

POSITION PAPER



VAT: rules for financial and insurance services

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

ESBG Transparency Register ID 8765978796-80

November 2020



ESBG strongly supports the modernization of the VAT treatment of financial services as the existing regulations are out-of-date and do no longer reflect current practices in the financial sector. This leads to legal uncertainty and a lack of neutrality. If European banks are to remain competitive in international financial markets, there is an urgent need to achieve greater legal certainty concerning the VAT status of financial services and, at the same time, ensure the neutrality of VAT and thus avoid additional costs for the financial industry. The new initiative of the European Commission, that started last year with preparations for a study to collect the most comprehensive data possible and produce an overview of the measures applied by Member States regarding the provisions governing the VAT treatment of financial and insurance services, is therefore highly important.

As comprehensively presented in the now published "Combined Evaluation Roadmap/Inception Impact Assessment" (short: CER/IIA), the following issues in particular:

- the lack of VAT neutrality,
- the regulatory complexity of the regulations and
- the legal uncertainty caused by different detailed regulations in the EU member states

are obstacles to a "level playing field" in the field of VAT and thus to the efficient and smooth functioning of the EU internal market.

As stated in the CER/IIA, not only the two measures presented as main policy options, namely

- the complete abolition of the VAT exemption for financial services, or
- the principle of maintaining the exemption while adjusting the scope of taxable financial services,

should be analysed and discussed comprehensively and in detail in the Impact Assessment mentioned above, but alternative courses of action should also be examined.

We would prefer to widen and clarify the rules for the deduction of input VAT. We emphasize the importance of a new exemption clarifying the qualifying conditions for an outsourced service to be exempt, given that the exemption is currently subject to a number of different interpretations among Member States. Additionally the cost-sharing arrangements (Art. 132 (1) (f) VAT directive) should be made applicable for companies rendering financial and insurance services. Not least would a more detailed definition of the conditions for deducting input VAT – especially for separating deductible input VAT from non-deductible input VAT – be very helpful, because the provisions laid out in the VAT directive give room for various interpretations.

In our view the legislative package launched by the European Commission in 2007 which comprised a proposal for a Council Directive and a proposal for a Council Implementing Regulation has been an constructive attempt to reach modernization and harmonisation of VAT rules. Even though this attempt was not successful in the end, this should be no obstacle to try it again.

The key VAT principle of tax neutrality between the direct investment in securities and the indirect investment in securities via investment funds should be kept.

Any fundamental change in taxation principles should be studied carefully from an economic, social and administrative viewpoint.

In conclusion, we advocate for the establishment of an expert group by the EU Commission, including experts from the financial and insurance services sector, in order to be able to support the work of



the EU Commission in the best possible way in view of the high technical and organizational complexity of financial services.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

Published by ESBG. November 2020