

VAT eLearning module 8

RATES

Course takeaways

This is a handy summary of the most relevant course information.

This eLearning course is based on EU VAT Legislation as it stands on 01.01.2020 (valid for the EU VAT Directive, the EU VAT Refund Directive and the EU VAT Implementing Regulation).

This module is a part of a VAT broader course which is made up of the following units:

- Introduction
- Territory
- Taxable person
- Transactions
- Place of taxable transactions
- Digital Services and Mini One-Stop Shop (MOSS)
- Chargeable Event & Taxable Amount
- **Rates**
- Exemptions
- Right to deduct
- Refund
- Obligations

This course addresses the questions “Which percentage rate should be used?”

1. Learning objectives

At the end of the training you will:

- Outline the need for harmonisation through **minimum taxation levels** and **option frames** to reduce the risk of competition distortion.
- Identify the different **types of rates** and the conditions under which they apply: **standard rates, reduced rates, other rates** (particular derogations and transitional derogations).
- Identify the **reduced rates** permitted and the limitations to their application.
- In a non-harmonised market without fiscal frontiers, describe the **time and space conditions** for how to apply the rate (answers to when? and where?).

2. What rate to apply?

The VAT Directive specifies the types of rates subject to various conditions to be applied in all Member States. The minimum taxation level has to do with the abolition of the fiscal frontiers between Member States. This requires a certain level of harmonisation.

In a non-harmonised market without frontiers, there is a risk of competition distortion. Differences in VAT rates can create distortions of competition between suppliers.

To find out which rate to apply, you need to determine where, when and on what to apply the rate.

2.1. Where When and on What?

First you have to find out **in which Member State** the transaction takes place: the rate to apply is the one applicable in the Member State where the taxable transaction takes place. (Refer to the course "Place of taxable transaction" to know more about where a transaction takes place)

Once you know which Member State the transaction takes place in, you need to find out **when** to apply the rate. The rate to apply can only be determined **once the chargeable event occurs and VAT become chargeable**. Please be aware of the exceptions: they are explained in the course "Chargeable event and Taxable amount"

Once you know where the transaction takes place and when to apply the rate, you need to determine **which rate** to apply.

Before you can find which rate to apply, you need to know **what type of transaction** you are faced with. Then you have to evaluate whether this transaction falls into one of the categories for which **non-standard rates may apply**.

2.2 Types of rates

The VAT Directive lists three types of rates: the **standard rate**, **reduced rates**, and **other rates** also called derogations because they derogate from the normal rules.

Member States must apply a standard rate but can decide the percentage to apply within the terms of the VAT Directive:

- Minimum level of the rate must be 15% (Art. 96 and 97).
- The rate must be the same regardless of the type of transaction.

As for reduced rates:

- Minimum level of these rates must be 5%

- Reduced rates may only be applied for the supplies of goods and services listed in Annex III.
- Reduced rates may be applied by Member States in accordance with national policy considerations.

As for other rates particular derogations without time limitation which allow for reduced rates to be applied to:

- gas, electricity, district heating
- the importation of works of art
- certain transactions in Austria, Cyprus, Portugal and Greece (Art. 102-105 and Art. 109-122).

2.3 Derogations

Derogations allow certain Member States to apply lower rates to transactions carried out in remote parts of their territory as follows:

- **Portugal** may use lower rate than those applied in the mainland for transactions carried out in Madeira and the Azores plus tolls on bridges in the Lisbon area.
- **Austria** may use a second standard rate for transactions carried out in Jungholz and Mittelberg.
- **Greece** may use rates which are up to 30% lower than those applied in the mainland for transactions carried out in certain Greek islands.
- **Cyprus** may apply one of the two reduced rates provided for in Article 98 to the supply of liquid petroleum gas (LPG) in cylinders.

There are some derogations which are transitional although there is no definitive end date which include: zero rates, derogative reduced rates, super-reduced rates, parking rates, specific Member States derogations, reduced rates for floricultural products and firewood.

Access to non-restricted eLearning courses is available via EUROPA website: https://ec.europa.eu/taxation_customs/eu-training/general-overview_en.

Remember, this is a quick and handy summary of the most relevant course information. Only the European Union legislation published in the Official Journal of the European Union is deemed authentic. The Commission accepts no responsibility or liability whatsoever with regard to the training.