ECCVAT

The European Charities' Committee on VAT

Challenges of the current VAT system for charities

Copenhagen Economics (CE) Report 2013

- Option 2 focuses on VAT Rebate Schemes which exist already in 8 Member States

- The proposed extension would be a model covering expenditure on BOTH non-taxable and exempt services and should apply to both public an private bodies operating in the selected services sectors.

- The Commission has indicated its support for this and does not appear to see any fundamental EU law objection.

Copenhagen Economics (CE) Report 2013

- Rationale is primarily to remove the strong disincentive to contracting out by public bodies under the present system.

- “The inability to deduct input VAT causes extra costs when a public sector body considers investments of contracting out services to the private sector. However, they avoid this extra cost by choosing to self supply”.

- Findings of the Fair Playing Field Review in the UK strongly support this analysis

Copenhagen Economics (CE) Report 2013

- We find these distortions do exist as a result of differential VAT treatment, ie on the input side as a reduced incentive to contract out support services, and on the output side as reduced competitiveness of private entities vis-à-vis VAT exempt providers (CE report).

Copenhagen Economics (CE) Report 2013

		Net price	VAT	Input costs
Taxable service	Outsourcing	€100	€20	€120
	Self-supply	€110	€0	€110

		Net price	Irrecoverable VAT	
Exempt service	Outsourcing	€100	€10	€110
		€110	€110	€110

Copenhagen Economics (CE) Report 2013

- The disincentive to contract out is a problem in both models
- Exempt model shows problem not resolved by giving rebate only to public body

Charities and VAT

- Charities in the EU play a huge role in supplementing and even replacing state provision of vital social and healthcare services

- CE report estimated that their irrecoverable VAT burden – now reflecting the very high (20%+) standard rates prevalent in many Member States – is up to €6 billion in four Member States (Denmark, Ireland, Sweden and UK). Total for EU must be approximately €20bn

Charities and VAT

- Charities fall into five categories, each of which carries different VAT consequences and treatment:

    1) **Fundraising and "free" supply** – like the Royal National Lifeboat Institution (RNLI) in the UK
    2) **Grant giving** – like the Wellcome Trust in the UK
    3) **Service providing** – where the payments by the client direct or by the state are consideration under contract, and may be exempt or taxable
    4) **Grant funded by the state** – where the activities supported are not carried out for consideration under contract and are outside the scope
    5) **Hybrid** – when activities or services are a mixture of the above

Charities and VAT

- A “one size fits all” solution is not adequate to cover all types of charity
- A rebate scheme confined to public bodies does not resolve the irrecoverable VAT problem in relation to exempt supplies or non-taxable activities
- Either extend to provider of exempt contracted out services or allow an option to tax exempt social and healthcare services to allow VAT flow-through.
- The rebate scheme should also apply to RNLI type charities (deemed supplies?)

Option 1: Full taxation model

- May be the best theoretical solution to remove distortions on both input and output sides
- Implies a large increase in EU charities' overall VAT burden, especially in Standard Rate version, which is most unlikely to be compensated for in practice
- Even reduced rate model is not fiscally neutral
- A fiscally neutral approach would require a super-reduced rate tailored per Member State to reflect actual scope and rate of VAT
- Without this approach, the proposal is not acceptable to charities generally

Option 2: Rebate scheme

- ECCVAT strongly support this solution, provided the CE model is adopted
- Extension to charities directly providing contracted out services is ESSENTIAL to resolve the input side distortion (disincentives to contracting out)
- Should also apply to exempt as well as non-taxable activities – otherwise a major part of the problem is unresolved

Option 2: Rebate scheme

- See in particular the Canadian model – GST Refund scheme is available for <u>public service</u> bodies, not <u>public sector</u> only (at different % rates), and applies to charities, not for profit organisations, municipalities, universities, public colleges and hospital authorities

- Option to tax exempt social and healthcare services should be seriously considered (in case individual Member States prefer it to rebates as a “technical solution)

Option 3: abolition of Art 13 and extension of some exemptions

- Privileged VAT position of state bodies does cause distortion in reinforcing the bias that already exists for self supply

- This is made worse where a rebate scheme refunds VAT only to public bodies

- Widely varied application of the distortion of competition criteria causes great uncertainty and looks difficult to resolve

- ECCVAT would favour creation of a more even playing field and removal of the self supply bias caused by Article 13, which is made worse by its implementation in practice

Conclusion

- EU charities call on the Commission and council to push this agenda forward as quickly as possible

- The distortions caused by the present VAT system are very real serious and getting worse, especially those on the input side (self-supply bias) as more and more healthcare and social service provision is being contracted out in all Member States

- This is affirmed by the recent Fair Playing Field Review in the UK which has led to a Government commitment to look at the problem with a view to action in the 2014 Budget

- ECCVAT strongly supports CE option 2 provided the CE extended model is adopted