Future Up

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Future Up's response to the VAT and Circular Economy consultation

Future Up welcomes the European Commission's initiative to modernise selected VAT rules in support of the circular economy.

The Commission rightly identifies that the current VAT framework was largely designed around linear production and consumption models, while circular business models involve products leaving and re-entering value chains through reuse, repair, refurbishment, remanufacturing and repeated use cycles. This can create practical difficulties, administrative complexity and tax-induced disincentives for companies developing circular activities.

Future Up represents a broad network of businesses – accounting for around 20% of Dutch GDP – working on sustainable and circular business models in the Netherlands. Across sectors such as retail, furniture, textiles and electronics, companies are increasingly investing in models that retain the value of products and materials for longer.

The central question is whether VAT rules help make circular business models commercially viable across the Single Market, while reducing the fiscal disadvantage of retaining, repairing and reusing existing products compared with replacing them with new ones.

Modernise VAT rules around real commercial circular business models

The Commission's review of the current second-hand goods margin scheme is timely, as the scheme was not designed around today's diversity of circular business models.

Companies increasingly work with take-back systems, trade-in models, refurbishment, remanufacturing and resale. Rental, leasing and Product-as-a-Service models further separate ownership from use, allowing the same product to move through multiple use cycles before being repaired, refurbished or eventually resold.

These models do not always fit neatly within a VAT system built around a clearly identifiable purchase transaction and purchase price. VAT reform could therefore strengthen the commercial viability of circular business models and reduce their fiscal disadvantage compared with new products.

The Commission is right to examine different reform options, including improving the existing margin scheme, introducing a notional input VAT deduction, or applying normal VAT rules in combination with reduced VAT rates. These options should be assessed based on how they work in practice for companies, including their effect on margins, administrative complexity and the ability of circular models to scale.

A practical example comes from the textile sector, where retailers in our network aim to offer second-hand clothing as an affordable alternative to new products. Current VAT treatment can contribute to a price gap that makes these propositions harder to scale. Similar challenges arise in subscription and Product-as-a-Service models, where businesses offering repaired second-hand products may fall outside VAT arrangements designed around conventional resale transactions.

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Strengthen the business case for repair, refurbishment and value retention

Circular VAT rules have the potential to improve the economic conditions for maintaining and restoring the value of existing products. VAT can significantly affect the relative cost of repair and refurbishment compared with replacing a product with a new one.

Repair, refurbishment and remanufacturing are often labour-intensive. Companies may need to collect, inspect, clean, repair, test, certify and redistribute products before they can re-enter the market. These activities create economic and environmental value by extending product lifetimes, but they can also add significantly to the cost base. In practice, these additional costs can make repair and refurbishment less economically attractive than selling newly manufactured products.

A simple repair example illustrates the potential impact. For a repair costing €200 excluding VAT, the consumer price is €242 at a 21% VAT rate, compared with €218 at 9%. This €24 difference can help narrow the gap between repairing and replacing a product, particularly for labour-intensive repairs.

The overall business case still depends on factors such as logistics, inspection, repair costs, warranties, volumes and residual value. Within that broader picture, VAT can act as a meaningful accelerator by improving the relative economics of repair and refurbishment.

Reduced VAT rates and other reform options should therefore be assessed both for their effect on consumer prices and for their contribution to the commercial viability and investment capacity of circular businesses.

Harmonise and digitalise the framework

Harmonised and digitalised record-keeping must go hand in hand with clearer EU-wide definitions for second-hand goods, reuse, repair, refurbishment, remanufacturing and lifetime extension.

Fragmentation between Member States creates significant barriers for companies seeking to scale circular activities across Europe. A take-back, repair, refurbishment, rental or resale model can require companies to redesign administrative processes for every Member State in which they operate. The VAT framework should therefore provide greater legal clarity, consistent application across Member States and simpler cross-border administration.

The Commission should also assess how the emerging Digital Product Passport infrastructure can support the practical implementation of circular VAT rules. A DPP could provide verified product-level information on whether a product is new, reused, repaired, refurbished or remanufactured, whether it has already passed through previous use cycles and what interventions have taken place during its lifetime.

The DPP has the potential to function as an enabling digital layer that makes circular VAT rules more transparent and verifiable while reducing the need for additional standalone reporting requirements.

Over time, harmonised product data could also support the development of tax incentives for products and materials with lower resource and environmental impacts, provided that any differentiation is based on clear and verifiable criteria.

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Make donation and reuse more attractive than destruction

VAT rules must support products and materials returning to use rather than create incentives for their destruction. Particular attention is needed for goods donated free of charge, as these transactions do not always fit within the existing second-hand margin scheme.

A practical example comes from second-hand and reuse organisations that largely rely on goods donated free of charge. Because no purchase price exists, these goods fall outside the margin scheme, while VAT is due when they are resold, reducing the financial space available for reuse, repair and other circular activities. Several Member States already apply reduced VAT treatment to certain social second-hand organisations, illustrating differences across the EU. A more harmonised European framework could help address this disadvantage and strengthen reuse across the internal market.

More broadly, VAT rules can help make donating usable goods at least as economically attractive as destroying them.

Conclusion

Future Up supports a VAT framework that better reflects how circular businesses operate in practice. Reform can reduce fiscal and administrative disadvantages for reuse, repair, refurbishment, resale, rental and remanufacturing, while improving legal certainty and consistency across the European internal market.

Different reform options should be assessed against real commercial business models and their impact on costs, administrative burden and commercial viability. The overall objective should be a VAT framework in which retaining and restoring the value of existing products can compete more effectively with replacing them with new ones.

VAT reform must work in coherence with the forthcoming Circular Economy Act, the Ecodesign for Sustainable Products Regulation and the emerging Digital Product Passport framework. Together, these instruments should create consistent European market conditions and make better use of harmonised product data to support circular businesses as they scale across the Single Market.