



Unite response to the European Commission Green Paper on the future of VAT- Towards a simpler, more robust and efficient VAT system

1 Introduction

- 1.1 This response is submitted by Unite the Union, the UK's largest trade union with over 1.3 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.
- 1.2 The union's current membership includes 230,000 members in the transport sector and 250,000 in public services. In addition Unite represents many members in transport manufacturing, maintenance and supply chain. The Civil Air Transport (CAT) membership of Unite is currently the largest representative group of workers employed within the aviation industry.
- 1.3 Unite is principally focusing its response to this consultation on section 5.1 and questions 3 and 7.
- 1.4 Unite believes that in the UK the current status quo of not applying the additional burden of VAT to various public services and transport options should continue to ensure their availability.
- 1.5 Removing the exemption to public services would have a devastating blow to already over stretched and under funded public bodies, promote privatisation and threaten the quality of public services. Research commissioned by Unite has shown how the rush to outsource threatens public services.¹ Unlike the rest of Europe, the vast majority of transport modes in the UK have been privatised, causing a substantial difference between the cost of a ticket on the public transport network in the UK and main land Europe.

¹ *The Shrinking State* (Unite, 2011) - <http://www.dontbreakbritain.org/pdf/Theshrinkingstate.pdf>

2 Q3. Do you think that the current VAT rules for public authorities and holding companies are acceptable, particularly in terms of tax neutrality, and if not, why not?

2.1 Following the global recession the national governments of Europe are having to deal with the financial burden caused by the banking crisis. The potential loss of tax neutrality for public authorities will significantly increase the cost of public services to users and threaten the jobs of public service employees.

2.2 The UK's current policy for VAT registered holding companies, allows VAT on share acquisitions, restructuring, investment and bid defence costs to be reclaimed if it can be shown that the holding company took an active part in the operation of a VAT registered subsidiary. If the activities of the holding company were passive, then there is no possibility of the VAT being recoverable. Many other Member States allow the VAT on the costs of all holding company activities, including share sales, to be deductible as a business overhead if the company is VAT registered.

2.3 Such holding companies operate on a tax free basis contributing little or nothing to the economy, whilst being used solely for the movement of share capital. Unite believes that a consistent approach to the application of VAT on these holding companies is desirable in order to create a level playing field. However, Unite does not believe that given the passive nature of their activities that such companies should be able to avoid VAT.

2.4 The revenue raised from the application of VAT to the dealings of these passive holding companies would be significant, providing European governments with a much needed income stream.

3 Q7. Do you think that the current system of taxation of passenger transport creates problems either in terms of tax neutrality or for other reasons? Should VAT be applied to passenger transport irrespective of the means of transport used?

3.1 Within the UK VAT is not applied to the cost of any public transport modes. The only exception to this is where a taxi company, due to the size of its turnover, becomes large enough to require VAT registration.

3.2 Unite is not opposed to a tax on transport if the goal of that taxation is to raise funds which can then be used to improve that transport mode. Such improvements to improve the industry would include the industries environmental footprint or the available network on which it operates. VAT is not designed for this purpose and is simply a revenue raising measure.

Furthermore the application of VAT on transport will not directly affect the large business community as they will simply claim this money back. The application of VAT combined with the other tax raising measures will affect the volume of passengers using services.

