DRAFT CRNI position: EU consultation on VAT and the circular economy

Consultation: European Commission, "VAT and the circular economy" (public consultation, Call for Evidence Ares(2026)8589104). Deadline 4 November 2026.

About CRNI

Community Resources Network Ireland (CRNI) is the all-island representative body for community-based reuse, repair, recycling and waste prevention social enterprises, and sits at the intersection of the circular and the social economy in Ireland.

CRNI's position

CRNI strongly supports a targeted revision of the Directive. The VAT Directive was designed for linear supply chains. It treats reuse, repair and donation less favourably than buying new, and in some cases favours destruction. Member States cannot fix the problems resulting from the VAT Directive application alone. Reuse and second-hand trade increasingly cross borders, and a harmonised approach gives certainty and avoids competitive distortion. EU rules should set a clear baseline and leave room for Member States to go further for social enterprises.

Social enterprises and community-based organisations must not be left behind in the circular VAT initiative.

Many of CRNI's members' stock is donated, collected free of charge or recovered as surplus materials. Members responding to our survey do not use the second-hand margin scheme for this reason: with no purchase price there is no margin to calculate, so VAT falls on the full sale price. The Commission's two options for replacing the margin scheme both may work from a purchase price perspective, but without adjustment they would benefit commercial dealers that buy stock and do little or nothing for donation-based reuse and repair organisations. A deduction based solely on a purchase price would give organisations with donated stock no benefit and put them at a disadvantage against commercial resellers. If a choice must be made, a notional input credit is preferable to abolishing the scheme and applying standard rules, but neither is sufficient on its own. Any replacement must address donated and recovered stock, for example by allowing social enterprises to claim a notional credit on the value of donated stock, or by exempting such stock from the margin calculation. It should also be assessed specifically against donation-based models so that they are not inadvertently excluded from the benefits of reform.

CRNI's core ask, aligned with RREUSE's, is a zero rate of VAT on reuse and repair carried out by recognised social circular economy enterprises. This must be a zero rate rather than an exemption, so that input VAT remains recoverable and the full benefit reaches the enterprise or its customers. CRNI also asks for a reduced rate (at the lowest rate the Directive permits) for repair, upcycling and reuse services generally, for sales of second-hand goods and parts, and for repair training and skills development. These measures should be backed by the legal

changes needed to make them possible. Reuse and repair are labour-intensive, and the extra income retained supports employment, training, affordable access to goods and community redistribution. VAT policy should recognise the skilled labour and services needed to keep goods in use, not only the goods themselves.

CRNI supports removing the VAT deduction for viable goods that are intentionally destroyed (with exemptions for unsafe, expired, recalled or hazardous goods), and harmonised VAT relief for donations to registered charities, extended to recognised social enterprises, which are not all charities. Relief must not be restricted to registered charities. Existing charity relief in practice serves large charities running shops with a large administrative wing, not small social enterprises built on skilled repair and recovery labour, and a growing number of circular economy organisations operate as social enterprises without charitable status.

CRNI supports harmonised digitalised record-keeping and reporting, provided that small and micro organisations are not burdened and that tools are free and simple to use. Circular organisations often run several interconnected activities with different income types and material flows, so clearer guidance, simplified reporting and consistent treatment across Member States are needed. CRNI also supports a mandatory, harmonised global margin for those who remain in a margin scheme.

CRNI strongly supports a harmonised, extended definition of second-hand goods. The definition should explicitly cover goods repaired, refurbished and prepared for reuse, goods whose parts are reused, and recovered materials (such as textile offcuts, scrap and surplus) that are upcycled or transformed into new products.

CRNI supports an expanded and harmonised small-gifts exemption so that businesses can donate low-value goods and surplus materials without disproportionate administration. Relief should apply only to goods fit for reuse, repair or genuine material recovery, given to recognised recipients with simple donor records. Recipients must be free to decline goods they cannot use and have the capacity to manage them responsibly. Relief must not become an incentive to transfer the cost of managing unusable goods to charities and social enterprises, and must not replace producers' ESPR and Circular Economy Act duties to prevent surplus. Members in sectors with limited supply of reusable goods, such as bicycles, do not see overproduction as a real risk. CRNI proposes that the relief be reviewed after 3-5 years.

Current VAT rules do not recognise that a repaired or reused product has a lower environmental footprint than a new one. Repair social enterprises compete with cheap, low-durability new goods while paying VAT on the full value of their repaired product. Lower VAT on the finished repaired product would make repair and reuse more attractive to consumers and social enterprises alike.

CRNI also invites the Commission to consider lower or zero VAT on reusable products that are circular by design and prevent waste, such as reusable nappies, wipes and wet bags, and on

sharing and lending models. These fall at the top of the waste hierarchy (rethink, refuse, reduce, reuse).
CRNI has no position on VAT deduction rules for passenger cars.