



Handelshögskolan
VID GÖTEBORGS UNIVERSITET

Volunteer-friendly?

Advantageous?

Troublesome?

in Swedish Sport Associations

*- A qualitative research about the effects of a VAT liability in
Swedish sport associations*

FEG 313 Bachelor Thesis, Business Administration, Accounting, Spring Semester 2012

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Abstract

A bachelor thesis within Business Administration, The School of Business, Economics and Law at the University of Gothenburg, The Department of Accounting, Spring 2012

Titel: VAT in Swedish Sport Associations – A qualitative research about the effects of a VAT liability in Swedish sport associations

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Background and Problem Definition: Swedish sport associations, which are regarded as public benefit non-profit associations (public NPAs), receive a favourable fiscal treatment since they are exempt from income tax and VAT, even if it pursues economic activities. This exemption violates the binding rules and regulations of the VAT Directive, which Sweden, as a Member State in the EU, is obliged to follow. An enforcement of the VAT Directive would result in a VAT liability for Swedish sport associations. This fact has created strong reactions in Sweden, which state that a VAT liability would cause severe problems for the sport associations.

Purpose: The purpose of this bachelor thesis is to describe the reason behind a VAT liability for Swedish sport associations and to understand and concretely explain its anticipated effects from the associations' perspective.

Delimitations: The thesis will focus on Swedish sport associations who are still run by volunteers and real enthusiasts. The scope of the study concerns VAT, its accounting, effects and regulations in Sweden as well as the important principles of the VAT Directive that concern the Swedish sport associations.

Methodology: The research has been executed through 15 qualitative interviews with sport associations and tax experts. The empirical material has principally been analysed from the associations' perspective, which has been linked with previous described effects, knowledge and information in our field of study.

Findings and Conclusions: The interviewed sport associations anticipate that a VAT liability will result in increased costs and administration, loss of income and increased difficulties to recruit new members to the committee. New ways of thinking and the disappearance of irresponsible and unreliable associations were some positive effects. The tax experts perceive similar effects but their interviews established that many effects described by the sport associations are based on uncertainties and lack of knowledge. The sport associations' anticipated effects depend mainly on the treasurer's experiences and accounting competence, the sport association's current accounting systems, the financing structure and sources of income and the sport association's attitude towards changes.

Suggestions for Further Research: It would be interesting to find out how a VAT liability would affect other public NPAs with different activities. In addition, Sweden is not the only Member State that has not fully harmonized its VAT regulations. Therefore, it would be interesting to find out their attitudes towards the VAT Directive or if a harmonization already has occurred. Since one reason for the anticipated cost increases depends on the associations' financing structure, a further research could be to investigate if and how their financing structure would change as a result of VAT liability.

Abbreviations

Court of Justice	The European Court of Justice
DSF	District Sports Federations
EC	European Community
EEA	European Economic Area
EU	European Union
IA	The Swedish Income Tax Act
NPA	Non-Profit Association
Public NPA	Public benefit Non-Profit Association
SSC	The Swedish Sports Confederation
SSDF	Specialised Sports Districts Federations
SSF	Specialised Sports Federations
STA	The Swedish Tax Agency
TCA	The Swedish Tax Crime Act
The Commission	The European Commission
VA	The Swedish VAT Act
VAT	Value Added Tax

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1. Introduction

This chapter will present the background of this bachelor thesis and the problem discussion, which will result in a coherent argument for the choice of study. The purpose of the thesis and the research questions will be presented as well as our chosen delimitations. In addition, a brief review of the previous research in our field of study will be explained.

1.1 Background

The harmonization of the indirect taxes, especially the Value added tax (VAT), is a prioritized area within the European Union (EU). A harmonized VAT plays an important role in the concept of the internal market, a concept first developed in the EC Treaty, where common tax systems and prohibition of tax discrimination are significant elements (Thunberg, 2004). The cooperation established through the EC Treaty is supranational (Thunberg, 2004) and supervised by the European Commission (The Commission) (Grufberg & Hamberg, 2009). The Commission is an institution that together with the European Court of Justice (Court of Justice) works to harmonize the taxes within the EU (Thunberg, 2004).

In order to harmonize the legislation between the Member States, directives are applied. A directive is a universal, binding agreement, which indicates those aims that have to be achieved by the Member States in order to reconcile the directive with the national law (European Commission, 2011). The VAT Directive supplies the Member States with binding directions on how to design their national VAT legislations (Thunberg, 2004).

A general VAT liability applies in Sweden, but there are exceptions to this main rule (Lundén & Svensson, 2011). The principal rule states that a turnover of goods and services within Sweden, through professional activities, results in VAT liability (Thunberg, 2004). However, special tax rules apply for Swedish sport associations, which are regarded as public benefit non-profit associations (public NPAs). Almost every Swedish sport association receives a favourable fiscal treatment since it is exempt from income tax and VAT, even if it pursues economic activities (Nyholm & Svensson, 2009). In other words, the activities of a public NPA are not regarded as professional activities (Thunberg, 2004). The Swedish tax exemption concept can be seen as a way of complementing and even improving the Swedish welfare system (Dimitrievski, 2010).

The Swedish VAT Act (Mervärdesskattelag), VA, has more or less been adjusted to the VAT Directive. However, structural differences remain between the two sets of regulations, since the VAT Directive is based on some community concepts which lack a correspondence in the VA. Such concepts are taxable person and economic activities. The concept of taxable person is wider than the Swedish concept of professional activities. Therefore, public NPAs would be partially liable to VAT if the VAT Directive was enforced in Sweden. (Edlund, 2002)

As a result of the incongruity regarding the concept of taxable person, the Commission initiated an infringement proceeding against Sweden in June 2008. The Commission stated that the Swedish concept of professional activities is too narrow and that the VAT exemption for the public benefit activities of an NPA is not consistent with the EC Treaty. (Grufberg & Hamberg, 2009)

In December 2010 the European Commission published a Green Paper on the future of VAT, “Towards a simpler, more robust and efficient VAT system”. The Green Paper was aimed at creating a public consultation with the intention to open a public debate concerning the present function of the VAT system and how this will be framed in the future (Europeiska

Kommissionen, 2010). The purpose with the public consultation was to make the VAT more compatible with the internal market, to encourage tax revenues and to reduce costs for compliance and collection of taxes (Riksdagen, 2011).

In January 2011, the Swedish Government applied for an exemption from VAT liability for sport associations with a turnover not exceeding 1 MSEK (Regeringskansliet, 2011). In March 2011, the Commission rejected the proposal from the Swedish Government with the motivation that such an exception would be discriminating against other companies and individuals that are subject to VAT (European Commission, 2011).

1.2 Problem Definition & Scope of Study

In May 2011, the Swedish Minister for Finance, Anders Borg, wrote a letter to the Commission, where he emphasised that the valuable work performed by the NPAs should remain exempt from VAT, since a VAT liability would lead to increased costs and an administrative burden for the associations. In addition, he accentuated that the Government will only modernize the VAT through rules and regulations of the EU which exempt the public sector. (Regeringskansliet, 2011)

In addition, a VAT liability has been criticised by the Swedish Sports Confederation (Riksidrottsförbundet), SSC, which is an umbrella organization of the Swedish sports movement. The 20 000 sport associations and the fully 3 million members are organized within different federations, which include 69 Specialised Sports Federations (SSF), 21 District Sports Federations (DSF) and Specialised Sports Districts Federations (SSDF). The SSC acts as a lead agency for the Swedish sports movement in order to help their member federations. One of SSC's principal tasks is to represent the Swedish sport associations towards politicians and public authorities as well as to formulate the local activity-grant, which is allocated to the local sport associations affiliated to the SSC (Riksidrottsförbundet, 2011). The SSC state that it would become more expensive and complex to run a sport association, if they become subject to VAT (Riksidrottsförbundet, 2011).

In May 2012, Anders Borg announced that the Swedish government is ready to exercise its veto against the Commission if no solution is reached regarding the public NPAs' exemption from VAT (Riksidrottsförbundet, 2012). The Commission is now revising the future VAT Directive, which is expected to be announced by the end of 2012 (Regeringskansliet, 2012).

The apprehensions connected with a VAT liability for sport associations are many and the Swedish Government and the SSC have shown that an exemption from VAT for sport associations is of significant importance for Sweden. The heated debates and discussions are currently at the top-level in the political area and, according to Forssén (2011), the case can be submitted to the Court of Justice if Sweden does not change its VAT regulations. The changes and effects connected to a VAT liability for NPAs are of major interest for the 20 000 Swedish sport associations that this change could affect and the 3 million members which are devoted to their activities. Furthermore, the subject is relevant for the Swedish Government and the Swedish Taxation Authority (Skatteverket), STA, and especially for the SSC, who is walking at the head of the current debate. For that reason we felt a need for illustrating the subject at the level of the sport associations and to concretize what the actual effects would be, both positive and negative. We experience that previous research and studies contain insufficient information about the sport associations' perceived effects of VAT liability. Therefore, the scope of this study will be to describe a possible VAT liability from the perspective of Swedish sport associations which are still run by real enthusiasts who work on a voluntarily basis, without compensation and with the purpose of serving the public benefit.

1.3 Purpose & Research Questions

The purpose of this bachelor thesis is to describe the reason behind a VAT liability for Swedish sport associations and to understand and concretely explain its anticipated effects from the associations' perspective.

To achieve the purpose of this bachelor thesis, the following research questions have been identified:

- How and why does the Swedish VAT for sport associations differ from the common VAT presented in the Commission's VAT Directive?
- What is the role of the treasurer in today's sport association and how will it change if the association becomes subject to VAT?
- How and why does the workload increase and is there any connection between increased complexity and the treasurer's level of accounting competence?
- What is the connection between VAT liability and cost increase?
- How are the previously described effects perceived at the level of the Swedish sport associations and could any additional effects be identified?

The purpose and its further research questions will result in a more concrete picture of the possible changes and effects that are connected with a VAT liability and perceived by the Swedish sport associations. In addition, it will throw light on the reason behind the incongruence between the VA and the VAT Directive and establish in what way the effects described by the Swedish Government and the SSC are visible at the level of the sport associations. In order to answer our purpose and research questions, an understanding of the current VAT exemption for Swedish sport associations must exist.

1.4 Delimitations

This bachelor thesis is written in the field of accounting. It focuses on public NPAs and exclusively on Swedish sport associations, which are still run by volunteer workers and real enthusiasts. Thus, the activities of elite sport associations, which have paid and educated employees, will not be investigated in this thesis. Our focus is on VAT, its accounting, effects and regulations. Other taxes than the VAT and other accounting requirements for the Swedish sport associations are not included in the scope of this study, but may be mentioned when found necessary or when needed for an understanding. In addition, the part that concerns the harmonization of indirect taxes within the EU will only focus on the relation between the Swedish and the European regulations and policies of VAT and how it affects the Swedish sport associations. Therefore, the harmonization of VAT in other European countries and its effects on their sport association is outside the scope of this study.

1.5 Previous Research

Previous research has been performed in our field of study. Two official reports of the Swedish Government regarding a VAT liability for the non-profit sector have been executed at the request from The Swedish Minister for Finance. The two official reports are the SOU 2002:74 *Mervärdesskatt ur ett EG-rättsligt perspektiv* and DS 2009:58 *Mervärdesskatt för den ideella sektorn, m.m.* The investigators propose several changes of the VA for a better adjustment to the EU-legislation. In SOU 2002:74 an introduction of the community concept taxable person in the VA is proposed, as well as a new regulatory system regarding an exemption for the public NPAs and the registered religious organizations. In DS 2009:58 the

investigators propose that some concepts in the VA should further be adapted to the EU-legislation and that the special VAT rules regarding public NPAs and registered religious organizations should be abolished. (Regeringen, 2009)

In addition, the VAT investigation DS 2009:58 proposes a tax exemption for small businesses, which include NPAs, with an annual turnover of 250 000 SEK in order to reduce the administrative burden that may arise for the non-profit sector. The non-profit sector shall be able to continue to operate under the same conditions as today. An increase of grants may be considered as a general measure in order to help the sport associations financially, if their economy would be impaired. A finished proposal is not submitted however, due to lack of statistics of the non-profit sector's economic activities. Furthermore, it is proposed that the STA shall provide the non-profit sector with information and training before any new rules come into force. (Regeringen, 2009)

A master thesis from the School of business, economics and law at the University of Gothenburg is the closest previous research to our study. Its main findings were that sport associations will experience increased costs as a result of a VAT liability but are allowed to deduct input VAT (Pemaj & Thesslund, 2011). Their thesis has a broader purpose and the respondents consisted of nine people with knowledge in their field of expertise. Since only one respondent represented the sport associations, a cursory but not sufficient study was conducted from our perspective. In addition, new information has been published and since the topic was subject to further debates and discussions in the beginning of 2012 we find it important to investigate the subject once again. Furthermore, our scope of study is narrower than the previous research in this field, since our focus is the perspective of the sport associations. This will result in a more specific research than before and contribute with new information and viewpoints.

1.6 Disposition

The *introduction* will present the background of this bachelor thesis and the problem discussion, which will result in a coherent argument for the choice of study. The purpose of the thesis and the research questions will be presented as well as our chosen delimitations. In addition, a brief review of the previous research in our field of study will be explained.

The *methodology* will explain the choice of subject and describe the chosen research approach. Furthermore, it will clarify how we selected our respondents and how we have executed our research. The measures that have been taken in order to establish a reliable and valid study will be presented.

The *frame of references* will present the existing knowledge, discussions and opinions in our field of study. First, it will provide the reader with necessary information about the background and composition of the non-profit sector and VAT in Sweden as well as the concept of VAT in the EU. Second, it will present the current debates and dialogues which are essential factors in order to receive a comprehensive view of the problem that is studied.

The *empirical study* will contain the information that we gathered during our interviews. It will be presented in an order that is coherent with our analysis and conclusions and facilitate the achievement of our purpose and research questions. Therefore, the perceived effects of the sport associations and tax experts will be accounted for separately.

