BUSINESSEUROPE

POSITION PAPER

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VAT and the Circular Economy

BusinessEurope is Europe's largest business organisation and a leading advocate for growth and competitiveness at the EU level. Representing 42 national business federations from 36 countries in Europe, we stand up for companies of all sizes across the continent and campaign on the issues that influence their performance most.

Key messages

- **Donations:** qualifying donations of usable food and non-food goods should not trigger output VAT or the loss of input VAT deduction.
- **Destruction:** new restrictions on input VAT deduction for destruction should not be the principal means of encouraging donations. Justified disposal should not face disproportionate evidentiary requirements.
- **Margin scheme:** preserve the option to apply ordinary VAT treatment and introduce an optional simplified aggregate-margin method. Provide clear, consistent definitions of reuse, repair, refurbishment and remanufacturing.
- **Passenger cars:** VAT should remain neutral. VAT deduction should reflect taxable business use, with appropriate treatment of private use, rather than propulsion technology or environmental classification. Emissions should be addressed through better-suited instruments.
- **Lower burdens:** reforms should contribute to the Commission's administrative burden reduction targets of at least 25% overall and 35% for SMEs without unnecessary additional reporting or documentation requirements.
- **Evidence based measures:** any consideration of reduced VAT rates should assess their effectiveness, implications for VAT neutrality and administrative costs, including whether intended price benefits reach buyers and support environmental outcomes.

Overall remarks

BusinessEurope welcomes the evaluation of the EU VAT framework and the opportunity to identify changes that can facilitate the circular economy. European businesses need rules that support reuse, repair, refurbishment and remanufacturing, facilitate donations of usable goods and provide predictable conditions for investment.

The priority should be to remove tax obstacles and reduce compliance costs while preserving VAT neutrality. This initiative should contribute to the Commission's objectives of reducing administrative burdens by at least 25% overall and 35% for SMEs, strengthening European competitiveness and making circular business models easier to operate across the internal market. Harmonisation should deliver a measurable reduction in burdens. Additional classifications, reporting obligations or substantiation requirements could undermine these benefits, particularly for smaller businesses.

BUSINESSEUROPE a.i.s.b.l.
AVENUE DE CORTENBERGH 168 – BE 1000 BRUSSELS – BELGIUM
TEL +32 (0)2 237 65 11 – FAX +32 (0)2 231 14 45 – E-MAIL main@businesseurope.eu
WWW.BUSINESSEUROPE.EU – Follow us on Twitter/X @BUSINESSEUROPE
EU Transparency register 3978240953-79

The evaluation should distinguish barriers arising from the VAT Directive from those caused by national implementation or administrative practice. Guidance can address uncertainty within the existing framework, but legislative amendments will be needed where that framework prevents workable solutions. Reforms should build on practical experience across Member States and provide a clear legal basis for consistent treatment throughout the internal market.

Donation and destruction of viable goods

VAT rules should not make destruction financially more attractive than donating usable goods. BusinessEurope supports a clear EU framework under which qualifying donations do not trigger output VAT or the loss of input VAT deduction. An exemption that requires reversal of previously deducted VAT would leave a significant obstacle in place.

Relief should cover suitable non-food goods as well as food. Charitable organisations need a wide range of products, including clothing, household goods, hygiene products and IT equipment. Obsolete models and unsold stock may retain considerable usefulness even when commercial sale is no longer practicable. Eligibility should reflect that reality, subject to applicable safety and product rules.

The framework should establish clear and proportionate criteria for eligible recipients, covering charitable organisations and other bodies undertaking public-interest activities across Member States. In humanitarian and emergency situations, the Commission should also examine whether VAT creates obstacles to the free provision of services supporting relief efforts and whether targeted measures are needed. National recognition requirements should not unnecessarily exclude organisations performing equivalent functions. The Commission should examine how recipient status can be verified simply for donations across borders and whether a common receipt or declaration can replace divergent documentation requirements.

Safeguards should be targeted at diversion, artificial arrangements and distortions of competition. Documentation should rely wherever possible on existing business records and proportionate confirmation of receipt, avoiding unnecessary additional item-level tracking. Where donations are facilitated through marketplaces or other platforms, platform operators should be able to manage relevant documentation on behalf of sellers or donors, where agreed between the parties. The rules should clarify the VAT responsibilities associated with onward distribution and charitable resale, so that compliant donors do not face unexpected VAT costs. Simplified procedures should also be available for recognised humanitarian relief operations, including emergency situations.

The assessment should also examine the VAT treatment of donated second-hand goods subsequently resold by charitable organisations. Where such resales are taxable, the absence of a purchase price may mean that margin taxation provides little or no relief from VAT on the resale proceeds, even where the goods have already borne non-deductible VAT. The Commission should examine proportionate solutions that address this potential repeated taxation, with safeguards against abuse and distortions of competition.

Valuation guidance and clearer rules for low-value gifts can provide complementary improvements. However, relief for qualifying donations should not depend solely on

establishing that each donated item has no taxable value. Goods can have a genuine remaining value while being unsuitable for sale through the donor's normal channels.

