

Measure 60: Harmonising VAT deductions

First page:

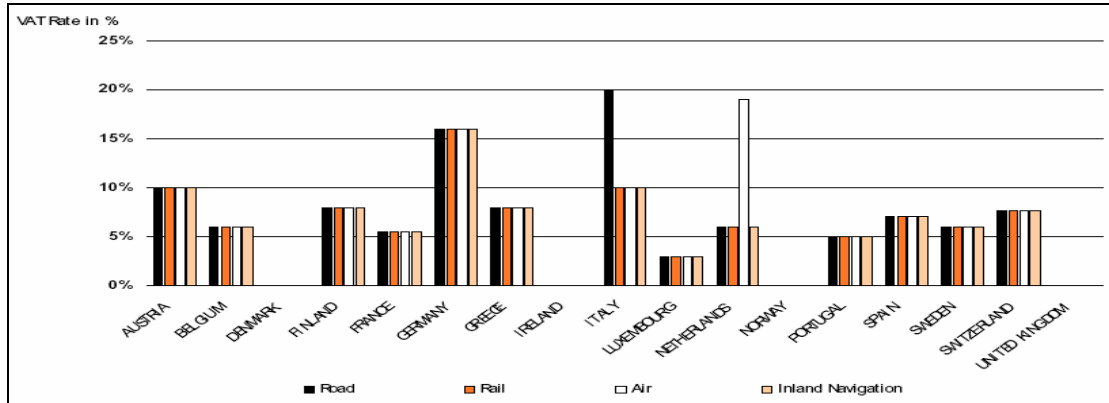
<p><i>Policy package:</i> IC: Road Pricing, taxation and financing</p>
<p><i>Measure 60:</i> <i>Proposal of harmonising entitlement to deduction is already before the Council (VAT strategy).</i></p>
<p><i>What is the problem being addressed ?</i></p> <p>Value Added Tax (VAT) is subject to a Community-wide regime, although there are problems of harmonization of VAT rates across and procedures across countries, because of prerogatives at the level of national fiscal policies in the Member States. A distinction shall be made between VAT on the purchase of means of transport and VAT on transport services.</p> <p>As it concerns the former, generally, a non-taxable person is allowed to purchase goods within the Community and pay the VAT in the Member States where the goods are purchased. However, since the introduction after the completion of the Internal Market in 1993 of the transitional VAT arrangements, this principle has been adjusted for the purchase of means of transport. In this case VAT is due in the Member State of destination, which normally coincides with the country where the vehicle is registered. This situation, which contrast with the general rules applicable to other consumer goods purchased in the internal market and which does not favour convergence of the VAT scheme applied to passenger cars, is the result of non-approximation of VAT rates.</p> <p>As it concerns the VAT on transport services, it is important to note that railways, road transport and air transport are treated unequally regarding VAT on international passenger and freight transport. While air transport is exempt from VAT on international relations, customers of railways pay for the national part of an international relation the respective national VAT rate on ticket and transport prices. This leads, depending on the level of national VAT to higher market prices of railway services in comparison to air transport.</p>
<p><i>Measure's costs and/or benefits:</i></p> <p>There are no direct costs related to an implementation of this measure. The monetary consequences which could occur through an implementation can not be estimated at this time.</p>
<p><i>Legislative implementation at the EU level:</i></p> <p>Without an actual community policy a statement about the state of implementation cannot be drawn. At the moment the discussion about this measure is still ongoing on the European level. A proposal for a directive wasn't set up to now.</p>
<p><i>What are the objectives ?</i></p> <p>The objective of this measure is the harmonization of VAT rates on the purchase of means of transport and on the various transport services across Member States. However, the achievement of the objective of this measure seems to be not probable, because of resistances at the level of national fiscal policies in the Member States.</p>
<p><i>Interactions with other WP measures:</i></p> <p>The measure is included in the package of fiscal measures, but there are no significant interactions with the other fiscal measures.</p>

Second page:

Output indicators:

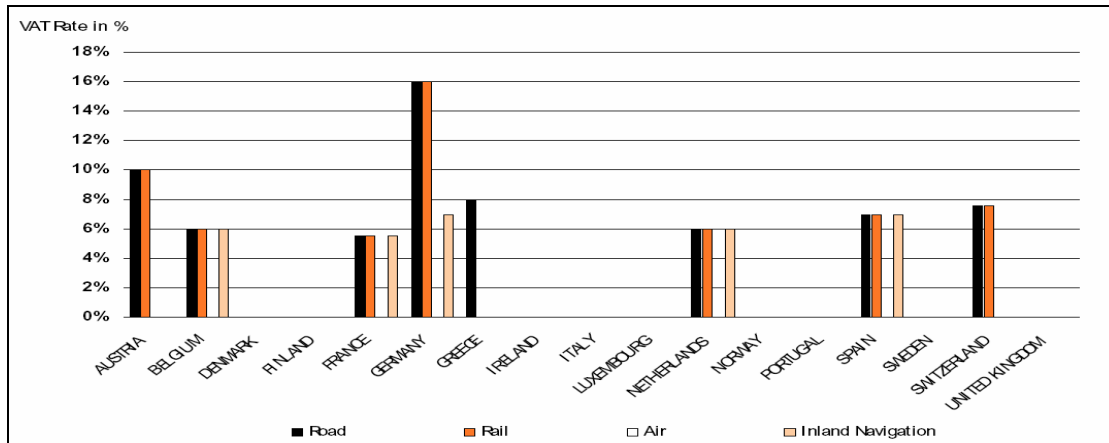
In domestic passenger transport there are equal VAT rates on transport services and ticket prices for almost all modes. In some countries passenger transport is exempt from VAT at all (e.g. Denmark with the exception of tourist bus services). In contrast to domestic transport, international transport services have different VAT tax rates depending on the respective mode. The following two figures illustrate the actual VAT situation for the different transport modes in the EU 15+2:

VAT rates for domestic transport:



Remarks: Denmark: tourist bus services are taxed with 25% VAT, Norway: missing data.