- 3.3 UK Aviation is already overburdened with the provision of a domestic Air Passenger Duty (APD) which is higher than anywhere else in Europe or the world² and is due to increase by twice the rate of inflation in April 2012³. In addition, the Civil Aviation industry is about to join the European Emissions Trading scheme in 2012 increasing the burden further still⁴. If VAT is added to this tax burden it will effectively price all but the rich out of the sky.
- 3.4 Aviation is not just a service which provides holiday makers with the opportunity to experience far away locations and support developing countries' tourist industries. It also provides an avenue for Europe's increasingly diverse population to retain links with their home country, friends and family. Large business aviation would be unaffected under current VAT exemptions as they could claim back any additional VAT expense, but smaller developing companies would face a significant economic disadvantage.
- 3.5 In other European nations, instead of applying an aviation tax on the passenger, the VAT coverage has been extended in order to raise capital from the holiday maker and those flying for leisure purposes as opposed to those in business. In these circumstances VAT has also been applied to domestic rail transport as well in order not to unbalance the internal market.
- 3.6 The passing of The Railways Act 1993, introduced by John Major's Conservative government on 5 November 1993, broke up the UK's nationalised rail network into over 100 companies. Since doing so the cost of rail tickets has climbed dramatically, making the UK home of the most expensive rail tickets in Europe⁵. In the morning and evening rush to and from work, demand is fast exceeding maximum capacity, resulting in passengers not just being unable to get a seat but in some situations not being able to board trains on some routes.
- 3.7 Consequently, any significant increase in the cost to the travelling public would create a significant modal shift away from these modes in favour of increased demands on the road network. Such a move would increase

² See Appendix 1 for comparisons in Europe.

³ See Appendix 2 for details of the amount raised from Civil Aviation by the HM Treasury

⁴ See Appendix 3 for predictions of the proportion of Carbon Credits that will need to be purchased by the Aviation industry following its inclusion in the EU ETS

⁵ See Appendix 4 and 5 on the cost of a rail ticket per mile in the UK and Germany by way of example.

congestion and pollution working against the desire to reduce the carbon footprint of transport.

- 3.8 Increases in the cost of local public transport are equally critical even though the distances are normally smaller. In such situations the competition to public transport is still between the car and the bus/tram and, to some extent, cycling and walking for the physically fit. The infirm and less able bodied often rely on public transport to get about as they may not be able to afford the running costs of car ownership. Consequently increasing the cost of public transport by including VAT on the ticket price will lead to social exclusion of an increasingly large proportion of the public who simply would not be in a position to afford the increase.
- 3.9 The harmonisation of the VAT rules for taxi operators would remove a significant amount of confusion for the general public and business users as they will then be able to clearly distinguish if the taxi they climb into would or would not apply VAT onto the cost of their journey.
- 3.10 As an island nation the UK relies on public transport in order to access continental Europe. The addition of VAT on the cost of ferry tickets would therefore, restrict freedom of movement.
- 3.11 Finally, should the cost of commuting increase, so will the demands upon the business community from staff demanding increases in weighting allowances to compensate. This additional cost burden will either lead to a further increase in retail prices, accelerating inflation or reductions in business investment in areas such as skills, etc.

4 Conclusion

- 4.1 Unite the Union believes that whilst there are benefits in having a single set of rules across Europe, it is also important to realise regional differences.
- 4.2 Unite the Union does not believe that removing the VAT neutrality of public authorities is in the best interests of service users and their communities. Ensuring that VAT is applicable on transactions made by holding companies, however, would tap into a valuable source of funding, whilst increasing stable company ownership and job security.
- 4.3 Unite the Union does not agree that it is in anyway advantageous to increase the cost of UK public transport by adding the additional burden of VAT given the current taxation and environmental policies of the UK government.

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Appendix 1 – The tax levels currently applied throughout Europe.

