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Executive Committee

Subject: 29th ASSOCIATES MEETING
- Brussels, 3 December 2009 -

ITEM VI: OPTIONAL APPLICATION OF VAT ON FINANCIAL SERVICES

Background

Since 2006, the EU has indeed been working on a three-pillar reform of the VAT treatment of financial services. The reform first includes an update of the definitions of exempt financial services, aimed at increasing legal certainty. In addition, two complementary solutions aim to address the economic distortions caused by the blockage of input VAT inherent to the exemption, which leads to cascading of the tax.

One of these two solutions would consist of an option to tax, which would allow VAT to be added to financial services, thus permitting the recovery of any related VAT expenses. This solution would prevent irrevocable VAT from flowing into the supply chain, thus reducing the negative consequences of the exemption system.

So far, Member States have the discretion to take up the option to tax. The proposal is to move this discretion from the Member States to the financial institutions. So far the European Commission has however left a number of questions unanswered.

Recent events

The EBF invited the recognised industry expert from the audit and consulting firm *Ernst & Young* to conduct a study investigating into the possible variants of a system providing financial institutions with discretion to apply VAT on financial services. The Report is a thorough analysis of the possible combinations for an option to tax, addressing all the open questions.

The Report is available at the EBF website: <http://www.ebf-fbe.eu/content/Default.asp?PageID=250>. An article (page 4) in the EBF Newsletter Nr. 20 is available here: <http://www.ebf-fbe.eu/content/Default.asp?PageID=248>

At the meeting

At the meeting, Mr Roger KAISER, EBF Senior Adviser, and Mr Francisco SARAVIA, EBF Adviser, will present the report and its findings.

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