



Preferential tax treatment and the social economy

Corporate tax, income tax, financial instruments and complementary non-fiscal measures

Thematic discussion paper

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LOGO

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Introduction

The aim of this discussion paper is to provide a general and comparative framework of tax relief and certain non-tax measures in the context of the social economy in the EU Member States. The focus is on personal and corporate income tax, as well as on tax reliefs linked to several financial instruments.

The starting point of the analysis is that the features of tax incentives for the social economy have historically largely coincided with the ones applied to the non-profit sector. In order to receive a non-profit status, usually such entities have to formally apply for a tax-exempt status. The non-profit sector is usually represented by four principal types of organisations: cooperatives, mutual benefit societies, associations (including charities), and foundations¹, that benefited from traditional tax reliefs in two main fields:

- 1) Tax incentives related to their funding (e.g. deductions for donations by individuals and/or corporations to social economy entities); or
- 2) Tax exemptions of the social economy entities themselves (e.g. corporate and income tax incentives and VAT reliefs).

In recent years, however, the understanding of social economy developed, encompassing enterprises which do not exactly fit in a ‘classic’ description of not-for-profit organisations² but are not traditional business enterprises either – the category of so-called ‘social enterprises’. Very generally, such enterprises are defined as operating by providing goods and services for the market in an entrepreneurial fashion, but with social and/or environmental objectives as the reason for their commercial activity and mainly reinvesting profits with a view to achieving their societal objectives.³ The types of social enterprises are diverse. EU for instance distinguishes five types of social enterprises: (i) and (ii) institutionalised through ad hoc legal forms (broad or narrow set of activities), (iii) social enterprises that have been awarded a legal status allowing for the carrying out of diverse activities or (iv) work integration specifically; (v) In several Member States, social enterprises can be awarded a public benefit status that existed before the emergence of social enterprise and is not exclusively for social enterprise.⁴

Overall, the fact that an entity is a social enterprise, in whatever of the categories above it falls (including the definition of a social enterprise in the Social Economy Action Plan⁵), is not problematic from a taxation point of view. In the very least, having such a “social” or “public benefit” purpose does not in itself penalise the organisation, and the tax treatment applicable to it is the same as to for-profit organisations adopting identical legal forms. However, if such an entity seeks specific advantages historically conferred to ‘non-profit sector entities’ (notably tax exemption of the entity and tax incentives for their donors), tax treatment becomes more complicated. For instance, as discussed below, in order to receive a non-profit tax status (usually via a tax exemption), numerous restrictions might be

¹ SWD (2023) 211 final, p. 2. It must however be noted that the tax exemption – and thus the belonging to non-profit sector – does not always depend on a legal form.

² There are different definitions of entities that operate in the so-called “non-profit” sector, which may vary according to legal traditions (civil or common law). In this report, we refer to the definition of non-profits used in the glossary (see Annex 1).

³ COMMISSION STAFF WORKING DOCUMENT SWD (2023) 211 final, Accompanying the document Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Building an economy that works for people: an action plan for the social economy {COM (2021) 778 final}

⁴ Idem, p. 3.

⁵ Idem.

imposed in relation to the commercial activity of such an entity. Or, in certain jurisdictions, adopting certain legal forms, like limited liability companies, might not be eligible for a specific tax treatment reserved to certain non-profit entities (such as foundations or associations).

The rationale for providing public financial support to social enterprises, whether through tax or non-tax measures, arises from the fact that these entities generate public benefits but face greater challenges in securing financial resources compared to mainstream businesses. An analysis of social economy entities finance markets in the EU has highlighted a consistent gap between the supply and demand for funding, particularly in terms of access to both debt and equity.⁶ Social economy entities focus on generating positive social or environmental impacts and are typically limited, if at all, in their ability, to distribute profits to funders and owners.⁷ As a result, they are generally not well-suited for investors seeking substantial financial returns.⁸ Various public finance measures exist trying to address those financing needs, but they are often very diverse, uncoordinated (even in the framework of one jurisdiction) and vary in effectiveness, leaving room for improvement in providing funding throughout the life cycle of social economy entities. Thus, further support to mobilise private funding and implement complementary measures could also enhance access to funding for these entities. A mutual learning workshop that facilitates the exchange of diverse legislation and practices is therefore highly valuable for enhancing the framework for financing social economy entities.

Although the need for public financial support is evident, the specific form it should take—whether subsidies or tax relief—remains under discussion. Regarding tax-related financial support, several considerations arise about the most suitable approach. Due to the broad definition of social economy entities, the preferential tax treatment that could be applied to them is extremely varied. As indicated above, social economy entities could either receive a special tax status or remain under the classical framework operating as non-profit entities (with the relevant constraints on commercial activity and distributions) (this situation is now status quo in many EU Member States⁹). Alternatively, instead of focusing on a special status, they might be provided with other targeted preferential treatments, such as corporate income tax deductions on specific assets, tax reliefs for their employees, and similar measures.¹⁰ These include various tax benefits available for companies investing in environmental assets, which could potentially apply to social economy entities (even though they are not limited to them). Finally, both approaches—the special tax status combined with more specific tax deductions—could be integrated. Public subsidies could also be part of the regulations designed to financially support social economy entities.

The present report is structured as follows. Part 1 reviews income and corporate tax reliefs for social economy entities. Part 2 reviews tax reliefs for financial instruments including other non-fiscal measures. Part 3 presents the conclusions.

⁶ Council recommendation of 27 November 2023 on developing social economy framework conditions (C/2023/1344), 18.

