consumer Protection decided not to deliver an opinion.

The opinion of the Committee on Transport and Tourism is annexed to the present report.

The opinion of the Committee on Social Affairs, Employment and the Working Environment will be published separately.

The report was tabled on 14 May 1991.

The deadline for tabling amendments will be announced in the plenary sitting.

A

Commission proposal for a Council directive supplementing the  
common system of value added tax and amending  
Directive 77/388/EEC - approximation of VAT rates

Commission text<sup>1</sup>

Amendments

Citation and first recital unchanged

(Amendment No. 1)  
Second recital

Whereas, if distortions are to be avoided, such abolition implies in the case of value added tax, not only a uniform tax base but also the same number of rates and rate levels which are sufficiently close as between Member States; whereas it is therefore necessary to amend Council Directive 77/388/EEC, as last amended by the Act of Accession of Spain and Portugal;

Whereas, if distortions are to be avoided, such abolition implies in the case of value added tax, not only a uniform tax base but also harmonization of rates carried out in such a fashion that cross-border trade does not take place purely as a result of fiscal disparities;

(Amendment No. 2)  
Third recital (new)

Whereas the subsidiarity principle dictates that rates should be harmonized only in respect of goods and services that are readily saleable and sensitive to fiscal disparities; whereas, however, the internal market dictates that the list of goods and services not subject to harmonization should be laid down collectively;

<sup>1</sup> For full text see COM(87) 0321 final - OJ No. C 250, 18.9.1987, p. 2

(Amendment No. 3)  
Fourth recital (new)

Whereas Member States' fiscal requirements are not identical and vary over time, and fiscal harmonization must both guarantee the Member States sufficient revenue and allow them sufficient leeway;

(Amendment No. 4)  
Fifth recital (new)

Whereas the socially regressive nature of VAT would be enhanced by abolishing luxury rates and by making reduced rates optional; whereas, since luxury rates are already being abolished, a mandatory reduced rate is socially desirable;

(Amendment No. 5)

Article 1

Directive 77/388/EEC is hereby amended as follows:

1a. The following new Article 12(2a) shall be added:

"2a. Member States shall apply, a rate of their own choice to the following goods and services:

(a) animal feedingstuffs,

(b) water supplies,

(c) veterinary pharmaceutical products,

(d) children's clothing and children's footwear,

(e) non-movable goods,

(f) geographically restricted services,

(g) personal welfare services,

(h) repair and maintenance services,

(i) the supply of meals for immediate consumption,

(j) medical equipment for disabled persons,

(k) agricultural inputs,

(l) low-cost public housing,

(m) the output of writers, composers painter, sculptors and other creative artists and performing artists, and the works of art referred to in Annex H.

(n) hotel and campsite accommodation,

(o) the use of sports facilities,

(p) admission to sporting events,

(q) supplies to, and the activities of, social and charitable bodies, as defined by the appropriate legislation in each Member State,

(r) burials and cremations,

(s) medical care in hospitals and health resorts, dental care,

- (t) cleaning of public highways and refuse collection,
- (u) education.
- (v) energy products for heating and lighting,
- (w) social catering

(Amendment No. 6)

Article 1(1)

Article 12(3) (Directive 77/388/EEC)

1. Article 12(3) and (4) are replaced by the following:

"3. Member States shall apply two rates of value added tax, namely a standard rate and a reduced rate.

The reduced rate may not be less than 4% or more than 9%.

The standard rate may not be less than 14% or more than 20%."

1b. Article 12(3) is replaced by the following:

"3. Member States shall apply a standard or a reduced rate of tax to goods and services not listed in Article 12(2a).

A reduced rate may not be more than 9%.

The standard rate may not be less than 16%."

(Amendment No. 7)

Article 1(1)

Article 12(4) (Directive 77/388/EEC)

1c. Article 12(4) is replaced by the following:

"4(a) The reduced rate shall be applied to transactions relating to the following goods and services:  
- foodstuffs, excluding alcoholic beverages

"4(a) A reduced rate shall be applied to transactions relating to the following goods and services:  
1. foodstuffs for human consumption, excluding alcoholic beverages,

- energy products for heating and lighting,
- water supplies,
- pharmaceutical products,
- books, newspapers and periodicals,
- passenger transport.

