

**The CECOP answer to the European Commission consultation “Review of existing
legislation on VAT reduced rates”**

Brussels, January 2013

You are included in one of the following groups

European Association

Name of your organisation

CECOP-CICOPA Europe (European Confederation of Worker Cooperatives, Social Cooperatives and Social and Participative Enterprises)

Brief description of your activity or your sector

CECOP-CICOPA Europe is a European confederation, grouping national organisations in 16 countries, which in turn affiliate over 50.000 cooperative and participative enterprises in industry and services. The vast majority are SMEs and they employ 1.4 million workers across Europe. Among the main sectors of activity, we find metal and mechanical industries, construction and public work, social services, environmental activities, white goods, transport, education and culture, etc. Most of them are characterised by the fact that the employees in their majority are member-owners. Furthermore, around 10.000 of those enterprises, generally called social cooperatives, provide social services or are specialised in the reintegration of disadvantaged and marginalised workers (disabled, long-term unemployed, ex-prisoners, addicts, etc.).

Do you agree to the publication of your personal data?

Yes

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

Yes

Reduced and “super-reduced” VAT rates

CECOP considers essential to preserve the possibility given for Member States to apply reduced VAT rates, as it is foreseen by the Directive 2006/112/EC of 28 November 2006 Annex III.

In CECOP’s network around 10.000 cooperative enterprises provide social services to citizens including the most vulnerable ones. The European Commission recognizes that “supply of goods and services by organisations recognised as being devoted to social wellbeing by Member States and engaged in welfare or social security work” (as defined in the Annex III) are taxed where they are delivered, thus they do not cause any distortion within the Single Market. They should still be able to benefit from reduced VAT rates.

Moreover, we consider fundamental to maintain the possibility for Member States to apply

“super-reduced” VAT rates (lower than 5% on the categories of Annex III).

For example in Italy a 4% VAT rate is applied to social cooperatives and social enterprises providing health, social and educational services. This rate has a double advantage:

- for the service users : a lower price can be paid by the beneficiaries of the services provided, generally disadvantaged and vulnerable citizens (elderly, mental and physical disabilities, etc.)
- for enterprise development: it encourages investment and enterprise growth and therefore the sustainability of the activity. In fact, investing in welfare from one’s own resources increases the enterprise’s business volume, and thence more VAT being paid. Social cooperatives practice capital accumulation for enterprise development on a substantial scale.

The Italian experience is very interesting in this respect, as it has contributed to the development over the last years of numerous social cooperatives with sound economic performance and recognised sustainable social inclusion dimension.

The European Union needs, especially in current economic and financial climate, consolidated and integrated policies in different areas. In that sense, taxation policies cannot put in jeopardy social and employment measures. No one can deny that today, more than in 2006 when the Directive was published, more European citizens need social assistance and access for sustainable and affordable services. This should also be considered when assessing the impact of the reduced and “super-reduced” VAT rates for some categories.

Reduced VAT rates on labour-intensive services

CECOP considers important to allow Member States to apply reduced VAT rates on labour-intensive services. Today around 3,000 cooperatives from CECOP network provide personal and household services, considered as labour-intensive services¹.

Even though the European Commission cannot demonstrate a link between reduced VAT rates on labour-intensive services and job creation, this does not mean that there is no relation between the two. In fact, data collected by CECOP in recent years confirm that the opposite is true. Since 2008, CECOP has been organizing an annual survey among its members in order to assess the impact of the crisis, notably in term of job losses and creation and enterprise closure. The results of the surveys show that cooperatives in general face less job losses than conventional enterprises in these times of crisis. This was confirmed with official statistics provided by national statistics institutes in France and Spain. The situation is similar for the service sectors, particularly the labour-intensive service sectors: there were less job losses in cooperatives providing services that in conventional enterprises active in the same sectors.²

Moreover, the last data we received from our Italian members indicate that there was an increase of 4.3 % of employment in cooperatives active in the service sector in 2012 (including personal and household services)³. CECOP’s Spanish member COCETA also reported 13,336 new jobs in the service sector in 2011. This is an important element when we know the unemployment challenges European Union is facing today.

¹ See classification of labour-intensive services in Council Directive 77/388/EEC of 17 May 1977

² See CECOP report published in June 2012 “The resilience of the cooperative model”:

http://www.cecop.coop/IMG/pdf/report_cecop_2012_en_web.pdf

³ Data from the first “Annual Report on Cooperation in Italy” produced by the Italian research institute Censis for the Alliance of Italian Cooperatives that joins together the three main Italian confederations of cooperatives (AGCI, Confcooperative and Legacoop).

A crucial aspect to be taken into account is the processes underlying the delivery of labour-intensive services. Cooperatives often include the various stakeholders involved in the design of the service and in the governance of the enterprise (workers, service users etc.). The involvement of the stakeholders in the cooperative's activities consequently increases their control over the quality of the activities and the service provided. On the other hand, cooperatives strive to provide sustainable and quality employment to their workers. As mentioned in the European Commission's "staff working document on exploiting the employment potential of the personal and household services"⁴, workers in the personal and household services often suffer from poor working conditions. In addition to offering sustainable and quality employment, cooperatives provide training opportunities, and in the case of the cooperative worker-members, new skills related to enterprise management. The qualitative dimension of the employment should also be considered when assessing the link between reduced VAT rates on labour-intensive services and job creation for that sector.

⁴ SWD(2012) 95 final