⁷ Such regulation is typically applied to non-profit entities and, as discussed in this report, also applies to social enterprises, not only in many EU Member States but also in many other jurisdictions. See the General Report by Brakman Reiser and Dean, in: Brakman Reiser, D., Dean, S., & Huber, G. L. (2023). *Social Enterprise Law: A Multijurisdictional Comparative Review*. Intersentia.

⁸ Council recommendation of 27 November 2023 on developing social economy framework conditions (C/2023/1344), 18.

⁹ Brakman Reiser, D., Dean, S., & Lideikyte Huber, G. (2023). *Social Enterprise Law: A Multijurisdictional Comparative Review*. Intersentia.

¹⁰ European Commission (2020) Social enterprises and their ecosystems in Europe. Comparative synthesis report. Authors: Carlo Borzaga, Giulia Galera, Barbara Franchini, Stefania Chiomento, Rocío Nogales and Chiara Carini. Luxembourg: Publications Office of the European Union. Available at <https://europa.eu/!Qq64ny> P. 49

1. Income and corporate tax reliefs

1.1. Corporate tax exemptions

The traditional regime applicable to non-profits grants to such entities is an exemption, total or partial, from corporate income tax and/or other taxes (for example, on real estate transactions). Tax exemption on retained profits of corporations is the most popular preferential tax treatment for social economy entities, and it could be voluntary or compulsory (European Commission, 2020). This tax exemption is typically the requisite component of the tax regime that provides tax incentives for individual and corporate donations. This part of the regime will be introduced for the sake of clarity in the next part of this report and will be more extensively developed in the workshop 3.

To (voluntarily) qualify for the corporate income tax exemption, an entity must comply with a number of conditions set by national laws, which seek to prove that it truly pursues public benefit purposes as is thus worthy of state's indirect subsidies via tax exemption. Such requirements could include (even though not necessarily) a particular legal form, such as a foundation or an association. For instance, in certain countries social economy entities that are formed as limited liability companies cannot benefit from fiscal advantages of non-profit organisations (European Commission, 2020). An extensive comparative analysis of the eligibility requirements for corporate income tax exemption, that includes nearly all the EU Member States, has been done by the OECD (OECD 2020).

Like in individual income taxation, nearly all the EU Member States provide corporate income tax exemptions on retained profits for charitable entities.¹¹ Only four Member States– Denmark, Estonia, Finland and Cyprus – do not provide this treatment to profits retained by social economy entities.¹² In certain Member States, the tax benefits available to social economy entities are contingent on the legal forms they adopt, rather than on their specific activities. For instance, in Italy and Ireland, cooperatives in Italy and organisations with charitable status in Ireland are exempt from taxation on non-distributed profits.¹³ In other Member States, social enterprises may benefit from tax incentives based on their activities rather than on their organisational structure.¹⁴ The extent of income tax exemption also varies between Member States. Certain Member States exempt all income or income from donations and subsidies, and other Member States(Lithuania, Ireland) consider all income taxable, except if it is reinvested in a non-profit purpose (see the example in the Table 1 below).¹⁵ Profits generated by Working Integration Social Enterprises (WISEs) and allocated to an asset lock scheme are, for instance, eligible for partial tax reductions in Belgium (European Commission, 2020). ..

In the context of social entrepreneurship, one of the most relevant questions for social economy entities wishing to operate under such an exemption regime is the extent to which they can engage in commercial activity, i.e. generate income from the supply of goods or services under market conditions. This is important because social economy entities often seek to be independent from donors by creating their own stable sources of income to fund their activities. It must be taken into account that such possibilities under non-profit regimes may be limited. In fact, the eligibility for a “non-profit” exempt status and the access to tax-subsidised donations as a source of funding is often coupled with restrictions or even a

¹¹ SWD(2023) 211 final, p. 4-5; OECD (2020), p. 90.

¹² European Commission, Social enterprises and their ecosystems in Europe, p. 93.

¹³ SWD(2023) 211 final, p. 4.

¹⁴ Ibidem.

¹⁵ OECD (2020).

prohibition of a commercial activity and profit distribution constrains (Brackman Reiser/Dean). The principal argument for this is the potential competition distortion arising from the fact that tax-exempt entities compete in the market with “regular” businesses. From an administrative point of view, it is often difficult for the tax administration to disentangle “commercial” and “non-profit” income (donations, bequests), and such activity requires additional resources.

Thus, there are suggestions for reconsidering carefully the benefits of offering tax exemptions on the commercial income of non-profit entities (including VAT exemptions), particularly when this income is not linked to the entity’s non-profit mission. The reasons for this are multiple, not in the least because of the challenges of distinguishing between taxable (i.e., unrelated commercial income) and exempt income, and the goal of maintaining competitive neutrality which adds up to those compliance and administrative costs (OECD 2020, p. 9, Brakman Reiser/Dean). It must be also considered that legal rules preventing non-profits from operating as personal profit centres for their leaders reinforce the legitimacy of these organisations as oriented toward the public and facilitate government efforts to incentivise such organisations (Brakman Reiser/Dean, p. 15).

Table 1. Example of a corporate profit tax exemption for a social economy entity (exemption of total profits or only profits reinvested in social goals)

X Ltd. is a social economy entity operating within a jurisdiction Y, which has granted X Ltd. a tax-exempt non-profit status. The standard corporate profits tax rate is 15%.

In 2024, X Ltd. records a total income of €100,000. After the deduction of expenses, the corporation's profit stands at €30,000. Due to its tax-exempt status, this profit is not subject to taxation. In the event that X Ltd. operated as a conventional business entity, its tax liability would amount to €4,500 (€30,000 x 15%).

