Selected VAT Issues

Introduction

1. This paper reviews VAT issues under three headings:

I. VAT rating and structure, and scope for change (page 1)
II. VAT issues at domestic level (page 6)
III. VAT developments at EU level (page 7)

Annual VAT Revenue

2. VAT was the largest source of revenue within the Irish tax system between the years 2003 and 2008, however, from 2009 it was exceeded again by income tax revenues. As VAT is a transaction tax the yield greatly depends on the level of economic activity and consumer spending from which it derives. In 2011, VAT accounted for approximately €9,700 million or 29% of the overall tax yield to the Exchequer. The current estimate for the VAT yield in 2012 is €9,995 million.

I. VAT Rating and Structure, and Scope for Change

VAT Rates and Structure

3. The structure and scope under which Member States can apply VAT to goods and services are determined by EU law. Ireland's VAT rate structure is as follows:

- **Standard rate of 23%** applies to the majority of goods and services accounting for 44% of all goods and services, including cars, petrol, diesel, alcohol, tobacco, electrical equipment and CD/DVDs. Under the EU VAT Directive, Member States may set the standard VAT rate not lower than 15% and there is political agreement that it does not exceed 25%[1].
- **Reduced rate of 13.5%** applies mainly to residential housing, labour intensive services and general repairs and maintenance. Member States may have up to two reduced VAT rates of not less than 5% for a specified number of goods or services which are set out in Annex III of the VAT Directive (see Appendix A).
- Member States also have the option of maintaining, at a reduced rate of not less than 12%, any items not listed in Annex III, provided they carried a reduced rate on 1 January 1991. These items are considered to be **parked** and Ireland's parked rate is 13.5%. Fuel used for heat or light, and commercial construction are examples of parked items. All items at the 13.5% reduced rate and parked rate account for 31% of the goods and services subject to VAT.
- **Reduced rate of 9%** applies mainly to tourism services including hotel and holiday accommodation, restaurant services, and various entertainment services. The rate was introduced as part of the Jobs Initiative and applies from 1 July 2011 until end December 2013. It accounts for around 12% of all goods and services.

[1] Despite this political agreement, Hungary increased their standard VAT rate to 27% in 2012 and have applied to the EU Commission to introduce an additional rate of 35%.

- **Zero rate** applies to most food, children's clothes and shoes, and oral medicines, and accounts for 13% of goods and services subject to VAT. While it is possible to retain the zero rating for goods and services that were in place on 1 January 1991, the zero rate cannot be applied to any new items.

4. Services provided by charities, non profit organisations and certain financial services are **exempt** from VAT, as are schools and hospitals etc. Exempt suppliers do not generally charge VAT on the services they provide and cannot reclaim VAT incurred on the goods and services they purchase. Ireland also applies a VAT rate of 4.8% but this is limited to livestock sold by VAT registered persons/firms. Unregistered farmers are also allowed to apply an addition of 5.2% to the sale price of all agricultural produces to VAT registered persons/firms. This reduces the administrative burden on small farmers.

Recent Changes to the VAT Rates

5. Budget 2012 increased the standard VAT rate from 21% to 23% from 1 January 2012. A Budget 2009 increase of 0.5% in the rate was reversed in Budget 2010. Similarly, a Budget 2001 reduction in the standard rate by 1% was reversed in Budget 2002.

6. The 13.5% reduced VAT rate has been in place since Budget 2003 when it was increased to that level from 12.5%. The Jobs Initiative introduced a second reduced VAT rate of 9% on a temporary basis from 1 July 2011 until end December 2013.

Ireland's VAT rates in comparison with EU/UK

7. As of 1 September 2012, 21 of the 27 EU Member States have a standard VAT rate of 20% or higher and the average standard rate in the EU is 21.1%. Four Member States have a higher standard VAT rate than Ireland; namely Hungary at 27%, Denmark and Sweden at 25%; and Romania at 24%. This means that Ireland has the joint 5th highest standard VAT rate along with Finland, Portugal, Greece, and Poland at 23%. A further 12 Member States have a rate of 20% or 21%. Appendix B provides details of VAT Rates applying in the EU Member States.

