



Written by [Alex Newman](#) on April 6, 2011

EU Targets Tax Exemptions For Non-Profits

The European Union announced that national governments may not provide tax-exempt status to charities and non-profit organizations, prompting a backlash from some national governments which vowed to battle the ruling.



The decision was handed down by the European Commission following an ongoing dispute with the Swedish government and the governments of other member nations. In those countries, non-profits, charities and so-called voluntary organizations are currently exempted from the complex web of the Value-Added Tax (VAT). But with its decision, the EU said the exemption had to be scrapped under European law.



After being [warned](#) that the policy was contrary to rules promulgated from Brussels, the Swedish government proposed a compromise with the European Commission in January. The Swedes' proposal would have allowed non-profits in Sweden with revenues of less than about \$160,000 to remain exempt, while the 10 percent of currently exempted organizations bringing in more than that would have to pay the VAT.

But, as with other national governments seeking to minimize the tax and regulatory burdens on charities, Sweden's offer of compromise was rejected. The EU claimed the exemptions represented an "obstacle" to "free competition."

The Swedish government, however, has not given up yet. "We will contest this," [announced](#) Swedish Finance Minister Anders Borg at a press conference last week, adding that the process could take several years. "We intend to pursue this all the way." For now, Borg said, the exemptions will stay in place while the battle continues. But the EU has already [reacted negatively](#) to Borg's statements.

The Center Party, part of the governing coalition in Sweden, also blasted the ruling. "The silliness coming from the EU must end now," [said](#) an economic spokesperson for the party, noting that the EU measure would effectively kill what's left of the non-profit sector. "It is an idiotic proposal and Sweden must seek full compensation for this from the EU if it holds up."

And officials with non-profit groups in Sweden are also already predicting big problems if the European dictate is allowed to stand. "There will be a real blow to all non-profit organizations," Kjell Augustsson of a local sporting association [warned](#) the *Folkbladet* news service. "And who would want to be treasurer [of a non-profit] in the future? This will not only push financially against our organizations, but also administratively." Other non-profits echoed the concerns.

The current dispute began in mid-2008 when the EU formally demanded information from national governments about their VAT exemptions. In a press release, the European Commission [announced](#) that it was pursuing the first step of an "infringement" suit against Sweden, Austria, Finland and other



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nations by sending a formal “notice” letter.

“In its settled case-law, the [European] Court of Justice has underlined that all exemptions have to be interpreted restrictively, since they are exceptions to the general rule which requires that VAT be levied on any economic activity,” the Commission [stated](#). “Furthermore, exemptions applied by one Member State with no basis in the VAT Directive could lead to distortions of competition and would make it impossible to ensure that Member States contribute on an equal basis to the [EU] Community’s own resources.”

Last year, Brussels also threatened another Scandinavian country over similar policies. That case moved into the “second step” in EU “infringement” proceedings.

“The European Commission has formally requested Denmark to change its law regarding the application of certain exemptions under the VAT Directive,” the EU body [said](#) in a press release, referring to VAT exemptions for charitable and non-profit associations. “If the relevant national legislation is not amended in order to comply with the reasoned opinion within two month, [sic] the Commission may decide to refer the matter to the European Court of Justice.”

The European Union has [become](#) increasingly powerful, especially in recent years, [despite the wishes of voters](#). As *The New American* reported on March 21, [Brussels is now seeking vast new powers](#) including the authority to levy direct taxes and impose massive fines on governments that do not bow down.

A coalition of national governments including Sweden’s still plans to contest the EU order prohibiting VAT exemptions for non-profits. If that fails, the question will likely end up in European court. But based on past power grabs by Brussels, analysts suspect the [European super state](#) could easily emerge victorious once again.

Graphic: Swedish flag (top) and parliament (riksdag) building



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