Variant: X Ltd. operates in a jurisdiction A, which exempts from tax only profits reinvested into charitable goals. In 2024, X Ltd. recorded a profit of €30,000 and invested the amount of €10,000 into such goals. As a result, only €10,000 of profits is tax exempt and the remaining €20,000 are taxed at a regular rate of 15%.

1.2. Tax incentives for charitable donations and bequests

The corporate tax exemption cannot be explained well without talking about individual income tax relief for donations. As mentioned by the European Commission (SWD(2023) 211, p. 6) and by the OECD 2020 (p. 22), tax concession for public benefit organisations are granted at two levels: at the level of the social economy entity (the tax exemption discussed above) and at the level of donor (an individual or a corporate entity) that finance those entities through donations. These two concepts - tax exemption for the entity and tax incentive for the donor - are inextricably linked, in that a taxpayer may only receive income tax relief for donations if the donation is made to a tax-exempt corporation.

Almost all Member States provide tax incentives for donations to entities that meet the criteria of “non-profit” status under national law. Thus, in Member States where social economy entities operate under such a status, they are eligible – and usually enjoying - this tax treatment (European Commission, 2020). Arguments for providing such tax incentives are very diverse. For instance, the domain of economics claim that such tax concession can be justified due to the under-provision of public goods by the State¹⁶ or by positive

¹⁶ OECD (2020), Taxation and Philanthropy, OECD Tax Policy Studies, No. 27, OECD Publishing, Paris, <https://doi.org/10.1787/df434a77-en>, on definition of the non-profit sector: Salamon, L. and H. Anheier

externalities that are not fully captured by the non-profit entity itself or by those contributing to the entity. Other arguments include the benefits of the importance in having a diverse and large number of donors (OECD 2020, p. 27). Arguments against tax incentives for philanthropic donations concern their democratic deficit, fairness and efficiency and effectiveness.¹⁷ From a pragmatic policy point of view, tax benefits granted to non-profit organisations and social economy entities are primarily intended to support their consolidation and capitalisation. (European Commission, 2020).

Two principal forms of tax incentives for charitable donations to non-profit entities are tax deductions and tax credits, which could be given to both individual and corporate donors. This section makes a brief presentation of those two forms, and the rest will be developed in the Workshop 3.

Tax deduction is the most popular tax incentive among Member States, who award them to individual and/or to corporate donors.¹⁸ For individual donors, it has been adopted by Member States such as Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Italy, Latvia, Luxembourg, the Netherlands, Poland, Spain and Slovenia. In relation to corporate donations, practically all the EU Members opted for tax deduction, with exception of certain Member States such as Belgium, France and Sweden, which implemented tax credit systems. Latvia and Portugal provide corporate donors with both tax deductions and tax credits (OECD 2020, p. 97). The design of a tax deduction can vary considerably. Certain Member States limit the deduction to a ceiling of donor's income (total or taxable), usually expressed in a percentage¹⁹, other states set a specific amount of allowable deduction, often in a range between a minimum and maximum amount.²⁰ Although it is rare, some states have no limits on charitable deductions (Cyprus). For corporate donations, deductions also follow different designs, and they can also depend on the type of the donation (cash, assets, provision of services). Various limitations apply, which may be determined by factors such as a proportion of total revenue or corporate tax liability, taxable income, or the sum of total turnover and wages and salaries paid, the value of the donation itself, or a fixed monetary limit, with combinations of these criteria often serving as the basis for tax relief thresholds (OECD 2020).

Even though it is a much rarer policy choice, several Member States - notably Belgium, France, Greece, Italy, Portugal and Sweden - have implemented tax credit systems for incentivising donations by individuals. A tax credit is an amount that is deducted directly from the tax liability rather than from taxable income, as is the case with a tax deduction. In terms of corporate giving, it is very rare for countries to opt for a tax credit as a tax incentive. Overall, in terms of tax policy, a notable feature of tax credits is that their value remains consistent for all taxpayers, provided their tax liability is at least equal to the value of the credit. Because of this, the OECD recommends this tax incentive for countries focused on the distributional impact of tax policies, as tax credits ensure that all taxpayers receive the same proportionate benefit, regardless of their income level. However, in countries with a progressive personal income tax system, tax deduction is particularly interesting to donors in higher-income brackets (Lideikyte Huber/Pittavino, 2022). The implementation of such tax deductions could be considered a valid policy choice, with the potential to encourage

(1992), "In search of the non-profit sector I: The question of definitions", *International Journal of Voluntary and Non-profit Organisations*, Vol. 3, pp. 125–151.

¹⁷ The in-depth review of this topic is done by Hemels, S., Tax incentives as a policy instrument for the social economy, General overview and VAT, Thematic discussion paper.

¹⁸ This is also the apparently the most popular incentive globally. OECD 2020.

¹⁹ See for instance Estonian Income Tax Act § 2, § 49 and § 53; <https://www.emta.ee/en/business-client/taxes-and-payment/income-and-social-taxes/gifts-and-donations> ; the list of legal persons can be found here: <https://ncfailid.emta.ee/s/69dm4GRbczHFbWQ> accessed 04.03.2025.

²⁰ <https://www.vero.fi/en/individuals/deductions/what-can-i-deduct/deductions-for-a-donation/> accessed 04.03.2025.

donors with high incomes to donate more, thus aiming to maximise total giving (Ibid, also see OECD 2020, p. 9).

