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**Press Release**

FOR IMMEDIATE RELEASE

**Reduced VAT rates for labor-intensive sectors: 5 Member States blocking solution to help SMEs fight shadow economy**

**Brussels, 08 December 2004** The Finance Ministers of Germany, Austria, Denmark, Sweden and Slovakia continue to prevent European SMEs from having the possibility to use a tool that would help decrease the shadow economy in the labour intensive sectors, UEAPME, the European crafts and SMEs employers' association complained today.

The association's comments were made after yesterday's ECOFIN meeting, in which no progress was made regarding the adoption of a final list of services and goods that would benefit from permanent reduced VAT rates. UEAPME attributes the deadlock to the position of the aforementioned countries.

“It is appalling to see that 5 Member States stubbornly insist in making the life of crafts and SMEs in the labour intensive sectors more difficult. This position is even more regrettable as applying reduced VAT rates in this sector would help SMEs face the growing pressure of the shadow economy. Furthermore, this solution would not create unfair competition for companies in countries not benefiting from lowered VAT since those services are locally bound” **Hans-Werner Müller**, Secretary General of UEAPME said.

The experiment on reduced VAT rates for labour intensive sectors currently being implemented in 11 Member States has shown very encouraging results both in terms of employment creation and reduction of parallel economy. Industry surveys demonstrated a positive impact on employment and economic growth in the home renovation and repair sector in France, Italy and the Isle of Man. Additionally, in the Netherlands, employment rose by 15% to 20% in the industry sectors participating in the reduced VAT experiment.

On the other hand, the lack of agreement on a definite list of services benefiting from lowered VAT combined with the end of the experiment of lowered VAT rates for labour intensive services in December 2005 would imply a return of high VAT rates for the sectors concerned. This would lead to an increase of unemployment.

In this context, UEAPME welcomed the announcement made by representatives of the Luxembourg and UK presidency of the EU to put the file of reduced VAT rates in labour intensive sectors at the top of their agenda and set up a work programme for the dossier.

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