

Reduced taxation to support re-use and repair

9.3.2017

Introduction

The Commission's Circular Economy Action Plan¹ encourages the use of economic instruments to help ensure the extension of a products lifespan through re-use and repair, acknowledging also that these activities are labour intensive and thus contribute to the EU's jobs and social agenda.²

One such instrument is the use of Value Added Tax (VAT), currently governed by the EU Directive on a common system of value added tax (Directive/112/EC) which could be revised in the near future³. Repair activities in particular need to be made cheaper. In Europe 77% of citizens would be willing to have their goods repaired but hardly ever do because it is too expensive for them to do so⁴.

This briefing outlines some recommendations on how VAT can be differentiated in order to boost jobs in re-use and repair activities, based on current examples from around Europe and the views of social enterprises working in this field. In particular for the field of waste management, RREUSE feels that VAT rates can be differentiated according to the EU waste hierarchy.

The briefing also touches on other tax related measures that could be used to encourage citizens to donate used goods to charitable organisations as well as having their things repaired, rather than throwing them away or replacing as soon as they break down.

Current initiatives to support the sector around Europe and beyond

A number of EU Member States have already made efforts to reduce VAT on both second-hand goods as well as repair services that RREUSE feels could be harmonised or replicated at EU level. There also exist a number of examples, both within and outside of Europe, whereby tax reductions are also being used to incentivise donations of used goods to social enterprise as well as encouraging citizens to have their goods repaired.

Table 1: VAT reductions on repair services and sales of second-hand goods:

Ireland ; Luxembourg; Malta; Netherlands; Poland ; Slovenia ; Finland ⁵ ; Sweden	VAT reduction on minor repair services (including mending and alteration) of: Bicycles; shoes and leather goods
France	Collection and sales of used goods carried out by social enterprises are exempt from VAT because their activities are linked to the employment of disadvantaged and disabled persons.

¹ European Commission (2015) Closing the loop – An EU Action plan for the Circular Economy – available [here](#)

² European Commission (2015), Closing the Loop - An EU Action Plan for the Circular Economy – available [here](#)

³ European Commission (2016) EU Action Plan on VAT rates - available [here](#)

⁴ Eurobarometer 388 – Attitudes of Europeans towards waste management and resource efficiency – available [here](#)

⁵ European Commission (2012) VAT Rates Applied in the Member States of the EU – available [here](#)

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.
UK	Currently donated items that are re-sold are VAT exempt only if sold by a registered charity or by a person (or company) who has agreed in writing to give all profits to a charity. This means that any organisation that is not a charity (either registered or exempt) has to charge VAT at the prevailing rate on all donated items.

Table 2: Using tax reductions as a means to incentivise repair

Sweden	50% labour costs for repairs of large household appliances are tax deductible up to a maximum of 25000 Kr / year or 50000 Kr for persons over the age of 65. This is for repairs performed by professionals at the owner's home ⁶ .
Austria	Proposal put forward by the Federal Chancellor Christian Kern in January 2017 to make repair cheaper by reimbursement of 50% of the labour costs of repair. The maximum amount would be 600 EUR per year per private person and year. Applicable for bikes, shoes, clothes, leather goods, electric household appliances ⁷ . The city of Graz already introduced this system in November 2016 with maximum support of 100 EUR per household and year ⁸ .
Spain	In Spain there is the Patronage law that allows tax reductions to companies and individuals who donate money from assets to charities. It also includes the donation of used goods, without differentiating them from new ones.

Table 3: Using tax reductions as a means to encourage the donation of used goods to social enterprises

New York (USA)	Donating used goods, such as textiles, toys or furniture to a charitable non-profit organisation in the state of New York can be rewarded with tax deductions at the end of the year. On donation the recipient organisation issues a tax deduction receipt ⁹ .
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Policy Recommendations

Based on the above examples as well as consultation with RREUSE members, we recommend the following measures to be incentivised at EU level, and where possible, harmonised:

...for repair services

- 0% VAT should be applied on the cost of the labour of repair, maintenance, upgrade services on products such as furniture, electronic and electrical equipment, construction materials, bicycles, shoes and leather goods offer tax rebates to citizens after having had their goods repaired
- offer incentives to citizens by providing partial reimbursement for the cost of labour of repair, such as the case of Sweden (See Table 2)

⁶ Swedish Tax Agency website - available [here](#)

⁷ Action programme for Austria "Plan A" - available [here](#) (in German)

⁸ Guideline for support of repair in Graz - available [here](#) (in German)

⁹ Contributions to New York State charities – available [here](#)

...for the sales of Second-hand goods

- apply 0% VAT rates on the sale of second hand goods as VAT was already paid once during the purchase of a new product
- allow retailers to recoup VAT through donation of unsold new products to social enterprise re-use operators
- offer tax breaks to citizens following the donation of used goods to social enterprise re-use operators

...for waste collection services

- waste collection services provided by social enterprises that carry out their activities in a manner that preserves reuse potential of the collected products should have a 0% VAT rate whilst those operators which carry out collection in a poor way should be charged a higher VAT rate¹⁰

...for 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

Conclusion

Having reduced or zero rated VAT on the sale of second-hand goods and repair services would encourage not only environmental improvement and resource efficiency, but also local job creation, fundamental aims of the EU 2020 strategy and the Commission's Circular Economy Package. The use of other measures, such as tax deductions, can also be a tool to help encourage the donation of used goods to social enterprise re-use operators as well as encourage citizens to having their goods repaired.

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RREUSE position on Commission's circular economy package proposals [available here](#).

About RREUSE:

The Re-use 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 77,000 employees and 65,000 volunteers and trainees work throughout our 31 member organisations across 17 EU Countries, Bosnia and Herzegovina and the U.S.A. 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.

¹⁰ 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. There are a number of ways one could potentially infer a good vs. poor collection service such as having specific trucks that allow for safe and secure storage of reusable goods and materials in a dedicated compartment or provision of adequate shelters at collection points for potentially reusable goods and appliances. One could also infer the quality of the collection system by reviewing what proportion of collected material is prepared for reuse instead of recycled, incinerated or landfilled. For more see [RREUSE \(2013\) Differentiated VAT rates and the Waste Hierarchy](#).