The *analysis* will contain the information that is necessary for the purpose and research questions. The information that we gathered during our interviews will be put together with the information from our frame of references. In order to facilitate the reading, the same

headings will be used as presented in the empirical part. However, the perceived effects of the sport associations and tax experts will be put together in order to avoid repetition.

The *conclusion* will present our conclusions and answer the purpose and the research questions. In addition, concluding discussions and suggestions for further research will be presented.

2. Frame of References

This chapter will present the existing knowledge, discussions and opinions in our field of study. First, it will provide the reader with necessary information about the background and composition of the non-profit sector and VAT in Sweden as well as the concept of VAT in the EU. Second, it will present the current debates and dialogues which are essential factors in order to receive a comprehensive view of the problem that is studied.

2.1 The Swedish Non-profit Sector

The non-profit sector is a vital part of the Swedish welfare system. It serves as a platform where people in a community can satisfy their needs to express and develop ideas, opinions, interests and values. The non-profit sector contributes to social integration and the Swedish culture and is of significant importance for a country's democratic and economic development. (Johansson, 2005)

According to Leopold (2006), international studies have shown that the non-profit commitment is unusually strong in Sweden. Nine out of ten adults are a member of an NPA and the associations rely on the unpaid work performed by volunteers. Together they perform 480 million hours of unsalaried work per year, which represents 300 000 full-time jobs and a value of 70 MSEK.

There is political unity about the positive effects that NPAs have on society. The valuable work performed by NPAs is supported by the State and the municipalities through direct economic support, like subsidies and through indirect support, such as relief systems, where tax relief represents the greatest part (Wijkström & Lundström, 2002). The Government emphasises the long tradition of NPAs in Sweden, whose activities are deeply rooted among the Swedish people (Regeringskansliet, 2008, Fi2008/4219).

2.1.1 The History of the Non-profit Sector and the Rise of the Sport Movement

The relationship between the State and the non-profit sector in the Scandinavian countries, the Swedish popular movement tradition and the growth of the welfare state have contributed to the composition and structure of the Swedish non-profit sector of today. (Wijkström & Lundström, 2002)

The formation of the non-profit sector began with the charitable ideals of the Middle Ages through the Catholic church in the 16th century, where help was given to the poor and people in need. After the Reformation, when the church was made into a Government institution, the church continued with its charitable work but now as an established State Church. The prominent role of the State and the close relationship between the Church and the State formed the conditions upon which the Swedish non-profit sector of today is built. (Wijkström & Lundström, 2002)

The coming into being of the Swedish popular movement tradition between the 1870s and the 1920s included among others the Free Church, the Temperance Movement, the Labour Movement and the Sports Movement. The democratic and open structure of these associations, the type of community commitment and the large number of members in the organizations are ideals that played a significant part for the Swedish non-profit sector. (Wijkström & Lundström, 2002)

During the full emergence of the Swedish welfare state, which started in the 1930s, the NPAs experienced an increase in both memberships and influence. The expansion of the non-profit sector was in other words parallel to the development of the welfare state. The Sports

Movement had an enormous growth and the members of the SSC increased from 200 000 in the 1930s to 2, 5 million in the late 1970s. (Wijkström & Lundström, 2002)

The sports movement is today the biggest and most vital movement of the non-profit sector, when it comes to the number of memberships as well as in economic terms. The shift in focus from elite oriented activities to mass oriented activities in the 1930s broadened the base of memberships. Despite the fact that sport associations are comparatively self-financed, the support and subsidies are still of significant importance. (Wijkström & Lundström, 2002)

A recent and central process of change is, according to Wijkström and Lundsdröm (2002), the increased use of corporate words and reasoning within the non-profit sector. Some NPAs create business plans and use words like 'trademark' and 'customer'. In the annual report for 1997, the Athletic Association referred to its 'product', i.e. the running practise, and its 'market'.

According to Leopold (2006), this corporate reasoning does not fit the NPAs, since they are even more complex than a company. A common misunderstanding is that an association is a simpler version of a company and that it lacks corporate reasoning. In addition, the members of the associations have an increased professional experience, which they bring to the association. However, the institutionalization, bureaucratization and the professionalization of the Swedish popular movement has resulted in aging associations. Consequently, they cannot adjust to changes in society and therefore work with obsolete needs and goals. Instead, the NPAs must be organized and managed with the non-profit spirit and develop its own methods and ideas. If the focus is turned back to the purpose and local commitment, the aging process will stop. Furthermore, the introduction of employees in NPAs may change the associations' culture and result in a loss of the non-profit commitment, since volunteers may abandon their work.

2.1.2 Non-profit Associations – NPAs

According to Dimitrievski (2010) NPAs can be divided into two main groups. The first group consists of associations with a not-for-profit purpose and includes among others political parties, charitable associations and sport associations. The association does not exist for the purpose of profit-making (Skatteverket, 2012), but it can pursue economic activities in order to achieve its non-profit purpose (Nyholm & Svensson, 2009). The second group of NPAs consists of associations that promote the economic interest of its members, without pursuing economic activities. This group includes unions and trade associations (Dimitrievski, 2010). Wijkström and Lundström (2002) define a third group of NPAs, which has neither economic activities nor a purpose of profit-making. These associations are sometimes referred to as pure NPAs and frequently include religious and cultural associations.

According to Leopold (2006), an NPA cannot be viewed as a company, since it exists for other purposes than profit-making. In contrast to a company, the association's most important resource is its non-profit commitment. If it creates a profit, it is not of an economic character since it must be reinvested in the association.

An NPA begins to exist when the members of the association agree upon its statutes and elect its committee. Thereby the association becomes a separate legal entity with legal capacity, which means that the association can be an employer and appear before court and public authority. In addition, it can own assets and is responsible for its liabilities. (Nyholm & Svensson, 2009)

There is no law that regulates NPAs in Sweden. As a result, the statutes of the association become even more important and serve as the association's own law. At the occurrence of a legal dispute, guidance can be found in The Co-operative Societies' Act, which regulates economic associations. Furthermore, general principals, such as corporate law fundamentals, generally accepted association principles and legal usage serve as regulators for NPAs. (Nyholm & Svensson, 2009)

2.1.3 Taxation of NPAs

According to the principal rule, NPAs are taxed in the same way as other separate legal entities (Skatteverket, 2012). This means that the association is fully taxable for all its income in Sweden and from abroad (Skatteverket, 2010). However, membership fees along with subsidies and gifts, which are intended for the non-profit operations, are incomes that are tax exempt (Skatteverket, 2012).

For public NPAs special tax rules apply (Påhlsson, 2009). NPAs that fulfil the requirements for purpose, operation, completion and transparency are considered public NPAs and have limited tax liability. The *purpose requirement* signifies that the association should have a main purpose aimed for the public benefit (Skatteverket, 2012), which means that they devote themselves to athletics, gymnastics, team sports, dance sports, outdoor life, boat racing and yachting, shooting and riding etcetera (Skatteverket, 2010). The *operation requirement* means that 90 to 95 percent of the actual activities in the association shall satisfy a public benefit purpose. If the non-profit activities are overshadowed by extensive economic activities, it may result in unlimited taxation (Skatteverket, 2010). In order for the association to complete its purpose, at least 80 percent of the association's income shall be used for the non-profit activities. This demand is referred to as the *completion requirement* (Skatteverket, 2012). The *transparency requirement* signifies that, if no specific reasons exist, the association is not allowed to deny anyone entry (Inkomstskattelag, 1999:1229, 7:13) or to expel someone who follows its statutes and share the association's purpose (Skatteverket, 2010). In addition, the association cannot promote the economic interests of its members. All requirements must be met in order to be favourably treated from a fiscal point of view (Nyholm & Svensson, 2009).

A public NPA, which fulfils the requirements, is only subject to tax for incomes from business activities and property (Nyholm & Svensson, 2009). The association is tax exempt for capital income, such as capital gains, interest and dividends. However, a public NPA is tax exempt for some incomes from business activities and property (Dimitrievski, 2010).

A public NPA is not liable to taxation for income from business activities if the income:

- has a *natural connection* to or *directly promotes* the purpose of public benefit, or
- by custom is used to finance the activities of the public benefit, i.e. *prescriptive revenues*.

(Skatteverket, 2010)

Incomes, which have a *natural connection* to or *directly promote* the purpose of public benefit, are entrance fees and sales in order to win a reputation and to disseminate the association's ideas. In addition, it includes sales with a service purpose, for example when a sport association runs a smaller cafeteria in connection to its sports centre or sells sporting equipment to its members (Skatteverket, 2010). Bingo, lotteries, markets, jumble sales, dances and parties as well as advertising revenues represent *prescriptive revenues*, which by tradition have financed the activities of public benefit. A condition for the classification of prescriptive

revenues is that it shall have been used as a source of finance by a number of similar associations during a long period of time (Nyholm & Svensson, 2009).

If the incomes from business activities consist of both incomes subject to tax and incomes exempt from taxation, a principal judgement has to be made. The part not liable to taxation must represent 75 percent in order for the association to avoid taxation. As a result, all activities are exempt from tax. However, if the part not liable to taxation falls below 75 percent, it will result in full tax liability for the association. A critical condition for the principal judgement is that the activity, which is subject to tax, has a distinct connection to the association's activities of public benefit. Otherwise, the activity is regarded as a separate source of income and thereby subject to tax while the other activities remain tax exempt. (Skatteverket, 2012)

Furthermore, a public NPA is not subject to tax for income from property if:

- 75 percent of the property income is assignable to operations, which have a natural connection to the non-profit activities or by custom have been used to finance the non-profit activities, and
- the association owns the property, which is mainly (more than 50 percent) used for the non-profit activities.

(Skatteverket, 2012)

If the NPA has a purpose of public benefit and is exempt from income tax, it is thereby exempt from VAT (Skatteverket, 2012).

2.2 Value Added Tax – VAT

VAT is a consumption tax because it burdens the use of income, i.e. the consumption. It is an indirect tax, since it is paid by the producers, manufacturers and sellers but is carried by the consumers (Melz, 2010). Consequently, the State's VAT income is administered by the companies (Lundén & Svensson, 2011). Unlike selective purchase tax, which is levied on only one group of goods or services, the VAT is a general consumption tax that is payable on turnover of most goods and services. In addition, it is separated from the general income tax since it only directly affects consumption – and not savings – by raising prices for goods and services (Melz, 2010).

According to Melz (2010) the VAT is mainly designed for a fiscal purpose, which means that it is used to finance the public sector. However, delimitations of the taxable area and the selection of tax rates show an additional purpose; a purpose of a fairer distribution of income among different groups in society.

The VAT shall as far as possible be passed on to the consumers in order to minimize the tax burden for businessmen. In order to achieve this, neutrality between businessmen is an absolute condition. Besides a uniform tax rate, the neutrality motivates a full and complete tax liability and tax deduction for all VAT related to the production of taxable goods and services. As a result, competing goods and services are treated alike and distorted competition is avoided. (Melz, 2010)

2.2.1 VAT in Sweden

The VAT was imposed in Sweden through the VAT Act (1968:430) on the 1st of January 1969. Extensive amendments and modifications followed the Fiscal Reform in 1991, which

resulted in a new VAT Act (1994:200) that came into force on the 1st of July 1994. One reason for the re-editing was the Swedish entry in the EU. (Melz, 2010)

According to Melz (2010), a general consumption tax is a modern phenomenon but turnover taxes have existed since ancient times. Customs and selective purchase taxes on certain goods represented the indirect consumption taxes until 1941. In order to increase the State's revenues during the Second World War, the first general consumption tax was introduced in 1941 and was in force until 1946. In 1960, a permanent general consumption tax came into force through the general sales tax. This was a one-step tax levied at the final stage of sales, when the product or service was sold to the final consumer. Since a significant difficulty was to establish whether the buyer was a consumer or not, a major advantage with the VAT is that this judgment can be avoided.

Those who are subject to VAT shall account for the output VAT on sales when the goods are delivered or the service provided and are allowed to deduct the input VAT on their expenses (Lundén & Svensson, 2011). Since this procedure occurs on every step in the sales process, from production to the final consumer, the VAT in force today is a multi-step tax where only the value added is taxed on each step (Melz, 2010). The VAT is reported to the STA through a VAT return. The input VAT is deducted from the output VAT and the net balance establishes if the organization is a taxpayer or a tax-receiver. If the input VAT exceeds the output VAT, the difference is received from the State. If the output VAT exceeds the input VAT, the difference is paid to the State. From the State's perspective, the VAT is one of its primary sources of revenue and the normal VAT rate in Sweden is 25 percent (Lundén & Svensson, 2011).

According to Lundén and Svensson (2011), the VAT accounting and the VAT return are complex areas for an organization to handle in practice. In order for the VAT return to be correct, the invoicing and bookkeeping of VAT must be accurate. Mistakes and inaccuracies may be costly, since it can result in interest expenses, late filing penalties and tax surcharges. Normally, individual members of the association are not personally liable for the association's commitments and liabilities. However, according to the Swedish Tax Crime Act (TCA), the members of the committee can be joint and several liable for unpaid taxes and charges (Skatteverket, 2010). The TCA states that minor tax offences is punishable by a fine, while a serious tax crime may result in six years' imprisonment (Thunberg, 2004).

2.2.2 Subject to or exempt from VAT?

Producers, distributors and suppliers that turn over goods and services through professional activities are liable to VAT (Melz, 2010). According to the VA (Mervärdesskattelag, 1994:200, 4:1), operations defined as business activities in the Swedish Income Tax Act (Inkomstskattelag), IA, are regarded as professional activities. Thus, business activities defined in the IA as permanent, independent and with a purpose of profit-making, are always considered to be professional activities. If an association's activities are exempt from income tax as a result of being a public NPA, the association is not viewed as having professional activities. As a result, the association is exempt from both income tax and VAT (Lundén & Svensson, 2011). This exemption from VAT liability is explained by the need to show consideration for the public interest (Thunberg, 2004).

If the operations in an association are VAT exempt, no VAT shall be accounted for and no VAT declaration shall be executed. Thus, no VAT shall be drawn from the association's expenses and the organization is not allowed to impose VAT on sales (Lundén & Svensson, 2011). Thereby, the VAT is a part of the acquisition cost (Melz, 2010). According to Grufberg

and Hamberg (2009), the public NPAs are fiscally treated as end consumers, which implies the disadvantage of no deduction of VAT on purchases. In order to be able to deduct VAT on expenses, some of the associations have turned their activities, or certain parts of them, into an independent subsidiary company.

