

RREUSE Position Paper on the revised EU VAT Directive

DECEMBER 2022



Co-funded by
the European Union

RREUSE Position Paper on the Revised VAT Directive

EXECUTIVE SUMMARY

- On 18 January 2018, the Commission announced a new proposal to introduce new rules to harmonise Value Added Tax (VAT) rates across the EU Member States as part of its [Fair Taxation Package](#) seeing its culmination with the revised EU VAT Directive 2022/542 in April 2022.
- RREUSE believes that Member States should make use of the current window of opportunity for updating Value Added Tax (VAT) rules to create a better taxation framework for social enterprises active in the circular economy. Reduced VAT rates and exemptions on the basis of social and environmental activities are an essential instrument to acknowledge social enterprises' large contribution to fostering work integration opportunities, green skilling, and the objectives of a circular economy, in line with the EU Social Economy and Circular Economy Action Plans.
- The EU VAT Directive offers Member States the possibility of reduced VAT rates for actors engaged in social well-being as their general activity (point 15; Annex III). While this represents a positive effort to support social actors, guidance on national implementation is crucial to ensure more Member States integrate the clause into their national frameworks for the support of social economy actors.
- New additional grounds for VAT reduction on the basis of repairing activities are now part of the list of voluntary reductions under the Annex III of the Directive. RREUSE believes that VAT rates should be differentiated according to the EU Waste Hierarchy. RREUSE recommends the following: zero VAT for re-use, preparation for re-use activities, and cost of labour associated with repairing, reduced VAT rate for recycling, and zero VAT rate for re-use oriented waste collection that fulfil both social and circular objectives.
- A lack of a clear distinction between new and second-hand products within the text of Directive EU/2022/542 persists and runs counter to the EU's circular objectives to promote waste prevention and re-use whenever possible to promote a circular economy.
- For an inclusive green transition, RREUSE deems it essential for consumers to be financially incentivised, besides being informed via awareness campaigns, on how to have a more active role in the circular economy, with particular attention to those with low purchasing powers.
- RREUSE highlights the European Commission has a central role in coordinating Member States VAT schemes, in line with the overarching objectives of the EU Green Deal, Social Economy and Circular Economy Action Plans. However, given the EU's limited competence to legislate on the matter, RREUSE also calls on the Member States' responsibility to create the conditions for tax reforms that are fit for social circular enterprises.

1. INTRODUCTION AND BACKGROUND TO THE DIRECTIVE

On 18 January 2018, the Commission announced a new proposal to introduce new rules to harmonise Value Added Tax (VAT) rates across the EU Member States as part of its [Fair Taxation Package](#) seeing its culmination with the revised EU VAT Directive 2022/542 in April 2022.

RREUSE has been contributing to this process since 2013¹. One of the main reasons to amend the VAT Directive was to introduce more possibilities for VAT reduced rates for the supply of goods and services benefitting the general interest, including environmental protection.

The revised VAT Directive adds new possibilities for Member States to introduce reductions and exemptions on VAT to the supply of goods and services contained in Annex III of the Directive. Specifically, EU countries can now introduce:

- Up to **two reduced VAT rates no lower than 5%** to a maximum of twenty-four categories of Annex III. Some of these categories include the supply of waste treatment or waste recycling services (18), the supply of repairing services of household appliances, shoes and leather goods, clothing, and household linen (including mending and alteration; 19), and so forth.
- **A reduced rate lower than 5% and an exemption with deductibility of the VAT**, to a maximum of seven categories of specific points considered to cover basic needs (namely, 1, 2, 3, 4, 5, 6, and 10C) of Annex III. The categories include the supply of goods essential to overcome disability as well as the repair of such goods (4) and so forth.