Country	Domestic	International	Country	Domestic	International
Austria Introduced 01/04/2011	€8 for short-haul,	€20 for mid-haul €35 for long-haul (up to £20.65)	Belgium Plans to introduce tax shelved in 2009.	Tax Free	Tax Free
Bulgaria	Tax Free	Tax Free	Cyprus	Tax Free	Tax Free
Czech Republic	Tax Free	Tax Free	Denmark	DKK 1.66 (£0.20)	DKK 1.66 (£0.20)
Estonia	Tax Free	Tax Free	Finland	Tax Free	Tax Free
France	19% VAT + between 4% and 7% carbon tax 5 (< £ 7.30)	Tax Free	Germany APD style tax introduced 01/01/2011 to be abolished on inclusion into EU ETS	€8 (£4.72) 6% VAT (< £5.00)	€ 8 to 1,500 miles €25 to 3,600 miles €45 over 3,600 miles (up to £26.55)
Greece	Tax Free	Tax Free	Hungary	Tax Free	Tax Free
Ireland	€ 2 (£1.81)	€ 3 >300 km (£2.71)	Italy	6% VAT (< £5.00)	Tax Free
Latvia	Tax Free	Tax Free	Lithuania	Tax Free	Tax Free
Luxembourg	Tax Free	Tax Free	Malta	Tax Free	€ 16.76 (£15.76)
Netherlands	Tax Free	Tax Free	Poland	Tax Free	Tax Free
Portugal	Tax Free	Tax Free	Romania	Tax Free	Tax Free
Slovakia	Tax Free	Tax Free	Slovenia	Tax Free	Tax Free
Spain	Tax Free	Tax Free	Sweden	Tax Free	Tax Free

UK

Band and approximate distance in miles from the UK travel

In the lowest class of travel (reduced rate) from:
1 November 2010

In other than the lowest class of travel (standard rate) from:
1 November 2010

Band A
(0- 2,000)
Band B
(2,001 - 4,000)
Band C
(4,001 - 6,000)
Band D
(over 6,000)

