

## **Position of a coalition of European Family Federations on the need for reduced VAT on essential items for child raising**

### **Summary**

- Europe should take concrete action in support of families
- National Governments should be allowed to use full range of measures in support of families
- Families groups call upon the European Commission to honour its commitment to allow the application of a reduced VAT rate on baby diapers
- VAT reductions should be targeted at goods and services where the benefits of a reduction are passed onto families, such as children's clothes and shoes, baby diapers, feeding bottles and soothers, strollers, and child care services

#### **a) Europe should take concrete action in support of families**

Europe faces the challenge of demographic change. Since the 1960s, birth rates have decreased by 45% across Europe and life expectancy has increased by 8 years since then. With the latter expected to increase further, it is acknowledged that demographic ageing will have a fundamental impact on our economy, including progress towards Europe's Lisbon Agenda goals as well as the make up of our society.

In this context, European policymakers have already acknowledged the need for action across our continent in support of families. The European Commission's Communication on "The demographic future of Europe – from challenge to opportunity" (COM 2006, 571 Final) establishes promoting demographic renewal in Europe as the first of five priorities for concerted action at both a national and European level. As part of its Communication, the Commission commits to reviewing Community policies to ensure that the promotion of demographic renewal is mainstreamed into all policy areas. The Commission also underlines that couples do want to have more children and birth rates will increase if policies are put in place to support families.

As such, we welcome that the Commission will produce another Communication on Support for European Families in the course of 2007 and the announcement by the German Family Minister, Ursula von der Leyen, of the creation of a European Alliance of Families to discuss family related issues which was approved by the Spring European Council (8-9 March 2007).

***We recognize that many of the policy instruments in support of families remain a national competence. However, where it has the ability, we believe that the European Union can and should take concrete action in the form of legislation to allow national governments to support families.***

#### **b) National Governments should be allowed to use a full range of measures in support of families**

National governments have a range of policies available to them to support families, including policies to assist in the provision of universal access to childcare and to support flexible working patterns balance for parents. Depending on the national context, governments also use a range of fiscal incentives, such as reductions in direct taxation, reduced VAT rates and the provision of family allowances, to encourage and support families.

A key area where the European Union has a direct influence is Value Added Taxation (VAT) on goods and services. The European Union's 6<sup>th</sup> VAT Directive (77/388/EEC) sets out Europe wide rules on what is subject to VAT and at which rate. The legislation establishes that national governments should set a standard rate of VAT of no less than 15% and a reduced rate of VAT of no less than 5%. Goods and services for which national governments may apply a reduced rate are listed in Annex H of the legislation.

While some national governments support families through direct subsidies, other countries have sought to support families through applying a reduced VAT rate to certain goods used by families. For example, Ireland, Luxembourg and the UK historically apply a zero rate to children's clothing and shoes as well as to baby baby diapers due to an exemption granted to them. Other national governments such as Cyprus, the Czech Republic, Malta, Poland and Portugal apply a reduced rate to baby diapers. However, this reduced rate is under threat as the Commission believes that the current VAT Directive does not allow for such a reduction (see Commission Press Release IP/06/1031). In essence, the Commission is currently seeking to increase the VAT rate on certain essential family items in some Member States.

***We believe that all national governments should have the possibility to support families through reduced VAT on essential items for child raising, such as children's clothing and shoes, baby diapers, feeding bottles and soothers, strollers, and childcare services.***

**c) Families groups call upon the European Commission to honour its commitment to allow the application of a reduced VAT rate on essential items for families**

On 19 July 2006, the European Commission gave a political commitment to make a proposal to amend the 6<sup>th</sup> VAT Directive to allow national governments to apply a reduced VAT rate on baby diapers, an essential item for families that brings recognized health benefits to infants.

In its press release (IP/06/1031) the Commission clearly recognizes that reductions in VAT on items such as baby diapers are a suitable policy option at a European level, where the European Union has the competence to support families.

"the Commission...supports social and family friendly policies as part of the EU's response to the pressing challenge of demographic ageing. Therefore, the Commission will in parallel take the necessary steps in order to create a legal basis for the application of reduced VAT rates on children's baby diapers"

***We welcome the Commission's commitment to introduce the possibility for national governments to reduce VAT on baby diapers, as an essential item for families with proven health benefits for infants. We call upon the Commission to honour this commitment by issuing a proposal to amend the Annex of the 6<sup>th</sup> VAT Directive to include essential items for families such as baby diapers.***

**d) VAT reductions should be targeted at goods and services where the benefits of a reduction are passed onto families**

When VAT is reduced on essential items, families benefit. For example, when Portugal reduced its VAT rate on baby diapers from 19 percent to 5 percent prices were reduced by an equivalent amount, according to independent market research data from AC Nielsen. Since the reduction in VAT level the average price of a pack of baby diapers has stayed at or below the new lower price level. These figures show a clear cause and effect relationship between consumer prices and VAT reductions on these products due to market competition between retailers and manufacturers of these products.

Family associations believe that there are other products and services where national governments should be allowed to reduce VAT in support of families, such as children's clothes and shoes, feeding bottles and soothers, strollers, and child care services. Products and goods should be targeted upon products and services that are essential for families, used exclusively for child raising and where the benefits of a reduction is likely to be passed on to families (either directly through a reduction in price or by increasing the quality of the service or good).

## **Our Call for Action**

***Family Federations call upon the European Commission to take concrete action in support of families by issuing a proposal to amend the 6<sup>th</sup> VAT Directive in order to allow national governments to use reduce rates of VAT on essential child care items such as baby diapers, childrens' clothing and shoes, feeding bottles and soothers, strollers, and child care services***

## **Participating organisations**

European organisations:

- Confederation of Family Organisations in the European Union
- Eurochild
- European Delegation of the World Movement of Mothers (MMMEurope)
- European Federation of Unpaid Parents and Careers at Home (FEFAF)
- European Large Families Confederation (ELFAC)
- European Parents Association (EPA)
- European Region of the World Family Organization (E-WFO)
- Federation of Catholic Family Associations in Europe (FAFCE)
- Institute for Family Policies European Network

National organisations:

- Arbeitsgemeinschaft der Deutschen Familienorganisationen (Germany)
- Federación Española de Familias Numerosas (Spain)
- Gezinsbond (Belgium)
- Institute of Advanced Family Studies of the International University of Catalonia
- Latvijas Daudzbernu Gimenu Biedrību Apvienība (Latvia)
- Verband Alleinerziehender Mütter und Väter (Germany)
- Fundación de Familias Monoparentales Isadora Duncan (Spain)