8. The trend among EU Member States has been to increase VAT rates as a means of covering the budgetary shortfall generated by the economic downturn. By October of this year, 22 of the 27 Member States will have increased their VAT rates over the last 5 years with 17 Member States making an increase in their standard rate alone. Of the Member States that have not increased their VAT rates, two of these already have in place a maximum standard rate of 25%. VAT increases continue to be considered. On 1 October the Netherlands will increase their standard VAT rate from 19% to 21%; at the start of 2013 the Czech Republic is due to increase both rates by 1%, to 15% and 21%; and Finland will increase their standard rate to 24%. In addition, Italy proposes to increase both rates from July 2013 to 12% and 23%.

9. At 13.5%, Ireland has the third highest reduced VAT rate in Europe after Hungary (17%) and the Czech Republic (14%), however we apply reduced rates to an extensive range of goods and services, relative to other Member States. In addition, Ireland, along with the UK, is unique among Member States in applying a zero rate of VAT to a sizable proportion of economic activity. In contrast, for example, Denmark's 25% standard rate applies to most goods and services in the State as they do not have any other VAT rates in place.

10. As regards the VAT differenential between Ireland and the UK, this was a significant issue throughout 2009 when there was 6.5 percentage points between the Irish standard rate of 21.5% and the UK rate of 15%. However, the Irish rate returned to 21% in January 2010 and the

UK rate increased to 20% by 4 January 2011, reducing the VAT differential to only 1 percentage point at that stage. Since the Irish VAT rate increased in January 2012 to 23%, the differential now stands at 3 percentage points. In the context of reduced rates, the UK have a 5% rate while Ireland operates rates of 9% and 13.5%. However, Ireland applies reduced rates to a higher proportion of goods and services than the UK.

Options for changes to VAT Structure and Rates

11. The following are four options for reform of the VAT rating structure that could be considered.

Option 1: Increasing or decreasing VAT rates

12. The illustrative effect of increasing or decreasing the 9% and 13.5% reduced VAT rates, and the standard VAT rate by 1%, including their inflationary impact, is outlined in the following table. These figures would be lower in the first year because of the pattern of payments.

Rate	1% increase/decrease	CPI effect*
9% Reduced rate	+/- €80m	+/- 0.09%
13.5% Reduced rate**	+/- €180m	+/- 0.08%
23% Standard rate	+/- €285m	+/- 0.33%

* Where passed on in full to the customer.

** The 13.5% reduced-rate costing includes parked-rate items which may only be reduced to 12%.

13. Experience has shown that when a VAT rate is increased, some retailers use this opportunity to further increase prices above Budget day increase, which would add to the effect on inflation. Increases in indirect taxes (like all taxes) can also act as a motivation for shadow economy activity and the creation of VAT avoidance schemes. On the other hand, when VAT rates are reduced, apart from the cost, the reduction may not always be passed on to customers, thus diminishing the possible beneficial inflation effect.

14. As regards the standard rate of VAT, the Programme for Government explicidly rules out increasing the rate above 23%.

Option 2: Moving zero rated items to the higher rates

15. Under EU rules we can retain the zero rating of items which were zero rated on 1 January 1991 but cannot introduce any new items to the zero rate. Ireland's zero rate applies in the main to most foods, children's clothes and shoes, books and oral medicines. With the exception of children's clothes and shoes, which would have to be standard rated at 23%, the remainder of the zero rated items could be subject to the existing 9% or 13.5% reduced rates. The yield to the Exchequer from moving the zero rated items to the 9% rate would be in the region of €790m and increase inflation by 1.14%, while moving them to the 13.5% rate would yield in the region of €1.13 billion and increase CPI by 1.59%. Applying the standard VAT rate to all items currently at the zero rate would yield €1.85 billion and increase inflation by 2.6%. However, once moved, it would not be possible to revert them back to the zero rate.

16. Applying a reduced or the standard VAT rate to those items currently subject to the zero rate (food, oral medicines and children's clothes and shoes) would fall disproportionately on the less well off, by increasing inflation by between 1.14% and 2.6%.

Option 3: Restructuring the VAT system on a revenue-neutral basis

17. It is possible to restructure the VAT system on a revenue neutral basis. If the VAT system was to be restructured on this basis so that all goods and services currently subject to VAT at the zero, 9%, 13.5% and 23% rates were at a single rate this would imply a rate on all goods and services of 15.5%. Such a change would result in a CPI increase of 0.04%.