2.2.3 Mixed Activities

Some operations may be VAT exempt at the same time as the association has operations qualifying as VAT liable. In this case, the association has mixed activities and shall account for the VAT assignable to the taxable operations. (Lundén & Svensson, 2010)

According to Thunberg (2004) the input VAT may be fully deductible, if more than 95 percent of an acquisition is assignable to the taxable operations. Furthermore, the input VAT is fully deductible, if the acquisition does not exceed 1000 SEK and 95 percent of the total turnover is liable to VAT. If the acquisition exceeds 1000 SEK the VAT must be allocated on a reasonable basis by using the most relevant key for distribution, such as turnover or wage cost (Kleerup & Westfah, 2004). According to Lundén and Svensson (2010) difficulties connected to demarcation problems may arise when an organization has to separate the part of the acquisition assignable to the taxable operations. If the turnover is used as a distribution key, a preliminary percentage is presumed, in order to execute the allocation. However, this does not always provide the true allocation, since the total turnover is not known until the end of the financial year.

2.2.4 VAT in the EU

The cooperation within the EU is based on three pillars and one of them concerns the internal market. The basis of the internal market constitutes the four freedoms which seek to guarantee a free movement of goods, services, personal and capital within the Member States without restraints from customs, duties, discrimination or national requirements (Thunberg, 2004). A functional internal market creates conditions for an increased growth, a higher employment and a greater prosperity through the free movement that enables increased trade, labour mobility and increased competitiveness (Kommerskollegium, 2012).

The harmonization of the VAT within the EU is considered to be an important component in order for the internal market to work properly (Europaparlamentet, 2008). The VAT legislation still differs among the Member States, which constitutes an obstacle in order for the internal market to work better (Europeiska kommissionen, 2010).

A market neutral to competition is an important part of the internal market. Therefore, the EU works to harmonize the VAT base and reduce the exemptions. A VAT system with one common VAT base would be the simplest and most effective structure within the EU, but such an approach is though unlikely to be approved since several Member States apply more than one VAT rate. The Commission proposes a three-rate or a two-rate system, where the three-rate system consists of a reduced, standard and an increased rate and where the two-rate system consists of a reduced and a standard rate. The standard rate of VAT is proposed to be between a range of 14% and 20 % and the reduced rate between a range of 4 % and 9 % (Terra & Wattel, 2012). Through exemptions, some producers and some consumption will be favoured and in order to possess a market neutral to competition the number of exemptions must be minimized (Melz, 2010).

When the Commission launched The Green Paper on the future of VAT in December 2010, the purpose was to make the VAT more compatible with the internal market, to encourage tax revenues and to reduce costs for compliance and collection of taxes (Riksdagen, 2011). Since

consumption is a broader and more stable base than profits and incomes, the consumption taxes can be motivated as being relatively efficient. A broader base allows decreased tax rates, which result in reduced distortive effects of taxation and favourable effects on growth and employment. Another argument for a shift towards indirect taxation is that the taxation system will have to adapt to an aging society. The welfare state will rely less on labour taxes and revenues from capital income since an aging society will affect the labour markets, savings- and consumption patterns and public expenditures. Furthermore, the current VAT rules are complex and involve an administrative burden for the European companies, especially for small and middle-sized companies. In addition, these companies might not be able to afford the tax expertise that is required in order to deal with the increasingly complex VAT rules (Europeiska kommissionen, 2010).

2.2.4.1 The VAT Directive

In accordance with the First VAT Directive from the 11th of April 1967, together with the Second VAT Directive of the same date, the Member States of the European Economic Community agreed on a conversion from their turnover tax system to a common VAT system (Terra & Wattel, 2012). Since the first step with a harmonization of the VAT and the implementation of the First and Second VAT Directive, several coordination's of the VAT system has been composed through numerous directives (Edlund, 2002).

The Sixth VAT Directive was implemented on the 17th of May 1977 and aims to further harmonize the Member States' national laws (Terra & Wattel, 2012). In this Directive the most central elements of a formulation of the VAT within the Member States appear (Melz, 2010). On the 28th of November 2006 the Sixth VAT Directive¹ was further recast (Terra & Wattel, 2012). The VAT Directive comprises of the production and distribution of goods and services bought or sold for consumption within the EU. Transactions are subject to VAT if they are carried out for consideration by a taxable person within the territory of an EU country (European Union, 2007).

“Taxable person’ shall mean any person who independently, carries out in any place any economic activity...whatever the purpose or result of that activity.”

(Council Directive 77/38/EEC, Article 4.1)

“The economic activities...shall comprise all activities of producers, traders and persons supplying services including mining and agricultural activities and activities of the professions.”

(Council Directive 77/38/EEC, Article 4.2)

2.2.5 A Comparison between the Swedish VAT Act and the VAT Directive

Since Sweden joined the EU in 1995, Sweden has been required to follow the binding treaties and acts adopted by the EU institutions. In addition, this entailed a requirement of an adaptation of the VA to the VAT Directive. As mentioned in the introduction, the VA is more or less harmonized with the VAT Directive, but some structural disparities still exist. (Edlund, 2002)

¹ The Sixth VAT Directive will henceforth be referred to as the VAT Directive.

The requirement of a uniform application of the VAT Directive has resulted in community definitions for some concepts, since the Member States' national definitions would counteract the purpose of the VAT Directive (Edlund, 2002). In the VA and the VAT Directive definitions regarding professional activities and who is subject for VAT are regulated differently. As mentioned, persons who carry out any economic activity are subject to VAT, which is denominated as a taxable person in the VAT Directive. Thus, the VAT Directive considers the characteristics of the activity when it determines if someone is regarded as a taxable person. The definition of a taxable person and the requirement of economic activity are not applied in the VA, instead this is regulated through rules about professional activity (Melz, 2010). In addition, the concept of professional activity in the VA is connected to the concept of business activity in the IA. This may complicate the interpretation of the EU law and the verdicts of the Court of Justice. Consequently, the enforcement of these on the Swedish conditions and the VA is complex, since the concept of professional activity needs to be interpreted from the IA based on an assessment if the activity composes business activity or not (Grufberg & Hamberg, 2009).

Furthermore, specific provisions are applied for the activities of public NPAs. This general exemption does not correspond to the exemptions of the VAT Directive, since the Swedish exemption is too broad (Melz, 2010). The activities of public NPAs are not considered as professional activities in the VA, if they are exempt from income tax in accordance to the IA. The VAT Directive does not consider if it is a public NPA or any other subject that carries out the professional activity. Instead, it considers the turnover of certain goods and services to be exempt from VAT, which means that public NPAs are regarded as taxable persons. An important exemption in the VAT Directive includes the provision of services closely linked to athletic or physical training which are executed by non-profit organs for persons dedicated to sports or physical training (Grufberg & Hamberg, 2009).

As a result, incomes which are closely linked to athletic activities would remain exempt from VAT in Swedish sport associations, if the VAT Directive was enforced in Sweden in its present form. Such incomes are membership and training fees, state and local grants, entrance fees to matches and competitions and application fees to sporting events. In addition, sport associations are not allowed to deduct the VAT from expenses associated with these incomes. However, incomes that will become liable to VAT are incomes from the cafeteria, sales of goods not related to the sporting activities, services performed in order to fund the activities and revenues from advertising and sponsoring. Sport associations will be allowed to deduct the VAT from the expenses associated with these incomes. (Riksidrottsförbundet, 2011)

On the 26th of June 2008, the Commission initiated an infringement proceeding against Sweden, since it has not completely implemented the VAT Directive in its rules and regulations (Regeringskansliet, 2008, Fi2008/4219). The Swedish concept of business activity results in the fact that some taxable persons, as defined in the VAT Directive, would not be observed as taxable persons in Sweden. Furthermore, the criteria Sweden uses in order to establish whether an activity is regarded as professional do not correspond to the concept of economic activity in the VAT Directive (Forssén, 2011). Since the Commission claims that the public NPAs in some situations can carry out activities not liable to VAT in competition with businessmen who are liable to VAT, Sweden is considered to favour the public NPAs (Melz, 2010). Sweden's fiscal treatment of the NPAs results in the fact that the tax free area becomes too extensive (Grufberg & Hamberg).

In a response to the Commission's infringement proceeding, the Swedish Government states that Sweden's interpretation of professional activity in most of the cases materially achieves the object and purpose of economic activity. Therefore the Government considers that no infringement has occurred. The Commission has not yet made any statement on the Government's response. A statement of opinion would be a second step of the proceeding, and if the Government's response on that statement would be insufficient, the Commission may consider to submit the case to the Court of Justice. (Forssén, 2011)

2.2.6 The Swedish Reactions on a VAT Liability for Sport Associations

The Swedish Government is determined that the organizational activities of an NPA shall be easily administered. There is a risk that a VAT liability will inhibit the activities with a purpose of public benefit, since the requirement of VAT accounting may result in an onerous burden for many associations. Unlike the companies, the VAT accounting will become more complex for the associations, since they need to consider if every transaction is liable to, or exempt from, VAT. This will become an almost impossible assignment for the treasurer in a sport association. The obligation to pay VAT will probably not create any significant tax revenues for the State but instead cause major administrative costs for the Swedish club activities. (Regeringskansliet, 2008, Fi2008/4219)

According to the investigation DS 2009:58 (Grufberg & Hamberg, 2009), an imposition of VAT on the associations' advertising and sponsoring activities will generally not increase the costs for the sponsors, since they are mainly companies that are allowed to deduct the input VAT.

On the 20th of January 2011, the Government applied for a VAT accounting limit for the public NPAs. This VAT accounting limit implied that activities with an annual turnover of maximal 1 MSEK would become exempt from VAT (Lundén and Svensson, 2011). In March 2011, the Commission rejected this proposal, but the Government has initiated a further dialogue with the Commission concerning the public NPA's VAT situation (Regeringen, 2012).

On the 30th of May 2011, the Government gave their response on the Commission's Green Paper on the future of VAT. The Government emphasised a preferential treatment for the non-profit activities and their approach is that public NPAs should not become economically affected of regulatory changes (Regeringen, 2012). Through subsidies as support, the public NPAs might become compensated for increased costs. However, the Government states that it is incorrect to make the non-profit sector dependent on subsidies from the State and municipality. In addition, they express that non-profit activities do not compete with the industry, since the sales of public NPAs constitute a member service, which occurs in a context where the industry has limited access. The Government also accentuates that an exemption for the public NPAs shall not cause an unreasonable advantage for the associations at the expense of the private industry (Regeringskansliet, 2011, Fi2011/2686).

On the 11th of May 2012, Anders Borg, the Swedish Minister for Finance, pronounced that if no solution occurs regarding the public NPAs' exemption from VAT, Sweden will obstruct the agreement on a future VAT Directive. The Swedish Government is ready to exercise its veto against the Commission, which is a strong signal that this matter is of high significance for Sweden (Riksidrottsförbundet, 2012). The Commission is now developing a final proposal for a future VAT Directive, which is expected to be announced by the end of 2012 (Regeringskansliet, 2011).

The SSC has made their point of view regarding the Commission's Green Paper on the future of VAT. The SSC accentuates that the voluntary work of the Swedish sports movement contributes to a better society and the sport associations do not compete with the commercial business, since their financing activities are conducted on a small scale and are primarily directed to their members, supporters and spectators. In addition, the SSC expresses a concern for the sport association's future existence, since a VAT liability would increase the administration and require a higher expertise. For most associations, the main expenses are related to the athletic activities and therefore they will always be a net payer of VAT (Riksidrottsförbundet, 2011). In addition, the SSC states (Riksidrottsförbundet 2010), that some associations express a risk for tax evasion and difficulties to recruit new members to the committee. When the Commission launched its Green Paper in 2010 approximately 600 Swedish sport associations gave their response and points of view (Riksidrottsförbundet, 2011).

3. Methodology

This chapter will explain the choice of subject and describe the chosen research approach. Furthermore, it will clarify how we selected our respondents and how we have executed our research. The measures that have been taken in order to establish a reliable and valid study will be presented.

3.1 Choice of Subject

On the 2nd of January the Swedish national television network (SVT) aired a programme about the increasing rules and regulations for sport associations (SVT, 2012). An interesting feature, which caught our interest, was the expressed concern for new tax policies in consequence of the harmonization of VAT on an EU-wide basis. Since we personally had a connection to the work and activities of sport associations as well as a personal interest for the implementation of EU-regulations on a national level, it was a natural choice of subject. The current discussions and debates visible in the Swedish media increased our interest and curiosity even further. In addition, we felt the need to describe and map out the possible effects of VAT liability from the sport associations' perspective, in order to contribute with further knowledge and theory in our field of study.

3.2 Research Approach

According to Patel and Davidson (2011), an exploratory research is used to fill in gaps in our knowledge about a subject. The primary purpose is to collect as much information as possible within a specific problem area. Since we have experienced insufficient knowledge and theories about how sport associations themselves perceive the effects of VAT liability, this research approach has been used in our thesis.

In order to carry out the exploratory research we needed to familiarise ourselves with our field of study. Since the Swedish sport associations with a purpose of public benefit are currently exempt from VAT and no implementation of the VAT Directive has occurred within that area, our thesis investigates more of a "what-if" scenario. As a result, no established theories about the effects of VAT liability exist and the information published within this area mainly consists of speculations and statements from experts or people familiar with the subject. Therefore, our primary goal was to broaden our knowledge in the subject and to better understand the debates and discussions currently taking place. The information used was mainly articles, essays and public documents from the Swedish Government, the Commission and the SSC. To facilitate our understanding of VAT, both in Sweden and Europe, as well as the composition of the Swedish non-profit sector and the reason behind the current fiscal treatment of the Swedish sport associations, we focused on academic literature written in those fields. In addition, the VA and IA, the VAT Directive as well as the specific rules and regulations regarding public NPAs within the EU were studied.