Bequests to non-profit entities, including social economy entities if they conform to this status, also benefit from tax incentives in countries that levy inheritance or estate taxes. In countries with an inheritance tax, the entity receiving the bequest is liable for the tax and thus taxes advantage of tax relief. In countries with an estate tax, the tax liability as well as the tax relief is with the estate of the deceased. Such incentives could be in a form of a total exemption from tax, like the Netherlands, Bulgaria, Slovenia and Finland, or preferential (reduced) tax rates, like in France and Belgium (Brussels-Capital region) (OECD 2020). The entities eligible for tax-free bequests are not the same in all the countries: for instance, certain Member States have limitations in relation to their goals and activity (Bulgaria) (Ibid).

A rare tax relief for corporate donations is a capital gain tax exemption. For instance, in Ireland, a capital gain tax exemption applies to the disposal of a work of art that has been loaned to an approved gallery, museum, or the Irish Heritage Trust for a period of at least 10 years or 6 years for loans made before 2 February 2006, provided the artwork has been publicly displayed. The artwork must be valued at a minimum of EUR 31,740 when it is loaned to the gallery (OECD 2020, p. 95). It is an interesting example of tax relief for donations, even though its scope is rather limited.

Table 2. Example of tax exemptions for inheritances

In the event of her death, Mrs. A bequeathed a sum of €100,000 to X Ltd., a social economy entity with a tax-exempt non-profit status.

Variants:

- 1) Mrs. A resides in a jurisdiction Y, which imposes an inheritance tax at a rate of 35%. This jurisdiction offers a complete exemption from inheritance tax for transfers to non-profit tax-exempt status entities. The entity receiving the bequest is liable for the tax. As X Ltd. is tax exempt, it does not pay any tax on the entire amount.
- 2) Mrs A resides in a jurisdiction B, which imposes an inheritance tax at a rate of 35%, but applies a preferential tax rate of 10% to inheritances by non-profit tax-exempt status entities. X Ltd. pays a tax of €10,000 (€100,000x10%).

1.3. Tax reliefs for environmental investments

Many EU Member States provide tax reliefs in relation to personal income taxes of investors or profit taxes for corporations that invest in environmental or “green” assets or companies. Such preferential tax treatment is also used by entities operating in the social economy. They are compatible with the EU State aid rules, as according to the European guidelines²¹, certain environmental aid measures fall within the scope of the General Block Exemption Regulation (GBER), which exempts the Member States from notification to the Commission (Sadowski). Fiscal measures are subject to specific conditions, and their incentive effect is essential, as the measure must encourage the beneficiary to alter their behaviour in order to enhance environmental protection or improve the functioning of the European energy market (Sadowski).

²¹ Communication from the Commission – Guidelines on State aid for climate, environmental protection and energy 2022, OJ C 80, 18.02.2022.

A commonly used measure among multiple Member States is specific investment deductions or depreciation provisions that offer more favourable treatment for "green" and climate-friendly assets or equipment. These incentives, while not designed specifically for social economy entities, could still be utilised by them. For instance, Denmark's Green Tax reform that seeks to accelerate decarbonisation in a wide range of sectors provides accelerated depreciations to provide an investment window that incentivises business, including small and medium-sized enterprises, to invest in the green transition (European Commission, 2023-Denmark). In Belgium, a company can benefit from a one-time investment deduction of 13.5% of the acquisition value of qualifying investments and, with respect to environmentally friendly research and development (R&D) investments, a company can opt for a spread investment deduction of 20.5% (for tax year 2023) of the depreciation of qualifying environmentally friendly R&D investments. (Bray/Bunn/Haddinga, 2023). Germany offers a 50% deduction in addition to normal straight-line depreciation in the first year for electric delivery vehicles purchased after December 31 2019 and before January 1 2031 (Ibidem). The Netherlands offers a scheme for environmental investments, the Random depreciation of environmental investments scheme (*Willekeurige afschrijving voor milieu-investeringen*, Vamil).²² With Vamil, a company can decide to write off 75% of the investment costs, the goal being to give an advantage in liquidity and interest.²³ It is possible to use both the Vamil and the so-called Environmental investment allowance (*Milieu-investeringsaftrek*, MIA)²⁴with respect to the same business asset.²⁵ Other Member States, such as France, Greece, Hungary, Italy (to name but a few) have various special depreciation provisions (for example, special rates) for environmental investment and assets (including electric vehicles).

The Netherlands grants tax reliefs for investments in banks' funds and banks that participate in sustainable projects. A personal allowance on which a taxpayer pays no taxes for green savings accounts and green investments. In 2024, this allowance was EUR 71,251 (EUR 142,502 for tax partners). In addition, in the Netherlands, a specific tax deduction from corporate income is available for qualifying environmental investments (investment in assets that meet the Environment List requirements²⁶) through MIA. In 2025, the allowance equals 45%, 36%, or 27% (depending on the ministerial classification of the assets) of the annual amount. The minimum investment amount per asset is EUR 2,500, with a maximum of EUR 50 million (investment can be reported in phases).²⁷ The MIA deduction can be claimed through a tax return, provided the investment is reported previously to the Netherlands Enterprise Agency.²⁸ The MIA budget for 2025 is EUR 189 million.

French legislation, though its 2024 Finance Bill, introduced a tax credit for green industry, which equals to 20% (or 25% to 40% depending on the geographic area of investment) of the amount of eligible expenses incurred. The tax credit could amount to a maximum of EUR 150 million per company (or EUR 200 million to EUR 350 million in the case of investments in specific areas). Eligible investment expenditures are incurred in connection with activities contributing to the production of batteries, solar panels, wind turbines, and heat pumps. This tax credit applies to applications filed as of 27 September 2023 and would

²² <https://business.gov.nl/subsidy/mia-vamil/> accessed 25.02.2025.

