

Position Paper

Brussels, 31 August 2016

EU VAT Action Plan: CER supports proposal for modernised rates policy

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Summary

CER supports the European Commission's proposal, made in its VAT Action Plan of April 2016, to grant Member States more freedom in setting their VAT rates, specifically to make derogations legally applied in Member States available to *all* Member States. In cross-border passenger transport, the VAT exemption applied to rail in many Member States could then be applied in all Member States, as is the case for aviation. CER would welcome this, as it would help fair competition between rail and aviation and foster the decarbonisation of transport.

Grant Member States more freedom on VAT rates

The European Commission published, on 7 April 2016, a VAT Action Plan (COM(2016) 148 final) to set out the pathway to a robust single EU VAT area. Related objectives include:

- Create a deeper and fairer single market, fit for purpose in the 21st century (notably for the digital economy, cross-border e-commerce and the needs of SMEs)
- Combat fraud and tackle the "VAT gap" (estimated at EUR 170 billion p.a.), with improved cooperation between tax administrations and modernised VAT collection
- Achieve simplicity for businesses and reduce compliance costs
- **Grant Member States more freedom on VAT rates** (based on subsidiarity and full implementation of the destination principle of taxation for cross-border trade¹)

On the last point, the Commission has made a specific proposal: maintain **current derogations** that are legally applied in Member States and **make them available to all Member States**, ensuring equal treatment. **CER supports this proposal**, as it would help *fair competition* between rail and aviation and foster the *decarbonisation of transport*.

In cross-border passenger transport today, aviation is exempted from VAT in all EU Member States, whereas rail is not in eight of them (Austria, Belgium, Croatia, Germany, Greece, Netherlands, Spain and, on some routes, France). This distorts intermodal competition. It also runs counter to the EU's and Member States' greenhouse gas reduction goals, which call for a shift to low-carbon transport modes. For the journey Brussels-Berlin, aviation emits around 117 kg CO₂ per person (or 175 when applying the climate factor of CO₂ emitted in high altitudes), but rail just 23.²

In its VAT position paper of 18 June 2015, CER argued that, given the exemption for aviation, *all* cross-border passenger transport should be exempted from VAT (zero output VAT together with the right to deduct input VAT).³ This was reiterated in a joint industry statement to the Commission on 12 October 2015, signed by transport associations from all surface transport modes: rail, road, water.⁴

CER supports the Commission's recent proposal of making current derogations available to all Member States. It is a good way forward that EU Member States should embrace.

CER also supports the objective of combatting VAT fraud. Recovered VAT could be used to fund infrastructure for low-carbon transport, improving the competitiveness of Europe's economy, thereby boosting jobs and growth.

¹ Compared to the origin principle, which the EU's current VAT rules were meant to support, the destination principle allows for greater VAT rates diversity between Member States, as suppliers would derive no significant benefit from being established in a lower-rate Member State.

² See www.ecopassenger.org. Data retrieved, for average load factors, on 31 August 2016.

³ See www.cer.be/publications/latest-publications/removing-vat-related-distortions-between-transport-modes-exempt-all

⁴ Statement signed by Allianz pro Schiene, CER (Community of European Railway and Infrastructure Companies), CLIA Europe (European section of Cruise Lines International Association), ECSA (European Community Shipowners' Associations), EPF (European Passengers' Federation), EPTO (European Passenger Transport Operators) and IRU (International Road Transport Union).

About CER

The Community of European Railway and Infrastructure Companies (CER) brings together more than 70 railway undertakings, their national associations as well as infrastructure managers and vehicle leasing companies. The membership is made up of long-established bodies, new entrants and both private and public enterprises, representing 73% of the rail network length, 80% of the rail freight business and about 96% of rail passenger operations in EU, EFTA and EU accession countries. CER represents the interests of its members towards EU policy makers and transport stakeholders, advocating rail as the backbone of a competitive and sustainable transport system in Europe. For more information, visit www.cer.be or follow us via Twitter at @CER_railways.

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