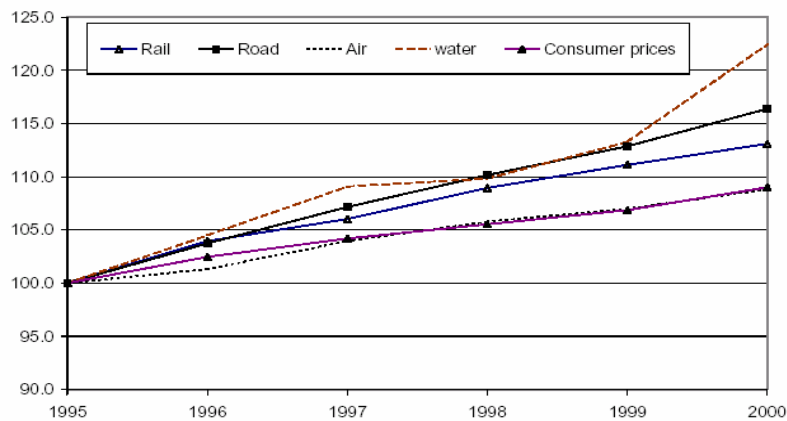
VAT rates for international travel



Outcome indicators: intermediate impacts on transport markets

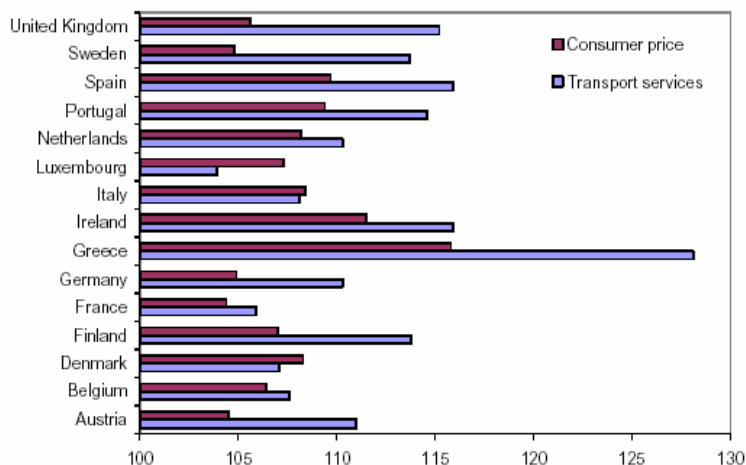
The harmonisation of VAT rates will have an impact in particular on transport prices. According to TERM 2002 – Transport prices fact sheet, on average, passenger transport prices have increased at a higher rate than consumer prices over the past five years, with the exception of Denmark, Italy and Luxembourg, where the opposite has occurred:

Figure 1: Real average EU-15 passenger transport price indices, 1995–2000 (1996 = 100)



Source: Eurostat, 2002.

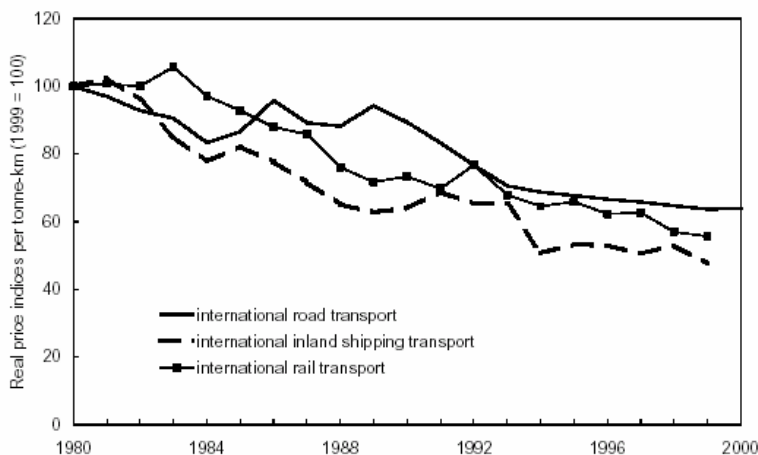
Figure 2: Consumer prices and prices of passenger transport services in 2000 (1996 = 100)



Source: Eurostat, 2002.

For freight transport prices, no EU-wide data exist, but a Dutch example shows that the prices of road, rail and inland waterway transport have decreased by 36%, 45% and 52% respectively over the past 20 years:

Figure 3: Real price indices of international freight transport in the Netherlands, 1980–2000



Sources: NS, 2000; CBS, 2002; NEA, 2002.

Outcome indicators: final impacts on transport users and non users

The harmonisation of VAT rates will have clearly an impact on national budget and fiscal policies, and this is presently also a barrier to the effective implementation of the measure.