

Value Added Tax and Public Benefit Foundations:

A selection of examples collected by the EFC

Public-benefit foundations make a significant and positive difference to the public good across the European Union, but the full potential of their activities cannot be realised due to the unnecessary and unfair burden of Value Added Tax (VAT).

The current VAT system creates many problems for foundations and other public-benefit organizations. The European Foundation Centre (EFC), is calling for fair VAT treatment of foundations, to allow them to maximise the public-benefit impact of their work.

Public-benefit foundations are treated by the VAT system as the final consumer, with no possibility of reclaiming VAT payments, whereas commercial (for-profit) companies may pass on the cost of VAT when they sell their products or services.

According to a recent EFC survey, more than €40 million is lost each year by EFC members on irretrievable VAT costs: money that otherwise could have been used for public good. This document highlights some specific examples of how individual foundations are affected by VAT losses. The EFC has also prepared an information note* on the issue of VAT and foundations.

Examples

(Please note that except when otherwise indicated, the reference year for all expenditures is 2006.)

Fondation de France (France)

Fondation de France is active in the areas of collecting funds and giving guidance in creating foundations under its aegis. It supports programmes in social cohesion, health and medical research, culture, environment and charitable organizations.

The foundation spends €18 million on 'input' expenditure each year (excluding real estate expenditure), 95% of which being subject to VAT at a 19.6% rate, which correspond to total VAT expenses of around €3.35 million.

The foundation loses €3 million each year on Value Added Tax without the possibility to claim it back.

Fondazione di Venezia (Italy)

The mission of Fondazione di Venezia is to promote civil society and human capital in the historical, social, economic and cultural environment of Venice. The foundation pursues its mission by promoting various projects either directly or through partnerships. The foundation focuses on the following areas of activity: Education and training; Scientific research; Arts and culture.

The foundation spends €4.4 million a year on input expenditure annually. It also spends €1 million on acquisitions/improvement of real estate. Of this spending around 20% is lost on VAT and the amount that the foundation loses on VAT which can not be reclaimed is approximately €900 000.

Fundação Calouste Gulbenkian (Portugal)

The Calouste Gulbenkian Foundation is a Portuguese public-benefit foundation, whose statutory aims are in the fields of arts, charity, education and science. The Foundation actively pursues its statutory aims in Portugal and abroad through a wide range of direct activities and grants supporting projects and programmes. The foundation provides grants for public health and social exclusion issues, and it maintains a museum, containing the founder's private collection, and a Modern Art Centre, which comprises and exhibits the foundation's collection of contemporary art works. It also promotes educational development in Portugal. The foundation provides grants for the stimulation of creativity and scientific research; the promotion of links between science and culture; and the strengthening of interaction between science and society. In addition, the foundation has a specific grantmaking programme for the preservation of Portuguese cultural heritage, and a programme dedicated to the promotion of the Portuguese language and culture abroad.

The foundation spends over €38 million per year on overall expenditure, and an additional €3.8 million on improvement of real estate. Each year, the foundation recovers €3.2 million of its VAT expenditures, but loses €4.8 million on VAT expenditure which cannot be claimed back.

Fundación ONCE (Spain)

The mission of Fundacion ONCE is to improve the quality of life for people with disabilities, especially in the fields of professional integration, training and employment, and universal accessibility by eliminating all kinds of barriers. The foundation works to launch, or cooperate in programmes and establishing agreements and general frameworks for agreements with public and private institutions to benefit disabled people, assisting their personal development, integration into society and employment. It supports general welfare activities which support these objectives in the following areas: professional training and employment; universal accessibility; sports and culture; as well as activities related to communication, dissemination of information, and European cooperation.

The foundation spends €79.5 million annually on its overall expenditure and €2.7 million on real estate expenditure. The foundation's annual VAT loss, without the possibility to claim it back is around €8.2 million.

King Baudouin Foundation (Belgium)

The mission of the foundation is to work together for a better society. The foundation supports and operates programmes in the fields of: Migration and multicultural society; Poverty and social justice; Civil society and voluntary work; Health; Philanthropy; The Balkans and Central Africa.

The foundation estimates that in 2007 it spent over €7.8 million on input expenditure. An additional €135 000 was spent on expenses on acquisition/improvement of real estate. On average approximately 15% of these expenses went on VAT expenditure. The total amount lost on VAT, without the possibility to claim it back was approximately €1.2 million.

Körper-Stiftung (Germany)

The mission of Körper-Stiftung is to support international dialogue; education and science; civic involvement; and culture in Hamburg. The foundation initiates, finances and runs its own projects in these areas. The foundation gives annual awards and prizes, organizes seminars, operates programmes and conducts research in these areas.

The foundation spends €15 million per year on 'input' expenditure* each year (excluding real estate investments), of which 19% goes to VAT payments. Some 40% of the expenditures are not subject to VAT. These are labour costs, prize money and reimbursements.

In Germany there is no refund scheme allowing the foundation to claim back its "non-business"-related VAT expenses, which means that the foundation loses €1.4 million a year on VAT without the possibility to claim it back.

Stefan Batory Foundation (Poland)

The mission of the foundation is to enhance the role and involvement of civil society, promote civil liberties and the rule of law, and develop international cooperation and solidarity.

In 2007 the foundation spend €420 000 in total on input expenditure, of which €173 000 EUR was expenditure related to real estate. Of this expenditure, the foundation spent €76 000 on VAT in total, of which €31 000 on VAT related to real estate expenditure. The foundation could not claim back any of its €76 000 lost on VAT.

Stichting Fonds 1818 (Netherlands)

The foundation supports the general social projects of foundations, unions and associations, in the area of The Hague, Delft, Zoetermeer, Leiden, Noordwijk and surrounding areas. The foundation makes donations to specific projects in the fields of youth, culture, nature and the environment, health and social projects.

The foundation spends €1.25 million on input expenditure each year, of which €200 000 is lost on VAT without the possibility to claim back any of it.

Wellcome Trust (UK)

The Wellcome Trust is the largest charitable foundation in Europe. Its mission is to foster and promote research with the aim of improving human and animal health. It funds innovative biomedical research, in the UK and internationally, spending over £600 million each year to support the brightest scientists with the best ideas. The Wellcome Trust also supports public debate about biomedical research and its impact on health and wellbeing.

The Wellcome Trust spent during 2007 a total of £67 million on "input" expenditure (including £9 million on property used for charitable purposes and £3.5 million on investment property). Out of this expenditure, £8.7 million was lost on irrecoverable VAT (including £900 000 on property for charitable purposes and £1.6 million on investment property).

- * The EFC information note on VAT (May 2008) and other relevant documents can be found on the EFC website: www.efc.be/projects/eu/legal