²³ <https://english.rvo.nl/subsidies-financing/mia-vamil/entrepreneurs> accessed 25.02.2025.

²⁴ <https://www.rvo.nl/subsidies-financiering/mia-vamil/ondernemers> accessed 25.02.2025

²⁵ <https://www.dlapiper.com/es-pr/insights/publications/2021/10/esg-challenges-in-real-estate-ahead-of-cop26/dutch-sustainable-energy-subsidies-and-energy-taxes>

²⁶ <https://www.rvo.nl/milieu-energielijst-2025>

²⁷ <https://www.rvo.nl/subsidies-financiering/mia-vamil/ondernemers> accessed 25.02.2025

²⁸ www.rvo.nl; <https://english.rvo.nl/subsidies-financing/mia-vamil/entrepreneurs>.

apply to accredited investments until 31 December 2025. To benefit from this tax credit, a company must first apply for tax approval.²⁹

1.4. The problem of tax abuse

Challenges related to the abuse of non-profit entities and potentially social economy entities are potentially diverse. For example, such abuse situations may be related to the fact that a tax-exempt entity no longer meets the conditions or never met them in the first place. Some of the examples that are particularly relevant for social economy entities could be carrying out an (unauthorised) commercial activity, paying excessive salaries and disguised distributions to board members and employees or VAT fraud. Such situations can have various legal consequences, such as payment of unpaid taxes and penalties, revocation of tax-exempt status, initiation of criminal proceedings, etc.

Example: Foundation A is a non-profit tax-exempt entity. It operates in a jurisdiction Y, which imposes the requirement that board members carry out their duties voluntarily and are only entitled to reimbursement of expenses incurred in the performance of their duties. Foundation A does not pay salaries to the board members, but reimburses excessive costs incurred by the latter that are allegedly related to their work in the foundation (first-class flight tickets, luxury hotels, etc.). If the link between such expenses and the work cannot be established, the aforementioned activity may be regarded as a misallocation of the Foundation's assets. This could result in both tax and criminal proceedings. From a tax perspective, this could lead to the revocation of the Foundation's tax-exempt status. This would result in the payment of foregone taxes and penalties, and the inability to deduct donations for the donors.

Additional problems arise in cross-border giving, both in donor and recipient countries. In an international context, it is difficult for the states to control whether the funds that pass the borders are in the end affected to legitimate purposes. It is admitted that even though the risk is feeble, cross-border philanthropic activities could be linked to money laundering and terrorism financing (OECD 2020). This reason (together with other public finance considerations) is often taken to justify the limitations on deduction of cross-border donations, even though such position could be contested (Lideikyte Huber, forthcoming, 2025).

To mitigate the risk of abuse, the first step is to understand the root causes of the illegal activity and establish an appropriate legal framework. In addition, Member States need to ensure that the administrative process (including the application process and, in some cases, annual reporting) allows the supervisor to identify and track suspicious entities and activities (OECD 2020). Non-profit entities must also be diligent, regularly conduct internal audits and investigations, and carrying out sufficient research prior to engaging in new projects or establishing new partnerships (Ibidem).

²⁹ Crédit d'impôt pour l'industrie verte' or C3IV, [France - Corporate - Tax credits and incentives](#)

2. Financial instruments and non-tax measures

2.1. Financial instruments

The term ‘financial instrument’ has a very large scope, as it covers any monetary contract that can be traded.³⁰ Some traditional financial instruments are, for instance, stocks, bonds or certificates of deposit (also called as ‘primary’ or ‘cash instruments’) but this term also covers more recent financial inventions such as various derivative instruments (for instance, options or futures) or foreign exchange instruments (for instance, currency swaps and spots).³¹ More specific classifications of financial instruments are possible, such as the distinction between debt-based and equity based financial instruments.³² The examples presented in this part concern principally investments in shares and bonds.

Overall, it is not common practice in Member States to give preferential tax treatment to financial instruments used in the social economy. However, there are some examples. For instance, some Member States provide tax benefits to individuals and companies that buy shares issued by (new) social economy entities (also through crowdfunding platforms) or bonds issued by banks or social economy entities themselves to finance the development of social projects, allowing social economy entities to create a bottom-up supply of financial resources (European Commission, 2023, p. 5). The Netherlands historically provided innovative tax reliefs related to social or green investments. For instance, the Dutch Green Funds Scheme, which came into force in 1995 and was a tax incentive for private investors who invested in certified «green» projects or a «green» fund or bank³³. The Netherlands has now offered two types of tax reliefs for investments in environment-friendly business assets or technology: the (*Milieu-investeringsaftrek*, MIA) which was described earlier in this paper (see part 1.4).³⁴

Italy offers tax incentives to individuals or legal entities who invest in the share capital of one or more corporations or cooperatives (including social cooperatives) that have been recognised as social economy entities for no more than five years (Fusaro, p. 338). Individuals who invest in the share capital of these firms may deduct 30% of the amount from their gross personal income. The maximum annual investment is EUR 1.0 million and must be maintained for at least five years, under penalty of full repayment of the tax incentives plus legal interest (Fusaro, p. 338). Corporations can receive a similar deduction (up to EUR 1.8 million) under corporate income tax. Investors in these companies gain governance rights as shareholders or members, depending on the type of company they invest in (*Ibidem*).