18. It would also be possible to restructure the VAT system on a revenue neutral basis leaving aside items currently at the zero rate. If the VAT system were to be restructured in such a manner the VAT rate for goods and services currently subject to the 9%, 13.5% and 23% VAT rates would be re-aligned to a rate of 17.7% which would effect a CPI decrease of -0.61%.

19. It is argued that restructuring the VAT system would be more user-friendly and to an extent more equitable. However, re-aligning the VAT rate structure into just one rate would be regressive, giving rise to increases in the cost of most foods and reductions in more expensive items such as cars, auto fuel, alcohol, cigarettes, etc. Even where the zero rate is retained and only the other rates are re-aligned, this would affect most services, and would, for example, increase VAT on domestic fuels which would fall disproportionately on the less well off. It should be noted that the structure of the VAT system in Ireland is somewhat unique in that we apply a reduced rate of VAT to a high proportion (43%) of goods and services. Furthermore, a policy change in relation to items at the zero and parked rates would not be possible to reverse.

Option 4: Applying a reduced VAT rate to all items listed in Annex III

20. Of the goods and services listed in Annex III of the VAT Directive, some of these are subject to the reduced rates of 9% and 13.5%, while others have been retained at the standard rate. Some of the standard-rated goods and services that could be applied at a reduced rate are certain luxury foodstuffs, non-oral medicines and periodicals.

21. If the items which are currently at the standard rate but listed in Annex III were reduced from 23% to 13.5%, it would cost €140m in a full year, of which foodstuffs would account for €89m; pharmaceuticals (i.e. non oral medicines) €41m and periodicals €10m. If these items were reduced from 23% to the 9% rate it would cost €206m in a full year, with €132m accounting for foodstuffs; €60m for pharmaceuticals and €14m for periodicals. As Ireland now operates two reduced rates of VAT, which is the maximum allowed under the VAT Directive, it is not possible to introduce any new reduced VAT rates.

Options for assisting Small to Medium Businesses

22. In addition to the options for reform of the structure and rating of the Irish VAT system, the following are three options for changes to the VAT system that would assist small to medium enterprises.

Option 1: Increasing the cash receipts basis threshold

23. VAT is normally accounted for on the basis of invoices issued regardless of whether or not the trader has been paid for the supply in that period. However, businesses with an annual turnover of €1m or less, or where 90% of their supplies are to persons not registered for VAT (e.g. retailers), can opt to account for VAT on a cash receipts basis. This means that the trader is not required to pay VAT until payment for the supply is actually received. The cash basis accounting option assists a significant number of small firms in the critical area of cash flow. Currently, a total of 168,000 businesses are benefitting from the existing cash basis threshold,

which makes up around 66% of all traders registered for VAT. The impact of increasing the cash basis threshold to various levels is as follows:

New threshold	Once-off Cost to Exchequer	No of additional businesses benefitting
€1.5m	€60m	983
€1.75m	€80m	1,464
€2m	€110m	2,333
€2.5m	€150m	2,772

24. EU VAT law states that the cash basis system can only be used for "certain transactions or certain categories of taxable persons". It cannot be used to replace the normal VAT arrangements. Furthermore, the cash-basis system is more open to abuse than the normal invoice system of VAT.

Option 2: Increasing the VAT registration thresholds

25. Small businesses with a low turnover can opt to be exempt from VAT thereby avoiding the administrative burden that VAT registration entails. Traders established in the State and making supplies in the State are obliged to register for VAT where certain turnover thresholds are exceeded or are likely to be exceeded in any continuous period of twelve months. The current thresholds are €37,500 in the case of a person supplying services and €75,000 in the case of a person supplying goods.

26. EU law provides that the thresholds can be increased in line with inflation. To increase the thresholds greater than the level of inflation, EU approval must be sought. Using 1981 as a base, it would be possible to increase the thresholds for services and goods to €44,000/€88,000. This would cost the Exchequer €74m in a full year. If the option was taken up fully by business, this increase would remove some 8,778 businesses from the VAT net. VAT registration thresholds need an appropriate balance between reducing administrative burdens and avoiding competitive distortions.

