

To: Taxation WG
From: Personal & general insurance department [CoAuthorsText]
cc:
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Subject: Taxation of financial services - Preliminary interview with Syntesia

Summary

Members are invited to take note of the notes from the discussion that took place on **30 September**, with the participation of the consultancy company Syntesia, and some Insurance Europe's members (AT, Allianz (DE), IT, LU, SE).

Syntesia is leading a team of consultants, mandated by DG TAXUD (European Commission), to perform a study evaluating the existing VAT system for financial and insurance services, and the surrounding regulatory and tax environment, including sectorial taxes such as the Insurance Premium Tax (IPT).

The study will also seek to identify and assess the potential impact of new EU initiatives in this sector, including possible legislative changes.

The study is set to take place throughout the rest of 2024 and 2025, including targeted consultations covering public and private stakeholders at international, European, and national levels. The purpose of the scoping interview conducted by Syntesia on 30 September, is to collect anonymous, preliminary, insights and establish contacts for the more formal consultation that is set to take place at a later stage.

Next steps

- The secretariat will continue monitoring the developments related to the initiative to reform the taxation framework for financial services, including the second step of the Syntesia study, set to take place during the following weeks, and the European Commission (EC)'s public consultation, set to take place during the first part of 2025.

Notes

■ Introduction

Rohmer Bradford from Syntesia explained that they have been entrusted by DG TAXUD to carry out a study on taxation in the financial sector, including insurance. The study aims to take stock of the VAT regime for financial services and other various sectorial taxes, including IPT, that are in place in many member States. The impact of these different tax regimes will be explored from an administrative and revenue perspective. A wide variety of options to achieve an harmonisation of the framework is explored:

1. Trying to implement a "normal" VAT in the insurance sector while eliminating other taxes, such as IPT.
2. A more "innovative" solution, that might entail a zero-rating regime instead of the current plurality sectorial taxes. One European financial activity tax, set at around a level that would compensate for VAT, would be introduced instead.

■ Timeline and next steps

Syntesia, at the time of the discussions, stands at an early stage of the study and is finalising its scoping interviews with business associations, tax authorities, multinational enterprises groups (MNE), and EC

representatives. The discussion that took place on 30 September had the objective of creating a point of contact with Insurance Europe and getting an initial understanding of the situation. During the next months, Syntesia will collect different information from a large group of stakeholders, especially from a sample of 12 member states (including DE, IT, and SE). However, Syntesia will also gather feedback from stakeholders from other member States, to lower degree. The information will be used to assess the current situation and to define possible policy options. The methodology used to study the current framework will involve legal analysis and economic modeling. Economic modeling will also be used to study the possible impact of the policy options, on the sectors involved, on the customers, and the economy more broadly. The fieldwork will be finalized by the end of the year. After that, there will be a public consultation in 2025. Around this period of 2025, towards the end of the study, there will be a workshop to discuss the findings, while the conclusion of the study is expected by the end of 2025. After that, a policy proposal is going to be launched.

■ Previous studies on VAT for financial services

The first attempt to reform the EU framework of VAT for financial services took place in 2010 and was not successful. After that, in 2019, DG TAXUD tasked Syntesia to conduct targeted interviews and to draft a study which, compared to the new initiative, had a narrower scope, focusing only on VAT. The study was completed in 2020, but it was not made public and the initiative was paused because DG TAXUD decided not to go forward, also because of the COVID-19 pandemic and the economic uncertainty. The topic stands now at a higher level in the political agenda, as demonstrated also by its inclusion in the mission letter to the Commissioner-designate for climate, net zero, and clean growth, Wopke Hoekstra ([here](#)).

■ Question 1. Overarching views on the current VAT regime for insurance services? Is a VAT exemption justified? What are the (dis)advantages of the regime?

IT shared that the advantages of VAT exemption are reflected in a cheaper product for customers. At the same time, input VAT is blocked (cannot be recovered), adding up to the cost of the marketed products. Moreover, sectoral taxes represent an important resource for public budgets. In Italy, for instance, IPT yields 2 bn EUR financing the Italian provinces. With a reform, insurance would get VAT on certain premiums, that should be determined. At the same time, tax administrations would continue to consider IPT essential.

SE shared that it is a highly sensitive topic for Swedish members, and is against (improbable) sudden changes. There are various situations in member States that need to be taken into account. The Swedish system is quite different from the German one, for instance.

