



European Federation
for Services to Individuals

A supportive VAT framework for the PHS sector

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I Introduction – what are PHS services?

Personal and Household Services (PHS) comprise a broad range of activities that contribute to the well-being of families and individual. They include: home services (housework, ironing, gardening, small repair work, delivery of food, etc.), child care facilities including all kind of services (nursery, nanny, shared childcare, holiday centres, baby-sitting, etc.), tutoring (school help, IT assistance etc.) and services to enable disabled, dependants and elderly people to continue to live in their own home.

II VAT and the specificities of the PHS sector

Due to its high employment content and high labour costs, the PHS sector cannot develop in the formal economy without supporting measures. Tax incentives and reduced VAT rates implemented by many Member States have all their importance in this context. This is all the more relevant that several studies conducted on behalf of the European Commission demonstrated that reduced VAT rates applied to PHS do not create distortive effect on the internal market. Quite the reverse, reduced VAT rates help offset the distortion created by taxation in general in a sector which can easily be substituted by do-it-yourself home production and undeclared work. However, the current Annex III of the VAT Directive 2006/112/EC excludes some PHS activities from the scope of eligible services for reduced rates, as demonstrated by the infringement procedure conducted against France launched in 2012. This has led to infringement procedures and instability of the fiscal framework surrounding PHS activities which were highly detrimental to formal PHS providers. Moreover, in addition of a reduced VAT rate, it is important that all type of PHS services benefit from the same VAT regime regardless of the way they are provided. Reducing VAT rate on PHS decreases the cost for users, which contributes to the development of supply of formal services. This is essential in a sector where the share of the undeclared market peaks 70% in some EU member states. Indeed, the purchase of more formal services directly increases formal employment and indirectly both the net labour tax revenue and the VAT revenue (depending on the consumption rate of new workers). When estimating the budgetary effects of PHS supporting measures, such as VAT reduction, it is important to take into account the revenue generated for the State (additional social contributions and taxes), as enables the net cost for the State to remain close to zero.

III Recommendations on VAT rates

- **Make PHS services eligible for reduced VAT rates.** The revised Annex III as a negative list as proposed by the European Commission (COM(2018)20final) is a viable option to this aim, as long as PHS are not included therein. In no case should Member States be obliged to introduce VAT rates on PHS services that were exempted until now, as it would irretrievably damage competition, diffusion and affordability of quality services.
- **Prioritise VAT-reduction on services supplying high social benefits** such as: home services (housework, ironing, small gardening, small repair work); childcare services; homecare services for elderly people; home-based courses (not restricted to school help); home IT and Internet assistance; organisational activities and management of PHS provision (intermediation services, the organisation being or not PHS worker's employer); maintenance, upkeep and temporary home vigilance services.
- **Make sure the same type of PHS services benefits from the same VAT regime regardless of the way it is provided.** As an example, in some EU countries childcare services benefit from VAT reduced rate when they are provided at home but they are VAT-exempt when performed in childcare facilities. As such, VAT exemption is cause of important residual tax costs.

References

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About EFSI

EFSI represents national federations and associations as well as companies involved in the development and the provision of personal and household services in Europe. Through its members, EFSI is present in 22 EU Members' States (Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United-Kingdom). The EFSI seeks to ensure that the specificity of the sector is recognised and that the provision and access to high quality and affordable personal and household services are granted thanks to adequate economic, social and legal conditions.

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