Option 3: Increasing the thresholds for reduced VAT filing

27. Where small businesses are registered for VAT, in order to reduce the administrative burden on such businesses, the Irish VAT system provides for less frequent VAT returns. Whereas the general VAT returns are bi-monthly, the Revenue Commissioners offer the facility of filing returns twice or three times annually for small businesses. Taxpayers who have an annual VAT liability of up to €3,000 have the option of filing for VAT half-yearly in January and July in respect of the periods January-June and July-December respectively. The facility of filing three times yearly is offered to taxpayers that have an annual VAT liability of between €3,001 and €14,400. These taxpayers pay and file in May, September and January in respect of the periods January-April, May-August and September-December respectively. Any increase in these VAT liability thresholds would involve a once-off cost to the Exchequer.

II. VAT issues at Domestic Level

28. A number of VAT issues arise at domestic level. These are mainly:

- Study of the effect of the 9% VAT rate,
- Supply of leisure facilities by public bodies, and
- Environmentally Friendly/Energy- Efficient Goods.

Study of the Effect of the 9% VAT rate

29. The Jobs Initiative introduced a new second reduced rate of VAT at 9%, effective from 1 July 2011 to the end of 2013. The VAT rate applies to various services and goods related to the tourism industry, such as restaurant and catering services; hotel and holiday accommodation; and various entertainment services. The introduction of the 9% rate was aimed at contributing towards boosting tourism and the creation of additional jobs in that sector. At the time of its introduction, it was stated that the 9% VAT rate would be kept under review and the impact of the 9% rate would be evaluated before the end of 2012 in order to determine its effectiveness in aiding the industry.

30. To this effect, a research paper entitled "Measuring the Impact of the Jobs Initiative - Was the VAT Reduction Passed On and Were Jobs Created?" was recently produced. This paper will be presented to the Tax Strategy Group shortly. In summary, with the aid of unpublished data from the Central Statistics Office, the research paper concluded that overall there is evidence of a reasonable degree of pass through of the VAT reduction to consumer prices. Whilst data on employment was limited in terms of coverage and timeliness the paper indicated some evidence of employment gains in the accommodation and food service economic sector, which is a key labour intensive sector, accounting for over 70% of expenditure at the 9% VAT rate. With this evidence in mind, it was decided to maintain the 9% VAT rate until end 2013 as originally provided for.

Supply of Leisure Facilities by Public Bodies

31. Public bodies became in general subject to VAT on 1 July 2010 in accordance with the European Court of Justice ruling against Ireland in Case C-554/07. However, the Finance Act 2010 provided that the supply of leisure and community facilities by public bodies remained exempt from VAT subject to a Ministerial Order being made. This was to allow for an examination of the issues, including an analysis of how the new rules might best be implemented. However, the continued non-taxation of public providers of leisure facilities has competition implications for private sports facilities providers who are required to charge VAT. In this context, a commencement order is in the process of being made to provide that the application of VAT on public bodies will come into effect in relation to the supply of sports facilities with effect from 1 January 2013 (at the 9% rate).

Environmentally Friendly/Energy- Efficient Goods

32. The Commission on Taxation recommended seeking at EU level an agreement for the possibility of applying a reduced rate to energy-efficient goods and services. EU VAT law does not permit reductions in VAT for environmental or other reasons, which would create a distortion of competition between similar goods or services. The EU Commission undertook a study of the possibility of using reduced VAT rates as a tool to support the climate change agenda. While Ireland expressed support for such a study, the EU Council of Finance Ministers decided in 2009 not to allow reduced VAT rates as a tool for achieving environmental policy objectives. In

general it was considered that if assistance was required, providing it through direct expenditure measures was the better approach to adopt.

III. VAT Developments at EU Level

33. At EU level, a number of VAT developments are of particular interest:

- EU Commission communication on the future of VAT;
- Proposed changes to VAT own resources (EU Budget);
- VAT on insurance and financial services;
- VAT treatment of vouchers;
- VAT anti-fraud quick reaction mechanism;
- VAT place of supply rules 2015;
- Ireland's EU presidency (Jan-June 2013) – VAT agenda; and
- VAT Cases at the European Court of Justice.

EU Commission Communication on Future of VAT

34. In December 2011 and following a Green Paper and public consultation exercise, the EU Commission issued a communication/strategy paper on "The future of VAT – towards a simpler, more robust and efficient VAT system tailored to the single market". The ECOFIN Council of May 2012 adopted conclusions on the strategy paper setting out the principles underpinning the future development of the VAT system and on the priority measures to be taken.

