



“The voice of SMEs in Europe”

Press Release

FOR IMMEDIATE ISSUE

Agreement on extending reduced VAT scheme a matter of urgency

- **Presidency proposals a good basis for compromise**
- **Ending the experiment would lead to 200,000 job losses across the EU**
- **Construction of private houses should also be included as reduced VAT sector**

Brussels, 20 May 2005 UEAPME, the European small and medium business organisation, has strongly urged EU Finance Ministers to support proposals from the Luxembourg Presidency to extend the experiment on reduced VAT in labour-intensive sectors, in advance of the next Ecofin.

“This experiment has proved a vital tool in job creation and in combating the shadow economy. Given the current arrangement will expire at the end of this year, it is important that agreement is reached as soon as possible on extending the scheme to end the disrupting uncertainty on the issue,” said **Hans-Werner Müller**, Secretary General of UEAPME.

UEAPME has given a cautious welcome to the Presidency compromise, which proposes to prolong the experiment until the end of 2015. “Ideally, we would have preferred the scheme to be continued indefinitely, however extending it for ten years will guarantee some certainty in the medium-term,” continued Mr Müller.

The organisation is calling for the reduced rates to be extended to the construction of private houses, as this sector faces the most pressure from the shadow economy. The proposal to enable new Member States to join the experiment is positive and practical development.

The experiment has proved crucial in countering the mounting challenge from the shadow economy, which damages SMEs, as well as the overall economies of member states. Small firms, which are VAT-compliant, are at a serious disadvantage to non-compliant competitors from the shadow economy. Reducing VAT rates in these sectors has countered this problem.

There has also been a positive effect on employment generation in the sectors covered by the experiment. Evidence from industry surveys in countries participating in the experiment indicated that up to 200,000 jobs would be lost if the scheme were ended.

Reducing VAT in labour-intensive sectors in the Member States does not lead to unfair competition, as these are typically localised activities – such as hairdressing and small repair work. It is difficult to understand the basis of opposition from some of the Member States. Why should they prevent other Member States taking part in a scheme that does not affect them?

“Given the myriad of contentious issues, which the Finance Ministers are faced with, it is all the more important that the extension of this experiment, which has delivered a clear economic and social benefit in the countries where it has been applied, is agreed soon,” concluded Mr Müller.

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