In recent years, an important market that has exponentially increased is the one of green bonds. Green bonds are defined as bonds in which the proceeds are solely allocated to finance or refinance, either partially or fully, new and/or existing eligible green projects (renewable energy, green buildings, etc.) (Agliardi/Agliardi, 2019). To our knowledge, there are currently no (significant) tax incentives related to green bonds. However, certain researchers argue that green bonds should be made tax-exempt, or at least benefit from

³⁰ Oxford English Dictionary <https://www.oed.com/search/dictionary/?scope=Entries&q=financial+instrument> accessed 11.01.2025.

³¹ <https://corporatefinanceinstitute.com/resources/career-map/sell-side/capital-markets/financial-instrument/>

³² *Ibidem*.

³³ NL Agency, Ministry of Housing, Spatial Planning and the Environment, The Green Funds Scheme, 2 – 3; see also: LIDEIKYTE-HUBER, Giedre, PETER, Henry. Encouraging Sustainable Investment through Direct Tax Relief: Swiss and EU State Aid Legal Framework. In: IFF Forum für Steuerrecht, 2020, vol. 3, p. 207–221, p. 211.

³⁴ <https://business.gov.nl/subsidy/mia-vamil/> accessed 25.02.2025.

lower taxes than conventional bonds, in order to accelerate green bond market (Agliardi/Agliardi, 2019).

2.2. Complementary non-tax measures

Public financial support measures for the social economy outside the fiscal framework are many and varied in their objectives and design. Essentially, any benefit or burden created by government can be transformed into an indirect subsidy (Brackman Reiser/Dean, p. 41). Thus, the types of such measures are various: most common forms of this public support are grants and subsidies³⁵, but they could also take the shape of various regulatory reliefs or other measures, that indirectly affect the financial resources of the social economy entity (for instance, relieving their administrative burden), reductions in social insurance contributions for investors in social economy entities, concessions of public real estate to social economy entities, preferential (or concessional/subsidised) interest rates for social economy entities, etc. Those measures play an important role in enabling the start-up and development of social economy entities (European Commission, 2022). The present section overviews examples of selected preferential treatments that are used in the social economy.

One possible measure is relieving social economy entities from certain regulatory requirements. In Belgium, non-profit social economy entities are exempt from the obligation to publish a prospectus when issuing investment instruments, such as bonds, provided that the funds raised are necessary to carry out the not-for-profit purposes of the organisation. However, this advantage does not apply to for-profit social economy entities, even if they have social economy entity certification (Cools/Verheyden p. 102).

Another non-tax domain where social economy entity get public financial support is through preferences in public procurement. In certain Member States, like in Belgium, social and environmental aspects are considered in public procurement, even though it is not a legal obligation but only a possibility (Cools/Verheyden pp. 103, 104). In Denmark, certain social enterprises qualify for preferences in procurement under the national law that implements the Directive 2014/24/EU on public procurement. For most types of procurement, preference is given to sheltered workshops and economic operators focused on the social and professional integration of disabled or disadvantaged people, or those employing at least 30% disabled or disadvantaged workers, while also allowing preference to certain social economy entities for specific services (Sorensen, p. 220). Not all social economy entities qualify from this preference, due to the condition of the structure of management or because ownership is based on employee ownership or participatory principles (Ibidem). Public procurement outside the EU rules is less restricted but concerns only minor tenders (Ibidem). Certain stakeholders highlight that it is very complicated for a municipality in Denmark to favour social economy entities in public procurement, and consequently this seldom happens (Ibidem). Similar procurement rules exist in Ireland: a social economy entity with a non-reserved purpose can bid for reserved contracts if it can demonstrate that at least 30% of its employees are disabled or disadvantaged people (Breen/Dolan/O’Broin). In Romania, public authorities can also reserve contracts for insertion social economy entities or other social economy entities, if the latter are active in social, health, and cultural services, with a maximum contract duration of three years (Bercea, p. 474).

Governmental loan and mezzanine programmes is one more domain where social economy entities get public financial support. In Germany, such a financing programme for social entrepreneurship exists since 2012. Initially, it required a business model that focuses both

³⁵ Council recommendation of 27 November 2023 on developing social economy framework conditions (C/2023/1344), 14.b.

on social involvement and generating profits, but it was later also extended to non-profits, and it covers for example, loan, equity and mezzanine support (Weitemeyer, p. 254).

Social economy entities also seek private funding which goes beyond the “classic” donations and subsidies framework. In particular, they turn to a repayable credit offered by financial institutions, factoring or sponsoring, impact investing solutions, or even general public for crowdfunding (Bercea p. 475) or issuing bonds or shares like in Belgium (Cools/Verheyden p.104). In Germany, social economy entities can approach venture capitalists (such as the Social Venture Fund) who do not expect a minimum financial return, but a social return (Weitemeyer, p. 255). Certain private funds use the label of European Social Entrepreneurship Fund (EuSEF), which is designed to identify funds focusing on European social businesses, making it easier for them to attract investment³⁶. In the Irish market, next to traditional banks and credit unions, a few social finance providers exist, such as Community Finance Ireland (Breen/Dolan/O’Broi p. 302). In certain countries however, national governments step in providing such capital even for for-profit social entities. In Belgium, national, regional or local governments often directly or indirectly provide for-profit social economy entities with equity, sometimes combined with subsidies and payments for goods or services (Cools/Verheyden p. 104).

