# Modernising VAT rules for insurance:
## Ensuring fairness, clarity and affordability

The current VAT framework for financial and insurance services dates from the 1970s. Over time, it has become increasingly difficult to apply in practice, for financial services providers and insurers in particular, as it no longer reflects how insurance operates today and because it creates complexity and inconsistencies across Member States. Modernisation is therefore both necessary and timely, and should aim to improve legal certainty, reduce distortions, and support a well-functioning Single Market. It is moreover particularly key to ensure that a modernisation of the framework ensures that the specific nature of the insurance business model is properly reflected.

### Insurance is different - and must be treated as such

Insurance is a solution that people and businesses rely on to manage risk and recover when things go wrong. It plays a key role in supporting financial security and resilience. Fundamentally, insurance is about sharing risk. Individuals and businesses pay premiums, which feed a common pool, which is then used to cover losses when a covered risk materialises. Insurance is also a tool to save/invest or to obtain financial security in the event of death, illness or similar circumstances. This is what makes insurance different from other financial services. It is built on risk pooling and generally long-term commitments, rather than on fees or commissions. This has direct implications for VAT. Rules designed for fee-based services cannot be applied to insurance without adaptations because they do not reflect how insurance works in practice and can lead to unintended consequences, including higher costs for consumers and distortions in the market.

# How to Move Forward

## Keep insurance accessible and affordable

Under the current rules, insurance transactions are exempt from VAT. Determining the tax base for VAT in insurance is a challenging legal issue. In many EU countries, insurance premiums are subject to Insurance Premium Tax (IPT). At the same time, since insurance is exempt from VAT, insurers generally cannot deduct the VAT incurred on the goods and services they purchase. This "tax dualism" puts the insurance industry at a competitive disadvantage. It creates a specific tax burden for insurers, as IPT applies to insurance premiums while input VAT remains largely non-deductible.

As a result, unlike businesses carrying out taxable activities, insurers generally cannot deduct input VAT incurred on their costs. The non-deductible input VAT (the so-called hidden VAT) becomes a cost factor for insurance companies, which naturally impacts the pricing of insurance products. In some Member States, including Denmark and France, this burden is further increased by payroll-based or wage-sum taxes that apply to financial and insurance activities. The recent external Commission study on taxation of the financial sector (June 2026) also highlights the complexity arising from the interaction between VAT rules and a wide range of national sector-specific taxes and levies.

This situation has arisen historically in connection with the harmonisation of VAT in the EU. Since the implementation of the current system, the previously very low insurance tax rate has risen sharply in all EU Member States and has thereby exacerbated the economic problem of hidden VAT.

Against this background, any move towards applying the VAT framework to insurance needs to be carefully designed with cautiously weighed options depending on classes of insurance, and ensure an appropriate interaction between VAT and existing IPT regimes so as to avoid cumulative taxation, which would increase the cost of insurance for households and SMEs. This would directly affect the accessibility and affordability of coverage.

## Focus on what needs to be improved

The challenges with the current system are well known and have already been identified in earlier legislative European Commission proposals to amend the VAT Directive and its implementing rules as regards the treatment of insurance and financial services. However, these proposals were not taken forward, reflecting the complexity and sensitivity of designing appropriate solutions in this area. This underlines the need for a carefully targeted modernisation that addresses the most pressing issues, in particular legal uncertainty, fragmentation across Member States, and hidden VAT costs, while avoiding unintended consequences.

At the moment, rules are complex and not always clear, which makes them difficult to apply in practice. Different interpretations across Member States create inconsistencies and barriers to cross-border activity. At the same time, the current framework leads to hidden VAT costs, which increase operational expenses and are ultimately passed on to policyholders. Modernisation should focus on addressing these issues. In particular, it should improve legal certainty, reduce fragmentation, and ensure that similar activities are treated consistently across the EU.

## Improve the system already today

There are practical changes that could quickly improve how the current system works. These steps would help reduce complexity, improve neutrality, and support cross-border activity, without increasing costs for consumers:

- Clarifying the scope of the VAT exemption, in particular for outsourced services that are specific and essential to the provision of insurance, would help provide more legal certainty. In practice, it is often unclear whether such services fall within the scope of the VAT exemption for insurance transactions, leading to divergent interpretations across Member States. This uncertainty is reinforced by ECJ case law, which highlights the difference in wording between Article 135(1)(a) of the VAT Directive, referring to insurance transactions, and Article 135(1)(d) and (f), which refer to transactions "concerning" or "relating to" banking operations.
    - Similar issues arise in relation to other VAT exemptions relevant to the insurance sector, such as the management of collective investment funds and share transactions and related intermediary services, where a lack of clarity also leads to inconsistent application across Member States.
- Allowing insurance and financial service providers to opt for taxation on a transactional basis can help reduce hidden VAT costs and improve VAT neutrality. Such an option should be voluntary, available on a transaction-by-transaction basis, and designed to avoid increasing costs for consumers or creating additional burdens through interactions with existing IPT or other domestic sector-specific regimes.
- Enabling VAT grouping, including across borders, would reduce hidden VAT and distortions within the Single Market. As a first step, national VAT grouping rules should be further harmonised and applied consistently with Article 11 of Council Directive 2006/112/EC, so that Member States do

not impose stricter requirements than those provided for under EU law. A common EU approach, potentially through implementing rules or guidance, would facilitate the level playing field for cross-border insurance groups. The external Commission study on taxation of the financial sector likewise identifies VAT grouping as an area where greater consistency could reduce complexity and improve neutrality.

- Making cost-sharing arrangements (CSAs) more accessible would allow insurers to organise shared services more efficiently and reduce unnecessary VAT costs. CSAs were intended to allow entities carrying out exempt activities to share services without incurring VAT on internal recharges. However, following ECJ case law, their application in the financial and insurance sectors has become significantly more restricted and uncertain in practice. CSAs organised in the financial and insurance industry can no longer access a VAT exemption, while VAT groupings do not provide an adequate and comprehensive alternative to CSAs. This has been compounded by inconsistent implementation across Member States, which creates additional legal uncertainty for cross-border groups. Clarifying and broadening the availability of the VAT exemptions for CSAs would help restore their intended function and support a more neutral VAT treatment.
- Further harmonising the methodologies used to determine VAT recovery, including the attribution of costs and the calculation of deductible proportions for common or general costs under pro rata or partial exemption methods, would improve legal certainty and facilitate the level playing field for insurance groups operating across several Member States. While VAT recovery rates will naturally differ depending on a company's activities, a more consistent approach to determining recoverable input VAT would reduce complexity, compliance costs and divergent outcomes across Member States.

Insurance Europe is the European insurance and reinsurance federation. Through its 39 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings active in Europe and advocates for policies and conditions that support the sector in delivering value to individuals, businesses, and the broader economy.

September 2026

insurance europe

www.insuranceeurope.eu

Insurance Europe

Rue du Champ de Mars 23
B-1050 Brussels - Belgium