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Press Release

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Failure to agree reduced VAT scheme puts jobs at risk

Brussels, 8 June 2005 The continued failure to reach agreement on extending the experiment on reduced VAT in labour-intensive sectors prolongs uncertainty and ultimately places jobs risk, according to UEAPME, the European small and medium business organisation, in response to the failure of EU Finance Ministers to agree on a presidency compromise on Tuesday.

“A decision needs to be taken on the VAT scheme without delay or the involved sectors will be plunged into chaos. Ending the reduced rates is not an option that should be considered, as this will play into the hands of the shadow economy and will have a negative impact on employment,” said **Hans-Werner Müller**, Secretary General of UEAPME.

If the experiment ends abruptly without any follow-up at the end of 2005, thousands of firms would be forced to apply increased VAT rates, which would have a negative effect on both their ability to compete with counterparts in the shadow economy and prices.

“The consumer will be hit with instantaneous price rises and this makes the shadow economy a more attractive alternative,” continued Mr Müller. The current arrangements are due to expire in half a year and UEAPME is calling for an agreement to be taken on extending the scheme without delay to allow time for the details to be worked out before coming into effect.

“It is hard to understand why a small group of Member States is continuing to resist compromise. 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,” stated Mr Müller.

UEAPME welcomed a recent Presidency proposal on the overall VAT scheme, which recommended extending the labour-intensive scheme until 2015, as a good basis for compromise. The proposal to enable new Member States to join the experiment is a positive and practical development and the limited window of opportunity responds to the concerns of some of the blocking countries, like Germany and Austria.

“Inability to agree such a relatively non-contentious proposal like this reflects badly on the EU as a whole. Member States should reach agreement on the follow-up to this scheme, which has delivered a clear economic and social benefit, as soon as possible to restore some much-needed confidence in the European decision-making process,” concluded Mr Müller.

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