Some of these VAT reduction-eligible grounds are especially pertinent to the activities of social circular enterprises and represent opportunities to benefit from more favourable taxation in order to upscale their work in creating local green employment and fostering an inclusive green transition. However, the limited competence of the EU to create rules on taxation - a competence the individual Member States mostly are free to legislate on - and a voluntary approach risks impeding an even development of the social economy if the national implementation of VAT measures goes unmonitored and opportunities to share best practices unexploited. Equally, national and EU budgets are partly financed by national VAT rules, hence, every VAT reduction entails a rethink of additional funding resources.

¹ RREUSE (2013), Differentiated VAT rates and the Waste Hierarchy: An opportunity to improve resource efficiency and socio-economic inclusion in Europe (Available [here](#)).

2. RREUSE COMMENTS ON THE REVISED VAT DIRECTIVE

Among the newly amended VAT reduction-eligible grounds, RREUSE welcomes seeing new VAT reduction-eligible grounds on the supply of repairing services, in addition to already existing grounds in support of organisations that, according to their national framework, are defined as promoters of social wellbeing. However, no detail is too small, and RREUSE lays out the following reflections on the current Directive version EU/2022/542.

2.1 REDUCED VAT RATE FOR SOCIAL WELLBEING ORGANISATIONS

Already introduced in previous versions of the Directive, the general activity of social wellbeing of organisations remains a voluntary ground for VAT reduced rate. RREUSE considers such a clause (point 15 of Annex III) a crucial step forward to ensuring social circular enterprises and other actors of the social economy are supported in their core activities aimed at social inclusion. Nevertheless, RREUSE highlights the clause stops at providing more details on how the Member States should interpret it. As a consequence, it leaves large room for discretion for national authorities within a context of heterogeneous or even lacking definitions. Additional guidance from the European Commission is needed to unmistakably encourage Member States to properly support social actors, including social economy actors. **RREUSE believes that the current window of opportunity for updating national VAT rules should be further capitalised on by Member States to integrate more favourable taxation measures in line with the initiatives brought forward by the Social Economy Action Plan (SEAP)².** Member States such as France, already offer VAT-reduced rates to the social economy actors on the ground of employment creation for disadvantaged individuals and people with disabilities³. The upcoming 2023 SEAP initiatives, including capacity-building support to national authorities on taxation topics, and the Commission's proposal for Council Recommendation to Develop Framework Conditions for the Social Economy, are additional tools that should be capitalised to guide national implementation toward better VAT measures for the social economy.

2.2 NEW ENVIRONMENTAL GROUNDS FOR REDUCED VAT

RREUSE welcomes additional grounds for VAT reduction or exemption within the Annex III

² European Commission (2021), Communication: Social Economy Action Plan (Available [here](#) in all languages).

³ RREUSE (2013), Differentiated VAT rates and the Waste Hierarchy: An opportunity to improve resource efficiency and socio-economic inclusion in Europe (Available [here](#)).

of the Directive which reflect the ambitions set up under the Circular Economy Action Plan. Such grounds include a new range of economic activities that pertain to the scope of action of social circular enterprises, such as the following:

- construction of housing as part of social policy (including renovation and repairing; 10),
- supply and installation of solar panels (10c)⁴,
- the supply of waste treatment (including preparation for re-use activities) or waste recycling services (18),
- the supply of repairing services of both household appliances and clothing (19),
- and rental and repair services of traditional and electric bicycles (25).

RREUSE wholeheartedly welcomes greater consideration for repairing and waste treatment activities, including sales of second-hand goods following the preparation for re-use process, which are now eligible for reduced VAT rates. However, the amended EU VAT Directive still does not differentiate VAT rates according to the EU waste hierarchy, whereby reuse - as part of waste prevention - sits at its pinnacle. Guidance within the text is therefore crucial to incentivise the Member States to apply taxation measures designed keeping in mind the prioritisation provided by the EU's Waste Hierarchy to foster a circular economy.

2.3 LACK OF CLARITY BETWEEN SECOND-HAND AND NEW GOODS

The lack of clarity between used and new goods still persists in the newly amended EU VAT Directive and runs counter to the Commission's proposal for a circular economy where convergence between different policy files is essential.

