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## The Future of the EU VAT Regime

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The European Commission's [Communication](#) on the future of VAT, adopted on 6 December 2011, proposes measures for a simpler, more efficient and more robust VAT system in the EU. The Communication outlines priority areas for further action, with the potential to affect the European contract catering sector, including:

- Member States are urged to move towards a 'broad based' VAT system. To preserve the principle of neutrality, businesses should not have to bear the burden of VAT collection and rules on VAT deductibility should be reviewed.
- The current destination-based VAT system should be maintained. To facilitate its smooth operation and reduce administrative burdens on business, mini one-stop-shops should be established in 2015.
- All commercial transactions should be taxed as far as possible and any exemptions should be construed narrowly. A gradual phasing out of public sector exemptions is suggested, focusing on areas where distortions to competition are more likely, due to greater private sector involvement.
- The Commission favours a restricted use of reduced rates and will assess the current rate structure during 2012. Following a consultation with stakeholders and Member States, the Commission plans to make proposals by end-2013, based on three guiding principles: (a) abolition of reduced rates that are an obstacle to the internal market; (b) those on goods and services of which consumption is discouraged by other EU policies; and (c) equal taxation of similar goods and services.

### POSITION

FERCO represents the European contract catering sector, **employing over 600,000 people** across Europe and delivering over 6 billion meals each year. This equates to 67 million consumers served every day, **one in four meals eaten outside the home**. VAT is a crucial issue for the catering industry.

- **Reduced rates:** FERCO believes that **reduced rates are of utmost importance for securing jobs and growth and do not create an obstacle to the proper functioning of the internal market**. Reduced rates for catering are also desirable as they **serve the public policy objective** of increasing access to food to lower-income earners.

Due to the labour intensity of the contract catering sector, **reduced VAT rates for food services result in increased employment and income tax revenues whilst also reducing the need for social welfare payments to the unemployed**.

- **Public sector exemptions:** FERCO agrees with the **need to guarantee the neutrality of the VAT system**. **Current exemptions for public bodies** can cover services performed in-house, such as catering, and **distort competition**, by **reducing the incentive to outsource** services and by giving in-house public service providers an **automatic competitive (price) advantage**. **The removal of these exemptions would restore a level playing field and eliminate distortions to competition**.

A key Commission [study](#) by Copenhagen Economics and KPMG confirmed unequivocally that **a full taxation model** (VAT fully applicable to and deductible for public bodies) **would result in the highest economic gains**. The study shows that, in addition to eliminating distortions to competition, the removal of exemptions for the public sector will result in increased efficiency, higher public revenues and reduced administrative and compliance costs. Measured in economic terms, full taxation could increase EU GDP by up to 0.19%, or lead to up to 194.6 billion EUR increase in VAT revenue, thereby enabling a an 18.7% reduction in VAT rates overall.

FERCO calls on the European Commission to consult closely with economic operators as it prepares proposals to review the EU VAT system and will be pleased to share relevant market data as appropriate.