

Differentiated VAT rates and the Waste Hierarchy: An opportunity to improve resource efficiency and socio-economic inclusion in Europe

Introduction

Social enterprises¹ active in reuse and preparation for reuse activities provide work and training opportunities for those at most risk of socio-economic exclusion such as the disabled and long term unemployed. The reuse sector provides a multitude of different skill sets to allow such groups to be better equipped in the open labour market, gained from activities such as sales, driving commercial vehicles, marketing, woodwork, warehouse logistics, mechatronics etc. The sector is work intensive and rich in opportunity. For example it has been estimated that for every 1000 tonnes of electronics that are repaired, 200 jobs can be created if reused and repaired, but only 20 if recycled².

Reuse and preparation for reuse activities carried out by social enterprises thus has significant social value³ through its employment and training of marginalised groups. In addition the sector provides good quality items and appliances at a fraction of the price of a new item, giving access to such products to people of all income levels. We should not forget that according to Eurostat in 2011 9% of EU citizens were materially deprived⁴.

Currently however reuse, repair and preparation for reuse activities are becoming more marginalised, and subjected to high VAT rates. This incites the consumer to constantly upgrade and buy new products and appliances rather than repair the ones he/she already owns. A lack of legal incentives to increase reuse and preparation for reuse activities, together with our throwaway culture, results in potentially reusable furniture, electronic appliances and textiles being directly recycled, incinerated or landfilled.

In order to ameliorate this situation, reuse and preparation for reuse activities, especially carried out by social enterprises must be better supported through a number of measures including reduced VAT rates to reward the resource efficiency and socio-economic benefits they provide to society. RREUSE believes VAT rates should reflect the waste hierarchy in the following ways:

¹ 'businesses with a method of production of goods or services with a social objective (social and professional integration via access to employment for people disadvantaged in particular by insufficient qualifications or social or professional problems leading to exclusion and marginalisation) but whose activity may be outside the real aim of the provision of social goods or services' EC [COM 2011 \(682\)](#)

² DECO (2009). "ELECTRONICS RECYCLING Economic Opportunities and Environmental Impacts." from <http://www.illinoisbiz.biz/NR/rdonlyres/8DD41FE3-A7ED-4447-87C0-DD05815F2747/0/EwasteFactSheet.pdf>.

³ UK situation: "increasing employment from the movement of formerly unemployed people into employment in the waste and resource management sector could generate £600 million in social value by 2020. Increasing the involvement of social enterprises in local collection contracts from the current 0.25% to 2% share across all public services, with the largest proportion of this increase assigned to re-use projects, which make up the largest proportion of the social economies provision in this sector, could add another £54 million in social value". (Georgeson, 2012) [link](#)

⁴ Eurostat, 2012, [At risk of poverty or social exclusion in EU27](#)

1. Reuse (waste prevention)

*Reuse activities include any operation by which products or components that are **not waste** are used again for the same purpose for which they were conceived, a waste prevention activity.*

1.1 Zero VAT on repair, maintenance, upgrade services and sales of second hand/refurbished products

RREUSE believes that no VAT should be applied on repair, maintenance, upgrade services and sale of second hand/refurbished products. In the UK for example, supplies for and by charity organisations of goods donated with a view to being sold are zero VAT rated and in France the sale of second hand/refurbished items by social enterprises are not subject to VAT.

Today there are a number of VAT reductions for repair services of bicycles; shoes and leather goods; Clothing and household linen in the following Member States: Greece, Ireland, Luxembourg, Malta, Netherlands, Poland and Finland⁵. RREUSE is therefore of the opinion that no VAT be applied to reuse and repair services that include product categories such as bulky materials (furniture), electronic and electrical equipment and construction materials.

Moreover, the social added-value of social enterprises should also be rewarded through other economic measures. In that respect social enterprises should not be subject to labour social charges for the disadvantaged and disabled people they employ to compensate for the possible lower productivity of these workers. In Italy for example social cooperatives are exempted from such social charges for such reasons.

1.2 Allow retailers to recoup VAT through donation of unsold new products to approved/accredited reuse centres from the social economy

In a number of countries such as Belgium, retailers find it economically attractive to directly send unsold new stock directly for recycling, landfill or incineration rather than donate it to a social enterprise who would give it a new lease of life.

