European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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Feedback on the roadmap for updating VAT regulations for financial services

The European Federation of Building Societies is an association of specialised credit institutions (Bausparkassen) promoting the financing of home ownership, as well as energy efficient renovations. In compliance with the strict legal provisions, Bausparkassen are offering contractual savings schemes to their customers and grant them home loans secured by mortgages.

We welcome the opportunity to provide you with feedback on the above-mentioned roadmap. The generally addressed objectives therein are primarily intended to eliminate the perceived disadvantage of financial service providers due to the non-deductible input tax and to define EU-wide uniform regulations for tax exemption. Nonetheless, the addressed objectives require the abolition or at least restrictions of the tax exemption regulations.

Were these regulations disadvantageous for the end user? For this we look at the current legal situation and the VAT group mentioned in the roadmap.

The meaning and purpose of the tax exemption provisions for banking sales and insurance sales was and is to avoid such services being made more expensive for consumers through VAT. Associated with this is a nearly exclusion from input tax deduction for financial service providers.

The material costs, including the non-deductible input tax, as well as the personnel costs not subject to input tax, are included in the cost accounting / product calculation. In our estimation, these are partly administrative costs with input tax and personnel costs without VAT, which were ultimately borne by the customer.

If the sales of the financial services had not been tax-exempt, the customer, as the end user, would also have had to bear the VAT on the personnel costs as part of the transfer. That means that for the consumer the products would ultimately have become more expensive - presumably despite the partial input tax deduction that goes with it. In this respect, the customer benefits from the current VAT exemption regulation, if it concerns the private customer business.

To avoid VAT cascade effects from administrative costs on the supplier side and to use synergies within the group, the Vat group is used as an important instrument. This means that group-internal service charges are made without being charged VAT.

We therefore consider the current regulations to be acceptable for all parties involved and, contrary to the aim of the roadmap, do not see any fundamental need for change in the tax exemption regulations.

Instead, we still see an urgent need for improvement in the requirements for fulfilling the organizational integration requirements at stock corporation and at Bausparkassen, which were recently the focus of tax audits in Germany.

A worthwhile goal would be a simplification through the possibility of a VAT group taxation on application, as already described by the German Federal Ministry of Finance for the reform of the VAT group in April 2019.

We oppose requests for changes which could lead to a VAT liability and thus possibly to an increase in the price of the products, amongst others also for pension products. Should it nevertheless come to a VAT liability of financial services as described in the roadmap, we see various issues that need to be clarified in advance.

- What should be the basis of assessment for VAT? The insurance premium and/or the insurance benefits?
- As a rule, insurance premiums are a bundle of benefits (e.g. risk shares, administrative costs, commissions, insurance processing services, etc.). Here it would be necessary to define exactly which of the benefits should be taxable in the future. In our opinion, insurance benefits should only be seen as the outflow of an insurance contract and should not trigger VAT again.
- How would previous tax burdens (e.g. insurance tax, fire protection tax) be treated?

  It would be conceivable to credit or abolish these additional transaction taxes to avoid double taxation.
- The current low interest rate environment and the planned VAT obligation are putting a strain on the returns on pension provisions. In our view, pension products should then be exempted from the VAT obligation if necessary. On the other hand, this would of course increase complexity, as input tax amounts would have to be split up.
- We see a similar problem in the banking / Bauspar sector. Due to low interest margins and interest on credit balances, VAT would pose an additional burden. Savers would be punished additionally, since they would have to bear the additional costs from the VAT.
- VAT in the insurance and banking sectors makes capital movements more expensive at the expense of customers.

It would therefore remain important for us to simplify the requirements for VAT group purposes, as otherwise this would generate cost pressure and weaken pension provisions. In addition, VAT groups simplify the exchange of services within the Group, as no invoices entitling to input tax deduction need be issued. Without a VAT group, there would be extensive and costly accounting processes within the Group.

Ultimately, it would still have to be clarified whether this would also make the turnover of insurance/Bausparkassen representatives taxable.

In summary, the abolition or restriction of the tax exemption regulations will probably make financial service products more expensive for customers because they will bear the VAT at the last stage. This will increase the cost pressure on financial service providers, who will have to offer competitive gross prices. This can only be achieved by reducing personnel costs that are not subject to input tax and by advancing technology.