£12

£60

£75

£85

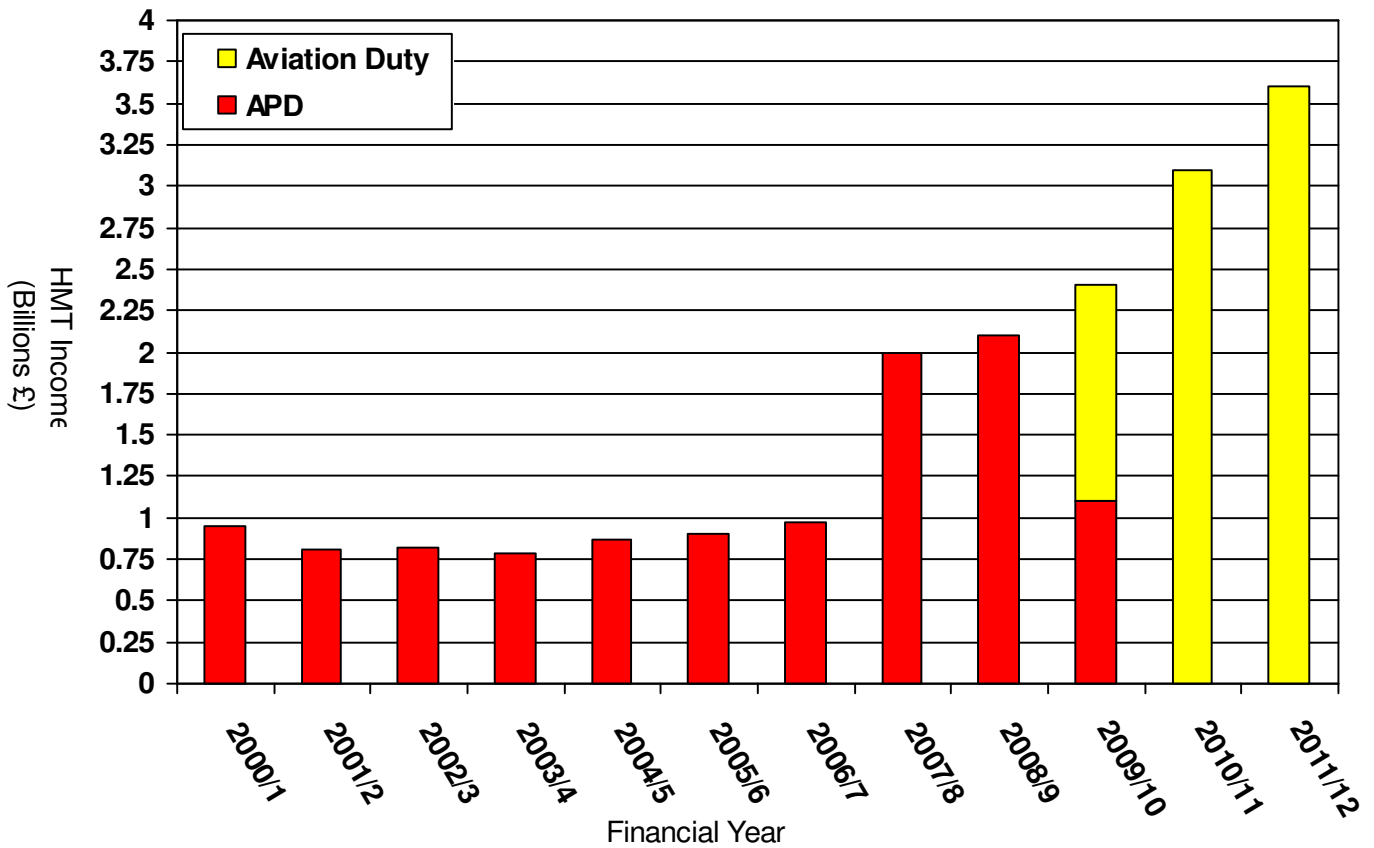
£24

£120

£150

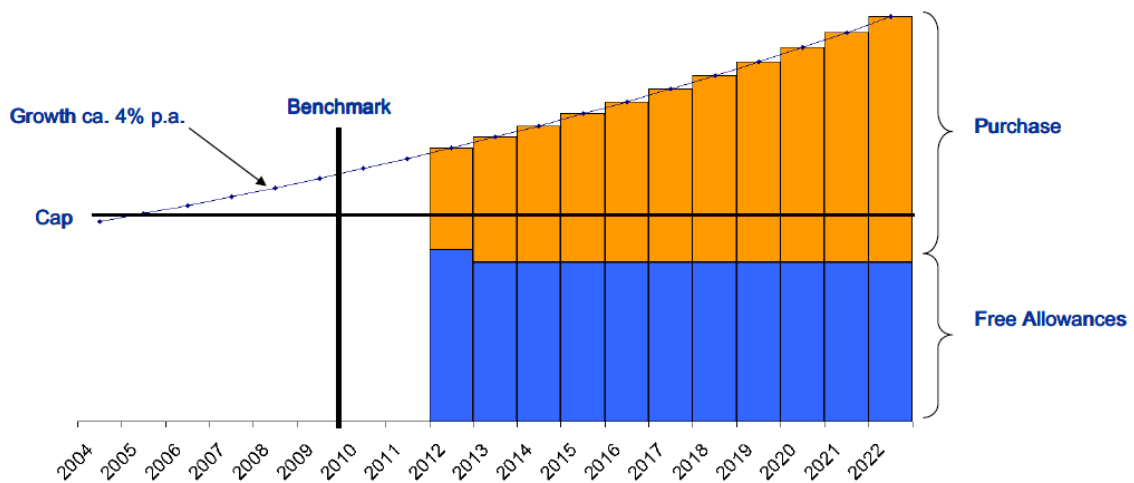
£170

Appendix 2 – Predictions of the amounts rose via APD and Aviation duty



Source:- BATA

Appendix 3 – Predictions of the proportion of Carbon Credits that will need to be purchased by the Aviation industry following its inclusion in the EU ETS