3.3 Research Method

We used a qualitative method to gather information, which was executed through qualitative interviews. This allowed a deeper investigation of the subject and provided better opportunities for us to gain a comprehensive view of the phenomena. According to Patel and Davidson (2011), this method should be used when the problem requires people's experiences to be interpreted and understood. A distinctive feature of the qualitative method is the closeness to the source from which we gathered our information (Holme & Krohn Solvang, 1997).

The starting point for our interviews was the information already published in our field of study, which was used to gain a survey of our subject. It was principally polemical articles, newspaper articles, information published on websites and previous research, which served as the basis for the interview questions. When new information was gathered during the qualitative interviews, further literature was studied. In other words, our theoretical ground expanded as new findings emerged. This method was a conscious choice, since we felt that a too thorough and extensive theory work, before the interviews were conducted, could prevent new discoveries. In addition, it fostered new ideas and new angles during our research process and thereby minimized the risk of a foregone conclusion. However, according to Holme and Krohn Solvang (1997), a weakness is that this flexibility can raise difficulties in comparing the results from the different respondents.

Our awareness of the predicted effects of VAT liability presented in the debates and discussions allowed us to establish whether these predicted effects in theory were the effects perceived by the sport associations we interviewed in reality. Furthermore, the interviews made it possible for us to discover and describe effects from the sport associations' point of view that had not yet been established or presented. Thus, the qualitative interviews corresponded well with the purpose of our thesis and we could contribute with further knowledge and theory in our field of study. According to Holme and Krohn Solvang (1997), this is a significant requirement for the method used in a thesis. Its purpose is not only to carry the results from previous studies forward, but to result in new discoveries and a growth of knowledge.

3.3.1 The Selection Process

In order to satisfy our purpose and research questions, the treasurer and/or the president of the sport associations were our primary selection for the qualitative interviews. Our intention was to interview approximately ten sport associations with different sport activities in order to get a broader picture of the subject and an overall impression of their perceived effects. As a result of the tight time schedule and our intention to execute the interviews in person, we selected associations within the Gothenburg region.

Since several effects and apprehensions expressed by the sport associations were based on uncertainties or lack of knowledge, we decided to interview two tax experts in order to gain a broader perspective of the subject. The tax experts were a taxation lawyer at the SSC and a legal specialist at the STA. Apart from being a sounding board for the effects perceived by the sport associations, their expertise contributed to the process of evaluating the validity of the predicted effects described in the current debates and discussions. Furthermore, we believed that their sound knowledge and experiences in the field could anticipate additional effects and possible outcomes of VAT liability, which were important aspects for our essay.

One characteristic of the qualitative research is that the respondents are not randomized, since the purpose is to achieve complete perceptions of the phenomena being studied. As a result, the respondents are selected on the basis of strategically and theoretically defined criteria (Holme & Krohn Solvang, 1997). Important criteria in our selection process were that the associations were run by volunteers and performed their activities in the Gothenburg region. To a great extent, we tried to select associations with different sport activities. During our selection process the sport associations were sorted under the kind of sport they practiced. As a result, we could easily keep track of the sports already covered and the sport associations we still wanted to interview.

3.3.2 Preparations

In order to avoid misunderstandings and inadequate questions, we tested our interview on two fellow-students. In addition, we carried out a pilot interview with a sport association, to which we had a personal connection, before the principal interviews were performed. The pilot interview allowed us to make adjustments of the content and wording and to secure that all aspects of the research questions were covered.

After the pilot interview 12 sport associations were interviewed, by which we covered ten different sport activities; athletics, badminton, basketball, floorball, football, handball, orienteering, running, skiing and tennis. Together with the interviews with the tax experts a total of 15 interviews were executed. As a result of the geographical distance or the time pressure for the respondents, three interviews were executed through telephone.

3.3.3 The Interview Process

First, information about our bachelor thesis was sent by email to potential sport associations. The information contained a short presentation of us, the purpose of our study and as well as a brief summary of our chosen subject. Then, the associations that chose to participate were contacted again by email or phone, where further information was given about our essay. A time and place were set for the interview and the sport associations were offered to receive a copy of the principal questions in order to gain a brief review of the subjects that would be discussed.

We started the interview with short questions about the sport association; the number of members and teams, what type of activities and divisions they had, the number of members in the committee, the total turnover for a financial year and primary sources of income as well as the association's main costs. These background variables were important for us in order to gain an understanding for the association we interviewed. In addition, they facilitated a basis of classification for our analysis and conclusion later in the essay.

The principal questions consisted of open questions and had a low degree of structure (see Appendix 1), which served as basis for discussion and allowed the respondent to answer with his or her own words (Patel & Davidson, 2011). This was significant for our study, since our purpose was to describe the subject from the associations' perspective. Our principal questions concerned the actual problem statement and the research questions. Suitable attendant questions were asked when we felt that an elaboration of an answer given by the respondent was necessary. Furthermore, we asked additional questions when needed, in order to make sure that all aspects of a specific subject were covered.

The same structure was used for the interviews with the tax experts (see Appendix 2 and 3). The introductory questions concerned their position and assignments and the principal questions our actual problem statement and research questions. The main difference was that their level of expertise allowed a more complex discussion and elaboration of the subject, which was not appropriate during the interviews with the sport associations.

The order in which the questions were asked depended on the particular interview and how the discussion developed with the individual respondent. When the interviews ran smoothly, the questions were fully adjusted to the particular conversation, which is referred to as an interview with a low degree of standardization. When the conversation instead required us to ask the questions in a specific order, the interview had a high degree of standardization (Patel & Davidson 2011). Thus, we used both a high and low degree of standardization in our interviews and allowed free scope for the respondent to express and elaborate his or her answers. This type of qualitative interview is also referred to as a semi-structured interview

(Patel & Davidson 2011). The interviews welcomed open discussions and personal viewpoints, which was essential for our purpose.

When permission was given by the respondent, the interview was recorded. The advantage was that the answers could be registered with a greater exactness. The disadvantage was, due to the tight schedule, that the transcription was very time consuming. An interview with a durability of 1 hour took approximately 3 hours to transcribe. Another disadvantage was that the answers could get affected by the presence of the recorder. The person interviewed would have responded more spontaneous if a recorder had not been used (Patel & Davidson, 2011).

3.4 Confidentiality

A qualitative research requires a balance between the public benefit of the research and the maintaining of ethical principals towards the respondents. The ethical principles include the respondent's awareness of the thesis's purpose and the confidential treatment of data received during the interviews. In addition, the participation shall take place on a voluntary basis and the information gathered shall only be used for research purposes (Patel & Davidson, 2011). Thus, the information received during the interviews has only been used for the purpose of our thesis and has not been shared with outsiders. In addition, all of our contemplated respondents were informed about the purpose of our bachelor thesis and those who participated could choose to be treated confidentially throughout the essay. Some of the sport associations we interviewed shared sensitive information with us, which they wanted to keep confidential in our thesis. In order to facilitate the reading of the empirical part as well as to secure that no respondents from the sport associations can be identified by the method of elimination, all sport associations and their representatives will be treated confidentially throughout our bachelor thesis. In accordance with the consent given by the tax experts from SSC and the STA, they will be referred to by name and title.

3.5 Validity & Reliability

According to Patel and Davidson (2011), the concepts validity and reliability are applied when the quality of a qualitative study is discussed. Due to the interrelationship between these two concepts and the different meaning when applied in a qualitative research, a brief review of both is presented here.

3.5.1 Validity

Validity is pertained to whether a method investigates what it purports to investigate. Thus, the observations shall reflect the phenomena or variables of interest to us in our research (Kvale & Brinkmann, 2009). In a qualitative research this means the ability to discover a phenomenon and to interpret and understand the reality being studied. In other words validity permeates the whole research process (Patel & Davidson, 2011). Since our purpose was to investigate and concretize the effects of VAT liability from the sport associations' perspective the validity can be seen as the extent to which we were able to capture, interpret and understand the effects perceived by the associations. Therefore, we interviewed the treasurer, who is responsible for the economy and bookkeeping, and/or the president of the association, who has the overall responsibility for its activities. We believed that they were the people best suited to describe the effects of VAT liability from a sport association's perspective.

During the gathering of data validity is connected to whether or not the researcher can make a reliable interpretation of the reality being studied and the ability to capture various or even contradictory meanings (Patel & Davidson, 2011). According to Holme and Krohn Solvang (1997), the concept validity is less problematic in qualitative research compared to quantitative research due to the closeness to the subject being studied. Instead, validity is

connected with the ability to understand and interpret the signals and motives that are expressed during the qualitative research. In addition, the researcher must know what behaviour is required in order to gain the most valid information. For that reason, we allowed our respondents the free scope to express and elaborate their own answers without any interruptions or leading questions. Only when the conversation reached a standstill or an elaboration of an answer was necessary, suitable attendant questions were asked.

3.5.2 Reliability

Reliability is pertained to whether the research is conducted in a trustworthy way. In a quantitative research it means that if the same method is used, the findings can be replicated at other times and by other researchers. However, different results do not indicate a low degree of reliability in a qualitative research. Instead reliability must be understood in the context of the unique situation that appears when the research is conducted (Patel & Davidson, 2011). According to Kvale and Brinkmann (2009) deliberate and suitable leading questions may enhance the reliability, if they are used to verify the interviewer's interpretations or to check the answers given by the interviewee. This approach was used during our interviews when we asked attendant questions in order to secure that we had made the right interpretation of a respondent's answer.

In addition, both reliability and validity are important aspects of the transcription process (Kvale & Brinkmann, 2009). During the transcription process the answers from the respondents are subject to a more or less conscious influence when the spoken language is transformed to a written language (Patel & Davidson, 2011). Our use of a recorder during the interviews was a way for us to secure the reliability and validity of our qualitative research. In addition, the transcription was executed on the same day as the interview and a copy was sent to the respondents for evaluation before the results from the interview were used in our thesis. In that way we minimized the risk of misleading interpretations and secured that the interviewee's viewpoints and opinions were presented in a corresponding and truthful way. However, since our interviews were held in Swedish, a translation into English was necessary for our thesis. We are aware of the fact that the translation of the answers from Swedish to English could have influenced the content of the responses to a certain extent.

4. Empirical Study

This chapter will contain the information that we gathered during our interviews. It will be presented in an order that is coherent with our analysis and conclusions and facilitate the achievement of our purpose and research questions. Therefore, the perceived effects of the sport associations and tax experts will be accounted for separately.

4.1 The current Exemption from VAT for Sport Associations

According to the legal specialist at the STA, Ann-Sofi Pallasdies (Ann-Sofi), the Swedish lawmakers have considered the positive effects on society caused by the sport associations as well as the good purpose of their activities. Consequently, to favour their activities the sport associations are exempt from VAT. Ann-Sofi indicates two advantages with this exemption. The first part concerns the economic advantage, which means that the associations do not have to pay VAT. The second part concerns the administrative advantage, which implies an exemption from the VAT accounting.

First, the tax lawyer from SSC, Thomas Karlsson (Thomas), wants to clarify that no general VAT exemption exists for Swedish sport associations, since it depends on the kind of activities they perform. If the association has incomes which are liable to income tax, it is also subject to VAT. Only the traditional financing activities are exempt from income tax and VAT. Then, he indicates that the administrative work is considerably simpler with the current VAT exemption. However, the fact that the current exemption violates the VAT Directive has been known since 1994, when the first public investigation was executed in Sweden. According to Thomas, Sweden had more important assignment to prioritize and the exemption from VAT for sport associations was therefore not discussed. As a result, Sweden has been able to maintain their exemption for 17 years.

There are no differences of opinion between the sport associations regarding the advantages of the current VAT exemption. All of the associations agree on the fact that the current situation is beneficial, not only for the treasurer, but for the association as a whole. It enables the association to avoid all the extra work and administration that the VAT accounting would involve. Today, the majority of the sport associations feel that the work they already perform is enough. Football Association 1, Athletic Association 1, Basketball Association 1 and Orienteering Association 2 spend more than 20 hour per week on their assignments in the association. In addition, twelve out of thirteen associations experience that the workload was more time consuming than they first expected. Except for the traditional economy assignments, a member of the committee may have to perform assignments which are not related to the economy of the association, such as organizing arrangements and competitions. A further important assignment is to establish annual reports, which some of the sport associations have outsourced to an external accounting firm. According to Orienteering Association 1 and 2, Tennis Association 1 and Football Association 3, the issue to be in charge of the budget and to make ends meet is the most complex assignment, as well as to get the board more cost conscious and to spread awareness to the members about the association's economic situation. Thus, the advantage of today's VAT exemption for sport associations is the relief from the extra work connected to the VAT accounting.

“It is already tough to run an association with all what that implies today. It is pleasant to be able to escape the extra work with the VAT accounting; there is work to do anyway!”

(Football Association 2)

According to the sport associations, the disadvantage connected to the VAT exemption is the lost opportunity to deduct VAT, which could be beneficial. However, in most cases the sport associations perceive that they would not have enough expenses liable to VAT in order for the deduction of input VAT to become beneficial for them. The sport associations are though indicating that significant investments are unfavourable for them, since the VAT exemption does not allow them to deduct the VAT.

“Since we are not able to deduct any VAT on our expenses, a VAT liability would result in an economic contribution for our association. Despite this fact, the additional disadvantages connected to the VAT liability exceed this advantage.”

(Basketball Association 1)

4.2 The VAT Directive versus the Swedish VAT Exemption

4.2.1 Knowledge and Awareness of the Reason behind a VAT Liability for Sport Associations

All of the sport associations had heard about the VAT liability for NPAs before we contacted them. The majority received the information from the SSF, DSF and SSDF as well as from the SSC. Those who did not receive any direct information have followed the debates and discussions online or in the media. Despite this awareness, only a minority of the associations we interviewed have given the subject much thought and discussions. To a certain extent, Tennis Association 1 has discussed the possible effects on the association’s activities and Orienteering Association 1 has attended an event, on which the subject was presented.

The Football Association 1 feels that the information to the sport associations has been insufficient, which is a reflection shared with Football Association 2 and Orienteering Association 1.

