

VAT in the Circular Economy

Call for Evidence

RREUSE welcomes the opportunity to discuss reforming the EU VAT framework to better support reuse and the larger circular economy.

Second-hand goods in the circular economy

The current second-hand margin scheme creates significant competitive disadvantages for donation-based reuse by social enterprises. As social economy actors, these organisations reinvest their profits into social and environmental missions, incurring unique operational costs to run their activities. However, because the margin scheme only benefits resellers purchasing their stock, the donation-based model and backbone of social reuse is left without equivalent relief.

Proposed alternatives, such as national input VAT deductions, similarly fail donation-based models by relying on purchase price criteria. Simultaneously, defaulting to standard national VAT rules without input VAT compensation would be catastrophic for social reuse, triggering double taxation and undermining already existing national support frameworks.

To address these structural limitations and reflecting the clear public interest objectives of circular social enterprises, RREUSE calls for a targeted zero-rated VAT regime with full input VAT deductibility for products reused and repaired by circular social economy enterprises. Maintaining the right to deduct input VAT is essential to cover the extensive costs of collection, sorting, repair, and social inclusion activities.

Namely, amending Article 132 of the VAT Directive to explicitly exempt the supply of second-hand goods, goods prepared for reuse and repaired goods by recognised social economy organisations, including through the resale of donated goods, would align tax policy with the revision goal to stimulate circularity uptake and taxation dispositions under the 2023 EU Recommendation on the social economy.

To safeguard existing national provisions, any EU-level tax reform must incorporate a non-regression clause. This will ensure that broader harmonisation efforts do not compromise more favourable VAT treatments currently granted to social enterprises in the reuse sector.



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The VAT implications of donating versus destroying goods

RREUSE supports a combined approach to address the VAT rule inconsistencies with circular goals. The EC must revoke input VAT deduction rights on viable goods intentionally destroyed, making destruction the least attractive option. Simultaneously, tax incentives for corporate donations to charities must be tied to a reasonable potential for reuse and paired with explicit rights of refusal for social enterprises. This is needed to prevent flooding circular social enterprises with low-value waste and shifting its management costs onto them.

To mitigate these risks, the donation framework must ensure that:

- Social economy entities are recognised recipient organisations with the explicit right to refuse donations;
- Donations possess a clear potential for reuse and include the right for social enterprises to resell to fund social objectives;
- Donors cover handling and waste treatment costs and publicly report donation volumes in alignment with ESPR rules.

Member experiences demonstrate key challenges and opportunities with donations: in Wallonia and Spain, corporate donation tax reliefs shifted handling and disposal costs of non-reusable items onto social enterprises whose second-hand activities are already under [intense strain](#). On the other hand, structured schemes in Austria and Finland illustrate mutually beneficial examples of boosting reuse and social cohesion.

To reinforce these solutions, the revised Directive should include:

- A recital on the waste hierarchy and the specific role of reuse social enterprises;
- A definition of "social enterprise" in line with the Social Economy Recommendation C/2023/1344 and Waste Framework Directive 2025/1892 to not limit donations to charities in the strict sense but align it with the social economy concepts of the EU Social Economy Action Plan;
- Guidance encouraging Member States to apply reduced VAT rates for social actors and repair of the [VAT Directive](#) Annex III.

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