

On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

3 May 2021

Response to the European Commission's [Consultation](#) on VAT rules for financial and insurance services

Your experience with the current rules

Question 20 - The exemption of financial and insurance services from VAT was introduced in 1977 as an exception to the general rule that VAT is to be levied on all services supplied for consideration by a taxable person. To what extent do you agree that the exemption is still needed?

Please choose between: (only one option possible)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Not sure

Answer:

Strongly agree

Question 21 - In general, how would you assess the functioning of the exemption of financial and insurance services?

The exemption...

Please choose between: (only one option possible)

- ... works very well
- ... works well, but could be improved
- ... works poorly and should be improved
- ... should be removed

- No opinion

Answer:

... works well, but could be improved

Question 22 - Please indicate the reason(s) why.

The exemption...

Please choose between: (multiple answers possible)

- ... is too costly to apply
- ... is too complex in terms of notions (structural provisions and the definition of exempted services)
- ... is not clear in terms of notions (structural provisions and the definition of exempted services)
- ... may have a distortive effect on competition with businesses in other Member States
- Other
- No opinion

Answer:

... is too complex in terms of notions (structural provisions and the definition of exempted services)

... is not clear in terms of notions (structural provisions and the definition of exempted services)

Question 26 - The compliance with VAT rules can be more difficult when supplying financial and/or insurance services cross-border. How do the factors listed below contribute to that effect?

Answer:

	Not at all	Somewhat	To a large extent	No opinion
Difficulty of finding information on VAT obligations in other Member States	X			
Different interpretations on definitions of exempted services		X		
Different rules for opting to tax		X		
Availability of VAT grouping			X	
Availability of cost-sharing arrangements		X		
Different deduction methods				X
Different VAT obligations in other Member States		X		
Other				

Question 28 - Do you think that the current rules hinder the development of cross-border supplies of financial and insurance services?

Please choose between: (only one option possible)

- Yes
- No
- Do not know

Answer:

No.

Question 35 - Do the current VAT rules for financial and insurance services result in prices lower than those that would apply if these services were taxed?

Please choose between: (only one option possible)

- Yes, but just for final non-taxable customers
- Yes, for all customers
- In part, due to other similar taxes
- No
- Do not know

Answer:

Yes, for all customers

Question 37 - VAT provisions related to financial and insurance services can be perceived as complex. For which of the current structural provisions is that correct?

Please choose between: (multiple answers possible)

- Option to tax
- VAT grouping
- Cost-sharing arrangements
- Proportional deduction
- None

Answer:

None.

Question 38 - To what extent do you agree or disagree with the following statement: The lack of input tax deduction is detrimental to the financial and insurance sector. It compels the sector to outsource services which are typically provided in-house, thus raising the costs.

Please choose between: (only one option possible)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Do not know

Answer:

Disagree.

Question 40 - To what extent do you agree that the current VAT rules are fit to cover emerging trends in the industry (such as digitalisation)?

Please choose between: (only one option possible)

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree
- Do not know

Answer:

Neutral.

Question 41 - The VAT treatment of emerging trends under the current VAT rules for financial and insurance services can be problematic due to unclear definitions for VAT purposes. In connection with which of the emerging trends listed, do you consider this correct?

Please choose between: (multiple answers possible)

- Services provided by means of fintech
- E-money
- Services linked to crypto-assets (such as mining)
- Payment services

- Other
- Do not consider it problematic
- Do not know

Answer:

Do not know.

Possible changes to the current rules

The Commission is intending to prepare a proposal that will seek to modernise the current VAT rules for financial and insurance services. Your answers will feed into the review of these rules.

Question 44 - In your view, which would be the best way to reform the rules on exemption?

Please choose between: (multiple answers possible)

- Update definitions of exempt services drawing on the extensive CJEU case law in the field of VAT
- As regards the definitions, refer to other EU regulations governing the financial and insurance sector
- Removing the exemption, so that definitions will be no longer needed
- Other
- Do not know

Answer:

Other.

Question 45 - Please indicate which other way(s).

Answer:

In any potential reform of the rules on exemption, it is key to preserve and strengthen the exemption for fund management. If this exemption is not maintained, it would lead to an increase of costs for EU based private equity funds, which will have direct negative impacts on the EU economy and the many EU businesses, jobs and communities depending on their investments.

Question 46 - The removal of the exemption for financial and insurance services could benefit the neutrality of the VAT system. What could be other effects of such a removal?

Please choose between: (multiple answers possible)

- Simplification in the application of the VAT rules for financial and insurance services
- Lower VAT compliance costs
- Less distortive effect of the exemption on competition linked to suppliers from non-EU countries operating in the EU
- Higher VAT compliance costs
- Higher complexity of VAT rules
- None
- Other

Answer:

Higher VAT compliance costs.
Higher complexity of VAT rules.

Question 49 - Financial service providers may currently opt for taxation and obtain the right of deduction, but it is up to each Member State to introduce such option. Should Member States keep that discretion?

Please choose between: (only one option possible)

- Yes
- No, it should be available in all Member States
- No opinion

Answer:

No, it should be available in all Member States.

Question 52 - Should cost-sharing agreements be made available to the financial and insurance services sector?

Please choose between: (only one option possible)

- Yes
- No
- No opinion

Answer:

Yes.

Question 53 - In your view, should businesses established in other Member States be allowed to form part of the cost sharing arrangements?

Please choose between: (only one option possible)

- Yes
- No
- No opinion

Answer:

Yes.

Question 54 - Please indicate the reason(s) why.

Please choose between: (multiple answers possible)

- To achieve a more level playing field for businesses
- To boost competitiveness of financial and insurance service providers
- To reduce the tax burden and the administrative costs of businesses operating at cross-border level
- Other

Answer:

To achieve a more level playing field for businesses.

To boost competitiveness of financial and insurance service providers.

To reduce the tax burden and the administrative costs of businesses operating at cross-border level.

Question 58 - Which is the most beneficial aspect of establishing VAT groups for providers of financial and insurance services?

Answer:

	Not beneficial at all	Somewhat detrimental	Neither beneficial not detrimental	Somewhat beneficial	Very beneficial	No opinion
It is optional					X	
Intragroup supplies are out of scope and therefore not taxed					X	
VAT compliance costs are lower for the members of the group as they are pooling them					X	
It is easier to outsource the activity through a single taxable person					X	
VAT grouping increases the competitiveness of the sector by reducing hidden VAT					X	
Other						

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

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