“The DSF has only stated that no further information or solutions can be given at this point in time, since the issue now is pursued by other parties. They do not want to worry the associations without cause.”

(Football Association 2)

In addition, Tennis Association 1 and Football Association 3 feel that they do not understand the Commission’s intentions behind an introduction of VAT for sport associations. Orienteering Association 1, Handball Association 1, Athletic Association 1 and Floorball Association 1 all think that the harmonization of VAT on an EU-wide basis is one reason behind why Swedish sport associations can become liable to VAT.

According to Ann-Sofi, the VAT Directive applies to all Member States and its rules and regulations shall be implemented in the national legislation. At the moment, Sweden has not completed this implementation, since some definitions do not correspond with the Directive. As a result, the VA is more difficult to apply, since we have two sets of rules and regulations for VAT.

4.2.2 Distorted Competition caused by the VAT Exemption for Sport Associations?

On the issue of whether the sport associations’ tax relief causes a distorted competition and a discrimination against companies, no respondent feels that the association constitutes a competitor on the market. Most of the sport associations are unanimous about that their activities serve a completely different purpose in comparison with companies. The sport

associations exist for the youth and constitute a significant part of society with a purpose of public benefit.

“The main difference is that a company buys a good and thereafter sells the same good at a higher price in order to make a profit. This process is not the same in sport associations. They do not earn revenues on the activities they perform and their costs are connected with the maintenance of these activities.”

(Basketball Association 1)

“It is not possible to compare NPAs with companies, even if the company is small. A company produces a service for which a customer pays money. A sport association does not produce a service in the same meaning. Instead, it provides activities for the purpose of well-being, health and it gives the youth something meaningful to do. All you pay is a member fee.”

(Handball Association 2)

However, Football Association 2 admits that their sales of hot dogs and hamburgers during the football matches can compete with the pizzeria nearby to a certain extent. This reflection is shared with Athletic Association 1 and Running Association 1, but they both add that these occasional sales constitute a service towards their members and athletes. Floorball Association 1 elaborates this view and says that if the association shut down the cafeteria, the members and spectators would not buy their coffee and biscuits elsewhere, but instead bring it with them from home. Therefore, the association cannot see in what way the cafeteria competes with companies in their area.

Thomas thinks that this whole argument regarding distorted competition and discrimination presented by the Commission is flawed. He asserts that this statement is directly erroneous. Companies are allowed to deduct the input VAT, which sport associations are not. As a result, the VAT is a part of the association’s acquisition cost, which in turn makes the purchases more expensive for the sport associations. In addition, Thomas implies that the associations’ lower price level is a result of free labour and not the tax relief. On the other hand, the advantage is that sport associations escape the administration connected to the VAT accounting and the resulting costs.

Badminton Association 1 agrees with Thomas about the halting arguments presented by the Commission.

“When we buy sporting equipment for our shop we pay VAT just as any other company, but we cannot deduct the VAT. As a result the purchase is more expensive for us than for a company.”

(Badminton Association 1)

However, Athletic Association 1 can understand that a distorted competition may arise when sport associations discover new ways to finance their activities and move further away from the associations’ traditional sources of revenue. One example is when sport associations help people to move, since they enter the market of removal firms and can set a lower price level.

Ann-Sofi emphasises the importance of taxing all competing goods and services in the same way. She refers to this treatment as the principle of tax neutrality, which is a fundamental

principle within the field of VAT. She means that many large sport associations of today are pursuing activities, such as restaurant services, sales of goods and advertising, which would be subject to VAT if the current exemption for sport associations did not exist. As a result, these associations receive a competitive advantage in comparison with other tax payers who are liable to VAT. Therefore, Ann-Sofi is sceptical about the fact that all sport association, irrespective of their size, are exempt from VAT as a consequence of being a public NPA.

4.2.3 The Implementation of the VAT Directive in Sweden

According to Thomas, Sweden has to harmonize its VAT with the Commission's VAT Directive and the Commission will not withdraw the infringement proceeding. The question is not if, but when the VAT Directive will be implemented. Since 1994, three public investigations have all reached the same conclusion; Sweden's VAT policies violate the VAT Directive. In addition, Ann-Sofi states that Sweden cannot come up with its own rules and solutions, since we have pledged ourselves to implement the VAT Directive. If the concepts in the Swedish laws could be harmonized with the concepts of the VAT Directive, it would have a positive effect on the interpretation of the VA.

Thomas further says that if the VAT Directive, in its present form, was enforced in Sweden today, it would result in mixed activities for the sport associations. Since the Directive states that athletic activities *shall* be exempt from VAT, the association will have incomes both subject to and exempt from VAT.

“The treasurer would have two piles of invoices: one pile with invoices connected to financing activities that are subject to VAT and one pile with invoices assignable to the athletic activities, which are VAT-exempt. Thus, the VAT connected to those athletic activities is not deductible.”

(Thomas Karlsson, SSC)

All of the sport associations we interviewed have incomes which would be subject to VAT if the VAT Directive was enforced. As a consequence, they would all have mixed activities in the association, which the majority of the associations were not aware of before we contacted them.

Ann-Sofi mentions that entry fees will remain exempt from VAT, since they belong to the athletic activities. Incomes from advertising and sponsoring, however, will be subject to VAT. When the other party is a company, it can usually deduct the VAT which it has paid to the sport association. The right to deduct VAT for working expenses from a sport centre depends on if it is used for the activities which are subject to VAT. Thus, every transaction has to be separately judged in order to establish whether it is assignable to the activities subject to, or exempt from, VAT.

Thomas emphasises that the mixed activities are complex to handle in practice and every day Sweden can keep their VAT regulations is a good day. However, Thomas insists that the process of the Green Paper, which brought the issue up for discussion, has come to an end and Sweden will lose if the case now is submitted to the Court of Justice. He strongly doubts that the Commission will realize the importance of the Swedish VAT system and therefore Sweden will have to change their VAT regulations in accordance with the VAT Directive. Nevertheless, the Directive is now being revised by the Commission and the remaining opportunity for Sweden is to block the new future VAT Directive.

*“The next step is for the Swedish Minister for Finance to block the new VAT Directive in order to amend the part of the Directive which states that athletic activities shall be exempt from VAT. If Sweden could change the word **shall** into **are allowed to**, it would be up to the Member States themselves to determine whether the athletic activities shall be subject to or exempt from VAT.”*

(Thomas Karlsson, SSC)

According to Thomas, this would allow Sweden to enforce a complete VAT accounting for sport associations, which would include the athletic activities. As a consequence, the mixed activities and their difficulties would be avoided. The majority of the sport associations have a positive attitude towards a complete VAT liability. However, Athletic Association 1 expresses a worry about the disappearance of the non-profit purpose and spirit, since the association would function as a company when it comes to the VAT accounting. Badminton Association 1 is uncertain about the consequences and does not have an opinion in the matter.

4.3 The Sport Associations' perceived Effects of a VAT Liability

4.3.1 Effects connected to the Adjustment to VAT Liability

The first effects experienced by the sport associations are connected with the adjustment to VAT liability and the VAT accounting. Orienteering Association 1 and Handball Association 2 fear the complexity and hardship connected to the performance of VAT accounting. On the other hand, Football Association 1, 2 and 3 as well as Tennis Association 1 are not worried about the actual bookkeeping, since they can manage that with their current accounting systems. Nor Handball Association 1 is worried about the accounting connected to VAT due to their treasurer's personal experience. However, they feel obliged to procure an accounting system which is adapted to VAT. The need for adjusted accounting and invoicing systems is further visible in Skiing Association 1 and Orienteering Association 2. In addition, they emphasise the importance to educate the members of the committee in order to understand the new systems and correctly account for VAT. Apart from the new accounting systems, four sport associations perceive that they will have to purchase cash registers for their cafeteria activities, which are costly investments.

“The members of the committee are anxious about future investments in cash registers and increased administration. They are worried. It is already too much work to do in the association.”

(Badminton Association 1)

Furthermore, Running Association 1 and Football association 3 explain that they will have to keep a closer look on their purchases in order to establish if a purchase, or a part of a purchase, is a transaction liable to VAT. This will increase the need for an accurate basis on which the judgment is based, which in turn will increase the administration for the sport association.

The majority of the interviewed sport associations anticipate that it will be harder for smaller associations to adjust to the VAT accounting in comparison with larger associations. The main reason for that attitude is the fact that larger companies often have more advanced accounting systems and treasurers with higher skills and experiences in the economic field. As a consequence, Football Association 1 and 2 think one result is that smaller association

will merge into larger associations. A similar thought is expressed by Handball association 2, who anticipates that the small associations may start a closer collaboration and share an economist.

Furthermore, all sport associations feel that support and education are crucial in order to manage an adjustment to VAT liability. Above all, they emphasise that the SSC and the STA has the main responsibility to help and assist the associations in the adjustment process. However, Basketball Association 1 does not agree with the fact that the responsibility lies with the SSC and the STA, since the directives come from the EU.

4.3.2 Increased Workload

All of the interviewed sport associations agree on the fact that a VAT liability would increase the workload, especially for the treasurer since he or she will perform the VAT accounting. According to Football Association 1 and 3, Handball Association 1 and Orienteering Association 2 the additional bookkeeping as well as the VAT return will increase the administrative burden and consequently the workload. The need for education and further knowledge in the field of VAT are, according to Athletic Association 1 and Football Association 3, additional factors which increase the workload.

A general perception among the interviewed sport associations is that mixed activities will cause demarcation problems, which will result in additional administration and an increased workload. Football Association 1 thinks that the mixed activities will cause a grey area, since it is difficult to establish whether some expenses belong to the activities which are subject to VAT or to the activities which are exempt from VAT. The association mentions office supplies and food to players as examples of such expenses. This reflection is shared with Orienteering Association 1 and 2, Athletic Association 1 and Handball Association 2. In addition, Orienteering Association 2 says that they offer other activities than orienteering, such as hikes and nature adventures. To them, these activities constitute an uncertain factor to whether they would be classified as VAT exempt, since they are not their core activities. An additional factor of uncertainty is the expenses related to their clubhouse, such as electricity and heating, which they use for their own activities and letting.

“The mixed activities will create an enormous complexity for our association, which in turn will require much knowledge and time. It does not feel good at all.”

(Athletic Association 1)

The degree of complexity and workload that the sport associations think they will experience with the mixed activities differs between the associations. Only a small part of the revenues in Tennis Association 1 will be subject to VAT, which, according to them, will result in a low degree of complexity. Running Association 1 and Badminton Association 1 feel that they can manage such a change and keep the activities separated with help from their chart of accounts. Basketball Association 1 shares this viewpoint, since it already has some experience from mixed activities. However, for the other sport associations, the thought of mixed activities is associated with uncertainties, complications and difficulties. In addition, the members of the committee in Athletic Association 1 and Basketball Association 1 have a personal experience of mixed activities and know the difficulties companies go through when they have activities both subject to and exempt from VAT.

“Even if we possess the competence to manage mixed activities, the person who performs the VAT accounting and thereby the separation of activities has to do it in one’s leisure time. The companies, on the other hand, have salaried staff to manage this. The unpaid treasurer will have to follow the same demands and regulations from the STA as the companies do. I think that causes a distorted competition from another perspective.”

(Athletic Association 1)

The majority of the sport associations feel that the increased workload will put them in a difficult situation, since they will be faced with the issue concerning how much work they can demand from people who work on a voluntary basis. In addition, Orienteering Association 2 thinks that the increased workload can deter people from starting new sport associations.

“How much voluntary work can you expect from a member of the committee whose effort is unpaid?”

(Orienteering Association 3)

Several sport associations state that a full VAT liability would decrease the workload which is connected with the mixed activities. If Sweden has to enforce VAT liability for sport associations, Orienteering Association 1 and 2, Football Association 1 and 2, Basketball Association 1 and Floorball Association 1 all agree on the fact that, from an administrative perspective, a complete VAT accounting is preferable to the partial VAT liability.

4.3.3 Increased Costs and Loss of Income

An additional perceived effect described by the interviewed sport association is the fear of increased costs. Apart from the costly investments connected to the adjustment to VAT liability, Basketball Association 1, Badminton Association 1 and Running Association 1 think that several sport associations will have to outsource the VAT accounting, which consequently raises the costs. If the VAT accounting remains in the association, Orienteering Association 2 thinks that the education which is necessary to understand and correctly perform the new accounting principles will increase the association’s costs.

According to Orienteering Association 1, the mixed activities are the main reason for the cost increase. Since a large part of their incomes will be subject to VAT at the same time as their main expenses belong to the athletic activities where no VAT is deductible, the output VAT will always exceed the input VAT. Consequently, their association will always be a net payer of VAT.

In addition, the sport associations who have incomes which will become liable to VAT state that they will experience a loss of income, if they impose VAT on their sales and at the same time remain on the current price level.

This loss of income will be managed differently between the sport associations. According to Football Association 1 and 3 and Handball Association 1, they will raise their prices in the cafeteria with the amount that corresponds to the imposed VAT.

“The sales from the cafeteria will not get affected, since we already have a low price level. Higher prices will not stop people from purchasing.”

(Handball Association 1)

On the contrary, Handball Association 2 would like to raise their prices in the cafeteria but they perceive a risk with a higher price level, since they imagine a decrease in sales. If they keep the same prices after the VAT is imposed, the association will have to carry that cost. Football Association 2 considers shutting down its cafeteria activities, if those incomes become subject to VAT.

In addition, Football Association 1, Handball Association 1 and Orienteering Association 1 think that they will have to raise the membership fees in order to cover for the increased costs and the loss of income. However, Handball Association 1 thinks that a severe effect is that the association will lose members. This reflection is shared with Floorball Association 1.

“First, we will try to find alternative sources of income and if that is successful, we will be able to maintain our activities on the same level as today. If not, we may be forced to raise our membership fees, which we really want to avoid. Our goal has always been to keep our membership fees on a level which allows everyone to join our association. We do not want to become an upper class sport in which only a few can participate.”

(Floorball Association 1)

For Football Association 3 an increase in membership fees is not even an option, since they already have reached the pain threshold.

