

Ecopreneur.eu feedback on a modern business taxation framework for the EU

This opinion is designed as input for the European Commission in preparation of a Communication on business taxation for the 21st century (Ref. [Ares \(2021\) 1625385](#))

Representing 3000 green companies throughout the EU, most of them SMEs, Ecopreneur.eu believes that a modern EU business taxation framework that is adequate to a circular economy should make use of two key levers: **a tax shift from labour to resources** and, as part of that, **a temporarily reduced Value Added Tax (VAT) on targeted products and services**.

Economic incentives play a crucial role in steering the market demand towards circular choices as they can solve a major market failure in our current economy: External costs along the value chain resulting from placing products on the market are not included in the price. Capturing these impacts through “true pricing” will make circular products and services cheaper and linear ones more expensive. Without economic incentive policies, there will be no real push towards a wider adoption of the circular economy. Circular solutions would remain niche until strong market forces are created. Incentive policies would also ensure that the significant investments in green recovery bring economic returns and contribute to the transition to a new economy.¹

Over the last decades, the European Commission has on numerous occasions advised the Member States to shift the tax burden from labour to resource use. With the EU Green Deal and the Circular Economy Action Plan being in place, it has become a matter of urgency to solve the question of how a European tax system would work in a circular economy. So far, there is no concept at EU policy level of how to address this issue. We therefore urge national governments to develop an economic market framework with true-cost pricing based on established Ex-Tax reform principles: a zero-sum game where costs of labour are decreased, whereas costs of natural resources and related emissions are increased proportionally. This would allow manpower to be used in labour-intensive circular strategies like recycling and remanufacturing instead of extracting and processing virgin natural resources and fossil fuels.

Environmental taxes can only be implemented successfully in combination with social policies. Internalising externalities by putting a price on natural resource use and pollution would provide incentives to save resources, generate funds to lower the tax burden on labour, generate new jobs, and increase social spending.

¹ [See our recommendations](#) as member of the European Circular Economy Stakeholder Platform's Leadership Group on economic incentive policies: <https://circulareconomy.europa.eu/platform/sites/default/files/leadership-group-economic.pdf>

Concerning VAT, Ecopreneur.eu welcomes the 2018 Proposal for a Council Directive by the European Commission to give Member States more flexibility to set VAT.² The proposal was adopted in 2018 by the European Parliament with some amendments, such as to set a maximum VAT rate, a call to Member States to seize opportunities of VAT differentiation for sustainable development, and the avoidance of reduced rates for harmful or luxury products.³ **We urge the European Council to adopt majority voting on certain tax matters instead of unanimous voting with the right of veto, and then further discuss and adopt the VAT reform proposal.**

When adopted, member states may include lower or zero VAT rates for repair and maintenance, second-hand goods, cradle-to-cradle products, goods with recycled content, lease or rent with product-return and recycling provisions (“lease a jeans”), pay-per-use services by a product (one-time payment for each use), and product-based services (services connected to a physical product). Given the choice between two otherwise equal goods or services, even a moderate VAT difference can effectively nudge consumers to purchase the circular option rather than the linear one.

Meanwhile, member states governments can already now set low VAT rates for certain repairs, second-hand goods and charities within the scope of the current VAT Directive. In the future, the lower VAT rates can be lifted again when the European economy has become circular, because by then the tax system has shifted and creates a level playing field already by taxing resource use.

About Ecopreneur.eu

[Ecopreneur.eu](https://ecopreneur.eu) is the European Sustainable Business Federation of currently six national associations representing about 3000 sustainable companies - mostly SMEs. A member of the Coordination Group of the European Circular Economy Stakeholder Platform, Ecopreneur.eu is the only cross-sectoral EU business organisation committed to ambitious measures, rules and regulations for a low-carbon circular economy. We advocate a new economic framework in which sustainability is promoted, the environment respected, and ecological principles are followed. Ecopreneur.eu and our members bring concrete experience from pioneering companies into the political debate, show best practice examples and represent the needs of green SMEs in a credible way.

² COM(2018) 20 final 2018/0005(CNS):

https://ec.europa.eu/taxation_customs/sites/taxation/files/18012018_proposal_vat_rates_en.pdf

³ https://www.europarl.europa.eu/doceo/document/TA-8-2018-0371_EN.pdf