- 2. pharmaceutical products for human utilization,
- 3. books, newspapers and periodicals (in printed form),
- 4. admission to cultural events,
- 5. public passenger transport
- 6. - all products and services designed to improve the situation of physically and mentally handicapped persons.

(b) The normal rate shall be applied to transactions relating to goods and services other than those set out in (a)."

(b) A normal rate shall be applied to transactions relating to goods and services other than those set out in (2a) and 4(a)."

(Amendment No. 8)

Article 12, last paragraph (new) (Directive 77/388/EEC)

On the basis of a report from the Commission, the Council shall review the above-mentioned standard and reduced rates every two years and, acting in accordance with Article 99 of the Treaty, may adjust these rates in the light of fiscal requirements.

(Amendment No. 9)

Article 1(2)

Article 28(2) (Directive 77/388/EEC)

2. Paragraph 2 of Article 28 is hereby deleted.      2. Deleted

Article 2 and 3 unchanged



(Amendment No. 10)

Directive 77/388/EEC is hereby amended as follows:

2a. A new Annex H is inserted:

'ANNEX H  
DEFINITION OF WORKS OF ART,  
COLLECTOR'S ITEMS AND ANTIQUES

1. Works of art are those falling within the following categories:

- paintings, collages and similar decorative plaques, drawings and pastels, executed entirely by hand, other than plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes, hand-painted or hand-decorated manufactured articles, theatrical scenery, studio backcloths or the like of painted canvas;

- original engravings, prints and lithographs, being impressions produced directly in black and white or in colour of one or of several plates wholly executed by hand by the artist, irrespective of the process or of the material employed by him, but not including any mechanical or photomechanical process;

- original sculptures and statuary, in any material, but not including sculptures of a commercial character such as mass-produced reproductions, mouldings and works of conventional craftsmanship.

2. Collector's items are those falling within the following categories:

- postage or revenue stamps, stamp-postmarks, first-day covers, postal stationery (stamped paper), and the like, used, or if unused not of current or new issue in the country to which they are destined;

- collections and collector's pieces of zoological, botanical, mineralogical, anatomical, historical, archaeological, palaeontological, ethnographic or numismatic interest.

3. Antiques are items, other than works of art or collector's items, of an age exceeding 100 years.

DRAFT LEGISLATIVE RESOLUTION

embodying the opinion of the European Parliament  
on the Commission proposal for a Council directive supplementing the  
common system of value added tax and amending  
Directive 77/388/EEC - approximation of VAT rates

The European Parliament,

- having regard to the Commission proposal to the Council (COM(87) 321 final), (1)
  - having been consulted by the Council pursuant to Article 99 of the Treaty (C3-0025/89),
  - having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy and the opinions of the Committee on Transport and Tourism and the Committee on Social Affairs, Employment and the Working Environment (A3-0136/91),
1. Approves the Commission proposal subject to Parliament's amendments and in accordance with the vote thereon;
  2. Calls on the Commission to amend its proposal accordingly, pursuant to Article 149(3) of the EEC Treaty;
  3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
  4. Asks to be consulted again should the Council intend to make substantial modifications to the Commission proposal;
  5. Instructs its President to forward this opinion to the Council and Commission.

(1) OJ No. C 250 of 18.9.1987, p.2

EXPLANATORY STATEMENTHarmonization of VAT rates1. Is harmonization necessary?

Harmonization of VAT rates is necessary to some extent if we are to be in a position to abolish border controls after 1 January 1993. If harmonization were not necessary, as the United Kingdom claims, border controls could probably be abolished now. The problems at the Irish-British and Danish-German borders demonstrate, however, that a number of governments regard constraints on fiscal competition as necessary in order to maintain their revenue.

2. What should be harmonized?

Taxation accounts for much of the value of excisable goods that are sold. Obviously, the Member States will have to harmonize their rates to a considerable extent, doubtless because the products concerned are readily saleable.

Overall, VAT accounts for a much smaller proportion of the value of the traded goods in question; on the other hand, VAT is a much more significant source of revenue for the Member States than excise duty.

Not all goods that are subject to VAT are equally easily saleable, however. Immovables and many services, for example, are restricted to a particular locality.

In addition, distance selling of a large number of goods, whether taxed or untaxed, is not profitable.

