

Strengthening European defence without tax burden: SAFE and VAT exemption 3/23/25



Manager, Tax, PwC Latvia
Matiss Auzins

SAFE (Security Action for Europe) is a European Union financial instrument established to provide financial assistance to Member States, enabling them to undertake urgent and substantial public investments in support of the European defence industry. It forms part of the EU's broader response to the markedly deteriorated security environment in Europe and is designed to reinforce the European Defence Technological and Industrial Base (EDTIB). SAFE aims to promote joint procurement, boost defence production capacity, and reduce strategic dependencies on external suppliers. It will make available up to EUR 150 billion in low-cost, long-term loans, aligned with Member States' national defence investment plans.

The instrument entered into force on 29 May 2025, and includes a provision for value added tax (VAT) exemptions on contracts concluded under its framework. Read more in this article.

Response to urgent defence needs

In light of the serious challenges affecting the availability of defence-related goods across the European Union, the SAFE instrument seeks to reinforce the European defence industry by promoting coordinated procurement among member states. To support these efforts and ensure the efficient use of allocated resources, member states have agreed to implement a value-added tax (VAT) exemption for transactions conducted under SAFE.

This exemption is not merely a fiscal adjustment — it serves as a strategic tool. By eliminating VAT on eligible defence purchases, member states can deploy their defence budgets more effectively, avoiding the need to finance the VAT component of procured goods and services.

Scope of the exemption and legal basis

The VAT exemption applies specifically to defence goods purchased within the framework of joint procurements utilising the SAFE instrument. This measure is introduced as a temporary derogation from Article 2(1) of Directive 2006/112/EC.

According to Article 20 of the SAFE Regulation:

"The supply of defence products or other goods intended for defence purposes — including imports and intra-Union acquisitions carried out under contracts resulting from joint procurement under the SAFE instrument — shall be temporarily exempt from value added tax, by way of derogation from Article 2(1) of Directive 2006/112/EC".

It is expected that amendments will be made to VAT legislation to implement this derogation in the EU VAT regulatory framework.

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