

EUREAU answers to the VAT consultation

Consultation paper “Review of existing VAT legislation on public bodies and tax exemptions in the public interest”

Summary

EUREAU welcomes the third consultation of the European Commission on the current VAT structure in the European Union. EUREAU believes that a simple and transparent VAT system is in many cases essential for a free movement of goods and services within the European Union.

However EUREAU believes waste water services should not be an activity listed in Annex I of the VAT directive.

EUREAU believes that an extension of Article 13 of the VAT directive is not necessary.

The following answers refer only to waste water services.

Background

The taxation of drinking water supply and wastewater services is subject of different provisions. Whilst water supply is covered by Article 13 (2) and annexes I and III (2) of the VAT Directive 2006/112/EC this is not the case for waste water services.

Public authorities have a wide discretion in organising services of general (economic) interest following Article 4 of Treaty of the European Union and Protocol 26 of the Treaty of the Functioning of the European Union. They have the right to organize the system of wastewater services, i.e. to reserve the right to offer such services to public authorities or to open a market for them. They also have the right to decide if they want to tax or not to tax them.

EUREAU points out that a compulsory taxation of wastewater with a full VAT rate set by the Member State services could lead to an increase of consumer prices. It would be the people with low income and no possibility for an input tax deduction who have to pay the bill. A reduced VAT rate would not be possible because wastewater services are not included in Annex III of the VAT Directive. The handling of this question depends on the national framework requirement.

EUREAU asks the European Commission to avoid any legislation that forces Member States to tax wastewater services. Therefore wastewater services should not be listed in Annex I.

EUREAU answers the questions of the consultation as follows:



Question 1

EUREAU believes that Article 13 of the VAT directive, i.e. its paragraph 2, causes no problems for a smooth functioning of the Internal market for wastewater services in the member States.

Question 2

EUREAU recommends that the European Commission refrains from any amendments of the existing VAT Directive if the answers to the consultation show that the Member States provide for a sufficient legal mechanism to avoid distortion of competition.

Question 3

EUREAU believes that the European Commission should not follow the proposal of Copenhagen Economics to tax wastewater services by an amendment of the VAT directive. The decision should be left to the Member States

Question 4

EUREAU has no opinion to the taxation of services outside the water sector.

Question 5

EUREAU believes that an option to tax is in the competence of a Member State. Tax options will have a significant impact on the budget of the Member State (deduction of input tax, receipts of VAT) and the income of its people. Therefore this decision should be left to the Member States.

EUREAU is the voice of Europe's drinking water and waste water service operators. Collectively, they provide water services to more than 400 Million people and reflect the full diversity of the European private as well as public water service industry across Europe.

EUREAU brings together national associations, representing water supply and waste water services in EU and EFTA countries. An observer status is granted to representative associations of countries in accession negotiations with the EU.