However, that leaves a host of high-value or readily saleable goods and services in respect of which cross-border transactions on which VAT is payable are worthwhile, provided that differences in rates between the Member States concerned are sufficiently wide (fiscally sensitive products).

Differences of 15% in VAT on the same goods in neighbouring countries are commonplace; greater disparities are nothing out of the ordinary.

3. How should harmonization proceed?

Indirect taxes are a major source of revenue for Member States and account for a significant proportion of the cost of products or services to the consumer.

Harmonization of rates will therefore have an impact on both government revenue and consumer prices, assuming that this results in changes, and hence on purchasing power and inflation.

The fact that, for the time being, there must be unanimous agreement among all twelve Member States on fiscal harmonization is one reason why a solution is called for that requires the Member States to make only the very minimum of changes necessary to realize the objective of abolishing border controls on intra-Community travellers.

VAT harmonization stands the best chance of succeeding if two conditions are met:

- government revenues must be safeguarded;
- Member States must enjoy as much latitude as possible (subsidiarity).

With regard to safeguarding government revenues, it is important that fiscally sensitive goods and services should be taxed at a sufficiently high level throughout the Community. In practice, to achieve this, only the lower limit of the standard-rate band will be relevant.

The Member States need fiscal latitude because their financial requirements are not identical and, furthermore, may vary over time.

The further European integration progresses, however, the less fiscal latitude is available to the Member States. It is all the more important that as much flexibility as possible is built into the VAT harmonization proposals. This can be achieved by excluding from the scope of fiscal harmonization those goods and services which, because they are low in value and are difficult to transport, are not fiscally sensitive. This means that a country such as Luxembourg, which does not maintain its own army or university and accordingly has a low level of financial requirements, is in a position to tax such fiscally non-sensitive goods and services at a lower rate than Germany, which faces a high level of expenditure because of unification, without this leading to an appreciable increase in cross-border shopping.

#### 4. Situation in April 1991

- (a) 95% of cross-border transactions in the Community are between firms registered for VAT purposes. Since such firms are able to deduct VAT, VAT disparities are relevant to only 5% of intra-Community transactions. Under the VAT transitional arrangements, a special arrangement is likely to be introduced whereby motor vehicle purchases, mail-order purchases and purchases by non-taxable public institutions and by exempted organizations (mainly hospitals, banks and insurance companies), would attract VAT at the rate applied by the Member State of establishment or of registration (see the Fuchs report, A3-0271/90). Consequently, such purchases would also become insensitive to fiscal disparities. Differences in VAT would be relevant only to what remained: cross-border purchases by private individuals, representing, according to estimates, no more than a fraction of 1% of the value of all intra-Community cross-border transactions. In fact, this is causing a considerable to-do.

- (b) The Commission's original 1987 proposal related to the definitive VAT arrangements, involving taxation of goods and services in the country of origin, which will now not enter into force until after 1996; in the meantime, that proposal has more or less acquired the status of a working document, but remains to be amended by the EP (COM(87) 0321 final).

In it, the Commission proposes that two rate bands should be introduced and that, subsequently, the same goods and services should be allocated to the same rates throughout the Community.

To a large extent, the proposal cuts the existing differences in rates down to manageable proportions. The Commission goes on to propose that a number of goods and services should be taxed at a reduced rate, others being taxed at what it terms a standard rate.

The Commission allocates the following to the reduced rate:

- foodstuffs, excluding alcoholic beverages;
- water supplies;
- pharmaceutical products;
- books, newspapers and periodicals;
- passenger transport.

These are, to put it briefly, basic necessities and certain cultural products.

The Commission proposes a reduced-rate band of 4 to 9% and a standard-rate band of 14 to 20%.

- (c) The solution that is beginning to emerge within the ECOFIN Council, which is responsible for fiscal harmonization, differs from that proposed by the Commission.

Although a mandatory standard rate has been opted for, one or more optional reduced rates would also be available. For that purpose, the Member States have drawn up a definitive list of basic necessities, cultural products and a number of other fiscally non-sensitive products, in respect of which the Member States would be free to adopt one or more reduced rates. (The list has been incorporated into the proposed amendment to exclude certain goods and services from the scope of harmonization; see also the following paragraph.) The Council is moving in the direction of arrangements based on rate bands instead of an upper and lower limit only (for the reduced and standard rates respectively).

