



# CHARITIES AND VAT IN A EUROPE OF 25

09:00-17:30, 15 March 2005  
The Washington Room, International Association Centre  
40, Rue Washington, Brussels B-1050, Belgium

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## Setting VAT and charities in context

- Governing law: EU's Sixth VAT Directive
- No special recognition of charities
- Needs of *beneficiaries* recognised by Article 13 exemptions
- Non-business activity not recognised
  - charities are regarded as "final consumer"
- Charities can have 3 separate VAT supplies: exempt business, taxable business, non-business
- Apportionment is a nightmare!

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## Why are charities bothered?

- **Cost:** clear evidence shows that charities pay a greater proportion of their total expenditure on VAT than other suppliers and the sums of money are huge - over £0.5 billion in the UK alone
- **Unfair competition:** charities are not treated in the same way as other providers - often because they subsidise the service they provide
- **Social needs:** charities are often filling gaps in social welfare provision
- **Complexity:** the VAT system for charities is recognised to be one of the most complicated for any sector

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## Why is Europe important?

- Early 1990s: drive towards European harmonisation
- Proposals included:
  - Abolition of all zero rates
  - Abolition of all exemptions
  - Standard rate of VAT to increase to 25%
- Enormous impact on charities and their beneficiaries
- ECCVAT formed - 1992

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## What happened next?

- Detailed discussions with European Commission
- Awareness raising in European Parliament
- Possible solutions:
  - Bringing charities into the VAT system
  - Outputs charged at super-reduced rate
  - Full input tax recovery
  - Where no charges made, agreeing notional consideration for supplies and allowing full input tax recovery
  - European-wide refund scheme

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## European stalemate

- Governments across Europe could not agree on the shape of the VAT system
- European Commission did secure a reduced rate (Category 14 of Annex H) on outputs of charities and organisations engaged in social security work
- Commission had originally included inputs but Council of Ministers blocked
- Commission and Parliament recognised special position of charities - various solutions explored
- Proposals always blocked in Council because of wider implications of giving relief to one sector

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## National pressure

- Campaign mounted in various Member States to introduce national VAT refund schemes
- European Commissioner confirmed that this was allowed under EU VAT law
- Partial refund schemes introduced in UK
- Informal schemes operate in Belgium
- Refund scheme operating in Germany

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## July 2003

- New proposal emerged from Commission
- Serious threat to existing reliefs
- Still no recognition of special position of charities
- Proposal still blocked in Council of Ministers

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## May 2004

- 10 new Member States joined the EU
- Very few VAT reliefs allowed
  - but we will learn more today

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## 2005 onwards

- Best solution remains an EU-wide refund scheme
- How achievable is it?
- Are there any lessons we can learn from the new Member States?
- Are there any examples of good practice that we could use?
- Is it right that many countries give tax reliefs on *donations* to charities but then tax their *expenditure*?
- What do we want to present to the Commissioner at the September conference?

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