COMECE contribution to the EU consultation on the reform of VAT rates

- proposal for a Council Directive amending Directive 2006/112/EC -

Clear and fraud-proof VAT rules are crucial for the functioning of the European single market. Simplifying these rules, however, should not take place to the detriment of the objective of a just and equitable tax system. COMECE therefore highlights in its contribution the role of reduced VAT rates as a vital policy instrument that promotes fair taxation for the common good.

COMECE supports the objective of a harmonised Single European Market and the decision to implement a definitive VAT system based on the principle of destination. A simplified VAT system will reduce compliance costs and legal uncertainty for European companies, particularly for small- and medium-sized enterprises, operating cross-border. Moreover, a robust EU VAT system, which treats cross-border transactions in the same way as domestic transactions, will be less vulnerable for tax fraud. Whereas these objectives are important, they need to be rebalanced with the goal of striving for a just and equitable tax system.[1] COMECE therefore encourages the EU to consider the following four recommendations:

1. **Ensure a just and equitable tax system.** Public financing should strive to become an instrument of development and solidarity. For these reasons a system of taxation should be people-centred and based on justice and equity, meaning that the burdens are proportional to the capacity of the people that contribute[2]. This principle can generally be found at the basis of the structure of taxation on income and capital. However, the VAT system is based on different principles. Value-added tax is a consumption tax and is therefore paid by the end-consumer and does not take the different financial capacities of the end-consumers into account. A single VAT rate thus seems to hit the poor the hardest. They usually spend a larger amount of their income on consumption and a significant part on essential goods and services, which are taxed at a reduced rate. Thus, poor people are more affected by a less flexible VAT system and other indirect taxes. In their recently published statement on poverty and social exclusion in Europe, the bishops of the 28 Member States explicitly encourage the EU to apply a fair tax policy, which is "*formulated and implemented so as to help remove the structural causes of poverty*"[3]. The European Commission should consequently perceive reduced VAT rates not just as a barrier that prejudices the smooth functioning of the internal market, but also as an instrument of policy, which rebalances the tax system towards a more equal and just approach.
2. **Allow for reduced VAT rates for childcare products.** In having children, as well as in caring and rearing them, families support a vital task for the society. However, they are more affected by the value-added tax and other indirect taxes than other categories of taxpayers because the efficiency of their income is strongly reduced in relation to the number of children they support. Households without children therefore have on average a higher income at their disposal than households with children or with one child only. Moreover, compared to families without children and with one child only, large families and single parents face a higher poverty risk. So far, only those Member States, which at 1 January 1991 were applying a reduced rate to children's clothing and children's footwear may continue to apply such a rate to the supply of those goods and services.[4] COMECE recommends to allow all Member States to provide a reduced rate to these goods. Moreover, child products, in general, such as furniture, prams and strollers, bottles, soaps and creams, should be included in Annex III. The use of these products is indispensable in the process of taking care of children and

[1] Pontifical Council for Justice and Peace, Compendium of the Social Doctrine of the Church, Vatican City 2004, at 355.

[2] Pope John XXIII, encyclical *Mater et Magistra*, May 15th 1961, at page 132. The document is accessible at http://www.vatican.va/holy_father/john_xxiii/encyclicals/documents/hf_j-xxiii_enc_15051961_mater_en.html.

[3] Cf. http://www.comece.eu/comece-bishops-call-for-an-integrated-approach-to-combat-poverty.

[4] Cf. Council Directive 2009/47/EC amending Directive 2006/112/EC as regards reduced rates of value added tax, Art. 115, No. 5.

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safeguarding the health and safety of children.

3. **Acknowledge the special status of Churches and other non-profit organisations**. COMECE recommends the EU to keep the exemption from VAT for non-profitmaking activities as provided in Art. 132, Council Directive 2006/112/EC. In contrast to business activities, Churches as well as their welfare organisations are not geared towards profits and provide a service of general interest for the public. Any profits that are generated are used for the purpose of the common good and flow back to society as a whole, in particular to the most vulnerable, needy and marginalised. Churches thus make a significant contribution to the promotion of the common good. The tax exemption in question reflects this fact and should therefore be preserved.
4. **Allow for reduced VAT rates for restoration and conservation of churches**. COMECE puts into questions the general rationale for allowing Member States to apply a reduced VAT tax rate to supply of services consisting in the renovation and repairing. According to Annex III, point 10a of the amended Council Directive 2006/112/EC, Member States may apply a reduced value-added tax only to the services consisting in the "*renovation and repairing of private dwellings*"[5] but not for the "*the renovation, repair, alteration, maintenance and cleaning of housing and of places of worship and of cultural heritages and historical monuments recognised by the Member States concerned*" as proposed by the European Commission in 2008[6]. Churches are often old and historical buildings, concurrently listed in the registers of cultural heritage and historical monuments. The age of these buildings requires, not only their repair, but also prevention from damage and the preservation of their condition. In many cases, however, churches and places of worship are repaired too late, when they are already damaged. This is not due to the negligence of those responsible for their administration, but to the high cost of these services. Likewise, the maintenance cost of churches and other places of worship are very high due to the large size of most of the churches and often exceeds the financial capacities of public financing should strive to become an instrument of development and solidarity. Including churches and other places of worship in the list of goods and services that are subject to reduced VAT rates, would therefore provide a concrete message of the EU with the view of the European Year of Cultural Heritage in 2018.

Finally, we would like to draw your attention to the document of 3 January 2013 submitted by the COMECE Secretariat to the Commission consultation on the ***review of existing legislation on VAT reduced rates***.

COMECE Secretariat
Brussels, 20 March 2017

The Commission of the Bishops' Conferences of the European Union (COMECE) *brings together the Bishop delegates from the Bishops' Conferences of the European Union's Member States. For more than thirty years now, COMECE has been closely involved in the process of European integration and offering its reflections. COMECE is a partner of the EU institutions in the Dialogue foreseen by Article 17(3) of the Treaty on the Functioning of the European Union. Its permanent General Secretariat7, based in Brussels, analyses EU policies on a day-by-day basis, striving to bring the specific contribution of the Catholic Church into the debate.*

[5] Cf. ibid, Annex, No. 2.
[6] Proposal of the European Commission for a Council Directive amending Directive 2006/112/EC as regards reduced rates of value added tax, 2008, Annex para. 5: http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52008PC0428.
[7] COMECE Secretariat, 19, Square de Meeûs – B-1050 Brussels. Register ID number: **47350036909-69.**

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