

Mr Patrice Pillet
European Commission - DG TAXUD
Rue de Spa 3
1000 Brussels

3 May 2021

European Commission Consultation on VAT rules for financial and insurance services

Dear Mr Patrice Pillet,

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors. Our members provide an essential source of funding for innovative businesses at key stages of their growth journey, taking a long term approach to investing in privately-held companies, from start-ups to established firms. They inject not only capital but also dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

By way of background, in 2019 alone, private equity and venture capital funds invested over €94bn into 7,900 European companies, a large majority of which (84%) are SMEs. Private equity and venture capital funds thereby play a key role in connecting providers of capital from across the EU and beyond with companies in search of financing.

We are reaching out to you regarding the European Commission Consultation on VAT rules for financial and insurance services, to which we have also today submitted our response. However, as we find that many of the questions in the consultation are not fit for the private equity sector, we are writing to you to offer additional insights and explain further our views from a private equity perspective.

In general, we believe that increased convergence, clarity and transparency about the rules and their scope is important. As investors investing in businesses all over Europe, we therefore find it essential that the rules of the VAT regimes in all Member States across the EU are clear and transparent, and provide regulatory stability and legal certainty. Due to the importance of regulatory stability, the advantages of any changes must seriously outweigh the disadvantages. Furthermore, it should be kept in mind that changes to VAT rules will not necessarily have a positive impact on VAT revenues.

A uniform approach across the various VAT regimes in the different jurisdictions is important to ensure a level playing field between similar services. However, while a level playing field between similar financial products must be ensured, this should not be the case for diverse financial products. Different financial products which are diverse in origin, nature and effect on the market should on the contrary not be treated in the same way. Therefore, the various exemptions taking into account the specificities of each of the various financial services are of huge importance.

Private equity specific issues

From a private equity perspective, the VAT exemption for fund management is of utmost importance. The exemption exists for various good reasons, and we believe it must be maintained and strengthened, as it is indeed still needed and relevant. An important rationale for the exemption is not to increase the VAT costs of investments when they are made through an investment vehicle, instead of a direct acquisition. This increases and encourages investments in the EU economy, and is thus an advantage for all actors in the investment chain.

Private equity investors, who have made long term investments, have based their decisions on expectations of existing regulatory regimes, hereunder existing VAT regimes. In case of any potential changes to the current system, we urge the European Commission to take into account the legitimate expectations which various investors might have had, when the various investments were made, and to carefully consider the impact on existing structures and implementation deadlines given that commitments are made for the long term, as private equity investors are per definition long term investors. For long term investors, legal certainty and clarity is thus essential, not only in the short term but also in the long term.

Furthermore, it is important that any future exemption secures equal VAT treatment of equal investment management services. While it indeed is sensible to treat different financial services differently, a level playing field between similar investment management services must be secured in the national implementation of the exemption. As investors with portfolio companies in several different jurisdictions, we would favour a situation with as great convergence as possible across the regimes in the various jurisdictions. Therefore, the exemption for fund management must be preserved and extended, and preferably become universal across all Member States.

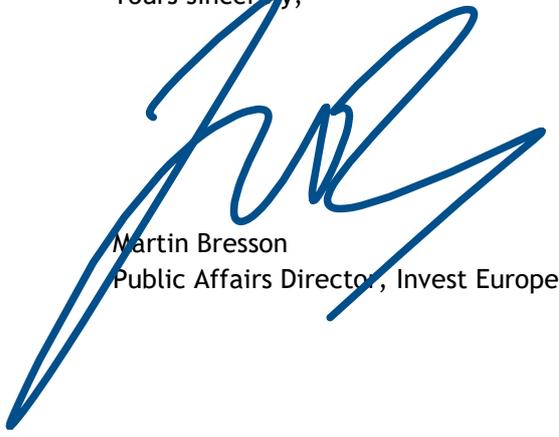
Finally, we would likewise reiterate the importance of equal VAT treatment of all equal investment products, in order to avoid a situation where some investments are made less attractive due to VAT costs. It is essential that no additional VAT related costs are imposed on investments made through an investment vehicle, compared to investments made directly in the investee company, in order to safeguard the multifaceted contributions to European economy. Private equity funds invest in a diverse range of businesses, many of them being start-ups, scale-ups and SMEs, which would otherwise not have been able to get capital elsewhere or it would have been too expensive. Furthermore, private equity provides not only capital but also active hands-on support, knowledge and contacts, helping the investee businesses prosper and grow. Private equity investments are thereby an essential driver of European growth, employment, innovation, and economic and social prosperity.

However, if the fund management exemption is not maintained, it would lead to an increase of costs for EU based private equity funds. This will have direct negative economic and social impacts on long term investors as well as their investee companies, since it will cause less investments in the EU economy and EU businesses. Therefore, it is key that any changes to the current regime will not make it more costly or more complicated to invest through private equity funds in the EU. A situation where investments in the EU would become more expensive and less attractive would be to the detriment of the EU economy and the many EU businesses, jobs and communities depending on those investments. This is particularly problematic in the times during and in the aftermath of the COVID-19 crisis, where investments in EU businesses and the EU economy are all the more needed.

Therefore, we urge the European Commission to preserve and strengthen the exemptions, and notably the exemption for fund management, no matter what form a potential review of the VAT rules for financial and insurance services might take.

We would very much welcome the opportunity to discuss this important topic with you in greater detail (please contact Martin Bresson via Martin.Bresson@investeurope.eu).

Yours sincerely,



Martin Bresson
Public Affairs Director, Invest Europe