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Rakli Kiinteistönomistajat ja rakennuttajat

VAT and circular economy

Finnish Property Owners Rakli (Transparency Register id 727236253172-92) is the association of Finland's most prominent owners of residential and commercial properties and infrastructure, property investors, largest cities in Finland, as well as construction clients. Our members include both private and public sector entities.

Finnish Property Owners Rakli welcomes the opportunity to participate in the call for evidence on VAT and circular economy. Rakli welcomes the initiative to assess whether the VAT framework is fit for the circular economy.

Boosting the circular market for construction materials and components

The most cost-effective level of the circular economy in the built environment is the reuse of space, namely the efficient use of existing buildings and, consequently, infrastructure. Alongside this, measures are needed to promote a circular market for construction materials and components.

The development of a circular economy market in construction is hampered by several factors including the availability and price of recycled construction materials and components. Circular economy practices can readily entail additional project costs, for example requiring more planning, and more complex logistics. Construction costs directly affect the cost of housing, so the use of circular economy products should not increase costs. Therefore, a lower VAT rate on recycled products, or the possibility of removing VAT on them, would encourage the use of recycled materials and components.

Removing VAT barriers to the donation and reuse of construction materials

The Commission correctly identifies that current rules can make the destruction of viable goods economically more advantageous than their donation and that VAT rules designed for linear economic models do not always accommodate reuse and other circular activities.

This is particularly relevant for construction. When buildings are demolished or substantially renovated, usable building components and materials may become available for reuse. However, VAT can create a significant cost where the relevant activities do not provide a

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right to deduct input VAT, as is often the case with residential construction and certain public-sector uses.

For example, an office building may be demolished to make way for residential development. Usable materials recovered during demolition could be donated to a neighbouring municipal kindergarten project. If donating these materials creates an unrecoverable VAT cost, while disposing of or destroying them does not create a comparable cost, reuse may become economically unfeasible. The tax system can therefore discourage reuse even where there is both a willing donor and an identified recipient.

Rakli considers that the Commission should explicitly address construction products and materials recovered through demolition and renovation, rather than looking at the donation-versus-destruction issue mainly from the perspective of unsold goods. The Commission's call for evidence recognizes reuse and donation as activities that the current VAT framework may inadequately accommodate.

The guiding principle should be VAT neutrality between destruction and circular alternatives. Donating or transferring viable construction materials for reuse should not result in a less favourable VAT outcome than destroying or disposing of them.

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