



European Commission consultation on reduced rates of VAT

LITRG response

Introduction

1. LITRG is grateful for the opportunity to respond to this consultation, which deals with issues that are very important to the people that we wish to assist.
2. As an initiative of the Chartered Institute of Taxation we have had access to its submission. We are in broad agreement with its submissions but wish to stress certain matters that are of special concern to people on low incomes, which include for example people with disabilities who are often unable to work.

The interaction between benefits and taxation

3. Civilised societies seek to take care of vulnerable persons. There are several tools used to do so including –
 - Subsidies such as social security benefits that provide an income to those unable to earn a living wage themselves;
 - Direct assistance eg domiciliary or residential care where it is not possible for persons to care for themselves and need to be supported by other bodies including public bodies and charities;
 - Reduction in the rates of taxation applicable. Within the UK, this is particularly the case in value added tax.
4. One widely held but not majority view is that the tax system should be simplified by abolishing reliefs, exemptions, etc, and channelling assistance to those in need via subsidies. In the case of reduced and zero rates of VAT, LITRG does not agree that this will work. Our reasons are set out in paragraph 6 below.

Reduced rates in action

5. As noted in paragraph 3 above, one means of benefiting people in need is to reduce taxation. While this can be by way of reduction in direct taxation, it is more widely used in relation to expenditure taxes. It has always been accepted within the Community VAT system that reduced rates should be permitted for social purposes. Reasons for reduced rates of taxation include –
 - Alleviation of poverty eg by allowing reduced VAT rates on food, fuel and other essentials;
 - Assisting persons with disabilities eg via exemptions in relation to health and welfare spending;
 - Benefiting the community as a whole eg via reducing the cost of education, which benefits everyone economically.
6. We do not agree that subsidies are a one stop solution because –
 - Although it might simplify the tax system, it would create more complexity within benefit systems. Within the UK, it is already acknowledged that the benefits system, which requires means and disability testing, is complex enough to administer. It is by no means certain that the benefits of a simpler tax system would outweigh the increased complexity of the benefits system.
 - There have been studies that show that many eligible claimants do not claim what they are entitled to through pride or because the system is too complex. For those goods and services where market forces operate properly, the application of reduced rates should ensure that their objectives are achieved.
7. Within the UK, the fact that anomalies have crept into the application of reduced rates of VAT has been cited as a reason for abolishing some reduced rates. We have argued that the solution to those anomalies is to allow Member States to correct anomalies by greater harmonisation eg by extending reduced rates (see <http://www.litrg.org.uk/reports/2007/vat-and-disabled-people-the-case-for-removing-the-barriers>).
8. We have some specific comments on the application of reduced (including zero-rates) in the UK.
 - For whatever reason, so called fuel poverty is more prevalent in the UK than elsewhere. Applying the standard rate of VAT to products such as domestic fuel, energy saving equipment and heating equipment is likely to exacerbate the problem.
 - Replacing reduced rates with subsidies inevitably has a “scattergun” impact. Persons living in the South where the temperature is warmer may be over-compensated by the use of averages covering the whole country. Similarly, larger families may be under-compensated because of the difficulty in arriving at a suitable formula.
 - It is already the case that benefits do not always fully cover the cost of expenditure that they are intended to – housing benefit is a case in point.

Conclusion

Except where the existence of reduced rates results in significant cross-border distortion, we consider that Member States should retain most if not all of the discretion they have to apply reduced rates of VAT (including zero-rates and exemptions).

LITRG

4 January 2013

Background of the Low Incomes Tax Reform Group

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of disabled people and carers, low income workers, pensioners, migrants and students.

It is often thought that the tax and financial affairs of those on low incomes are simple. This is far from the truth. A combination of complex laws and administrative systems not designed with the low income user in mind often make life difficult for those we try to help.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

Name of your organisation/ entity/ company

The Low Incomes Tax Reform Group

Country of domicile

LITRG is established in the United Kingdom.

Brief description of your activity or your sector

Please see background above for details of our activities.

Do you agree to the publication of your personal data?

LITRG's policy is to publish its views and contributions on the matters it is involved in and therefore agrees to publication of this contribution.

Do you agree to have your response to the consultation published along with other responses?

Yes.