



European Commission
Taxation and Customs Union

The reform of VAT in the public sector

Relevant provisions

- **Article 13 of the VAT Directive:**

Activities of public bodies acting as public authorities = (generally) out of scope

- **Articles 132 – 134 of the VAT Directive**

Tax exemptions for certain activities in the public interest (e. g. medical care, education, public postal services...) → not necessarily restricted to activities carried out by public bodies

Shortcomings of the current rules

- Lack of neutrality

e.g.: distortion of competition (output and input side)

- Lack of harmonisation

e.g.:

wide discretion to Member States to define notions such as "public bodies"

- Complexity

e.g.:

Difficulty determining the VAT status of the supply and the deductibility of input VAT as activities of public bodies can be taxable (taxed or exempt) and non-taxable

First legislative initiative

Postal sector
COM (2003)234

→ No consensus reached in Council



Copenhagen Economics Study of 2011

Possible reform options:

- Full taxation
- Refund system
- Deletion of Article 13, while keeping all or most of the current exemptions in the public interest
- Option 3 with an option to tax with regard to tax exempt activities in the public interest

Green Paper on the future of VAT

- Outcome of the public consultation
- Communication:
 - considering CE study/outcome of public consultation
/discussion with Member States:
gradual approach towards taxation

Communication on the future of VAT

“...Considering the potentially significant impact in terms of cost of public goods or on social security of phasing out existing exemptions on a large scale such as on education or health, a gradual approach towards taxation will be carefully considered.

The Commission will table a proposal which will concentrate on activities with a greater degree of private sector involvement and a heightened risk of distorted competition.”

Complementary Study of 2013

- Inclusion of postal services in the economic model
- Methodological improvement: better assessment of tax base (consideration)
- Assessment of variants of the different reform options (e. g. different rate scenarios)
- Examination of possible effects of a sectoral reform

Full taxation option

- New Zealand Model

- Full Taxation Model based on the EU VAT system:
 - Revenue gains up to 80,38 bn Euro
 - Change of GDP: +0,34%
 - Loss of public jobs which will be compensated by private job creations
 - Pros and cons

EU wide refund system

■ Revenue impact:

additional costs of up to 134 bn Euro of which are related to

- charities: 6 bn Euro
- other private entities: 29 bn Euro
- public entities: 99 bn Euro

■ Pros and cons

Deletion of Article 13 while keeping tax exemptions

- Economic impact depending on the list of exemptions which will be kept
- Pros and cons

Sectoral reform

- Study examined the following sectors:
 - Waste management
 - Postal services
 - Broadcasting

- Pros and cons

Follow up

- VAT expert group: meeting of 25 January 2013
- Group on the future of VAT: meeting of 28 January 2013

Future initiatives

- April 2013:
Conference in Italy with Member States and Stakeholders
- 2013/2014:
Impact assessment
- 2014 (TBC):
Legislative proposal

Thank you for your attention!