- (d) The proposal put forward by the rapporteur combines features of the Commission proposal and suggestions from the ECOFIN Council, but with one essential difference: as far as safeguarding governments' revenue is concerned, the most important aspect would be the lower limit for the standard rate; rates in most Member States would gravitate towards that limit, once it has been set, because of fiscal competition, the main reason being that that category would comprise products that were sensitive to fiscal disparities. It would therefore be in the Member States' mutual interest to set that limit as high as possible. The highest practicable level would appear to be 16%.

In view of this, it would seem hardly relevant to set an upper limit for the standard rate; but, in the case of the reduced-rate band, the upper limit is indeed more relevant. If this were identical to the lower limit for the standard rate, as has been suggested within the Council, the door to a single rate would be wide open. Such a rate might well indeed be practical; in social terms, however, it would have an unwelcome impact because it would be regressive. Together with the proposed option of setting a number of rates within the reduced-rate band and the proposal that allocation of products to a reduced rate should be optional, this would effectively mean that all the products put forward by the Council for possible allocation to the reduced rate would actually fall outside the scope of harmonization. Those products attract tax at a rate of 4% in one Member State, 14% in a second and 22% in a third.

While such a solution would be possible, since it concerns products which would not make it necessary to maintain border controls, it is unwelcome, as it now stands, because it cannot guarantee that essentials and cultural products will attract a low rate of taxation. This is why the rapporteur proposes that there should indeed be two mandatory rate bands, but that the scope of the reduced rate-band should be as narrow as possible (covering absolute essentials and cultural products) and that a category should furthermore be introduced in respect of which the Member States would be free to apply a high or low rate of tax, depending on their financial requirements and political priorities. If, in due course, the upper limit of the reduced-rate band were not too high, the Member States would be free to apply a variety of rates within that rate band. In view of the fact that the products concerned would display little sensitivity to fiscal disparities, border controls could not be justified by the existence of several rates within the reduced-rate band. The lower limit for the reduced-rate band would have to remain zero. The fact that a zero rate may be applied is no justification for border controls; after all, the process of abolishing such controls is already under way. Flexibility, subsidiarity and political feasibility also dictate, indeed, that use be made of the zero-rating option; and its longevity is proof that it is easy to manage. Whether or not it is actually the most effective vehicle for social policy action, however, is an entirely different matter. In the first instance, however, that must be a decision for the relevant Member States themselves.

#### Commentary on the amendments

Under the terms of the legal basis for fiscal harmonization - Article 99 of the Treaty, as amended by the Single European Act - VAT should be harmonized 'to the extent ... necessary' to ensure that the internal market is completed by 31 December 1992. Amendment 1 states that harmonization is necessary only where there is a risk that cross-boarder trade will be prompted by fiscal disparities alone.

That means, according to Amendment 2, that harmonization is only necessary in respect of readily saleable goods and services that are sensitive to fiscal disparities; there must of course be agreement on which goods and services would be concerned.

Amendment 3 underscores not only the need for harmonization - without some form of harmonization, the market would force down all taxes - but also the need for harmonization in moderation; since the Member States' requirements are not identical and will vary over time, there must be scope for individual Member States to apply higher or lower rates. One way to achieve this would be to harmonize only to the extent that is essential in order to guarantee that the Member States will have the revenue they require. Member States with different requirements would enjoy latitude with regard to non-harmonized goods and services.

Amendment 4 voices criticism of one aspect of harmonization to date - an unprompted process of downward adjustment, by the Member States, of top rates applied to luxuries - and of a recent Council proposal that a reduced rate should be no more than an option. Both developments enhance the regressive nature of VAT; the first - abolition of luxury rates - is all but complete and seems irreversible.

Making it no more than optional to apply a reduced rate to cultural goods and services and to essentials - rather than mandatory, as has been the case hitherto - is a new development, however; and it is highly unwelcome.

The ECOFIN Council's proposal that a reduced rate for certain goods and services should be no more than an option leave the Member States free to make the reduced rate meaningless. It is to be feared that such a solution would ultimately result in a single rate: a high 'standard' rate. The regressive nature of VAT would be most clearly revealed by such a rate. (The fact is that a reduced rate for essentials offsets to some extent the regressive nature of VAT - and increasingly so, indeed, the lower that rate is.) From a technical point of view, the ECOFIN Council's solution - an optional reduced rate - may appear attractive; in social terms, however, it is unwelcome.