35. The ECOFIN conclusions refer to the current economic difficulties and identify the VAT system as a major source of revenue for national budgets and the need to enhance the efficiency and effectiveness of the VAT system in contributing to fiscal consolidation and growth. The conclusions recall the European Council's conclusions of 1/2 March 2012 inviting Member States to "review their tax systems with the aim of making them more effective and efficient, removing unjustified exemptions, broadening the tax base, shifting taxes away from labour, improving the efficiency of tax collection and tackling tax evasion".

36. Cost-efficiency, proportionality, unanimity and subsidiarity are considered as key principles in delivering a future VAT system for which the following specific objectives have been identified:

- simplifying the VAT system in order to minimise compliance costs and the administrative burdens on business as well as national tax authorities;
- achieving efficiency through improved revenue generating capacity including consideration by Member States of alternatives to reduced VAT rates;
- improving the robustness and resilience of the VAT system in order to combat VAT fraud including the introduction of a quick reaction mechanism designed to respond promptly to new trends in fraud; and
- tailoring the VAT system to the single market.

37. Ireland is supportive of the principles and the objectives underpinning the development of the VAT system and particularly regarding measures designed to reduce compliance costs and

administrative burdens on business and tax authorities.

38. Regarding reduced VAT rates, the ECOFIN conclusions noted the Commission's position regarding the restricted use of reduced rates and its intention to launch in 2012 an assessment of the current VAT rates structure. This is a sensitive area for Ireland given our relatively extensive schedule of zero and reduced rates (e.g. on children's clothes and shoes, foods, domestic fuels, housing) compared to the majority of Member States and developments in this area will be closely monitored.

Proposed Changes to VAT Own Resources (EU Budget)

39. In June 2011 the EU Commission published a proposal for a Council Decision on the system of Own Resources of the European Union, namely a proposal for alternative means for funding the EU Budget (Own Resources). The proposed new funding mechanisms includes a replacement of the existing VAT-based resource with a new VAT own resource, which would apply a rate of between 1-2% to the standard VAT rate receipts of each Member State, with the intention that this eventually would supply 18% of the EU's annual Budget. The EU Commission anticipates that the new VAT own resource would be more transparent, would improve the internal market, and lead to economic efficiency gains and counter fraud.

40. Ireland's position is that direct payments based on Member States GNI are the fairest and most effective method of EU funding. A system based on traditional own resources and GNI would represent actual simplification, it would be transparent for citizens and would guarantee stability and certainty in terms of revenue sources for the EU. It would also have stable budgetary impacts on Member States. Furthermore, any changes to the VAT own resource require careful analysis in terms of its consequences and relevance.

41. Throughout 2012, the own resources proposals were discussed at working party level and later raised as part of the Multi-Annual Financial Framework at Coreper, the General Affairs Council and at Ecofin. The Cyprus Presidency is continuing discussions on the matter.

VAT on Insurance and Financial Services

42. The EU Commission presented proposals in this area in late 2007, the overall objective being to modernise and simplify the VAT treatment of financial and insurance services under the VAT Directive. Insurance and financial services are normally exempt from VAT which means that while VAT is not charged on most of these services, suppliers are not entitled to recover VAT costs incurred in the delivery of these services.

43. The objectives of the Commission proposals are to provide legal certainty for economic operators and tax administrations on the scope of the VAT exemption generally applying to insurance and financial services, and to reduce the impact of VAT costs embedded in the cost structures of insurance and financial services providers.

44. Discussions on these complex proposals have proved difficult, the Hungarian Presidency's progress report to the ECOFIN Council in June 2011 identified "four major outstanding issues of political importance", including the VAT treatment of investment funds, the trading of insurance and reinsurance contract portfolios, outsourced services, and commodity derivatives. While discussions continued as a priority under the Polish Presidency (July-December 2011), there have been no further developments to date. The Danish Presidency and the current Cypriot Presidency have not dealt with the issue. For Ireland, the potential narrowing

of the existing broad exemption for investment funds under the proposal raises particular concerns. In this regard, Ireland's objective is to achieve an outcome which protects Ireland's attractiveness as a location for financial/insurance services.

