bitkom

Position Paper

November 2026

VAT and the circular economy

Bitkom welcomes the public consultation launched by the European Commission on aligning EU VAT rules with the circular and low-emission economy. Reuse, repair and refurbishment can extend product lifecycles, conserve valuable resources and reduce dependence on primary raw materials. Europe therefore needs a regulatory framework that supports economically viable circular business models and makes circular products more attractive to businesses and consumers. Trade-in programmes, refurbishment and the professional resale of ICT devices help keep products and components in circulation for longer. However, existing VAT rules can create administrative and financial barriers that make these business models less competitive. The revision of the VAT Directive should complement the forthcoming Circular Economy Act and contribute to a coherent European framework for circular business models.

Bitkom calls for action in six areas:

Harmonise definitions of second-hand and refurbished products

Clear and consistent definitions are essential for a functioning European market for second-hand and refurbished products. Products enter the secondary market in varying conditions. These include used goods, repaired and refurbished devices, as well as open-box returns and display models. The VAT framework should adequately reflect these different forms of reuse and resale.

Bitkom calls for harmonised definitions of second-hand and refurbished products for VAT purposes, ensuring consistency with existing EU legislation, particularly the Ecodesign for Sustainable Products Regulation (ESPR). Recital 17 of the ESPR distinguishes between second-hand products, including repaired and refurbished products, and remanufactured products, which are considered new products for ecodesign purposes. These distinctions should be taken into account when reviewing VAT definitions.

76%

of companies are convinced that refurbished IT plays an important role in conserving resources and raw materials.

↗Bitkom study

The Commission should also examine how the VAT treatment of functional products that can no longer be sold as regular new products could be clarified. Clear definitions should facilitate their resale while maintaining the distinction between products and waste.

Simplify VAT procedures

The margin scheme is the key VAT instrument for the resale of used ICT devices. However, its application can involve significant administrative burdens, particularly for companies handling large volumes of devices. Businesses generally need to match individual purchase and resale prices and document the origin of devices to demonstrate compliance with VAT requirements. This requires costly adaptations to existing purchasing and billing systems.

Bitkom calls on the Commission to simplify and further harmonise the VAT margin scheme. In particular, the Commission should examine how the options for portfolio-based margin calculations could be extended and applied more consistently across the EU. This could reduce the need to match purchase and resale prices for each individual device and lower administrative costs. Effective enforcement of existing VAT rules is essential to prevent unfair competition and ensure a level playing field for all traders.

The Commission should also assess how different VAT treatments affect B2B trade-in programmes. These often fall under the normal VAT regime and face different administrative challenges. Bitkom calls for simplified and harmonised VAT procedures for B2B trade-ins, particularly through EU-wide digital self-billing standards and streamlined documentation requirements. Businesses should be able to reconcile transactions at portfolio level where appropriate, while maintaining reliable audit trails and effective fraud prevention.

Enable reduced VAT rates for repair and refurbished products

Annex III of the VAT Directive lists the goods and services to which Member States may apply reduced VAT rates. Since the 2022 reform of VAT rates (Directive (EU) 2022/542), point 19 of Annex III has included the repair of household appliances. The repair of ICT devices is not covered. This is inconsistent with EU product policy: under the Right to Repair Directive (EU) 2024/1799, manufacturers are already required to offer repair for smartphones and tablets. Bitkom calls on the Commission to extend point 19 to repair services and spare parts for ICT devices. In addition, Annex III should allow reduced rates for the sale of refurbished ICT devices. This requires the definition called for in section 1, so that refurbished devices can be reliably distinguished from new ones. Reduced rates would make repairs and refurbished devices more attractive to consumers and strengthen the economic viability of professional refurbishment. The Commission should also assess appropriate VAT incentives for products recovered from waste through preparation for reuse.

Remove VAT disincentives to donating usable goods

Functional products should be donated or reused rather than destroyed. Current VAT rules create situations in which donating unsold goods is less attractive for businesses than disposing of them. Destroying usable goods can therefore be cheaper than donating them. Bitkom proposes to remove VAT-related disincentives to donations and establish harmonised, practical rules for donating usable products. In particular, the Commission should examine how donations to eligible organisations can be facilitated without creating disproportionate tax or administrative burdens for businesses. Such measures would help keep functional products in circulation for longer and reduce unnecessary waste.

Simplify VAT valuation of defective products

Determining the value of defective ICT devices in trade-in transactions involving an additional cash payment and intra-Community stock movements can create significant administrative burdens. Bitkom calls on the Commission to establish harmonised and simplified valuation rules for defective ICT devices, including the option of assigning a value of EUR 0 where appropriate. This would increase legal certainty, reduce administrative burdens and facilitate cross-border trade-in and refurbishment processes.

Simplify cross-border movements in circular supply chains

Circular supply chains often require ICT devices and components to move between Member States for inspection, repair or refurbishment. Such movements can trigger additional VAT compliance obligations, even when no sale takes place and the goods are only moved temporarily. Bitkom proposes to review Article 17(2)(f) of the VAT Directive and examine whether the existing exemption for certain intra-Community transfers could be extended to additional circular economy movements. This could facilitate cross-border refurbishment and reuse of ICT equipment while maintaining appropriate safeguards against tax avoidance and fraud.

The Commission should also establish harmonised evidence and reporting requirements for cross-border collection, refurbishment and resale of ICT devices. Simplified procedures should help reduce administrative burdens and avoid unnecessary multiple VAT registrations, while ensuring effective taxation and traceability.

Bitkom represents more than 2,200 companies from the digital economy. They generate an annual turnover of 200 billion euros in Germany and employ more than 2 million people. Among the members are 1,000 small and medium-sized businesses, over 700 start-ups and almost all global players. These companies provide services in software, IT, telecommunications or the internet, produce hardware and consumer electronics, work in digital media, create content, operate platforms or are in other ways affiliated with the digital economy. 82 percent of the members' headquarters are in Germany, 8 percent in the rest of the EU and 7 percent in the US. 3 percent are from other regions of the world. Bitkom promotes and drives the digital transformation of the German economy and advocates for citizens to participate in and benefit from digitalisation. At the heart of Bitkom's concerns are ensuring a strong European digital policy and a fully integrated digital single market, as well as making Germany a key driver of digital change in Europe and the world.

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Bitkom 2026

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