Certain Member States provide the so-called “matching grants” systems, where the government tops up charitable donations made by individuals or corporations to specific entities (usually non-profit) at a given rate (OECD 2020, p. 79). Currently, only Ireland has this system in the EU (“Charitable donation scheme”, CDS).³⁷ A donation must be made to an “eligible charity” that is either a tax-exempt charity that has applied and received an authorisation for these purposes of the tax authority or another entity that is specifically designated by law.³⁸ Out of EEA countries, Norway has implemented a similar mechanism; it is the only country that has a matching scheme for corporations (OECD 2020, p. 97).³⁹ In economic experiments, matching grant subsidies sometimes stand out as incentives which are more efficient than tax deductions when it comes to encouraging giving, even though (or perhaps because) they seem to be based on different motivations than tax incentives.⁴⁰

Finally, a so-called “allocation system” or a “tax percentage philanthropy system” is implemented in many Member States. In such a system, taxpayers are allowed to designate a fixed percentage or amount of their income tax to a non-profit entity directly through their tax return (OECD 2020, p. 80). The details of the system vary from country to country. Taxpayers are usually required to select the philanthropic organisation or charity or a social purpose from a list provided by the tax administration. It is a particular feature of the post-Soviet bloc of countries that have adopted this type of non-tax measures to promote a culture of philanthropic giving.⁴¹ Allocation systems are implemented in the Slovak Republic, Lithuania, Romania, Slovenia, Portugal, Hungary and Italy. The Slovak Republic is the only country with an allocation scheme for corporate taxes (OECD 2020, p. 97). However, an allocation system is not a tax incentive, as it does not alter taxpayers’ giving behaviour, since it imposes no cost on the taxpayer. For the jurisdictions that wish to boost giving to a

³⁶ Regulation (EU) No 346/2013 on European social entrepreneurship funds.

³⁷ <https://www.revenue.ie/en/companies-and-charities/charities-and-sports-bodies/charitable-donation-scheme/index.aspx> ; Irish Tax and Customs, Tax and Duty Manual, Charitable Donation Scheme, Tax relief for donations to approved bodies Section 848A and Schedule 26A TCA, Part 36-00-17 (December 2024).

³⁸ Ibidem.

³⁹ OECD 2020, p. 79.

⁴⁰ Neuroscience studies indicate that for matching grants to be successful, the donor needs to prioritise the benefits for the charity (altruistic motivation), while tax rebates generate a more strategic motivation for giving. Cutler, p. 289. See Adena, p. 347-348 for a comparison of economic literature regarding the efficiency of matching grants in comparison to tax rebates.

⁴¹ OECD 2020, p. 89.

non-profit sector, it is often recommended to combine the allocation system with another tax incentive.

Another regulatory measure is the creation of WISEs, that primarily focuses on integrating marginalised or disadvantaged individuals into the labour market. They are not generally tax-exempt by default, but they may benefit from specific tax exemptions or reductions in various jurisdictions, depending on local laws and regulations. The majority of (European) WISEs continue to rely on a mix of financial resources, with a notable reliance on public funds/subsidies and including a combination of paid and unpaid human resources (European Commission 2020). European WISEs have used public funds, including European funds (such as ESF+) , as well as other forms of public national or regional support, to the benefit of WISEs (European Commission 2020).⁴² This support has been provided in the following ways: (a) through subsidies, and/or (b) through the reduction of taxes or social security contributions, and (c) through non-competitive direct assignment of public works and contracts (Ibidem).

3. Conclusions

The framework of tax incentives available to social economy entities is mainly concentrated in the classical regulation of the non-profit sector, which is characterised by the interdependence between the tax incentives given to donors and the specific tax-exempt status of non-profit entities.

Outside the non-profit framework, tax incentives are much more limited and patchier. One might distinguish corporate income tax benefits related to two main areas: environmental and social protection. As these reliefs are often open to all companies, the restrictions that apply in the non-profit sector are irrelevant here and could therefore be advantageous for certain social economy entities. In addition, in certain countries, social economy entities benefit from non-fiscal measures, such as public procurement advantages, exemption from certain regulatory requirements, financing by diverse governmental entities, among others. All those measures are usually destined to help social economy entities to raise capital, which is the biggest problem in the domain. However, even such measures sometimes attach the benefit to the fact that social economy entities are “non-profit”. The development of financial instruments specifically for social enterprises is still in its infancy. Certain jurisdictions, such as the Netherlands, are rather advanced in this respect; however, in the majority of other jurisdictions, this field is underdeveloped.

Thus, it is crucial for social economy entities that wish to benefit from “traditional” and somehow time-tested funding by donors to comply with tax exempt status. Blending into a non-profit regime has advantages and disadvantages for social economy entities. The upside is that non-profit regimes are deeply rooted in practically all the legal systems of Member States, tax incentives that are used in the field of non-profits vary in their design and are potentially quite easily adjustable (in comparison, for instance, if a legislator wanted to create a completely new field of exemptions for new legal forms such as social economy entities). The downside is that numerous conditions are attached to such a non-profit status and they could not be easily (or at all) eliminated, in particular non-distribution constraints and the limitations to the commercial activity that could be exercised by a social economy entity. Such restrictions have logical underpinnings and are defended by international organisations and authors as strengthening public trust and not violating fair market

⁴² Kate Cooney, Marthe Nyssens and Mary O’Shaughnessy. Forthcoming 2023. Work Integration and Social Enterprises. Edited by Ilcheong Yi et al. Encyclopedia of the Social and Solidarity Economy. Cheltenham and Northampton, MA. Edward Elgar Publishing Limited in partnership with United Nations Inter-Agency Task Force on Social and Solidarity Economy (UNTFSSSE).

competition. However, they could be difficult to navigate for social economy entities that are trying to create their own independent sources of funding and not be solely dependent on grants and subsidies. For this reason, the European Commission highlights that the way in which the tax environment for social economy entities is organised is far from satisfactory. Few measures are addressed only to social economy entities and are specifically designed in coherence with the entrepreneurial nature of social economy entities (2020). A comprehensive discussion and exchange of practices during the workshop on this subject will be very valuable to help advancing the discussion on how the non-profit framework could be more inclusive to social economy entities, at least to certain of their forms.

