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By PwC Deutschland | 08. Dezember 2021

Update: EU Council reaches agreement on updated rules for VAT rates

On 7 December 2021 the Council reached agreement on a proposal to update EU rules on rates of value added tax (VAT). The updates ensure member states are treated equally and give them more flexibility to apply reduced and zero VAT rates. The rules will also phase out preferential treatments for environmentally harmful goods.

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The Council updated and modernized the list of goods and services for which reduced VAT rates are allowed (Annex III of the VAT directive), considering the digital transformation of the economy. However, to prevent a proliferation of reduced rates, the Council decided to limit the number of items to which reduced rates could be applied.

The Council also decided to ensure that all member states are treated equally. To achieve this, existing derogations that allowed some member states to apply preferential rates for certain products were opened to all member states, provided they are compatible with the agreed principles.

A new provision in the VAT directive was also added to address possible future crises and to enable member states to respond swiftly to exceptional circumstances, like pandemics, humanitarian crises or natural disasters.

The Council agreed to phase out reduced VAT rates or exemptions on fossil fuels and other goods with a similar impact on greenhouse gas emissions, by 1 January 2030. Reduced rates and exemptions for chemical fertilizers and chemical pesticides will end by 1 January 2032, to give small-scale farmers more time to adapt. In addition, the Council introduced environmentally friendly goods and services in the list for which reduced rates are allowed, such as solar panels, electric bicycles, and waste recycling services.

Update (8 December 2021)

European Commission, **press release of 7 Dec 2021**:

The Commission welcomes the agreement reached by EU finance ministers to update the current rules governing value-added tax (VAT) rates for goods and services. Current EU rules on VAT rates are almost thirty years old and were in urgent need of modernization given the evolution of the overall VAT rules over the years. The following key aspects are dealt with:

- Updating the list of goods and services (Annex III to the VAT Directive) to which all Member States can apply reduced VAT rates.
- Removing the possibility by 2030 for Member States to apply reduced rates and exemptions to goods and services deemed detrimental to the environment (…)
- Making derogations and exemptions for specific goods and services, currently in place for historical reasons in certain Member States available to all countries to ensure equal treatment and avoid distortions of competition.

Next steps: The updated rules will now be sent to the European Parliament for its consultation on the final text by March 2022. Once formally adopted by Member States, the legislation will come into force 20 days after its publication in the Official Journal of the European Union, allowing Member States to apply the new system as of that date.

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Council of the EU, **Press release of 7 December 2021** (with a further link to the proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC)

Schlagwörter

VAT rates