There needs to be a bigger explicit distinction between used and new products, to avoid undermining activities aimed at waste prevention. Social enterprises carry a decades-long legacy of promoting waste prevention via re-use, a labour-intensive activity that is able to mobilise, according to the estimates of RREUSE, hundreds of thousands of individuals, including women in need, people with disabilities, long-term unemployed, and migrants.⁵

Equally, a more explicit demarcation of economic activities that are sustainable both from a social and environmental standpoint is needed. This is the case in Belgium, where a specific scheme for social enterprises envisions a reduced VAT rate of 6% on the supply of all second-hand goods⁶.

⁴ RREUSE (2022), Unique Site for the Re-use of Solar Panels Launched in Gironde by ENVIE and Soren (available [here](#)).

⁵ RREUSE (2021), Job creation in the re-use sector (Available [here](#))

⁶ RREUSE (2013), Differentiated VAT rates and the Waste Hierarchy: An opportunity to improve resource efficiency and socio-economic inclusion in Europe (Available [here](#)).

2.4 FINANCIAL MEANS AS A WAY TO SHIFT CONSUMERS' BEHAVIOUR

Shifting consumers' behaviour towards more sustainable purchases is equally important. RREUSE deems it essential for consumers to be financially incentivised as well as informed on how to have a more active role in the circular economy, with special attention to those with low purchasing powers. The European Commission should coordinate Member States' responses to ensure VAT schemes go in the direction of prioritising re-use activities, whereby social enterprises carry a historical position in offering more affordable (circular) options to most consumers. Equally, awareness campaigns should guide buyers on how to find more sustainable businesses, including social circular enterprises' re-use shops, or where to donate materials in exchange for tax reliefs. Such actions would also address the problem of social economy actors' lack of visibility as highlighted under the EU Social Economy Action Plan⁷.

3. DIFFERENTIATION OF VAT RATES ACCORDING TO THE EU WASTE HIERARCHY

The current VAT Directive EU/2022/542 does not focus on differentiating VAT rates based on the environmental impact of goods and services. VAT rates and other financial instruments have a central role in incentivising a more sustainable use of resources for a successful inclusive circular economy. **Therefore, RREUSE believes that VAT rates should be differentiated based on the prioritisation given by the EU Waste Hierarchy (Figure 1) - whereby waste prevention is the most preferred option - with a progressive taxation system that favours those at the top.** Vice versa, polluting activities should be disincentivised via higher VAT rates whose revenues could then be used as additional sources for essential services such as employment schemes.



Figure 1. The EU Waste Hierarchy

⁷ European Commission (2021), Communication: Social Economy Action Plan (Available [here](#) in all languages).

As highlighted by the EEB, by taxing the use of scarce resources, product use, and waste generation, circular taxes are also a powerful instrument to bring more socially just outcomes by shifting away from high labour taxes and providing tax reliefs for actors conducting circular activities⁸. Some Member States already provide best practices on VAT-reduced rates for the general activity of social enterprises (e.g. Austria, Belgium, France and Slovenia) or on the ground of specific relevant activities such as reparation services (e.g. Ireland, Luxembourg, Netherlands, Sweden). **However, RREUSE stresses that the heterogeneity of national taxation rules applicable to social economy actors largely persists, remaining a big obstacle to their even development.**

RREUSE lays out the following recommendations:

- **RE-USE & PREPARATION FOR RE-USE:** Currently, the EU VAT Directive envisions an **Output on VAT margin regime** for second-hand goods, meaning VAT only needs to be paid on the profit margin earned on the supply of second-hand goods, given it was already paid on the full selling price previously. However, it remains irrefutable that in order to promote a circular economy, re-use and preparation for re-use should be further incentivised. Equally, re-use activities allow the employment of individuals traditionally distant from the labour market, such as migrants, long-term unemployed, and low-skilled workers, carrying strong social implications. As such, RREUSE continues to advocate for **zero VAT schemes** to be applied to the reuse activities of social economy enterprises.
- **REPAIR: Zero VAT** should also be applied to the cost of labour associated with the repair, maintenance, and upgrade of services of products such as furniture, WEEE products, construction materials, bicycles, and textiles⁹. Repairing activities of social enterprises, besides being labour-intensive, contribute to the upskilling and reskilling of workers needed for the green transition, within an EU-wide context of repairer shortages. Furthermore, as the European Institutions have highlighted, take-make-dispose models have resulted in new products being cheaper than repairing them to the detriment of product durability and the environment.¹⁰ This is

⁸ European Environmental Bureau (2022). Final Report on Circular Taxation: a policy approach to reduce resource use and accelerate the transition to a circular economy (Available [here](#)).

⁹ RREUSE (2021), RREUSE Member Impact 2021 (Available [here](#)).

¹⁰ European Parliament (2022), Why is the EU's right to repair legislation important? (Available [here](#))

also in light of 77% of EU consumers that would rather repair their goods than have to buy new ones according to Eurobarometer (2020).¹¹

- **RECYCLING:** the sale of recycled material or material to be recycled should be entitled to a **reduced VAT rate**, in order to promote a market for quality recycled materials when prioritising re-use and repairing - requiring less natural resources - is not possible. This would go in line with upcoming important European policy files such as the Sustainable Products Initiative which aims at promoting the supply of both more durable and easy-to-be-recycled products.
- **WASTE COLLECTION SERVICES:** Via a **Zero Rate**, the European Commission should promote the actors that carry waste collection services in a manner that preserves the reuse potential of the collected products while simultaneously involving vulnerable categories of citizens for an inclusive green transition. On the other hand, operators collecting waste ignoring the waste hierarchy and seeking profits should be subject to higher taxation than social enterprises active in waste management and be clearly distinguished from the former in legislation.

4. POLICY RECOMMENDATIONS

RREUSE highlights the European Commission has a central role in coordinating Member States VAT schemes, in line with the overarching objectives of the EU Green Deal, Social Economy and Circular Economy Action Plans. However, given the EU's limited competence to legislate on the matter, RREUSE also calls on the Member States' responsibility to create the conditions for tax reforms comprehensive of social and circular dimensions.

To sum up, RREUSE recommends the following:

1. Within the current window of opportunity to adapt VAT rules, Member States should make avail of the revised rules to foster the social and circular economies. In Annex III of the Directive, clause 15 in support of social well-being actors and clauses 10, 10c, 18, 19, and 25 referring to repairing and waste treatment activities (including

¹¹ Eurobarometer (2020), Special Eurobarometer 503: Attitudes towards the impact of digitalisation on daily lives (Available [here](#))

preparation for re-use) should be implemented at the national levels as avenues for more favourable VAT rates for the supplies provided by social circular enterprises.

2. RREUSE believes that Value Added Tax (VAT) and other taxation means should be designed in order to prioritise a shift to reuse, repair, and recycling activities according to the EU Waste Hierarchy while reducing the number of primary and other resources used in production. Furthermore, where relevant VAT rates should recognise the special position of social enterprises active in the circular economy.
3. RREUSE stresses the importance of including wording in the future revision work of the EU VAT Directive - at the very least in the form of a recital - on upholding the EU waste hierarchy notably when carried out by actors with a strong social dimension.
4. The European Commission should promote guidance for better taxation towards social economy actors via publications, sharing of national best VAT practices, and capacity-building sessions with national public officials. This is in line with the initiatives under the Action Plan on the Social Economy which must unequivocally push Member States to adopt a better framework for their upscaling, including via taxation means. This is especially relevant in the current context of energy and cost of living crises which social economy enterprises contribute to mitigating.

RREUSE Contact:

Simone SCHIRRU

Policy Officer

simone.schirru@rreuse.org