Finally, regarding non-tax subsidies, there might be new alternatives that could be explored by Member States. One such option is the matching grant alternative, which has demonstrated a certain effectiveness in economic experiments but seems to be largely absent from the set of measures used by Member States to fund social economy entities. It is important to note, however, that its efficiency has primarily been tested in the context of non-profit funding.

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Annex 1 Glossary

Charitable status

A status granted to not-for-profit organisations that are established for an exclusively charitable purpose. The 'purpose' is what the organisation was set up to achieve and must be for public benefit. The legal definition of a charity and 'charitable purpose' is often defined in national legislation.

Grant

A sum of money awarded *una tantum* that is provided for free by a governmental agency or private organisation. Most grants are provided with a view to funding a specific project and require some level of compliance and reporting.

Legal form

The form under which an organisation is incorporated. The legal form determines how aspects like property rights, liability, governance and control, reporting, profit distribution and funding will affect the organisation.

Market

Any exchange that results from a contractual agreement. A market is created whenever potential sellers of goods and services enter into contact with potential buyers and there is a possibility of exchange through a contractual agreement.

Non-profit and Not-for-profit

The most well-known definition is provided by Johns Hopkins University. According to this definition, the sector includes organisations that are: voluntary; formal; private; self-governing; and do not distribute profits. The term "non-profit" refers to organisations that have to comply with a non-distribution constraint. The term "not-for-profit" is more general and refers to the goal pursued (which is other than profit). Non-profit organisation: an organisation that has a legal form which does not permit the distribution of profit and which is able to trade freely in furtherance of a social purpose. Examples include most foundations, associations and non-profit companies.

Profit

The residual return to the entrepreneur, i.e., the difference between total sales revenue and total costs incurred by the enterprise.

Progressive tax rate

A tax rate that increases or progresses as taxable income increases.

Reduced VAT rate

Various types of VAT rates can be applied that depend on the product or service involved in the transaction. Reduced VAT rates refer to special rates which were set according to standardised VAT rates. In the EU, one or two reduced rates may be applied to supply of specific goods and services based on the [VAT Directive](#).

Social economy

Entities sharing the following main common principles and features: the primacy of people as well as social and/or environmental purpose over profit, the reinvestment of most of the profits and surpluses to carry out activities in the interest of members/users (“collective interest”) or society at large (“general interest”) and democratic and/or participatory governance. This includes cooperatives, mutual benefit societies, associations (including charities), foundations and social enterprises.

Social enterprise

Social enterprises are now generally understood as part of the social economy. Social enterprises operate by providing goods and services for the market in an entrepreneurial and often innovative fashion, having social and/or environmental objectives as the reason for their commercial activity. Profits are mainly reinvested with a view to achieving their societal objective. Their method of organisation and ownership also follow democratic or participatory principles or focus on social progress. Social enterprises adopt a variety of legal forms depending on the national context. Terms such as “social economy enterprises”, “social and solidarity enterprises” and “third sector” are also used by some stakeholders, countries and international organisations to refer to social economy entities. Work integration social enterprises are a common type of social enterprise across Europe. They specialise in providing work opportunities for disadvantaged people.

Social insurance

Protection of the individual against economic hazards (such as unemployment, old age, or disability) in which the government participates or enforces the participation of employers and affected individuals.

Social investment

The term refers to all the targeted actions aiming to develop an economic environment that enables social enterprises to access finance. Social investment includes financial instruments (i.e., grants, loans, equity and hybrid instruments) that together with other types of support aim to maximise social impact. Traditionally, it involves several actors including supply-side (investors), demand-side (social enterprises), intermediaries and business development support organisations. The term is sometimes used more narrowly in reference to the provision of repayable finance with the aim of generating social impact, alongside an expectation of some financial return (or preservation of capital). More recently, social investment is sometimes used interchangeably with “impact investment” or “impact finance”. The latter terms usually involve investors who seek a blended return based on several criteria (financial, social and environmental) and who tend to focus on financing scaling-up and replication of social enterprises. As for the use within the EC, it usually refers to policies designed to strengthen people’s skills and capacities and support them to participate fully in employment and social life. In more recent years, the European Commission has also been using this term to refer to the provision of repayable finance to social enterprises.

Subsidy

A sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.

Tax exemption

A specific category of income, organisation or activity that is not subject to taxation by the government.

Tax incentive

A reduction made by the government in the amount of tax that a particular type of organisation or group of people has to pay or change in the tax system. They are usually intended by public authorities to encourage particular types of behaviour and/or to favour specific groups.

Tax deduction

An amount deducted from taxable income that lowers the amount of taxes an organisation or group of people owes the government.

Value Added Tax (VAT)

A general tax that applies in principle to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer and is therefore not a charge on business.

VAT exemption

Some supplies of goods and services are exempt from VAT, and most of these are examples of 'exemptions without the right to deduct'. The right to deduct refers to a taxable person's right to claim the input VAT they paid on goods and services from tax authorities. VAT is deducted by subtracting the deductible amount from the VAT payable in the regular VAT return submitted to the tax authorities. There are two categories of exemptions without the right to deduct: exemptions for activities carried out in the public interest and exemptions for other activities.