BusinessEurope has concerns about using new restrictions on input VAT deduction for destruction as the principal means of encouraging donations. Destruction may be necessary for legitimate safety, legal, quality, economic or operational reasons, and donation may be impracticable because no suitable recipient or distribution capacity exists. Any proposal should distinguish avoidable destruction of viable goods from justified disposal, rely wherever possible on existing records and avoid disproportionate evidentiary requirements or hindsight-based judgments about legitimate business decisions. The impact assessment should examine whether removing the VAT cost of qualifying donations can achieve the objective with fewer administrative burdens than introducing deduction restrictions for destruction.

Second-hand, refurbished and remanufactured goods

The margin scheme remains important for avoiding repeated taxation when goods re-enter commercial circulation without deductible input VAT. Businesses should retain the possibility to apply ordinary VAT treatment to eligible transactions rather than being required to use the margin scheme. Separately, businesses using the margin scheme should have access to an optional simplified method based on an aggregate margin over a reporting period. Access to simplification should accommodate businesses combining new and second-hand activities, without requiring separate legal entities solely to qualify.

The evaluation should distinguish supplies under the margin scheme from second-hand goods sold under ordinary VAT rules. The latter can carry deductible VAT for a purchaser using the goods for taxable activities, subject to the applicable conditions. A purchaser under the margin scheme cannot deduct VAT separately from the purchase invoice. Making the margin scheme mandatory could therefore create disadvantages for business purchasers and should be assessed carefully. Second-hand status alone should not be treated as the reason for an absence of deduction rights.

Businesses operating circular models can face difficulties in tracking the origin of goods, separating inventories and matching individual purchase and selling prices. An optional aggregate calculation method could reduce these burdens, particularly where goods are acquired in batches or sold through different channels. Its design should address negative margins, mixed inventories and cross-border transactions, with proportionate safeguards against abuse.

EU definitions and eligibility rules should clearly distinguish reuse, repair, refurbishment and remanufacturing. They should explain when processing preserves eligibility for the margin scheme and how to treat recovered parts, components and goods incorporated into other products. Definitions must be workable for business accounting systems and applied consistently across Member States. They should avoid unnecessary product-by-product environmental certification for VAT purposes.

Alongside improvements to the margin scheme, the Commission could assess alternative approaches to address residual VAT embedded in goods acquired without deductible VAT, including where they are transformed into components or recovered materials. Such an assessment should compare alternatives with an improved margin scheme and examine fiscal effects, fraud risks and administrative feasibility. Any

alternative mechanism should have a clear legal basis and proportionate safeguards and should be distinguished from existing input VAT deduction rights.

The assessment should also examine whether VAT creates competitive disadvantages for refurbished and remanufactured products, including electronic devices and other equipment, and for products incorporating recovered production materials. It should distinguish cases involving residual non-deductible VAT from transactions where input VAT is recoverable and identify targeted solutions consistent with VAT neutrality.

Digitalisation and common documentation standards should replace burdensome processes and support ordinary business records. They should not introduce parallel circular-economy reporting or require businesses to reconstruct the entire historical supply chain. The Commission should also examine whether cross-border refurbishment and remanufacturing give rise to disproportionate VAT registration and compliance burdens, and whether targeted EU-wide simplification could address them. Particular attention should be paid to used vehicles and spare parts, where predictable rules and a functioning cross-border market are essential.

Passenger cars

BusinessEurope supports the transition to lower-emission mobility. However, VAT should remain a broad-based consumption tax grounded in neutrality. The right to deduct input VAT should reflect the use of expenditure for taxable business activities, with appropriate treatment of private use, rather than depend on a vehicle's propulsion technology or environmental classification. Environmental objectives should be pursued through instruments better suited to addressing emissions, without compromising the core principles of the VAT system.

Impact assessment and implementation

The Commission should prioritise measures that remove VAT obstacles to circular activity and provide legal certainty. The impact assessment should compare compliance costs and tax treatment across representative business models, including second-hand retail, refurbishment, component recovery, vehicle trading, leasing and charitable donations. It should assess SMEs, cross-border transactions, revenue effects and targeted safeguards against abuse. Options should be compared with the status quo and assessed for relevance, effectiveness, efficiency, coherence and EU added value, including their compatibility with VAT neutrality. The evaluation should also consider transactions involving third countries where relevant.

In line with BusinessEurope's expectations for the Circular Economy Act, the assessment should consider well-calibrated fiscal measures, including reduced VAT rates, simplified margin schemes or similar measures tailored to products with higher circularity performance. This should include examining their suitability for repair services and the sale of second-hand, refurbished and remanufactured goods. The choice and design of measures should be evidence-based. Where relevant, the assessment should draw on objective criteria such as recycled content, product lifespan, reuse potential and end-of-life recycling rates. Where product-related environmental criteria are used for VAT purposes, they should rely as far as possible on information already available under existing EU product rules and avoid separate VAT-specific certification or reporting obligations.

Measures should be assessed for effectiveness, implications for VAT neutrality and administrative costs. Where reduced rates are intended to influence purchasing decisions, robust evidence should demonstrate that the reduction is likely to be reflected in prices paid by buyers and contribute to the intended environmental outcome. Consideration of reduced rates should not delay practical improvements to donations and margin schemes.

Implementation should include clear EU guidance, coordinated national application and sufficient time to adapt accounting systems. The success of the initiative should be judged by whether it makes circular activities easier to operate, reduces administrative costs and removes tax-driven distortions in practice.