

Mr György Matolcsy
Minister
Ministry for National Economy
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Brussels, 12 January 2011

Subject: *Position of the European Banking Federation concerning the current debate on the VAT treatment of insurance and financial services*

Dear Mr Matolcsy,

Over the last years the European Banking Federation¹ (EBF) has been strongly committed to support the efforts towards reaching a full modernization of the VAT treatment of insurance and financial services which aims to ensure a more consistent application of VAT across Europe. It is in the pursuit of this commitment that I am writing to share with you the position of the banking industry in regards to the current debate on the VAT treatment of financial and insurance services and express our entire disposal to continue our cooperation and dialogue on this important subject.

The EBF welcomes the decision of the Hungarian Presidency to pursue as a priority the work on the modernisation of the definitions of exempt financial and insurance services. However, we would like to draw your attention to the other two pillars of the reform, *the option to tax* and *cost sharing arrangements*, which the banking industry considers as important and essential as the modernization of the definitions in order to allow businesses to better manage the impact of non-deductible VAT on their activities. The EBF feels very concerned and regrets that the work in these two pillars has not progressed in the same way as the work on the modernization of the definitions since the EBF strongly supports the implementation of a full package containing all three pillars.

On the *modernization of the definitions*, the EBF welcomes the documents FISC 158-160 released in December 2010 by the Hungarian Presidency. We will provide you shortly with a detailed comment letter addressing these documents.

Regarding the *option to tax* and the ECOFIN conclusion from 17 November 2010 to explore the possibilities for allowing a departure from the current VAT exemption, we would like to express our interest and entire disposal to follow and participate in the work in search of these possibilities. For the banking industry these questions are of the utmost importance and central to the entire VAT banking system.

As you may be aware, in 2009 the EBF together with Ernst & Young published a comprehensive study on how financial services are taxed in countries that have recently introduced a VAT taxation system and the experiences of Member States that make use of the Option to Tax. We consider this study - *Design and Impact of the 'Option to Tax' System for application of VAT to financial services*² - could be of much use for the work that is about start and believe that we could contribute to a meaningful and constructive dialogue in this issue with other parties such as the Presidency of the Council of the European Union and the European Commission.

Regarding *cost sharing arrangements*, the EBF regrets the decision taken at the ECOFIN meeting of 17 November 2010 to stop work on this important pillar of the reform. Even if it has been clarified that the current rules are applicable to the financial sector there are many question marks left that need to be straightened out publicly by official guidelines, a regulation or - better still - a change in the VAT Directive. It is for this reason that the EBF remains committed to work towards reaching an improved set of rules as the banking industry needs well-functioning rules for cost sharing in order to reduce the costs for non deductible VAT. Moreover, a change in the way the rules are set is essential and will certainly prove to be helpful as the current work carried out by EBF reflects a lack of uniformity in application and implementation throughout Member States.

We sincerely hope that you will find our comments useful and remain at your entire disposal to further discuss with you these or related issues.

Yours faithfully,



Guido Ravoet

Copy to:

- Mr András Kármán, State Secretary, Ministry for National Economy
- Mr Ádám Balog, Deputy State Secretary, Ministry for National Economy
- DG TAXUD (Mr Alex Wiedow, Mr Donato Raponi, Mr Arthur Kerrigan and Mr Burkard Hein)
- Financial Attaches of the Permanent Representations to the EU

² [http://www.ebf-fbe.eu/uploads/documents/publications/Reports/Others/D1925_EBF - EY Final Report 28 October 2009_TB-NT-2009-01580-01-E.pdf](http://www.ebf-fbe.eu/uploads/documents/publications/Reports/Others/D1925_EBF_-_EY_Final_Report_28_October_2009_TB-NT-2009-01580-01-E.pdf)