“If we raised our membership fees, several members would not be able to stay in our association. An expensive membership fee is contrary to our purpose, since everybody who wants to join our association shall be able to afford it.”

(Football Association 3)

Basketball Association 1 organizes tournaments and will need to impose VAT on their tournament fees in order to cover the increased costs. They think that a risk connected with the higher prices is the loss of several foreign teams, since they already think it is expensive to participate.

Football Association 2 does not experience a loss of income when it comes to incomes from sponsoring and advertising, since the other party is a company. If they impose VAT on those incomes, there will be no cost increase for the company, since it can deduct the VAT paid to the association as input VAT. Floorball Association 1 thinks that sponsoring will be a significant source of income in the future, if the sport association becomes subject to VAT.

According to Orienteering Association 1 and 2 and Floorball Association 1, the increased costs and loss of incomes will result in a necessity to overhaul their financing activities.

“The VAT liability will force us to find financing sources that will still be exempt from VAT in order to replace our current sources of income which will become subject to VAT.”

(Orienteering Association 2)

According to Orienteering Association 1, Football Association 2 and Floorball Association 1, measures which would facilitate the adjustment to VAT and decrease the negative effects of

the raised costs and losses of incomes, are an increase in subsidies and other supporting actions from the State or the municipality.

“The local activity-grant could be raised to compensate economically. The municipality has every opportunity to help the associations by lowering the rent of the sport centres.”

(Floorball Association 1)

4.3.4 Difficulties in recruiting new Members to the Committee

All the interviewed sport associations completely agree on the fact that a VAT liability will cause difficulties in recruiting new members to the Committee. Their main worries concern the position of the treasurer. The general perception is that the sport association already experiences a hard time to recruit members to the committee, since it requires interest, engagement and extra work. Football Association 2 is the only association which does not experience any difficulties in finding members to their committee.

“People are generally anxious about the fact that the work in the committee will be too time consuming. I believe that pensioners and enthusiasts are the reason behind the survival of many sport associations today.”

(Orienteering Association 3)

The sport associations further state that the VAT liability, which will result in increased complexity, administration and workload, will cause further trouble to recruit new members to the committee.

“Today, our jobs are more intense and time consuming, which means that you have to perform the NPA work in your leisure time. Thus, only a small number of people are willing to help out. As a result, the recruitment is difficult and it will get worse if sport associations become subject to VAT.”

(Handball Association 2)

An additional reason for the difficulties in recruiting new members is, according to Basketball Association 1 and Athletic Association 1, the personal responsibility for members of the committee regarding unpaid taxes and fees. Basketball Association 1 wonders if any person would shoulder that kind of burden on a voluntary basis, when inaccuracy implies a personal responsibility. As a result, Athletic Association 1 thinks that several sport associations will purchase a third party insurance. In addition, Basketball Association 1 thinks that the increased responsibility can result in the fact that sport associations must pay for the work performed by the members of the committee. This effect is also anticipated by Orienteering Association 2 and Football Association 3 and they think that the sport associations may have to employ their treasurers in the future, which will increase the associations' costs further. Badminton Association 1 would not be able to afford salaried staff and without the salary grants they receive today, the association would go into bankruptcy.

Furthermore, Football Association 2, Floorball Association 1 and Running Association 1 anticipate that the VAT accounting will require a treasurer with a higher education and expertise, which will complicate the recruitment even further.

4.3.5 Emotional Effects

Today's treasurers put a lot of time into their assignments and it is not always easy to be in charge of the economy of an association, but it is the passion for the club activities that keeps them going. All of the respondents have a personal connection to the association and express that it is not the economy work itself that is the interesting part of being a treasurer, but the part of being involved in the club activities. This implies to work with and support the youth, to meet people that are working with the same purpose and the fellowship this includes.

“The fellowship is the best part. Laughter, tears, joy and sorrow, everything we go through together.”

(Football association 1)

It is more about the passion for the sport itself, to get the opportunity to contribute with your own knowledge and the feeling of gratification when the association and the youth make progress.

“It is worth all those hours you spend on the work to keep the association going when you can see the youth's and the association's progress.”

(Athletics association 1)

According to Football Association 3, an effect of the VAT accounting is the increased focus on the association's economy and finances. The work in the Committee will not be as fun as it used to be, since it will not revolve around football any longer. Instead, you have to focus on rules and regulations and to make ends meet and the joy, which is crucial for the whole association, will fade away. In addition, Badminton Association 1, think that the increased bureaucracy will have a negative effect on the Swedish broad-based sport activities, since it is managed by real enthusiasts who have no interest in bureaucracy. They only care about the youth's opportunity to take an active part in sport activities they like. The increased rules and regulations can, according to Football Association 2, remove the creativity and spontaneity within the association, since people will be afraid to do mistakes.

Handball Association 1 thinks that the VAT liability will force the associations to think economically, which can have positive effects. For example, their sport equipment will be used for a longer period of time in order to avoid frequent purchases and to save costs. Football Association 1 elaborates this viewpoint and states that a VAT liability is not the end for the Swedish sport movement. Instead, it is just a matter of changing the way of thinking. Furthermore, the new rules and regulations can make it harder for unreliable and irresponsible associations to survive and create a greater sincerity and transparency among sport associations.

“In general, 98 percent of the changes are good changes. The VAT liability may even force the sport associations to be managed in a better way.”

(Football Association 1)

This reflection is shared with Football Association 2, who thinks that the increased controls, which will follow the VAT liability, will decrease the amount of black money in sport associations. In addition, Basketball Association 1 thinks that the days of the traditional Swedish sport association are already fading away as a result of the change of values in our society.

“As a sport association you cannot change a society and the way today’s people think. Many parents just drop of their children for practices or matches and return to their hectic lives. By paying the membership fee, they feel that they have bought their way out of responsibilities and commitments. I would rather see that they stayed during the matches and helped out in the cafeteria. Maybe the NPA spirit has already left our society.”

(Basketball Association 1)

The association further states that the new rules and regulations will demand sport association to become more professional in order to find new sources of income. The association must stop thinking about baking cakes and selling lotteries and instead start thinking more commercially.

“The big and successful sport associations have already changed their way of doing business and are now leading the development of Swedish sport associations. It may be hard to realize, but the smaller sport associations will have to become a commercial player in order to adapt to today’s society. Such a change will enable further sources of income.”

(Basketball Association 1)

Football Association 3 concludes by saying that sport associations have a way of managing new requirements. They have always been able to adapt to new changes and from that perspective, this change is no different from the previous ones. The association has to discover and welcome new opportunities in order to be able to change.

4.3.6 Further Effects

Further effects anticipated by the associations concern the risk of tax evasion and inaccuracies in the VAT accounting. One association acknowledges that it already finds it hard to follow today’s regulations and rules for sport associations. The association indicates that deviations from the regulations are necessary in order to maintain its activities, since the time pressure is high and the members of the association are not sufficiently conversant with the control statements. Four of the interviewed associations indicate that a future risk of inaccuracies in the VAT accounting may exist. Handball association 2 expresses a deep concern for making accounting errors and the possible effects and responsibilities that this could entail. Orienteering association 2 indicates that all the work connected with the VAT return will be tough, since you have to make sure that the VAT is properly performed.

“The risk for increased inaccuracies within an NPA is obvious, because of the structure of the association, where many voluntary workers are involved.”

(Basketball association 1)

A further anticipated effect of a VAT liability is that some of the associations might convert its association into an independent subsidiary company. This is discussed in several of the associations, but especially two of them indicate that a future conversion might occur. Football association 1 remarks that the associations will end up on the wrong track in case of a conversion, since the voluntary effort and the focus on the sport itself would disappear. Instead, the associations would carry on their activities as profit-driven companies.

4.4 The Tax Experts' predicted Effects of a VAT Liability for Sport Associations

4.4.1 Effects connected to the Adjustment to VAT Liability

According to Ann-Sofi, the first effects of VAT liability are connected with the adjustment to VAT accounting. The associations need to register the activities that are subject to VAT at the STA. She does not wish to comment on the fact whether a cash register is a necessary investment in order for an association to adjust to VAT liability. However, it should be noted that a cash register is not a requirement to be granted the VAT deductions. Instead, the VAT accounting is based upon sound and regular bookkeeping and the association is obliged to show the basis for the activities which are exempt from VAT, since they have the burden of proof. The same reflection is given by Thomas.

According to Thomas, the VAT liability will result in a need for education for the sport associations, which will require extensive work for their educational organization (SISU). In addition, he emphasises the responsibility of the DSF and the regional SISU-offices to provide the sport associations with support and education. Furthermore, Ann-Sofi states that it will be necessary for the sport associations to know the basic rules and regulations connected to VAT, as well as what VAT rates to impose. The STA will invest a great deal of resources in education for the associations in order to provide them with all the necessary information.

4.4.2 Increased Workload and Costs

Thomas and Ann-Sofi indicate that the administrative workload will increase for the sport associations as a result of the VAT liability. Thomas says that the administrative burden is the main reason for the debates and discussions between the Swedish Government and the Commission. In addition, Thomas and Ann-Sofi both agree on the fact that the mixed activities are the main reason behind the increased workload. According to Thomas, the mixed activities result in a more complex administration for the sport associations in comparison with most companies which have a complete VAT liability for all their activities.

“The fact that a treasurer in a sport association has less knowledge and experience of VAT in comparison with an employee in a company’s financial department shows that effects of the mixed activities will be more severe in a sport association.”

(Thomas Karlsson, SSC)

Ann-Sofie agrees with the fact that the mixed activities will result in a complex administration for the sport associations. It may result in a distressing situation for the sport associations, since they will have transactions both subject to and exempt from VAT, which requires that every transaction is judged on an individual basis. The fundamental principle is that the input VAT is deductible if it can be assigned to a transaction which is liable to VAT.

“If the association has expenses which are not assignable to a transaction with VAT liability, no input VAT shall be deducted. Thus, it is of great importance to assess every purchase on an individual basis in order to establish whether the VAT is deductible. The treasurer must know what type of transaction the purchase will result in, to be able to do a demarcation”

(Ann-Sofi Pallasdies, STA)

Considering the complex administration which follows the mixed activities, Thomas says that a complete VAT liability is preferable if Sweden is not allowed to retain its current system.

According to Ann-Sofi, a complete VAT liability enables a complete deduction of input VAT. Apart from the fact that the demarcation problems are avoided, Thomas states that a complete deduction of input VAT would be beneficial for the sport associations from an economic perspective, since the mixed activities result in an association which will always be a net payer of VAT.

According to Ann-Sofi, the VAT liability for sport association will result in a demand for companies with a specialisation in that field, who can supply the associations with the education and support they need. However, Thomas emphasise that such an outsourcing will be costly for the sport associations, who do not possess that kind of economic resources. Consequently, it may reduce the number of associations in the future.

4.4.3 Difficulties in recruiting new Members to the Committee

Since the majority of the members in a committee lack an education in VAT but still are personally responsible for an accurate VAT accounting, Thomas anticipates that it will be more difficult for the association to recruit new members to the committee. Today, many committees have trouble to find new members and he wonders if any person would be willing to hold the position as treasurer in the future, when inaccuracies may lead to criminal liability. In addition, Ann-Sofi states that every member of the committee is equally responsible for the figures stated in the VAT return. Thus, a position in the committee involves a responsibility and one must know all that this implies.

5. Analysis

This chapter contains the information that is necessary for the purpose and research questions. The information that we gathered during our interviews will be put together with the information from our frame of references. In order to facilitate the reading, the same headings will be used as presented in the empirical part. However, the perceived effects of the sport associations and tax experts will be put together in order to avoid repetition.

5.1 The current Exemption from VAT for Sport Associations

According to Dimitrievski (2010), a sport association is an association with a not-for-profit purpose. Even if the association does not exist for the purpose of profit-making (Skatteverket, 2012), it can pursue economic activities in order to achieve its non-profit purpose. (Nyholm & Svensson, 2009) NPAs that fulfil the requirements for purpose, operation, completion and transparency are considered public benefit NPAs and have limited tax liability for incomes. If an association has a purpose of public benefit and is exempt from income tax, it is thereby exempt from VAT (Skatteverket, 2012).

According to Lundén and Svensson (2011) the VAT is the primary source of income for the State and Melz (2010) says that the VAT is designed for a fiscal purpose, since it finances the public sector. In addition, a fairer distribution of income among different groups in society is visible through delimitations of the taxable area and the selection of tax rates (Melz, 2010).

Thomas emphasises that there is no general VAT exemption for sport associations in Sweden. Instead, the VAT treatment depends on the kind of activities the association performs. However, the traditional financing activities are exempt from income tax and thereby from VAT. Thunberg (2004) states that the VAT exemption is explained by the need to show consideration for the public interest, which, according to Ann-Sofi, concerns the positive effects on society caused by the sport associations as well as the good purpose of their activities. This is expressed by the sport associations themselves; their purpose is connected to well-being and health and their activities are a significant part of society which look after the youth's interests. In addition, this reflection is expressed by Wijkström and Lundström (2002), who says the NPA's valuable work and positive effects on society, has resulted in direct and indirect support from the State and municipalities, where tax relief represents a significant part. According to the Swedish Government, the activities of the public NPAs could be inhibited, if the current exemption did not exist (Regeringskansliet, 2008, Fi2008/4219) Furthermore, the importance of sport associations is visible in the VAT Directive, since athletic activities are exempt from VAT (Grufberg & Hamberg, 2009). However, in comparison with the Swedish rules and regulations, this exemption is narrower (Melz, 2010).

According to Lundén and Svensson (2011), no VAT shall be accounted for and no VAT declaration shall be executed if an association is exempt from VAT. Thus, no VAT shall be drawn from the association's expenses and the organization is not allowed to impose VAT on sales. The sport associations express that this is an advantage for them, since they can avoid the extra work and administration connected to a VAT accounting. This reflection is shared by Ann-Sofi, who states that the two advantages of VAT exemption are that the association does not have to pay VAT and the fact that the administration is simpler. In addition, the majority of the sport associations state that the work they already perform is enough.