Amendments 6 and 7 therefore propose a mandatory reduced rate, albeit highly restricted in scope and within a very broad band (an upper limit of as high as 9%, leaving the Member States as much leeway as possible but without undermining the social role of the rate band).

The mandatory common reduced-rate band would be restricted in scope, since it would concern a category of goods and services in respect of which harmonization is not called for, as specified in Amendment 5. The Member States would be free to apply high or low tax rates to the products concerned.

This incorporates some goods and services covered by the reduced rate as set out in the Commission's original proposal; others have been taken from the optional-reduced-rate category advocated by the ECOFIN Council; lastly, a number of goods and services that are obviously local in nature have been included in respect of which there would be a negligible impact on cross-border transactions as a result of differences in rates.

Amendment 6 specifies 16% as the lower limit for the standard rate. This was also proposed by the Committee on Economic and Monetary Affairs and Industrial Policy in the Metten report in 1988 (A2-0308/88). Soon, only two Member States will be applying a standard rate that is lower than that limit. In view of the provision made for a reduction in rates applied to goods and services listed in Amendment 5, these Member States, too, would be in a



position to raise their standard rate without affecting government revenues or boosting inflation. This is necessary in order to be able to ensure that the other Member States' revenue will be sufficient.

The second part of Amendment 7 makes the inclusion of energy products conditional on the outcome of harmonization of mineral oil excise duties. In view of the environmental implications of energy consumption, this is axiomatic. The ECOFIN Council has also adopted this linkage.

Amendment 9 stipulates, lastly, that Article 28(2) would be retained. As a result, existing zero-rating would continue until the close of the VAT transitional arrangements, i.e. at least until 1997. In the circumstances, this would appear to be the most realistic solution. Furthermore, continuing zero-rating will not interfere with the objective behind fiscal harmonization, which is the abolition of border controls (see 'Economic consequences of fiscal harmonization in Europe', Summary of French Senate Report, May 1990).

O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on Transport and Tourism

for the Committee on Economic and Monetary Affairs and Industrial Policy  
Draftsman: Mr Jean-Louis BOURLANGES

At its meeting of 21 December 1989 the Committee on Transport and Tourism appointed Mr BOURLANGES draftsman.

At its meeting of 14 May 1991 it considered the draft opinion and adopted the conclusions as a whole by 9 votes to 5 with 1 abstention.

The following took part in the vote: Amaral, chairman; Topmann, Beazley, vice-chairmen; Bourlanges, draftsman; Coimbra Martins (for Iacono), Joanny, Romera i Alcazar, Sapena Granell, Sarlis, Schlechter, Schodruch, Simpson, Stewart and Visser.

1. In delivering its opinion on proposal COM(87) 321 final on the approximation of VAT rates, the Committee on Transport and Tourism feels that it is playing an odd role in what is very much a second-rate play. Clearly, strictly speaking, the decisions towards which the Council is moving, and on which formal agreement ought to be reached in the next few weeks, have nothing in common with the Commission's original proposal, though the Commission has not considered it necessary to give the European Parliament and its Committee on Transport precise information on what developments were taking place.
2. The aim of the original proposal was to introduce two rate bands: a 'normal' rate band between 14 and 20% and a 'reduced' rate band between 4 and 9% that would be applicable to a specific number of goods and services, including passenger transport.
3. The Council would appear in particular to be seeking to depart from this proposal on a vital point, proposing to replace the band concept by that of a 'minimum rate' and thereby implicitly putting its faith in the harmonization effect resulting from competition between rates in order to prevent excessive distortion.
4. Accordingly, the Member States would be in a position to apply any rate they wished to the goods and services included on the 'list', provided that that rate was greater than the minimum reduced rate. With regard to passenger transport, then, the directive would enable Member States to set the applicable rate at their discretion, provided that that rate was greater than the minimum reduced rate.
5. The Committee on Transport and Tourism believes that harmonization of rates in passenger transport is absolutely vital in order to complete the single transport market.
6. The Committee notes that although there is a very wide range of rates currently applied in domestic transport, depending on Member State and mode of transport, this is not the case for transport between Member States; as a result of the exemption arrangements applied systematically to air and sea links, and in most cases to rail links within the Community, not only has a very high degree of harmonization been achieved but the position is extremely user-friendly.
7. The Commission cannot but be concerned at the approach ascribed to the Council, which, if it were borne out, would result in the Member States being authorized to apply to domestic and intra-Community passenger transport rates that could be increased virtually ad infinitum. Under the terms of the Sixth Directive (77/388/EEC) and the amended proposal on the elimination of fiscal frontiers, a carriage service is deemed to be performed in the state of departure; this places huge constraints on the potential impact of competition through rates, each Member State being in a position to impose any rate it sees fit, without running too many risks, on all carriage operations carried out from its territory.

