

TAX

NEW VAT RATES DIRECTIVE

VdA EXPERTISE



April 2022



Following the Action Plan on VAT: towards a single EU VAT and reflecting the new priorities at EU level with health, environment and digital transition, the New VAT Rates Directive was approved on 29 March 2022 with the aim of modernizing and harmonizing the VAT rates.

DIRECTIVE

The Directive modernizes the VAT Directive's rules on the applicable rates, aiming at a greater flexibility of Member States in the application of reduced rates.

The main objectives of this Directive are the harmonization of the VAT rates applicable by Member States, the modernization of the categories of products considered to cover basic needs, the general interest and the benefit to the final consumer.

VAT RATES

The Directive keeps the general rule that Member States cannot apply a VAT rate below 15%. However, as far as reduced rates are concerned, up until now Member-States could apply up to two reduced rates to the goods and services set forth in Annex III of the VAT Directive. This Directive establishes that from now on Member-States may set reduced rates in the following terms:

- Member-States may apply two reduced rates, no lower than 5%, to up to 24 categories of goods and services included in Annex III;
- Member-States may also, in addition to the two reduced rates mentioned above, apply a reduced rate lower than 5% as well as an exemption with right to deduction ("zero rate") to up to 7 of certain categories of goods and services listed in the Annex III and identified by the Directive.

EQUAL TREATMENT OF MEMBER STATES

The Directive establishes that Member-States may apply reduced rates no lower than 12% to goods and services not listed in Annex III but which are subject to reduced rates by other Member-States as a derogation to the VAT Directive, in order to avoid distortions on competition.

FOSSIL FUELS AND CHEMICAL PRODUCTS

Under the European Union's EU4HEALTH Program and European Green Deal plan, the Directive also foresees to phase out the applicability of VAT reduced rates and exemptions to fossil fuels and products with similar effects on gas emissions as well as chemical fertilizers and pesticides.

GOODS AND SERVICES SUBJECT TO REDUCED RATES

The Directive foresees new categories of goods and services to which reduced rates may be applied. The changes aim at modernizing the list in line with the current EU priorities: health and the environment.

The new list on Annex III of the VAT Directive adds the following categories of goods and services:

- pharmaceutical products used for medical and veterinary purposes;
- medical equipment and protection gear;
- transport of passengers and of the goods accompanying them (including the supply of services relating to the transport of passengers);

- supply of books, newspapers and periodicals in physical or electronic means of support;
- admission to cultural shows and events (occurring in physical facilities or through live-streaming);
- reception of radio and television broadcasting services and webcasting; internet access services provided as part of digitalization policy;
- supply and construction of housing; renovation and alteration of housing and private dwellings; letting of immovable property for residential use;
- construction and renovation of public and other buildings used in the public interest;
- supply and installation of solar panels on private dwellings, public buildings or used in the public interest;
- goods and services normally used in agricultural production, excluding capital goods;
- live equines and the supply of services related to live equines;
- admission to sporting events or access to the live-streaming; use of sporting facilities and supply of sport or physical exercise classes also when live-streamed;
- supply of services provided in connection with sewage, street cleaning, refuse collection and waste treatment or waste recycling;
- supply of repairing services of household appliances, shoes and leather goods, clothing and household linen;
- hairdressing;
- energy supply through low-emission systems;
- live plants and other floricultural products, including bulbs, cotton, roots and the like, cut flowers and ornamental foliage;
- children's clothing and footwear; supply of children's car seats;
- supply of bicycles, including electric bicycles and rental and repairing services;
- supply of works of art, collectors' items and antiques;
- **legal services provided to people under a work contract and unemployed people in labor court proceedings;**
- **tools and equipment intended for rescue or first aid services supplied to public bodies or non-profit-making organizations;**
- supply of services in connection with the operation of lightships, lighthouses or other navigational aids and lifesaving services.

ENTRY INTO FORCE AND TRANSPOSITION

The Directive entered into force on April 5 2022 and must be adopted by Member-States until December 31 2024 and shall apply from 1 January 2025.

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