As a result of the current VAT exemption, NPAs are fiscally treated as end consumers. A disadvantage connected to this treatment is that no VAT is deductible (Grufberg & Hamberg, 2009). The sport associations express that the disadvantage connected to the current

exemption from VAT is the lost opportunity to deduct input VAT, which in some situations could be beneficial for them. Therefore, significant investments are unfavourable for the sport associations. According to Melz (2010), the input VAT is instead a part of the acquisition cost. Thomas states that this results in more expensive purchases for the sport associations.

5.2 The VAT Directive versus the Swedish VAT Exemption

5.2.1 Knowledge and Awareness of the Reason behind a VAT Liability for Sport Associations

According to the Green Paper (Europeiska Kommissionen, 2010), a further adjustment to an indirect taxation among the Member States is necessary as a result of the aging population. Furthermore, the VAT is an important national source of income and consumption serves as a broader and more stable base for taxation. A common VAT system will serve the internal market, since transactions will be treated alike from a VAT perspective. In addition, it would decrease the administrative burden for companies within the EU, which would increase their competitiveness. Exceptions from VAT liability as well as reduced VAT rates do not enable a single uniform VAT rate, which is an ideal situation within the EU. However, according to Terra and Wattel (2012), one common VAT rate in the Member States is an unlikely scenario, since several nations apply more than one VAT rate. Since the Member States' national definitions would counteract the purpose of a common VAT system, the VAT Directive has community definitions, such as taxable person and economic activity, to facilitate a uniform application. As a result, the Swedish general VAT exemption for sport associations does not correspond with the VAT Directive, since an NPA is considered to be a taxable person (Edlund, 2002).

Ann-Sofi says that Sweden has to implement the VAT Directive in its national law, since it applies to all Member States. In addition, the Swedish definition of professional activity does not correspond with the Directive's definition of a taxable person. This incongruity makes the application of the VA in Sweden more difficult. In addition, she accentuates the importance of the identical fiscal treatment of competing goods and services.

All of the interviewed associations have heard about a possible VAT liability for sport associations, however, only a few are aware about the real reasons behind this fact. Those who have previous knowledge mention the harmonization between Member States as the primary reason, but some associations feel that they do not understand the intentions behind a VAT liability for sport associations. In addition, three sport associations express that they have not received sufficient information about the VAT liability.

5.2.2 Distorted Competition caused by the VAT Exemption for Sport Associations?

The different VAT legislations between the Member States constitute an obstacle in order for the internal market to work better (Europeiska Kommissionen, 2010). A market neutral to competition is an important part of the internal market and a full and complete VAT liability and VAT deduction related to the production of taxable goods and services is a fundamental condition for the neutrality between businessmen. As a result, competing goods and services are treated alike and distorted competition is avoided. Through exemptions some producers and some consumption will be favoured and in order to possess a market neutral to competition as few exemptions as possible should exist (Melz, 2010).

Ann-Sofi stresses the fundamental principle of tax neutrality, which means that all competing goods and services shall be taxed in the same way. She is sceptical about the fact that all sport association, irrespective of their size, are exempt from VAT as a consequence of being a public NPA. She means that many large associations receive a competitive advantage in

comparison with other tax payers who are liable to VAT, since they pursue activities which would be subject to VAT if the current exemption for sport associations did not exist.

Some sport associations can understand that distorted competition may arise in specific situations when the association pursue activities which are pursued by companies. However, two associations emphasise the fact that those activities constitute a service towards the members and do not occur frequently. This reflection is shared with the SSC and the Swedish Government in their response to the Green Paper (Riksidrottsförbundet, 2011; Regeringskansliet, 2008, Fi2008/4219) which was published by the Commission. They indicate that sport associations do not compete with companies, since their financing activities are conducted on a small scale primarily directed to its members, supporters and spectators.

According to Thomas and Badminton Association 1, the argument regarding distorted competition and discrimination presented by the Commission is flawed, since companies are allowed to deduct the VAT brought forward, which sport associations are not. As a result, the purchases are more expensive for the sport associations.

Furthermore, no sport association feel that they constitute a competitor on the market. The main reason for this opinion is the fact that they experience a distinct divergence between the purpose of an association and a company. The purpose of a sport association is of public benefit, while a company exists for profit-making. This reflection is shared by Leopold (2006), who states that an NPA cannot be viewed as a company, since its principal resource is the non-profit commitment and the profits are reinvested in the association.

5.2.3 The Implementation of the VAT Directive in Sweden

Both Thomas and Ann-Sofi state that Sweden has to implement the VAT Directive, since our membership in the EU implies this harmonization. Ann-Sofi says that the implementation will lead to an easier application of the VA, since the lack of correspondence with the VAT Directive would disappear and only one set of rules and regulations of VAT would exist. This reflection is shared with Grufberg and Hamberg (2009), since the Swedish current exemption may complicate the interpretation of the EU law on Swedish conditions and the VA.

According to the SSC (Riksidrottsförbundet, 2011), incomes from cafeteria activities, sponsoring and advertising as well as incomes not related to the athletic activities or performed as a service in order to fund the activities, will be liable to VAT. The input VAT on expenses which are connected to these incomes is deductible. However, incomes connected to the athletic activities, such as membership, training and entry fees together with state and local grants will remain exempt from VAT. Thus, no input VAT on expenses related to these incomes will be deductible for the association.

When some activities are VAT exempt at the same time as the association has activities qualifying as VAT liable, the association has mixed activities and shall account for the VAT assignable to the taxable operations (Lundén & Svensson, 2011). According to Thomas, this will be the case for many Swedish sport associations if the VAT Directive is implemented in its present form, since the athletic activities remain exempt from VAT. All the interviewed sport associations have incomes which would become liable to VAT. Consequently, all of them will experience mixed activities.

Ann-Sofi says that every transaction has to be separately judged in order to establish whether it is assignable to the activities subject to, or exempt from, VAT. According to Kleerup and Westfahl (2004), the VAT must be allocated on a reasonable basis by using the most relevant key for distribution, such as turnover or wage cost, if the acquisition exceeds 1000 SEK.

Thomas states that the mixed activities are complex to handle in practice. Therefore, he thinks that the Swedish Minister for Finance should block the newly revised VAT Directive in order to amend the part of the Directive which states that athletic activities shall be exempt from VAT. He explains that if Sweden could change the rule which forces the athletic activities to be exempt from VAT, Sweden would be able to enforce a complete VAT accounting for sport associations. Thus, the mixed activities and their difficulties could be avoided and the majority of the interviewed sport associations have a positive attitude towards a complete VAT liability. Furthermore, on the 11th of May 2012, Anders Borg, the Swedish Minister for Finance, pronounced that the Swedish Government is ready to exercise its veto against the Commission if no solution occurs regarding the exemption from VAT for public benefit NPAs (Riksidrottsförbundet, 2012).

5.3 The perceived Effects of a VAT Liability

5.3.1 Effects connected to the Adjustment to VAT Liability

Ann-Sofi says that the first effects of VAT liability are connected with the adjustment to the actual VAT accounting and the sport associations will have to know the basic rules and regulations connected to VAT. The associations need to register the activities that are subject to VAT at the STA. The VAT accounting is based upon sound and regular bookkeeping and the association is obliged to show the basis for the activities which are exempt from VAT, since they have the burden of proof. According to Lundén and Svensson (2011), those who are subject to VAT shall account for the output VAT on sales when the good is delivered or the service provided and are allowed to deduct the input VAT on their expenses. The VAT is reported to the STA through a VAT return.

Two sport associations are worried about the actual VAT accounting, while other express that they can manage the bookkeeping of VAT through their accounting systems or personal experience. However, the majority of the sport associations feel that they are obliged to invest in a more advanced accounting and invoicing system, which in turn will demand further education and support. According to Thomas, the need for education for the sport associations will require an extensive work for their educational organization (SISU). Ann-Sofi states that the STA will invest a great deal of resources in education for the associations in order to provide them with all the necessary information.

Furthermore, the majority of the sport associations anticipate that the adjustment to VAT liability will be harder for smaller associations, since the larger associations often possess more advanced accounting systems and treasurers with higher skills and experiences. As a result, some associations think that smaller associations will merge into larger associations or start a closer collaboration in order to overcome the hardship connected to the VAT liability. The SSC (Riksidrottsförbundet, 2011) and the Swedish Government (Regeringskansliet, 2008, Fi2008/4219) state that the VAT accounting may lead to the fact that some associations will have to close down their activities. In addition, Thomas thinks it may reduce the number of associations in the future.

5.3.2 Increased Workload

According to the SSC (Riksidrottsförbundet, 2011), the VAT liability will result in an increased administration for the sport associations. In addition, the accounting demands may result in a too heavy burden for the associations to carry (Regeringskansliet, 2008, Fi2008/4219). These opinions are shared by the interviewed sport associations, who anticipate that the actual VAT accounting, the VAT return and the education it requires, will increase the workload for the associations.

Furthermore, the general perception among the interviewed sport associations is that mixed activities will cause demarcation problems and grey areas, since they perceive that it will be difficult to establish whether some expenses belong to the activities which are subject to, or exempt from, VAT. However, the degree of perceived complexity differs among the sport associations and depends on the amount of incomes which will be subject to VAT. The demarcation problems are presented by Lundén and Svensson (2011), who states that difficulties connected to the demarcation arise when an organization has to separate the part of the acquisition which is assignable to the taxable operations.

According to the Green Paper (Europeiska Kommission, 2010), a common VAT will reduce the administrative burden for companies within the EU. However, unlike the companies, associations will experience an increased accounting burden, since it must determine if a liability for VAT exists for every transaction, which is an impossible assignment for a treasurer (Regeringskansliet, 2008, Fi2008/4219). Thomas and Ann-Sofi both agree on the fact that the mixed activities are the main reason behind the increased workload. Since sport associations will have transactions both subject to and exempt from VAT, every transaction must be judged on an individual basis, which can result in a distressing situation for the associations.

If Sweden is not allowed to retain its current system, Thomas says that a complete VAT liability is preferable, due to the complex administration which follows the mixed activities. According to Ann-Sofi, a complete VAT liability enables a complete deduction of input VAT. Several sport associations state that a full VAT liability would decrease the workload and therefore think that a complete VAT accounting is preferable to the partial VAT liability from an administrative perspective.

5.3.3 Increased Costs and Loss of Income

According to the SSC (Riksidrottsförbundet, 2011) and the Swedish Government (Regeringskansliet, 2008, Fi2008/4219), a VAT liability would increase the sport associations' costs. Apart from the initial investments, the sport associations think that a VAT liability will result in the fact that associations will have to outsource the VAT accounting or educate the members of the committee, which consequently raises the costs. Furthermore, the sport associations feel that a VAT liability will result in a loss of income, if the prices remain at the current level at the same time as the VAT is imposed on sales.

In addition, one association states that the mixed activities will result in increased costs, since its output VAT will always exceed its input VAT. According to the SSC (Riksidrottsförbundet, 2011), most of the associations' main costs are related to the athletic activities and as a result they will always be a net payer of VAT. Thus, Thomas states that a complete deduction of input VAT would be beneficial for the sport associations from an economic perspective.

In order to recoup the increased costs and loss of income, the interviewed sport associations will have to raise their prices or membership fees, or focus on incomes which will remain exempt from VAT. In addition, two associations state that increased support from the State or municipalities would facilitate the adjustment to VAT and decrease the negative effects of the raised costs and losses of income. According to the Swedish Government (Regeringen, 2009), an increase of grants may be considered as a general measure in order to help the sport associations financially.

One interviewed sport association does not experience a loss of income when it comes to incomes from sponsoring and advertising, since the other party is a company. If they impose

VAT on those incomes, there will be no cost increase for the company, since it can deduct the VAT paid to the association as input VAT. This reflection is shared with Grufberg and Hamberg (2009), who state that companies which are liable to VAT will not face any increased costs for sponsoring or advertising expenses, since they are allowed to deduct the input VAT.

5.3.4 Difficulties in recruiting new Members to the Committee

According to Leopold (2006) the NPAs rely on the unpaid work performed by volunteers. Together they perform 480 million hours of unsalaried work per year, which represents 300 000 full-time jobs and a value of 70 MSEK. The SSC (Riksidrottsförbundet, 2011) accentuates that the Swedish sport movement is built on voluntary work and a VAT liability would cause difficulties to recruit future members to the committee.

Today, the majority of the interviewed sport associations find it difficult to recruit new members to the committee, especially to find new treasurers. The increased complexity, administration, workload and education that follow a VAT liability will cause further trouble to recruit new members. In addition, they perceive that the personal liability for unpaid taxes and fees will worsen the recruitment process even further. Normally, individual members of the association are not personally liable for the association's commitments and liabilities. However, according to the TCA, the members of the committee can be joint and several liable for unpaid taxes and charges (Skatteverket, 2010). According to Lundén and Svensson (2011) and Thunberg (2004), the VAT accounting and the VAT return are complex areas for an organization to handle in practice and mistakes and inaccuracies may be costly. Ann-Sofi says that every member of the committee is equally responsible for the figures stated in the VAT return and Thomas wonders if any person would be willing to hold the position as treasurer in the future, when inaccuracies may lead to criminal liability.

As a result, the interviewed sport associations think that they will have to purchase a third party insurance or pay for the work performed by the members of the committee. They may even have to employ their treasurers in the future, which will increase the associations' costs further. According to Leopold (2006), an introduction of employees in NPAs may change the associations' culture and result in a loss of the non-profit commitment, since volunteers may abandon their work.

5.3.5 Emotional Effects

According to Leopold (2006), international studies have shown that the non-profit commitment is unusually strong in Sweden. In addition, the Swedish Government emphasises the long tradition of NPAs, whose activities are deeply rooted among the Swedish people (Regeringskansliet, 2008, Fi2008/4219). All of the respondents have a personal connection to the association and express that it is not the economy work itself that is the interesting part of being a treasurer, but the part of being involved in the club activities. It is the passion for the club, and not the economy work, that keeps them going.

Some sport associations feel that an effect of the VAT accounting is the increased bureaucracy and focus on the association's economy and finances. This will result in the disappearance of the fun and the joy, which are crucial components for the whole association. The increased rules and regulations may remove the creativity and spontaneity within the association, since people will be afraid to commit mistakes.

