



“The voice of SMEs in Europe”

Press Release

FOR IMMEDIATE ISSUE

VAT: Overdue decision on reduced rates cannot be postponed again

- **Construction sector in France demonstrates in support of reduced rates scheme**

Brussels, 18 January 2006 EU Finance Ministers must end their procrastination and agree to continue the scheme for reduced VAT rates in labour-intensive sectors when they meet on 24 January. Failure to do so would lead to massive overnight rate hikes, wreaking havoc on small service providers, UEAPME, the European small and medium business organisation, has warned today (Wednesday).

“Failure by the Finance Ministers to reach an agreement on continuing the reduced rates would be gravely irresponsible. With no legal framework for prolonging the reduced rates, there would be instantaneous rate hikes of up to 15% on 25 January, with resulting price increases of up to 14% overnight. This chaotic scenario would be catastrophic for small service providers in the affected sectors and would penalise their customers as well,” said **Hans-Werner Müller**, Secretary General of UEAPME.

UEAPME has made a final appeal to the small group of Member States, which have consistently blocked agreement, to agree to permanently apply the reduced rates to labour intensive services in order to avoid such damaging indecision in the future. This appeal comes on the same day that entrepreneurs in the construction sector have taken to the streets in Paris to demonstrate in support of making the reduced rate scheme permanent.

“Combating VAT fraud is one of the priorities of the Austrian Presidency and forging an agreement on the crucial issue of reduced rates will be a real yardstick of its ability to deliver on this priority. The reduced VAT scheme has been an effective tool in combating the threat of the shadow economy in labour-intensive sectors. Abruptly imposing massive rate hikes would play into the hands of black market operators and place tax compliant, law-abiding firms at a major disadvantage,” continued Mr Müller.

A number of studies have confirmed the positive impact the reduced rate scheme has had on employment, while suggesting that discontinuing the scheme could lead to up to 200,000 job losses across the EU, at a time when unemployment rates are rampant.

“Permanently applying these reduced rates will hopefully spare us the embarrassing debacles that have accompanied each attempt to renegotiate the VAT package. Providing regulatory certainty is crucial for businesses, while ensuring price stability will help reassure EU consumers in states where consumer confidence has been damaged,” concluded Mr Müller.

***** End *****

EDITORS’ NOTE: UEAPME is the employer’s organisation representing crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 78 member organisations, which represent crafts and SMEs across Europe, covering over 11 million enterprises with 50 million employees. UEAPME is a European Social Partner.

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