



## Supplement to the HOTREC brochure

*“A reduced VAT rate  
for hospitality and tourism in Europe”*

**HOTREC Seminar**

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**Budapest  
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## **Supplement to the HOTREC VAT brochure of September 2005** ***“A reduced VAT rate for hospitality and tourism in Europe”***

### **Developments from September 2005 until January 2007**

The last development, which the HOTREC 2005 VAT brochure reported upon, was the failure of the Economic and Financial Affairs Council (ECOFIN) to reach agreement in June 2005 on the compromise, which the Luxembourg Presidency had tabled.

In its Resolution of 8 September 2005, the European Parliament called *“on the Council urgently to conclude the decision-making process on the proposal for a Council Directive... as regards reduced rates of value added taxes, so as to enable all Member States to apply in a structured way reduced VAT rates for restaurants, as already exist for other tourism-related activities, such as holiday accommodation, plots on campsites, hotels and amusement parks”*.

Discussions within the ECOFIN continued during the second part of 2005 but no agreement could be found on a global revision of the list of goods and services to which Member States may decide to apply a reduced rate of VAT.

On 14 February 2006, unanimity could only be achieved within ECOFIN on the extension until the end of 2010 of the possibility for Member States to apply reduced VAT rates to the following labour-intensive services: small repair services, renovation of private homes, window cleaning and private household cleaning, domestic care services and hairdressing (Directive 2006/18/EC, O.J. L51 of 22 February 2006).

HOTREC and its member associations had put a lot of hope in the European Commission proposal of July 2003, which suggested including restaurant services in the list of goods and services (Annex H to the 1992 Directive on VAT rates) to which Member States may choose to apply a reduced rate of VAT. As no progress could be made on this proposal, HOTREC had then hoped that restaurant services would be added to the list of labour-intensive services for which the possibility of an experiment of a reduced rate was extended until the end of 2010. Unfortunately, once again, the ECOFIN did not recognise the labour-intensity and the potential for job creation in the restaurant sector.

Nor did the ECOFIN follow the suggestion by the European Commission *“to allow greater autonomy to all Member States by extending the scope of Annex H within the limits which can be tolerated without unduly disturbing the Internal Market... in respect particularly of supplies of services...which require the presence or the supplier and the customer (e.g. restaurants)”*, as *“the nature of the services concerned and the rules applicable to the place of taxation mean that the risk of relocation is minimal”*.

However, Directive 2006/18 also provides that *“by 30 June 2007 at the latest the Commission shall present to the European Parliament and the Council an overall assessment report on the impact of reduced rates applying to locally supplied services, including restaurant services, notably in terms of job creation, economic growth and the proper functioning of the internal market, based on a study carried out by an independent economic think-tank.”*

On 11 August 2006, the European Commission announced the award of the contract for a study on reduced rates of VAT applied to goods and services in the Member States of the European Union to the consultancy firm Copenhagen Economics ApS. The study should in principle be completed within 9 months from the award of the contract; i.e. around May 2007. It is intended to help the European Commission in the preparation of the report, which it owes to the European Parliament and the European Council by end of June 2007. HOTREC and its member associations are now investing all their hopes in this report.

As Directive 2006/18 links the fate of restaurant services to the labour-intensive services it covers, the implication could be that there will be no global review of the rates of VAT for restaurants before the end of 2010.

Cyprus, Hungary, Poland and Slovenia negotiated in their respective Accession Treaties the possibility of applying a reduced rate to restaurant services and these arrangements are valid until 31 December 2007. Maybe this deadline could bring about a review of the regime of VAT rates for restaurants at the end of 2007?

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In line with the principle of “*better regulation*”, all VAT Directives since 1967 were recently restructured in a single new text: **Directive 2006/112/EC of 28 November 2006 (O.J. L 347 of 11 December 2006)** and all previous texts were repealed. As a result of this purely formal exercise, the Annex H (list of the goods and services – among which accommodation provided in hotels - to which Member States may decide to apply a reduced rate) has become Annex III. Annex K (list of labour-intensive services to which Member States may decide to apply a reduced VAT rate until the end of 2010) has become Annex IV. Article 98-2 allows the application of reduced rates to the goods and services listed in Annex III. The special provisions dealing with restaurants services can now be found in Articles 114 to 129.

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Annexes: tables of VAT rates for the hospitality sector on 1 January 2007.