VAT Treatment of Vouchers

45. Discussions have recently commenced under the Cypriot Presidency on the VAT treatment of vouchers. Specifically the proposal defines vouchers for the purposes of VAT including single-purpose, multi-purpose and discount vouchers and sets out an approach to their taxation. Technically complex, the proposal is driven by the increasing sophistication and functionality of vouchers, especially electronic vouchers, and the need for a consistent approach in the light of different VAT treatments which have developed across Member States. Such varying treatment may be contributing to double taxation or non-taxation in a cross-border context, i.e. where vouchers are issued in one Member State but used by consumers in another Member State.

VAT anti-fraud Quick Reaction Mechanism

46. Discussions on the EU Commission's proposal for an anti-fraud quick reaction mechanism have recently commenced under the Cypriot Presidency. The measure, which is identified by the EU Commission's communication on the future of VAT as key to delivering a more robust VAT system, is designed to facilitate rapid responses by individual Member States faced with sudden and significant VAT fraud. The current process for implementing anti-fraud measures, typically by way of Member States seeking derogations from the VAT Directive, is slow (taking up to eight months) and thereby ineffective in the light of such fraud.

47. The proposal from the EU Commission envisages a procedure in the VAT Directive which, in very specific situations, would provide a legal basis for Member States to take immediate measures where traditional control and enforcement means are considered inadequate. In order to expedite the current process, the Commission proposes the use of its implementing powers under Article 291 of the Treaty on the Functioning of the European Union, as a precursor to the adoption by the Council of the specific measures sought by Member States.

VAT Place of Supply Rules 2015

48. New rules provided in Directive 2008/8/EC relating to the place of supply of cross-border business-to-consumer broadcasting, telecommunications and electronic services will take effect from 1 January 2015. At which point, the VAT on such services will be chargeable in the Member State of the consumer and not the Member State of the supplier, as is the case at present. In order to ease the burden on businesses who would as a result of the new rules be required to register for VAT in several Member States, businesses can opt to make the VAT returns and payments for each relevant Member State through a so-called Mini One Stop Shop in the Member State of establishment. The Member State of establishment will then pass the VAT on to the relevant Member States.

49. While the introduction of the new place of supply rules in 2015 could mean a loss of VAT revenue from businesses established in Ireland and making such cross-border supplies, there will also be a gain as a result of EU businesses established outside the State being liable to Irish VAT on similar supplies to consumers in the State. The net impact of the new rules on VAT revenues is not quantified. The competitive advantage of the new arrangement means that where a Member State applies a low VAT rates on such supplies, this will no longer be an incentive for businesses in those sectors in deciding where to establish, as the VAT rate will now be that of the State of

the consumer and not the business. This is of benefit to Ireland as we can seek to attract new business where the VAT disadvantage no longer applies.

50. A proposal for an Implementing Regulation to ensure a common understanding of the new rules among business and Member States is expected to be published by the end of 2012 and will feature during the Irish presidency.

Ireland's EU presidency (January – June 2013) – VAT agenda

51. VAT proposals are likely to feature significantly during Ireland's forthcoming EU Presidency and specifically in the context of Ireland's chairing of the ECOFIN Council Working Party on Tax Questions where tax proposals are negotiated prior to adoption or otherwise by Council. The VAT agenda will be driven by progress made under the Cypriot Presidency on current proposals concerning VAT on vouchers and the anti-fraud quick reaction mechanism, as well as preparation for significant VAT rule changes for cross-border services due to come into effect on 1 January 2015.

VAT Cases at the European Court of Justice

52. Ireland is currently the subject of two ECJ cases in the area of VAT: a) VAT groupings, ECJ Case C85/11; and b) the VAT treatment of horses and greyhounds, ECJ Case C108/11. Several other Members States are also the subject of ECJ proceedings on these issues.

53. With regard to VAT groupings, infringement proceedings were issued in September 2008 stating that Ireland was in breach of the VAT Directive by allowing holding companies to be members of a VAT group. VAT grouping arrangements allow the Revenue Commissioners to treat as a single taxable entity, two or more companies that are closely bound by financial, economic and organisational links. VAT groupings are of benefit to businesses by removing the necessity of issuing invoices in respect of inter-group transactions. However, VAT groups also act as an anti-avoidance measure, where such businesses become jointly and severally liable for the tax debts of the other businesses. Ireland was referred to the ECJ on this matter on 24 June 2010, along with the Netherlands, Finland, Sweden, the UK, the Czech Republic and Denmark. An oral hearing on Ireland's case took place on 5 September 2012, and the other VAT groupings cases were heard on 6 September.

