

## **European Charities' Committee on VAT Conference: 28/29 January 2003**

### ***VAT and Charities: The Options***

#### **Conference Conclusions**

##### **Introduction**

On 28 / 29 January 2003, the European Charities' Committee on VAT held a conference in Brussels entitled: *VAT and Charities: The Options*. The conference was organised by the European Charities' Committee on VAT to highlight the damaging effect on charities of having to pay huge amounts of VAT on the goods and services they purchase to enable them to provide their services. Charities from 11 EU Member States attended the conference, which was sponsored by the King Baudouin Foundation, the Charities' Aid Foundation and the Archbishops' Council.

##### **MEP Reception – Key Messages and Conclusions**

A reception for Members of the European Parliament (sponsored by the London MEP Theresa Villiers) was held in the European Parliament on 28 January to launch the conference. The reception was reasonably well attended by MEPs from most EU Member States.

**ECCVAT's Chairman, Nick Kavanagh** thanked those MEPs who attended and said that the good turnout demonstrated the importance that members of the European Parliament continued to attach to relations with the NGO sector throughout Europe and particularly understanding the problems caused by the VAT system.

Theresa Villiers MEP [*London, Conservative*] also addressed the reception; in her address she:

- recognised the significant contribution made by NGOs across Europe to the most vulnerable members of society through the services they provide
- stressed that MEPs would be happy to meet members of ECCVAT to discuss further their concerns about VAT issues
- suggested to German members of ECCVAT that they seek to establish in Germany a platform for NGOs to express their concerns about VAT, similar to the ones that had been established in the UK and Ireland.

So supportive were the Irish MEPs who attended the reception that, the following day, they sent a letter to the Irish Prime Minister, Bertie Ahern, calling for the introduction of a VAT refund mechanism to compensate charities for the irrecoverable VAT burden from which they suffered.

## Conference – Key Messages and Conclusions

Details of those who spoke at the conference, and the key messages which they delivered are outlined below.

**Nick Kavanagh, ECCVAT's Chairman,** said that:

- the key task of the conference was to try to identify and understand the differing problems which the voluntary sector faces in different Member States and
- to try to work out the best solution (or solutions) to overcome the problems which they faced with regard to VAT

**Benedetto Della Vedova MEP [Italy, Ind]** and **Theresa Villiers MEP** both pledged the European Parliament's continued support for improved fiscal treatment for charities so that they can continue to provide services to the most vulnerable members of society without fear of being penalised by VAT laws. Both MEPs praised ECCVAT for drawing attention to this enormous problem facing charities throughout the EU. More specifically, Benedetto Della Vedova:

- expressed the view that fundamental changes to the VAT system were unrealistic
- offered to help ECCVAT ensure that the VAT issue could be put on the agenda of the Inter-Governmental Conference to be held under the Italian Presidency during the latter half of 2003

**Stephen Bill,** Head of Unit C.3 [VAT and Turnover Taxes], the European Commission:

- confirmed that there were no EU obstacles to the introduction by national Governments of VAT recovery systems for charities, provided that they were not part of the VAT system itself
- added that national Governments should not use EU legislation as an excuse for inaction and for preventing them from reforming VAT laws in favour of charities.

**Peter Jenkins,** Global VAT Partner, Ernst and Young:

- stressed that most charities could do more, with careful (but not abusive) planning, to ensure that the existing VAT system works better for them
- felt that there was still considerable scope for lobbying to secure incremental improvements, as well as more favourable interpretations of existing reliefs. In particular, proposals to reform the reduced rates in Annex H that were due to be published during 2003 presented a real opportunity for ECCVAT to improve matters for charities. The aim should be to make point 14 (dealing with supplies by charities engaged in welfare or social security work) mandatory, to clarify its scope, and also ensure that it covered the inputs of charities as well as outputs.
- advised that most charities should ensure that they retained any reliefs that they currently have and also to press for more in the area of reduced rates, which are under review anyway

## Conference – case studies

A series of case studies were then presented by members of the European Charities' Committee on VAT, highlighting the way in which different parts of the NGO / charity sector suffer from irrecoverable VAT and the different range of solutions which they would seek to address such problems, details are as follows:

- **Antonio Alves, Liga Portuguesa Contra o Cancro**, recognising that VAT matters have to be agreed unanimously by all EU Member States, urged that different charity networks should hold a co-ordinated campaign over a two-week period, during which they should lobby their respective Governments calling for the introduction of refund mechanisms to compensate charities
- **Sheila Nordon, Irish Charities' Tax Reform Group**, highlighted the advantages of a VAT refund mechanism at a national level
- **Andreas Johnsen, Bundesarbeitsgemeinschaft der Freienwohlpflege**, (the umbrella group for German social welfare organisations), did not think that a national level VAT Refund Mechanism would offer the same kind of solution for Germany as it might for other Member States. Instead, German welfare organisations could be worse off if certain aspects of the existing VAT system disappeared, particularly the option for exemption. He emphasised the importance of finding alternative solutions, possibly around the reform of Annex H.
- **Sue Cassell, European Union Federation of Youth Hostels**, had conducted a survey amongst the Chief Executive Officers of Youth Hostel organisation in different Member States, who had highlighted the significant burdens from which they suffered. They had recommended that the retention of VAT zero-rating should continue where it currently exists, not just for accommodation, but for all items relating to youth hostelling
- **Alexander Nicoll, Archbishops' Council, Church of England**, wanted goods and services provided for the repair of historic places of worship to be included in any revision of the Sixth EU VAT Directive.

## Final Conclusions

Following an in-depth Question and Answer session with an expert panel, **Simon Hebditch** of the **Charities' Aid Foundation** and **Chairman of the Taxation Task Force of the European Foundation Centre**, then set out the conclusions that could be drawn from the Conference. The suggestions for options for the way forward, which now merit further consideration, can be summarised as follows:

- Fundamental changes to the VAT system are unrealistic
- A VAT refund scheme would be an ideal solution for all but, as the EU has no power to force national Governments to introduce such a scheme, ECCVAT members need to concentrate on lobbying their own Member States individually, supported by ECCVAT
- there is still considerable scope for lobbying to secure incremental improvements, as well as for securing more favourable interpretations of existing reliefs, namely through better use of the Sixth VAT Directive and of Annex H.