SUPPORTING A CIRCULAR VAT

November 2026

The European Branded Clothing Association (EBCA) welcomes the European Commission's initiative to review the VAT Directive with the objective of promoting circular business models and accelerating the transition towards a more resource-efficient European economy. VAT policy can play an important role in supporting this transition by creating economic incentives that favour reuse, repair, and resale over waste generation.

EBCA would welcome any measure that reduces the VAT burden on second-hand goods and repair services. To support the development and competitiveness of reuse and resale operations, EBCA recommends the following measures:

- **Clarify and refine the definition of second-hand goods** under the VAT Directive to ensure more consistent interpretation and application across Member States.
- **Reduce the administrative burden associated with the VAT Margin Scheme** by **extending and simplifying One-Stop-Shop reporting mechanisms for intra-EU second-hand goods transactions.**
- **Ensure Member States apply a common margin calculation method**, with harmonised rules for item-level, batch-level or global accounting.
- **Amend Annex III of the VAT Directive** to allow Member States greater flexibility to apply reduced VAT rates to second-hand goods.
- Simplify and streamline VAT reporting by **allowing Aggregated Reporting instead of Transactional Reporting.**
- **Extend VAT incentives (including its simplification) to services directly linked to resale.**
- **Facilitate donations by removing fiscal barriers within a clearly defined scope.**

Administrative and Reporting Challenges

EBCA strongly supports measures that facilitate and incentivise the development of second-hand textile markets. Reduced VAT rates for second-hand goods is a way to make reuse more affordable, encourage demand and support the circular economy. However, resale and reuse operators continue to face significant regulatory and administrative barriers within a current VAT framework that was largely designed for linear business models.

In particular, **the current definition of "second-hand goods" under Article 311 of the VAT Directive lacks sufficient clarity**, forcing businesses to rely on case law to determine whether they qualify for the VAT Margin Scheme. This has resulted in inconsistent interpretation and application across Member States, creating legal uncertainty and potential additional compliance costs.

Administrative and Reporting Challenges for Margin Schemes

VAT reporting obligations remain a major source of administrative burden, especially for businesses operating across multiple Member States. Resale operators typically manage individual products rather than standardised bulk inventories, making VAT Margin Scheme administration particularly time-consuming. Moreover, **divergences remain between Member States regarding whether margins must be calculated separately for each product or may be determined on an aggregated basis, how costs such as refurbishment and repair expenses, shipping and authentication fees should be treated, and what evidence is required to demonstrate purchase prices, resale value**s and product eligibility. These inconsistencies create additional compliance challenges, particularly for second-hand businesses operating across multiple EU markets.

Consequently, where the margin scheme is unavailable, notably because the Margin Scheme is too complex to use in practice, second-hand goods can become subject to VAT on their full resale value. This occurs despite the fact that such goods are acquired from private individuals or other non-deducting sellers, and do not generate a corresponding right to recover input VAT. In such cases, second-hand goods are effectively subject to double taxation: first when the product is placed on the market as a new good, and again when it is subsequently resold as a second-hand good. This risks creating a competitive disadvantage for reuse and resale operators.

Enabling VAT Incentives

The 2022 revision of the EU VAT Directive represented an important step forward by amending Annex III to allow Member States to apply reduced VAT rates to certain repair services.

Building on this approach, **the EU should also enable Member States to apply reduced VAT rates to second-hand goods**, thereby encouraging reuse and extending product lifespans. Annex III of the VAT Directive should be amended to include the following category: "Supply of second-hand textiles and footwear, including goods prepared for re-use within the meaning of Directive 2008/98/EC." This amendment would enable Member States to apply reduced VAT rates to the resale of second-hand textiles and footwear, similarly to the treatment already available for repair services. Reduced VAT on services linked to reuse and resale should also be considered.

Aggregated Reporting instead of the current Transactional Reporting (Allowing for aggregated category- or volume-based reporting over set periods, rather than granular or item-level reporting, which requires administrative resources) could also contribute to simplifying reporting.

This favorable treatment should also extend to services directly linked to resale, such as transport and logistics, which contribute to the overall cost paid by consumers. Reducing

VAT on these services would strengthen the price incentive to choose second-hand products over new ones.

Facilitating Donations

EBCA shares the European Commission's objective of reducing the destruction of usable unsold goods. However, EBCA would like to stress that **the destruction of unsold textile apparel is not the result of an economic choice between destruction and donation**.

The destruction of unsold textile apparel products is legally banned in the EU, and exemptions apply only to a limited number of cases. VAT deduction rules do not steer product disposal decisions. The European Environment Agency report[1] cited in the impact assessment was published in 2024, before the ban on the destruction of unsold goods and therefore does not constitute an accurate assessment of the current situation.

We would recommend introducing VAT incentives for donations to recognise its social value. In this sense, Spain provides a useful example through the Third Final Provision of Law 7/2022. It introduced a zero VAT rate for goods donated to eligible non-profit organisations under Article 2 of Law 49/2002, provided that those organisations use the goods for their general-interest purposes. It also introduced a presumption of total deterioration of the goods for the purpose of determining the VAT taxable amount. We consider this a valuable reference for the EU initiative, as it removes fiscal barriers to donation while clearly defining the eligible recipients and the required use of donated goods.

About EBCA: The European Branded Clothing Association is the collective voice of more than 75 global apparel brands. The sector supports more than 4.5 million jobs in the EU. We envision a Europe where the branded clothing sector contributes to shared prosperity and is supported by global standards that enhance sustainability and trade, creating a level playing field.

[1] Accessible at: https://www.eea.europa.eu/en/analysis/publications/the-destruction-of-returned-and-unsold-textiles-in-europes-circular-economy