This is because the producer responsibility scheme or waste management company which receive the new appliance/product issues the retailer with a "green" certificate that proves that they have got rid of the product in an "environmental friendly" way. With this certificate retailers can recoup the VAT they have paid when they purchased the machine. They cannot, however, recoup this VAT if they donate a new appliance to a social enterprise.

Therefore RREUSE is of the opinion that **if a retailer donates a brand new machine to an accredited or approved reuse centre (run preferably by a social enterprise) it can get the same certificate as the one issued by the producer responsibility scheme/waste operator and reclaim the VAT.**

⁵ EC, 2012, [VAT Rates Applied in the Member States of the European Union](#)

2. Preparation for reuse activities

*Preparation for reuse activities include activities such as checking, cleaning or repairing recovery operations, by which products or components of products that **have become waste** are prepared so that they can be re-used without any other pre-processing.*

2.1 Reduced VAT for collection services which support preparation for reuse activities

One of the most important factors to help increase preparation for reuse rates is to transport waste goods in an appropriate manner that does not compromise their potential to be reused prematurely. It has been proven that good collection systems result in higher preparation for reuse rates although collection in an appropriate manner is unfortunately not common practice as there are not enough incentives to do so.

Therefore, rewarding collection schemes carrying out their activities in a manner that preserves reuse potential should be exempt from VAT or reduced rate e.g. 5%, whilst those operators which carry out collection in a poor way should be charged a higher VAT rate. There are a number of ways one could potentially infer a good vs. poor collection service such as:

- Using tandem systems of collection, one for general municipal waste and one for reusables or having specific trucks that allow for safe and secure storage of reusable goods and materials in a dedicated compartment
- Provision of adequate shelters at collection points for potentially reusable goods and appliances

In practice, one could also infer the quality of the collection system by reviewing the end destination of what is collected. If a high proportion of collected material is prepared for reuse instead of recycled, incinerated or landfilled, this can be viewed as a good collection service⁶.

2.2 Zero rated VAT for preparation for reuse activities and services carried out by social enterprises

In France for example, collection and sales activities carried out by social enterprises are exempt from VAT, because their activities are linked to the employment of disadvantaged and disabled persons.

Furthermore, in Belgium social enterprises active in the area of reuse and preparing for reuse have a reduced VAT rate of 6% under certain conditions, because they combine their reuse and preparing for reuse activities with training, rehabilitation and integration of disadvantaged groups. This is a reduced VAT rate relating to the sales of goods and services provided by such social enterprises.

There should thus be a zero VAT rate across all different types of waste streams that are prepared for reuse including bulky materials (furniture), WEEE, textiles and construction/demolition materials.

⁶ For example, the UK Environment Agency has issued a 'Duty of Care' responsibility on the transfer of 'waste', where collectors of waste material have to show they have considered the waste hierarchy when issuing Waste Transfer Notes. It could be easy for that system to be abused. If, however, end destination of material including the amount that was reused/prepared for reuse over a period of time could be factored into assessment then it will be easier to determine how effective the collection system is.

3. Recycling

In order to promote a market for recycled materials, the sale of recycled material or material to be recycled should be entitled to a reduced VAT rate.

4. Other recovery (e.g. energy recovery)

The sale of recovered material or material to be recovered should be subject to full VAT

5. Disposal

Such activities should be charged full VAT

Lastly, having reduced or zero rated VAT rates for the goods and services provided by social enterprises active in the reuse/preparation for reuse sector would encourage not only environmental improvement and **resource efficiency**, but also **socio-economic integration**, fundamental aims of the EU 2020 strategy.

About RREUSE:

The Reuse and Recycling EU Social Enterprises network (RREUSE) is a European umbrella organisation for national and regional networks of social enterprises with re-use, repair and recycling activities. Approximately 42,000 Full Time Equivalent (FTE) employees and over 200,000 volunteers and trainees work throughout our 23 member organisations across 13 EU Member States. Although structures and national contexts are diverse, RREUSE members share common elements such as the protection of the environment, the fight against poverty and, especially, the progress of disadvantaged people back into the labour market. RREUSE's main goal is to put sustainable development into practice by encouraging job creation and social inclusion in the field of waste prevention and sustainable waste management activities

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