



EUCIS-LLL CONTRIBUTION TO THE Review of existing VAT legislation on public bodies and tax exemptions in the public interest

Name of the organisation: the European Civil Society Platform on Lifelong Learning (EUCIS-LLL)

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EUCIS-LLL welcomes the opportunity to contribute to the discussions on the [Review of existing VAT legislation on public bodies and tax exemptions in the public interest](#). While EUCIS-LLL recognises that VAT legislation on public bodies and tax exemptions in the public interest suffer some incoherencies across Member States - which may go against the requirements of a true single market - it would nevertheless like to bring to the Commission's attention a number of concerns which its members have expressed about the **likely negative impact that the removal of the VAT exemption** would have on their activities. EUCIS-LLL is also sorry that the Commission only concentrates on the alleged obstacles that are the result of the exemptions of public bodies (Art. 13 of the VAT Directive) without referring to the **positive aspects of these exemptions**, for example the fact they enable public bodies to respond to the needs of all, namely the most vulnerable members of the population. This exemption is also in keeping with Protocol 26 on services of general interest, including the guarantee of high levels of quality, safety and affordability. In the context of these discussions, EUCIS-LLL sees an urgent need for special consideration to be given to the activities carried out by **educational, cultural, sports for all and youth non-for-profit organisations** which play an essential role at the local level in promoting and ensuring social inclusion among society's potentially more vulnerable groups.

QUESTIONNAIRE

Q1: General evaluation of the current rules (see point 3):

What is your evaluation of the current VAT regime as regards the public sector (including special rules for public bodies, Article 13, and tax exemptions in the public interest, Article 132-134 of the VAT Directive)?

Many of the current exemptions are still essential to the continued existence of non-for-profit organisations and other public bodies in the public interest. Non-for-profit organisations complement the work done by public authorities. Specific exemptions should be kept, as they enable public bodies to carry out services of general interest for citizens more efficiently.

Educational, cultural, youth and sports for all non-for-profit organisations have a key function as **facilitators of social cohesion** within EU societies and are instrumental in helping Member States face the challenges outlined in the Europe 2020 Strategy of tackling social exclusion, addressing new social realities as the EU emerges from the crisis. It is reported that some 80 million European Union employees, unemployed persons, particularly the young unemployed will need to update their skills and qualifications to enable them to improve their employment prospects and find gainful employment. The target date for a substantial increase in employment of these people is 2020. **The role of non-formal**

education – popular education and adult education – in reaching out to these specific groups in particular and in participating in the achievement of the Europe 2020 Strategy in general is essential and should be undermined by the negative effects of VAT reforms. Such services should **remain accessible for all**. The VAT exemption is necessary to allow learners from different backgrounds – especially the most disadvantaged ones – to participate in lifelong learning, which is in line with the social inclusion objectives promoted by the Europe 2020 strategy. The PIAAC report stresses the need to understand and promote the personal and social benefits of non-formal education in civil society. In addition it states that there is a need for coherent lifelong learning systems with programmes offering non-formal education to the next levels as these **work better for most adult learners**. This is why they are recognised as **a public good** and benefit from VAT exemptions in most EU countries. These services are addressed to the most disadvantaged, increasing competitiveness in the sector would have very negative results in terms of access as activities would focus on the ones who already benefit from better educational levels (i.e. increased fees). The long-term costs for Europe will be much higher than the short-term gains notably in terms of social welfare (wider benefits of learning).

Furthermore, these organisations often have limited funding sources and rely heavily on the initiative of their volunteers to generate the income they need to cover their basic running costs. In order to still be able to support themselves, organisations providing non-formal learning opportunities would have to increase their fees. Besides, the removal of exemptions for VAT on income sources generated by their small-scale fundraising initiatives would impact greatly on them since it would place **an administrative burden on the individual volunteers** who provide the backbone for their activities. Dealing with administrative tasks could have a detrimental effect on the engagement and motivation of volunteers to participate, undermining the very essence of volunteering, and on the perception of the EU's role among the general public. Such initiative would run counter to the spirit of the 2011 European Year of Volunteering and in particular to the commitments taken by Vice-President Reding to double the number of volunteers to 200 million in Europe. The increase of the participatory fees on services provided by those organisations would also entail less motivation from end-users by putting a heavier financial burden on their shoulders. It would severely hinder the provision of education as a fundamental right for all. Since in this period of budget constraints, local governments tend to rely more and more on these organisations to offer activities and support to their target groups of vulnerable citizens, the consequences of removing the tax exemption would be **harmful to the public interest**.

What are in your opinion the main problems of the current rules?

In some countries non-for-profit organisations, because many of the services that they provide, are either exempt under EU law or are outside of the scope of VAT because they are provided free of charge. In both cases this means that the organisation cannot charge VAT and so cannot recover the VAT on its expenditure. This inability to recover the VAT that is spent on purchases reduces the resources that they have available to spend on their charitable purposes. This has been a long-running issue for the sector, particularly in a time of general recession when non-for-profit organisations are under pressure from government to increase the level of front-line services that they can support and offer. Organisations as foreseen in article 132 and 133 should be exempted from VAT.

Are there any distortions of competition (output and input side)? If so, how and in which sector do they occur?

Article 133 sets specific conditions to respect to be exempted from VAT. EUCIS-LLL believes that this is sufficient. Furthermore it is in line with the legislation in force which grants “*the essential role and the wide discretion of national, regional and local authorities in providing, commissioning and organising services of general economic interest as closely as possible to the needs of the users*” (Protocol 26 annexed to the TEU and TFEU).

Are the problems identified only of a national nature or do they constitute an obstacle to the smooth functioning of the Internal Market?

VAT legislation on public bodies and tax exemptions in the public interest suffer some incoherencies across Member States which may go against the requirements of a true single market, however more important obstacles exist. Focusing on article 13 is a very narrow approach and could have very negative consequences for the European social model.

It is also important to respect the cultural diversity and historical traditions of the various Member States with the existence of very specific organisations and relations with public authorities in the education, training, youth and sports for all sectors (adult education in the northern countries, popular education in the South, etc.). Any initiative to apply a one-size-fits-all solution to streamlining VAT would demonstrate a lack of understanding of the diversity of organisations in the EU and of their very different capacities, revenue sources and ways of functioning. It would also do little to mitigate the negative perceptions which exist among many citizens and at the grass-roots level towards the EU and might lead to further negative appraisal of what the EU can really bring to its citizens.

Q3: Reform measures (see point 5):

What are your views on the different reform options or reform measures mentioned in this document (including a possible sectorial reform); do you have a preference for any particular option and any particular variant mentioned in relation to the different options and why?

EUCIS-LLL is in favour of an administrative and regulatory simplification of VAT on a European level. That said, it must not negatively affect the quality of public services, nor should it put an additional financial burden on the users. The proposed “reforms” actually aim to open up public services to increased competition, when over the past years, not only have they played a stabilising role on the economic and social levels, but they have also been the object of harsh budgetary cuts. National, regional and local authorities are in the best position to determine which public services they should provide on their territories (subsidiarity principle).

Is there any option which should be excluded and why?

The full taxation Model would have very negative effects on the education, culture, sports and youth sectors and they would be no longer exempted from VAT as stated in question 1.

Do you have any additional ideas or proposals?

Harmonise VAT exemption for organizations as stated in article 132. Organisations should be able to recover the VAT that is spent on purchases to spend it on their charitable purposes. This has been a long-running issue for the sector, particularly in a time of general recession when non-for-profit organisations are under pressure from government to increase the level of front-line services that they can support and offer.