Allianz highlighted that the potential reform might replace IPT with VAT, or with another taxation. Therefore, the VAT framework needs to be changed. The group structure of insurance MNEs has changed through the years. Larger parts of the insurance business are now outsourced, and there are more and more cross-border services. These developments have led to additional VAT. Moreover, the EU VAT framework has been shaped by ECJ rulings. Cost-sharing agreements (CSAs) are not available anymore, after the "Danske bank" (C-812/19) and "Skandia" (C-7/13) cases, thus imposing additional VAT on intra-company transactions after that member States started collecting these revenues might have become too difficult to re-discuss the framework. VAT groupings are very useful in limiting the increased VAT burden. However, they are implemented differently in the various member States, increasing the complexity. Additionally, rules for banks and insurers are different, as banks are allowed to "option-to-tax", differently from insurers.

LU shared that in Luxembourg a lot of life-insurance companies operate in the rest of the EU. Non-life insurance companies, often have their offices in Luxembourg and establish branches all around the EU. In turn, these branches are often specialised in certain lines of business and operate in many member States. These companies witness a massive degree of non-harmonization, including for both PT and VAT, but also for other charges. Moreover, countries still have great differences in their interpretation of the VAT directive. Recently, this was witnessed in the VAT applicability of management charges for internal funds, for which different countries had

various, and in certain cases opposite, interpretations of the text, leading to similar products being taxed differently in different countries. IPT and VAT rates can be significantly different, in certain countries.

The secretariat highlighted the widespread nature of the non-harmonisation issue, which is prevalent in various policies impacting EU insurers, including, for instance, the insurance liability regime.

■ **Question 2: How much did the reliance on outsourcing increase during the past few years?**

Allianz shared that outsourcing is not the only change. Blocking CSAs and reducing the applicability of VAT groupings, limits the possibility of having economies of scale. Other issues include the treatment of claims sampling, back office services, and other discrepancies among countries, where the nature of certain services can be considered exempt in some countries and not in others.

IT shared that the Italian tax court is extending the liability to VAT of several services set up by insurance companies, that were previously exempt, following recent ECJ rulings.

■ **Question 3: Even in the existing regime there is a lot of uncertainty and different interpretations. CSAs, which are disappearing after ECJ rulings, although still in place in a small subset of countries, and VAT groupings, which are purely national.**

Allianz confirmed that VAT groupings are essential means to avoid the disadvantage of blocked input VAT. Currently, they are only applicable at the national level. This creates distortions against cross-border business. Moreover, several members have implemented stricter requirements on VAT groupings, making their usability more complicated. For instance, some member states require VAT grouping to be created only by a parent company and subsidiaries, while "sister companies" of the parent company cannot join. Often, there is uncertainty in tax audits about whether a VAT grouping is really in place. In Italy and in France a notification process was implemented, which limited the risk of these occurrences.

IT shared that VAT groupings were adopted and applicable on an optional basis in 2019, and turned out to be very efficient. However, there are strict conditions to join the group. All the companies must be included, it is not possible to choose. However, the legislation has not been changed after the recent ECJ ruling and the tax authority announced that they will amend it only once the EU VAT directive is reformed. Therefore, the situation is quite uncertain. Moreover, in Italy, tax administrators use a retroactive approach. However, relative to VAT grouping, 2025 or 2026, no more an all-in all-out approach, but there will be the possibility of entering on an optional basis.

■ **Question 4: is a VAT for life insurance, even with an investment component, practically and politically feasible? A possibility could be an exemption with a proportional deduction regime.**

IT shared that a system in which IPT is abolished would not be acceptable for tax administrations. Theoretically, there could be a VAT system where life insurance is exempt and non-life would be subject, with the possibility to deduct it. For ANIA the fundamental objective should be tax certainty (about taxation or exemption).

■ **Question 5: relative to non-life insurance, is the amount of taxes currently raised, through IPT plus the partial application of VAT, higher than it would be with just a regular VAT?**

Allianz highlighted that in Germany both rates are 19%, and moreover there is blocked input VAT. Furthermore, IPT is not deductible at the level of business customer, unlike VAT. Therefore, the new framework would mean less taxes.

LU shared that in Luxembourg the VAT rate is 17%. While IPT is way lower, at 3%/4%/6%. IPT is not deductible as well. Therefore, the situation is different.

IT shared that, although in Italy tax rates are various for IPT, they are mostly aligned with VAT. Therefore the impact would be similar to the one described in Germany. Should the premiums be subject to VAT, this would translate into advantages such as the deduction of input VAT, also for companies who insure themselves.

■ **Question 6: how important are administrative compliance costs related to VAT and other sectorial taxes, like IPT?**

LU shared that on the non-life side, there are huge IPT compliance costs, while for VAT the situation is less extreme.

■ **Question 7: Would the ideal situation entail harmonized VAT regime and the cessation of IPT? Or would it be a harmonized IPT regime or other taxes combined with zero-rating?**

IT remarked that it would be already a big improvement if exemptions were harmonised for insurance.