

## Comments on EC roadmap on the review of VAT rules for financial and insurance services

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### Summary

Insurance Europe welcomes the possibility to comment on the Roadmap/Inception Impact Assessment for the review of the VAT rules for financial and insurance services.

We believe that an effort is required to harmonise VAT rules across Europe, establish a level playing field on VAT for all financial services providers, create legal certainty and ensure that European VAT law is fit and proper for the modern business environment. The modernisation of the value-added taxation of insurance services must not jeopardise the attractiveness of private pension provision.

We are pleased to note that the initiative aims to tackle the lack of VAT neutrality, legal uncertainty and regulatory complexity, although the roadmap does not set out very clearly whether the introduction of a (partial) tax liability is also being considered for insurance services and its details.

Insurance Europe believes that the current Directive is outdated and not correctly applicable to modern financial services. Recent rulings of the CJEU have shown a need to adapt the VAT Directive to current market realities; CJEU rulings are an inefficient means of providing certainty in the European VAT system.

Due to this lack of adaptation to modern financial services, member states endeavour to find a balance in their national markets and may implement their own interpretation of the law. This results in an uneven playing field within the EU, causing VAT to become a key factor affecting the competitiveness of the EU and a driver in business decisions for financial services companies. It also leads to inappropriate taxation of financial services providers and lost VAT income for member states. Irrecoverable VAT is also a considerable cost for businesses, which in turn is largely passed on to customers. In several countries, they must also pay IPT, meaning that in effect they face double taxation. The interaction of VAT with the different national tax regimes for financial services must be carefully examined (eg consider the repeal of IPT if a tax liability for insurance services were



introduced) to ensure a level playing field in the interest of policyholders and avoid any increase in the costs of insurance contracts.

We also believe the lack of harmonisation of VAT across the EU is a significant barrier to a Capital Markets Union.

VAT rules should have a very clear scope that includes all transactions that contribute to the provision of insurance services. Insurance Europe believes that:

- It is necessary to review the VAT Directive to explicitly allow Cost Sharing Groups independent of the type of activities conducted by members of the group.
- More clarity and legal certainty are needed for financial and insurance services operators about the scope of the VAT exemptions that apply to the industry.
- The VAT Directive should be amended to make the option of VAT group treatment mandatory in every member state's legislation to avoid any distortion between financial operators located in different member states.
- The VAT Directive should be amended to include the cross-border effect for VAT groups to avoid any distortion between financial operators located in different member states and in line with the CJEU ruling in Case C-386/14.
- The elimination of VAT obstacles should apply to the arrangements necessary to carry out insurance business, such as those under European directives. These features should be determined by the nature of the service provided, rather than by the person providing it. Outsourced services that are necessary to insurance business, such as claims-handling and leading fees in coinsurance business, must benefit from a VAT exemption; otherwise a true level playing field would not be achieved.

Insurance Europe looks forward to contributing to the consultation in 2021 to set out in more detail our position and provide further comments on the areas in which the Directive needs to be modernised.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out almost €1 100bn annually — or €2.9bn a day — in claims, directly employ over 900 000 people and invest nearly €10 200bn in the economy.