VAT on financial and insurance services review

The EU Commission has set up a study to evaluate the operation of the current VAT rules on financial and insurance services with a view to developing possible options for a review of the exemptions.

Submitted: 5 July 2019
Applicable Law: European Union
Topic: Tax > VAT & similar taxes
Sector Focus: Asset Management and Investment Funds, Financial Institutions
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Those with long memories may recall the EU Commission’s 2006 Public Consultation on the VAT treatment of financial and insurance services. That consultation led to a wide-ranging and long-running review led by the Commission with input from Member States with a view to modernising the VAT finance and insurance exemptions to take account of developments in the market such as outsourcing and the increased use of technology-based solutions. Ultimately, that project faltered as a result of disagreements amongst Member States (but also due to a change of focus following the 2008 financial crisis) and was finally (and quietly) laid to rest in 2016.

Recent work by the EU Commission’s Group on the Future of VAT has once again focussed on the problems of applying the current VAT rules to new forms of financial and insurance transactions, usually carried out electronically. An Update from the Group, published on 15 March 2019, records that a decision has now been taken to conduct a broader review to reassess the current exemptions, with a special emphasis on their cross-border dimension. In the first place, the Commission will carry out a study to evaluate the functioning of the current VAT rules on financial and insurance services with a view to developing possible options for the review of the provisions of the VAT Directive, including ways in which financial and insurance transactions could be taxed. Based on recent press reports, it is understood that the Commission has now accepted external tenders to carry out this study. The Group has indicated that it would expect the results of the study to be published within about one year ie by summer 2020.

Comment

The original review of the finance and insurance exemptions proved politically sensitive. There were a number of areas in which Member States found it very difficult to reach agreement, including in relation to the VAT exemption for the management of SIFs (and its potential harmonisation) and also the application of the exemptions to outsourced services. It is highly unlikely that the study and subsequent review will lead to any fundamental changes any time soon, but it will be very important for potentially affected businesses involve themselves in the process to ensure that their voices are heard. It may be that rather than the (overly) ambitious approach to reform advocated in 2006, the Commission could be persuaded to move forward with particular aspects of the review, particularly where there are pressing business and commercial issues that require greater clarity.