54. Regarding the VAT treatment of horses and greyhounds, Ireland applies the livestock rate of 4.8% to all such animals except where they are sold as pets. In 2008, the EU Commission issued infringement proceedings against Ireland on the basis that it considers Ireland to be in breach of the VAT Directive in applying a super-reduced rate (less than the minimum 5%) to such supplies, as the terms of the relevant provision are not met. We are arguing against this interpretation. Ireland was referred to the ECJ on 24 November 2010. Austria, France, Germany, the Netherlands and Luxembourg have also been referred to the ECJ regarding their VAT treatment of horses. On 27 January 2012, Ireland made a formal request for an oral hearing and we are awaiting a response from the Court.

September 2012

Appendix A

Annex III of the EU VAT Directive (*UPDATED MAY 2009)*

List of Supplies of Goods and Services to which a Reduced Rate may be applied

(1) Foodstuffs (including beverages but excluding alcoholic beverages) for human and animal consumption; live animals, seeds, plants and ingredients normally intended for use in the preparation of foodstuffs; products normally used to supplement foodstuffs or as a substitute for foodstuffs;

(2) supply of water;

(3) pharmaceutical products of a kind normally used for health care, prevention of illnesses and as treatment for medical and veterinary purposes, including products used for contraception and sanitary protection;

(4) medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, including the repair of such goods, and supply of children's car seats;

(5) transport of passengers and their accompanying luggage;

(6) supply, including on loan by libraries, of books on all physical means of support (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising;';

(7) admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities;

(8) reception of radio and television broadcasting services;

(9) supply of services by writers, composers and performing artists, or of the royalties due to them;

(10) provision, construction, renovation and alteration of housing, as part of a social policy;

(10a) renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied;

(10b) window-cleaning and cleaning in private households;

(11) supply of goods and services of a kind normally intended for use in agricultural production but excluding capital goods such as machinery or buildings;

(12) accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites;

(12a) restaurant and catering services, it being possible to exclude the supply of (alcoholic and/or non-alcoholic) beverages;

(13) admission to sporting events;

(14) use of sporting facilities;

(15) supply of goods and services by organisations recognised as being devoted to social wellbeing by Member States and engaged in welfare or social security work, in so far as those transactions are not exempt pursuant to Articles 132, 135 and 136;

(16) supply of services by undertakers and cremation services, and the supply of goods related thereto;

(17) provision of medical and dental care and thermal treatment in so far as those services are not exempt pursuant to points (b) to (e) of Article 132(1);

(18) supply of services provided in connection with street cleaning, refuse collection and waste treatment, other than the supply of such services by bodies referred to in Article 13.

(19) minor repairing of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);

(20) domestic care services such as home help and care of young, elderly, sick or disabled;

(21) hairdressing.

Appendix B

List of VAT Rates applied in EU Member States

(1 September 2012)

Member States	**Zero**	**Super**	**Reduced**	**Standard**	**Parked**
Belgium	0	-	6 / 12	21	12
Bulgaria	-	-	9	20	-
Czech Republic	-	-	14	20	-
Denmark	0	-	-	25	-
Germany	-	-	7	19	-
Estonia	-	-	9	20	-
Greece	-	-	6.5 / 13	23	-
Spain	-	4	10	21	-
France	-	2.1	5.5/7	19.6	-
Ireland	**0**	**4.8**	**9 / 13.5**	**23**	**13.5**
Italy	0	4	10	21	-
Cyprus	-	-	5 / 8	17	-
Latvia	-	-	12	21	-
Lithuania	-	-	5 / 9	21	-
Luxembourg	-	3	6 / 12	15	12
Hungary	-	-	5 / 18	27	-
Malta	0	-	5 / 7	18	-
Netherlands	-	-	6	19*	-
Austria	-	-	10	20	12
Poland	-	-	5 / 8	23	-
Portugal	-	-	6 / 13	23	13
Romania	-	-	5 / 9	24	
Slovenia	-	-	8.5	20	-
Slovakia	-	-	10	20	-
Finland	0	-	9 / 13	23	-
Sweden	0	-	6 / 12	25	-
United Kingdom	0	-	5	20	-
Average			**6 / 10.2**	**21.1**	

** Netherlands standard VAT rate is due to increase to 21% on 1 October 2012*