

Reduced VAT rates on supply, rental and repair of bikes and e-bikes: Guidance for the cycling sector

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Introduction

On 7 December 2021, the Council of the EU reached an agreement on updated rules for VAT rates. Under the new rules, **Member States will be able to apply reduced VAT rates** on:

- **supply** of classic and electric bicycles
- **rental** of classic and electric bicycles
- **repair** of bicycles of classic and electric bicycles

The legislation will be formally adopted by the Council after a non-binding official opinion of the European Parliament; EU-wide entry into force is expected by April 2022.

However, it is up to the Member States to choose the levels of reductions and the respective national VAT rules. **The successful implementation of the reductions will thus heavily depend on negotiations with the national authorities and successful advocacy activities on national levels.**

How does it work?

Currently the standard VAT rate of at least 15% applies in most EU countries, but is usually set higher at around 20%, for supply and rental of bicycles (the standard VAT rates across the EU can be found in an overview document prepared by the European Commission, on page 3). For the repair of bicycles, Member States were already allowed to set reduced rates according to the EU legislation currently in place (see best practices below).



The new rules will provide the Member States with more flexibility to apply reduced VAT rates on the list of items agreed upon at EU level, now also including supply and rental of bicycles and electric bicycles. Besides more flexibility, one of the aims of the update is to allow the national governments to boost their efforts to reach the decarbonisation targets and support cleaner and healthier mobility through targeted VAT reductions.

It is still not clear whether accessories can also be subject to the reduced VAT legislation. According to a preliminary analysis by CONEBI and ECF, they are likely not included, as they are not explicitly mentioned in the list and could also be used for other purposes (e.g. pump can also be used to blow up an air mattress, helmet for e-scooters). The situation may be different for components that are directly linked to the bike/e-bike, e.g. spare parts (see example below on legislation currently in place in Austria regarding spare parts that are used for repair). Clarification in national legislations can be expected soon so national advocacy work is crucial. If not, possible court rulings will decide on the issue.

Examples of good practices in place

- In Belgium, the national parliament already passed a law stating that all bicycle types will be subject to a reduced 6% VAT rate in 2019. As soon as the new EU VAT regulation enters into force, the law in Belgium will take effect.
- In Spain, a non-law proposal to reduce VAT on bicycles from 21% to 10% was approved by the Road Safety and Sustainable Mobility Commission of Congress in 2018. The initiative was approved, but could not be carried out without the EU regulations in place. VAT changes in Spain thus can be expected once the new VAT rules enter into force.
- VAT reductions on minor repairs of bicycles are already in place in several Member States:
 - For example in Sweden, the tax on repairs was lowered from 25% to 12%.
 - In Austria, VAT for small repairs was reduced from 20% to 10%. According to the current practice, if the personnel costs related to the repair represent more than 50% of the overall repair invoice the required components also enjoy a reduced VAT. This suggests that a reduced VAT rate may be applied to the repairing fee and small parts, like sealing, maintenance parts and materials. In Austria and some other countries, the repair is also funded by a range of subsidies on regional and municipal levels.

Member State	VAT rate on bicycle repair
Austria	10%
Belgium	6%
Czechia	10%
Ireland	13.5%
Luxembourg	8%
Malta	5%
Netherlands	9%
Poland	8%
Portugal	6%
Sweden	12%
Slovenia	9.5%



- Several countries have already incorporated their support for bicycles and cycling within their respective tax systems. For example, in Germany, Austria and Belgium, employers can provide bicycles free of tax. In Belgium, companies can receive corporate tax reduction for cycling-linked expenses. In addition to that, organisations are entitled to pay their employees a tax-free allowance for cycling to work in addition to their salaries.

Arguments for advocacy with national governments

- Promoting cycling will help Member States to achieve their decarbonization targets for the transport sector. A recent study led by researchers from the University of Oxford has shown that cyclists have 84% lower life cycle CO₂ emissions related to daily mobility than non-cyclists.
- Cycling brings numerous other benefits, aiding achievement of the goals set in the European Green Deal linked to sustainability and a more human-centred mobility system, but also in the field of public health. For example, a 2019 study by The Public Health England (PHE) research found that more cycling and walking:
 - Improved metabolic health and a reduced risk of premature mortality
 - Reduced risk factors for many long-term conditions (e.g. cardiovascular disease, respiratory disease, some cancers, type II diabetes)
 - Had positive effects on mental health and general well-being
 - Contributed to a reduction in pollution & road congestion (due to reduced car use)
 - Provided health benefits that outweigh health risks and harms (e.g. from injury or pollution)
- In the fast-growing e-bike segment, the VAT reductions can have significant impact on the prices and consumer decisions; this is particularly true in the EU countries with lower-income, where the e-bike prices have so far formed an obstacle for customers. Reducing VAT on e-bikes is also cost-efficient: For example, the EPACs sold in 2016 in the EU produce benefits of 4.4 billion EUR only in terms of public health and CO₂ emissions reduction over the next five years. On the other hand, tax revenues for 2016 would have decreased by only 0.7 billion EUR if the VAT on sales would have been reduced to 0% in all Member States - a small fraction of these benefits. Moreover, several studies have shown that e-bikes have a particularly high potential to substitute car trips.
- Several Member States have already introduced various subsidy schemes for purchases of classic bicycles and/or e-bikes and have announced substantial investments in cycling infrastructure following the increase in popularity of cycling during the last years (e.g. Hungary, Spain, France, Italy, Slovakia, to name just a few). VAT reduction could be the logical next step in supporting further development of cycling.
- Besides providing an important incentive for consumers, slashing VAT will send a strong political signal about support for cycling to the bicycle industry and facilitate investments and job creation in Europe. The bicycle industry currently employs about 155,000 direct and indirect workers within more than 1,000 SMEs across Europe. We are confident that this number will further grow in the coming years if the right enablers are put in place and through this opportunity the industry can clearly see that bikes and e-bikes are considered as a part of the overall mobility ecosystem.



- A great advantage of supporting cycling through VAT reductions is that the measure entails very low administrative costs.
- Lower VAT would provide a significant boost for the local bicycle sales. At the Council level, the legislation was unanimously agreed by the finance ministers of the Member States. This points to wide support for the updated rules and swift action can be expected at national levels. In order to avoid customers flocking to neighbouring/other EU countries with VAT reductions in place, the governments should act quickly to protect local businesses.