8. The Committee on Transport therefore calls for a single rate to be applied in all Member States to passenger transport or, failing this, for it to be subject to a sufficiently narrow band (3 points at most) to prevent both an excessive increase in tariffs actually paid by users and unfair distortions between those rates.
9. With regard to the rate to be adopted, the Committee on Transport and Tourism takes the view that it is unrealistic to apply a zero rate: since this would extend to all domestic and intra-Community transport operations, a considerable shortfall in fiscal revenue would result for the Member States - a shortfall that would have to be offset elsewhere, though we fail to see why any one sector of the economy should enjoy inordinately favourable tax treatment in common law.
10. The Committee on Transport takes the view, however, that fair harmonization of rates presupposes that tax revenue accruing to the Member States from charging VAT on intra-Community transport operations will be used to lighten the overall tax burden on transport. This prompts the committee to propose that a single rate not exceeding 5% should be adopted for all means of transport.
11. The Committee on Transport also feels that the link should not be severed between application of the new rates and elimination of fiscal frontiers, on the one hand, and adoption and implementation - long deferred - of the Twelfth Directive on extending to passenger transport costs arrangements for deducting VAT charged on intermediate consumption.
12. With regard to tourism, the Committee on Transport regrets that the Commission proposal does not include the hotel trade and catering in the list of reduced-rate services. It is pleased to note, however, that the Council would appear to be moving towards extending the reduced-rate arrangements to the hotel trade, even if it regrets the fact that catering is not included and that the legislation would enable the Member States to apply differing rates to different hotel categories, producing severe distortion in the process.

## Conclusions

For these reasons, the Committee on Transport and Tourism instructs its draftsman to table the following amendments to Commission proposal COM(87) 321 final:

### Text proposed by the Commission

### Amendments by the Committee on Transport and Tourism

#### Amendment No. 1

##### Article 1

Amending Article 12(4)(a), sixth indent

- passenger transport.

- hotel and catering establishments.

#### Amendment No. 2

##### Article 1

Inserting a new Article 12(4)(aa)

(aa) A rate of 5% shall be applied to passenger transport operations.

14. The Committee on Transport and Tourism is furthermore surprised that the Commission has hitherto failed to act on the formal undertaking it gave, during the debate on the Fuchs report (Doc. A3-271/90) to submit a report on the economic and social implications of the completion of the internal market with regard to duty-free sales<sup>1</sup>, since the Council should be taking a decision on proposal COM(87) 322 in the next few weeks.

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<sup>1</sup> See Amendment No. 31 in Parliament's Opinion of 20 November 1990  
- OJ No. C 324, 24.12.1990, p.98

Motion for a resolution  
by Mr FORMIGONI,  
pursuant to Rule 63 of the Rules of Procedure  
on the application of zero VAT rating throughout the Community to special  
equipment and appliances for the disabled, particularly the visually disabled.

The European Parliament,

- A. whereas the European Community has always endeavoured to assist and defend the weakest members of society, especially the disabled,
- B. whereas hundreds of thousands of ECU are allocated every year to Community policies to assist the disabled, and whereas special programmes (such as the Helios programme) have been introduced to that end,
- C. whereas the same supportive and caring approach is adopted by the governments of the Member States, many of which exempt from VAT special equipment and other items for the disabled, particularly the visually disabled,
- D. whereas in the run-up to 1992 the VAT rates applied to various products are being harmonized to ensure uniform tax systems in all the Member States,
- E. whereas it would be contradictory to attempt to assist the disabled by means of special programmes and measures on the one hand, while at the same time penalizing them by increasing via taxation, the cost of the equipment and appliances designed to assist their re-integration into society,

Calls for

- 1. All the countries of the European Community to apply zero VAT rating to all special equipment and other items for the disabled, particularly the visually disabled.