Source:- Lufthansa

Appendix 4 – The Cost of Rail Fares in the UK

	Aberystwyth	Aberdeen	Birmingham	Blackpool	Bournemouth	Brighton	Bristol	Bury St Edmunds	Cambridge
London	€ 136.14	€ 194.00	€ 84.52	€ 163.94	€ 52.19	€ 22.69	€ 95.87	€ 51.51	€ 22.69
Distance as the crow flies	179.949	398.113	101.284	201.511	93.081	47.03	106.13	62.758	49.759
Cost per mile	€ 0.76	€ 0.49	€ 0.83	€ 0.81	€ 0.56	€ 0.48	€ 0.90	€ 0.82	€ 0.46
	Cardiff	Carlisle	Darlington	Edinburgh	Exeter	Fort William	Glasgow	Grimsby	Hull
London	€ 107.21	€ 170.74	€ 155.99	€ 165.64	€ 118.56	€ 201.94	€ 173.58	€ 116.29	€ 89.63
Distance as the crow flies	131.42	261.722	217.48	331.874	157.269	418.928	345.607	142.729	155.281
Cost per mile	€ 0.82	€ 0.65	€ 0.72	€ 0.50	€ 0.75	€ 0.48	€ 0.50	€ 0.81	€ 0.58
	Inverness	Ipswich	Liverpool	Leeds	Manchester	Milton Keynes	Newcastle-upon-tyne	Nottingham	Norwich
London	€ 195.13	€ 46.29	€ 148.05	€ 135.57	€ 158.26	€ 18.72	€ 50.49	€ 79.42	€ 62.85
Distance as the crow flies	444.405	67.046	178.396	169.696	163.048	44.882	247.989	109.423	98.674
Cost per mile	€ 0.44	€ 0.69	€ 0.83	€ 0.80	€ 0.97	€ 0.42	€ 0.20	€ 0.73	€ 0.64
	Oxford	Peterborough	Penzance	Plymouth	Portsmouth	Southampton	Sunderland	Swansea	Swindon
London	€ 29.50	€ 53.32	€ 142.27	€ 135.57	€ 34.04	€ 39.03	€ 162.80	€ 129.90	€ 61.83
Distance as the crow flies	51.487	74.13	254.7	191.507	64.001	68.91	240.843	163.98	71.271
Cost per mile	€ 0.57	€ 0.72	€ 0.56	€ 0.71	€ 0.53	€ 0.57	€ 0.68	€ 0.79	€ 0.87
	Thurso	York							
London	€ 203.64	€ 135.01							
Distance as the crow flies	508.033	174.419							
Cost per mile	€ 0.40	€ 0.77							
AVERAGE									
Distance as the crow flies	178.65								
Cost per mile	€ 0.64								

Appendix 5 – The Cost of Rail Fares in Germany

	Baden- Baden	Bonn	Brandenburg A.d. Havel	Bremen	Cologne	Dortmund	Dresden	Duisburg	Eisenach
Berlin	€ 85.60	€ 72.70	€ 21.50	€ 53.60	€ 69.40	€ 62.10	€ 31.70	€ 64.70	€ 47.90
Distance as the crow flies	344.74	297.64	36.61	196.04	296.83	262.28	102.65	102.65	94.64
Cost per mile	€ 0.25	€ 0.24	€ 0.59	€ 0.27	€ 0.23	€ 0.24	€ 0.31	€ 0.63	€ 0.51
	Erfurt	Frankfurt	Hamburg	Hannover	Kassel	Kiel	Leipzig	Lübeck	Magdeburg
Berlin	€ 42.70	€ 89.00	€ 56.00	€ 62.00	€ 85.00	€ 82.00	€ 43.00	€ 78.00	€ 25.60
Distance as the crow flies	148.01	263.59	362.57	155.16	186.41	183.37	93.02	146.15	79.72
Cost per mile	€ 0.29	€ 0.34	€ 0.15	€ 0.40	€ 0.46	€ 0.45	€ 0.46	€ 0.53	€ 0.32
	München	Münster	Nuremberg	Oranienburg	Potsdam	Stuttgart	Templin	Weimar	
Berlin	€ 116.00	€ 77.00	€ 90.00	€ 5.20	€ 5.20	€ 118.00	€ 21.50	€ 55.00	
Distance as the crow flies	313.48	247.62	235.25	17.56	17.24	318.27	41.23	139.13	
Cost per mile	€ 0.37	€ 0.31	€ 0.38	€ 0.30	€ 0.30	€ 0.37	€ 0.52	€ 0.40	
AVERAGE									
Distance as the crow flies	180.07								
Cost per mile	€0.33								