



CONSTRUCTION FORUM

Herr Hans Eichel
Minister
Bundesministerium für Finanzen
Wilhelmstraße 97
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Prot. N° 1696/OL

Reduced VAT rates on labor-intensive services Only one year to find a solution!

Dear Mr Eichel,

The UEAPME Construction Forum is a specialised discussion platform representing the interests about 1,000,000 small or medium-sized construction enterprises across the European Union.

The small and medium-sized construction businesses in the European Union are deeply worried about the deadlock in the Council negotiations relating to the voluntary application of reduced VAT rates on labour-intensive services.

Germany appears to belong to a small minority of Member States that reject all proposals tabled over the past two years to adopt a simplified permanent system.

SMEs in construction find it difficult to understand why your country opposes a system authorising Member States to apply reduced VAT rates for locally provided services on a voluntary basis. Germany would neither be obliged to apply the system nor would there be a risk of distortions in competition.

The experiment on reduced VAT rates on labour intensive services is currently being implemented in 11 Member States and has shown very encouraging results both in terms of employment creation and reduction of parallel economy. Industry surveys demonstrated a

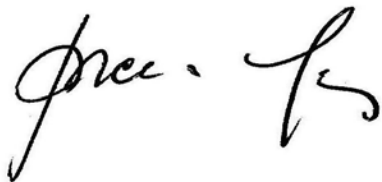
positive impact on employment and economic growth in the home renovation, maintenance and repair sector in France, Italy and the Isle of Man. Additionally, in the Netherlands, employment rose by 15% to 20% in the industry sectors participating in the reduced VAT experiment.

Did you ever examine the effects of terminating this system in these countries in December 2005? In particular for construction activities, prices would go up by up to 15 % and job losses are estimated to be around 200,000. The only real winner would be the shadow economy. This cannot be the will of your government.


We would ask you to respect the fiscal autonomy of these countries and let them decide themselves whether or not to apply reduced VAT rates. You can help break the deadlock in the Council by offering positive support to the efforts of the Luxembourg and UK presidencies, who declared this issue a top priority for their respective terms.

We look forward to receiving your comments in this matter.

Yours sincerely,



Paul Reckinger
President UEAPME



J. Antonio Calvo Delgado
President EBC

Annex: Background note

BACKGROUND NOTE

UEAPME is the employer's organisation representing the interests, at European level, of crafts, trades and SMEs in the whole of Europe. UEAPME is a recognised European Social Partner. UEAPME incorporates 78 member organisations consisting of national cross-sectorial SME federations, European branch federations and other associate members. UEAPME represents more than 11 million enterprises, which employ around 50 million people in the whole of Europe.

The UEAPME Construction Forum is formed by the following European construction associations.

CEETB	Comité européen des équipements techniques du bâtiment (Génie Climatique International - Union internationale de la Couverture et de la Plomberie)
EBC	European Builders Confederation
EMU	European Metal Union
ESCHFÖ	European Federation of Chimney Sweeps
EuroWindowor	European window, curtain wall and door manufacturers
FECB	European Federation of Timber Construction
FIDEN	International Association of Building Service Contractors
IFD	International Association of Roofing Contractors
UNIEP	Union Internationale des Entrepreneurs de Peinture

History of reduced VAT rates on labour-intensive services:

In 2000, the European Union launched a pilot project allowing Member States to apply reduced VAT rates on certain labour-intensive services (Annex K of the 6th Directive on VAT). In the absence of any agreement in the Council on the definite system, this pilot scheme has already been extended twice in 2002 and in 2004. The second extension will expire at the end of 2005.

Under this scheme, nine EU-15 and two new Member States are applying reduced rates on certain labour-intensive services, including construction. The evaluation reports, they tabled in 2003, are for their large majority very positive.

In July 2003, the European Commission proposed a directive (COM(2003)397) with a view to simplifying the system by establishing a single list of goods and services that could benefit from reduced VAT rates. This revised Annex H should include the construction, maintenance and repair of houses. However, the Council has failed until now to reach the unanimous agreement required for tax matters.

Certain Member States have argued that, under the principle of subsidiarity, they should be allowed greater freedom to set reduced rates. The Commission was asked to analyse areas where greater autonomy could be envisaged and where this does not interfere with the proper functioning of the Internal Market. In a "Non Paper", presented in the beginning of 2004, the Commission considers that "the application of reduced rates to the provision of all services which cannot be delivered from a remote location gives rise to little or no danger of cross-border distortion and there is therefore no justification to refuse an option in such cases. This would be the case, for example, for all transactions linked to immovable property. Thus rather than limiting the reduced rate to social housing, we could allow reduced rates for all work related to immovable property".

On this basis, a new mechanism was proposed by the Irish Presidency that would allow Member States to ask the Commission for the introduction of a reduced rate in their own

state for locally delivered services not listed in Annex H. If the Commission finds the application acceptable, it submits it to the Council for approval. This new mechanism is considered by a large majority of Member States as an opportunity to resolve the present impasse.

However, 5 out of 25 Member States still oppose any authorisation for the voluntary application of reduced VAT rates (Austria, Denmark, Germany, Slovakia and Sweden).

Current situation in the buildings sector:

Category 9 of Annex H – social housing : 11 MS

- BE, EL, ES, FR, IE, IT, LU + CZ, LT, PL, SI

Point 2 of Annex K - Renovation and repairing of private dwellings : 7 Member States

- BE, ES, FR, IT, NL, PT, UK

Point 3 of Annex K - Window cleaning and cleaning in private households. : 2 Member States

- FR, LU

Temporary derogations :

- for old Member States until adoption of definitive system : 6 Member States
- BE, ES, IE, IT, LU, UK
- for new Member States until 31/12/2007: 4 Member States
- CZ, LT, PL, SI