However, some associations think that the VAT liability will force the associations to think economically, which can have positive effects, and that a VAT liability is not the end for the Swedish sport movement. Instead, it is just a matter of changing the way of thinking.

Furthermore, the new rules and regulations can make it harder for unreliable and irresponsible associations to survive and create a greater sincerity and transparency among sport associations and decrease the amount of black money in sport associations. In addition, one association thinks that the days of the traditional Swedish sport association are already fading away as a result of the change of values in our society.

According to Wijkström and Lundström (2002), a recent change among NPAs is the increased use of corporate words and reasoning within the non-profit sector. However, Leopold (2006) states that corporate reasoning does not fit the NPAs, since they are even more complex than a company. Instead, institutionalization, bureaucratization and the professionalization of the Swedish popular movement has resulted in aging associations. Consequently, they cannot adjust to changes in society and therefore work with obsolete needs and goals. Instead, the NPAs must be organized and managed with the non-profit spirit and develop its own methods and ideas.

5.3.6 Further Effects

According to Grufberg and Hamberg (2009), sport associations are regarded as end consumers as a result of their VAT treatment, since no VAT is deductible. This disadvantage has resulted in the fact that some associations choose to convert themselves into an independent subsidiary company, in order to be able to deduct the input VAT. This effect is discussed in several of the associations, but especially two of them indicate that a future conversion might occur.

In addition, some of the interviewed associations indicate that a future risk of inaccuracies or even tax evasion in the VAT accounting may exist. According to an article from the SSC (Riksidrottsförbundet, 2010), a concern for an increased risk for tax evasions is presented.

6. Conclusion

This chapter will present our conclusions and answer the purpose and the research questions. In addition, concluding discussions and suggestions for further research will be presented.

6.1 Conclusions

The purpose of this bachelor thesis is to describe the reason behind a VAT liability for Swedish sport associations and to understand and concretely explain its anticipated effects from the associations' perspective.

The Swedish sport associations have a long tradition in Sweden and their valuable work serves a well-needed function of the public benefit, which is strongly supported by the Swedish people. The valuable work is expressed by the Swedish Government, the SSC and the interviewed sport associations themselves. The significant importance of their work on society has resulted in the fact that lawmakers have found it necessary to treat the associations favourably from a fiscal point of view. The aim has been to shield the associations from an administrative burden and further accounting requirements, which has resulted in Swedish laws that exempt public NPAs from income tax and VAT. This treatment is a genuinely Swedish phenomenon, which according to the general opinion needs to be preserved. However, Sweden and the EU do not share the same view of how sport associations shall be taxed. As a Member State, the Swedish exemption fails to correspond with the essential aim to harmonize indirect taxes within the EU. In order to fulfill the binding agreements of the VAT Directive, the Swedish sport associations must become subject to VAT. If the sport associations' exemption from VAT was not regarded as a distinct and important feature of the Swedish legislation system, an adjustment of the VA would be executed.

Our qualitative interviews with the selected sport associations have facilitated our understanding for and concretized their anticipated effects of a VAT liability. Thereby, we can conclude that the sport associations' perceived effects depend mainly on the treasurer's experiences and accounting competence, the sport association's current accounting systems, the financing structure and sources of income and the sport association's attitude towards changes.

The treasurer's experiences and accounting competence influence the perceived effects which are connected to the adjustment to VAT liability. The treasurers with no real experience of accounting fear that the actual VAT accounting will result in complexity and hardship. On the other hand, the treasurers with personal experience of VAT or more advanced bookkeeping do not perceive any difficulties connected to the VAT accounting. In addition, the sport associations that possess better accounting systems do not think that the VAT liability will have any difficult effects on their accounting. Furthermore, the treasurers that lack a sufficient competence of VAT and how to perform the VAT accounting and the VAT return feel that education or outsourcing is crucial in order to manage the effects of a VAT liability. In addition, the sport associations that have insufficient accounting systems will have to invest in systems which are adjusted to manage a VAT accounting. As a result, they fear that the costs and workload connected to these investments and educational efforts will increase.

The increased workload is an effect shared with all interviewed sport associations. The mixed activities are the main reason behind this opinion. However, the degree of complexity and negative effects connected to the demarcation problems and grey areas depends on the sport associations' financing structure and sources of income. The associations, which have several sources of income that will become subject to VAT, anticipate that the mixed activities will result in an enormous complexity and uncertainty. As a result, they welcome a complete VAT

liability. However, the sport associations with a majority of incomes which will remain exempt from VAT do not share the same fear towards the effects of the mixed activities. Consequently, some of them are skeptical about a complete VAT liability for sport associations.

Furthermore, the anticipated cost increases and losses of income depend on the financing structure and sources of income. The associations that have mainly incomes which will be subject to VAT at the same time as their main costs belong to the athletic activities where input VAT is not deductible, will always be a net payer of VAT. Thus, they are the ones that anticipate a large cost increase as an effect of VAT liability. In addition, the sport associations which already have a high price level feel that the imposition of VAT will lead to a loss of income, since they cannot raise their prices.

As a consequence, an association's financing structure and sources of income affect the degree of cost increase and loss of income as well as how it will be recouped. Those who have financed their activities with relatively expensive membership fees feel that they cannot recoup the loss of income and cost increase through higher fees, since the members' pain threshold is already met. The fear of higher membership fees is that the association will lose members. As a result, they have to raise their price level on other incomes, such as the cafeteria sales, search for new sources of incomes or rely on more subsidies in the future in order to fund their activities. However, the sport associations which have a low price level on their membership fees, activities liable to a charge and cafeteria sales, feel that they have the possibility to impose VAT on their cafeteria sales and raise their prices correspondingly. In addition, they can increase their fees and charges to recoup the increased costs that are connected to a VAT liability without losing members.

Furthermore, the sport associations' attitudes towards changes affect how they perceive that the effects of a VAT liability will influence the association in the future. Even if they all agree on the fact that the disadvantages of a VAT liability exceed the advantages and that it will be harder to recruit new members to the committee, some associations have a more positive attitude towards this change. They maintain that the associations have a way to survive changes and that they will be able to manage this adjustment despite of the negative effects. In addition, they perceive some positive effects of a VAT liability, such as greater sincerity, transparency and that it is just a matter of changing the way of thinking. One association even says that it is a necessary change in order to adjust to today's society. On the contrary, the sport associations which share a negative attitude towards changes maintain that the non-profit spirit may fade away and that the increased responsibilities and liabilities would be the end for many of the smaller sport associations. They wonder if anyone would hold a position as a treasurer in the future if it implies complex assignments and a criminal liability.

The anticipated effects which were presented in previous studies and discussions were visible on the level of the interviewed sport associations. However, this thesis allowed a deeper investigation and concretization of the previously described effects, such as why and how the costs and the workload increase. In addition, we were able to identify some positive effects as well as the sport associations' reactions towards the mixed activities.

A question that has been discussed in our thesis is whether or not the VAT exemption for sport associations causes a distorted competition, since it is one of the main reasons behind a common VAT system within the EU. After our qualitative research we can conclude that this can be true for larger sport associations, since their activities are more commercially pursued and share greater similarities with companies. However, the interviewed sport associations pursue their activities on a small scale basis and in connection to sport events. In addition,

their geographical location is often in an area where no competing companies carry on their business. Consequently, their economic activities are mainly intended for their own members and constitute a service mentality. Thus, our conclusion is that they do not compete with local companies and therefore no distorted competition arises from their activities.

6.2 Concluding Discussions

An important reflection that emerged during the interviews is the fact that the majority of the sport associations did not understand the meaning of the VAT Directive and that athletic activities would remain exempt from VAT. Thus, at first they did not recognize that a VAT liability would result in a partial VAT liability and consequently a limited possibility to deduct VAT. For that reason we can conclude that the information to the sport associations has been insufficient. Our qualitative interviews created an awareness in the associations, which gave them the ability to express and elaborate additional effects. That information may be of significant importance to the SSC, the STA and the Swedish Government, since they will become aware of the apprehensions and the educational needs that are experienced in the sport associations.

In addition, an interesting reflection concerns one of the reasons behind a common VAT system that is presented by the EU. The Green Paper emphasises that a common VAT system will decrease the administrative burden, which is connected to the current VAT regulations, for small and middle-sized companies within the EU. Small and middle-sized companies experience a more troublesome situation, since their limited resources result in the fact that they cannot afford to hire tax experts. However, if an enforcement of the VAT Directive would be beneficial for companies, it will simultaneously lead to an increased administrative burden for Swedish public NPAs. This outcome may seem a bit strange, since the associations often have less educated volunteer workers and even scarcer resources than companies. Thus, the administrative burden will be transferred to other organizations with worse conditions to manage the extra work.

Furthermore, the purpose of the VAT is that it shall be passed on to the end consumer as far as possible, in order to minimize the tax burden for businessmen. In order to achieve this, a full and complete tax liability and tax deduction for all VAT related to the production of taxable goods and services must exist. Since the sport associations will be partially liable to VAT and thereby only partially allowed to deduct the input VAT, if the VAT Directive is enforced in its present form, the associations will serve as both businessmen and end consumers. Thus, they will not receive the full advantage of being an end consumer, which means the exemption from VAT, and they will not receive the full advantage of being a businessman, which means the right to a complete deduction of input VAT. Instead, they will have a mix of both worlds.

Finally, this study has described that a harmonization of the rules and regulations of VAT would result in an internal market that works better. However, for many Swedes the harmonization instead constitutes a pushy attempt to remove a precious tradition, which is something they value and treasure. An interesting reflection is therefore how it is possible to harmonize policies between Member States when they are connected to emotions, traditions and culture, which constitute a distinct feature of their country. How far can you harmonize rules and regulations and still be able to preserve what is special for a country?

6.3 Limitations of our Study

Since our qualitative research included 13 out of 20 000 Swedish sport associations, it is highly possible that additional effects, opinions and attitudes, which are connected to a VAT

liability, have not appeared in our thesis. Therefore, a generalization of our conclusions is not possible. However, it should be observed that it is probably more likely that a broader qualitative research would result in further effects and findings than an invalidity of our discoveries. We base this statement on the fact that all the interviewed sport associations shared similar opinions even if they were expressed differently.

Furthermore, a possibility exists that the answers given by the respondents could have been influenced by factors connected to the transcription process. First, the answers could have been misinterpreted or misunderstood by us during the interview. Second, the answers from the respondents could have been subject to a more or less conscious influence when the spoken language was transformed to a written language. Third, the final translation from Swedish to English does not allow a complete correspondence. In addition, the use of a recorder could have prevented more spontaneous answers. However, our intention has been to minimize these risks by using the measures presented in the methodology.

Finally, our thesis has investigated a “what-if” scenario which may result in the fact that our analysis and conclusion become out of date or are no longer relevant, if circumstances change that served an important basis for our research.

6.4 Further Research

In connection with this study and our interviews, thoughts and suggestions for further research in this field of study have emerged. We have found areas that we feel our study does not cover, which could be of interest. Therefore we wish to express our ideas for further research.

As described in our conclusion, one reason for the anticipated cost increases depends on the associations’ financing structure. Further research could be to investigate if and how their financing structure would change as a result of VAT liability. Would sport associations focus on incomes which are classified as athletic activities in the VAT Directive or will they accept the mixed activities and even find new sources of income?

During this bachelor thesis we have discovered that other Member States within the EU fiscally favour their sport associations and therefore have a national VAT legislation that deviates from the VAT Directive. This situation is visible in Austria, Bulgaria, Denmark, Italy, the United Kingdom and Finland. Even if their situation is not identical to the Swedish one, they experience an incongruity with the VAT Directive. It would be interesting to find out their attitudes towards the VAT Directive or if a harmonization already has occurred.

Finally, we have presented the effects that are anticipated by the Swedish sport associations. How would a VAT liability affect other public NPAs with different activities and what are the consequences?

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8. Appendix

8.1 Appendix 1

Interview guide – The effects of a VAT liability for Sport associations

- 1) What does the current exemption from VAT mean for your association? Can any advantages or disadvantages be visible?

- 2) Before we contacted you, had you or your association heard of a possible VAT liability and can you understand why the Commission wants to enforce a VAT liability for Sport associations?

- 3) What is your association's standpoint regarding the issue that Swedish sport associations might become liable to perform VAT accounting for revenues that at the present point in time are exempt from VAT?

- 4) What changes will be needed in order for your association to adjust to a VAT liability and what effects would an enforcement of VAT have on your work and for the association as a whole?

8.2 Appendix 2

Interview guide – Thomas Karlsson, taxation lawyer at The Swedish Sports Confederation

1. What advantages and disadvantages does the current exemption from VAT involve for the Swedish Sport associations and is the "Swedish exemption" unique within the EU?
2. What is SSCs standpoint in the issue regarding if the Swedish Sport associations might become liable to VAT accounting for revenues that at the present point in time are exempt from VAT and why do you have this standpoint?
3. What consequences and effects do you think an enforcement of VAT will have for the Sport associations as a whole and for the treasurer as well as the committee's work?
4. In case of a VAT liability for the Sport associations, what will be SSCs role and in what way will you need to change your work?

8.3 Appendix 3

Interview guide – Ann-Sofi Pallasdies, legal specialist at the Swedish Tax Agency

1. Why are today's sport associations as public NPAs in most of the cases exempt from income tax and thereby VAT? What is your opinion concerning this system and what do you think the VAT exemption means for the sport associations?
2. What is the STA's view on the criticism from the Commission regarding the Swedish VAT system for the non-profit sector? (I.e. distorted competition, discrimination against small businesses, tax evasion etcetera.)
3. What is the STA's opinion about the Commission's VAT Directive and that Swedish Sport associations might become liable to VAT accounting for revenues that at the present point in time are exempt from VAT?
4. In order to adjust to a VAT liability, what changes do you think a sport association will have to do? What effects do you think an enforcement of VAT will have for the sport association and for the voluntary workers? Will a VAT liability affect the Swedish club activities?
5. In case of an enforcement of VAT, what will be the role of the STA? Do you feel that the STA has some kind of responsibility towards the sport associations? If so, in what way?