



Brussels, 17 July 2007
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Opinion

Title **Impact Assessment on a proposal for a Council Directive on the modernisation of VAT provisions relating to financial services including insurance**

(Draft version of 18 June 2007)

Lead DG **DG TAXUD**

1) Impact Assessment Board Opinion

(A) Context

The current VAT provisions relating to financial services, which were adopted in 1977 are out of date and need to be modernised. The industry has become more sophisticated and complex (e.g. new products, trend towards outsourcing etc). The existing VAT rules create growing problems in ensuring a clear and consistent application of the exemption across the Community and create barriers to realising a pan-European market for financial services. This IA report accompanies a proposal to modernise the VAT rules with a view of ensuring consistency with established policy objectives and reducing the need to seek clarification through litigation.

(B) Positive aspects

Although using often a rather technical language, the IA report provides a good and comprehensive overview about the problems resulting from outdated provisions related to the VAT exemption for financial services. Moreover, good use is made throughout the IA process of the feed back received in the course of the stakeholder consultation.

(C) Main recommendations for improvements

The recommendations below are listed in order of descending importance. Some more technical comments have been transmitted to the author DG.

General recommendations: The problem definition should be clearly focused on the core problem and be more coherently linked with the sections on objectives and policy options. Overall, the analysis of impacts should be strengthened and the choice of the preferred option should be linked more clearly to this analysis. The IA report should be complemented with an indication of the expected administrative

burden reduction.

(1) The detailed problem definition should be more focused, the defined objectives should correspond more closely to it, and the preferred option should be better substantiated. While the problem definition provides a lot of information, not all of this is equally relevant or explicitly carried forward in the remainder of the IA report. The IA report should clearly identify the main problem; present the identified objectives in a more consistent and hierarchical manner; clearly define the set of policy options up for appraisal; explain convincingly why the status quo is not a feasible option and demonstrate clearly why the proposed action is the most appropriate policy response under the present technical and political constraints. The IA report should also explain in more detail how the proposed actions relate to the objectives and initiatives of the Financial Services Action Plan (FSAP) as well as the Single Market Review.

(2) The analysis of impacts should be overall reinforced and some tentative quantification should be provided. While the IA report provides a detailed problem analysis and discussion of policy options, the analysis, in particular the quantification of impacts is far less developed. This can be partly improved by moving some of the more detailed impact discussion from other parts of the IA report to the impact analysis section. The IA report should also make an effort to give at least some tentative quantification of the most important economic impacts. As suggested by DG TAXUD during the meeting, selective quantitative information available from case, market and other studies appear to be the appropriate starting point for this exercise. Moreover, the IA report should clearly state and, where appropriate, substantiate that no significant environmental and social impact can be expected and also substantiate the claim that the impacts on the final consumer are likely to be overall positive.

(3) The reduction in administrative burdens should be better assessed. In view of the fact that reducing administrative costs for administrations and economic operators is one of the main objectives of the envisaged action and that the VAT Directive is one of the priority areas for the Commission's measurement of administrative burdens, the IA report should aim to provide quantitative assessments of the likely reduction in administrative burden. If the specific nature of the VAT tax exemption regime may make the direct application of the EU Standard Cost Model difficult, the IA report should better articulate the issues at hand with the definition and main methodological principles of the SCM and, in particular, ensure the necessary consistency in the applied cost methodologies (definition of compliance/administrative costs; justification of weighing factors etc). The Board recommends that DG TAXUD consults on these issues with the competent experts from DG ENTR.

(D) Procedure and presentation

It appears that all necessary procedural elements have been complied with. With regard to presentation, the IA report should aim to more closely respect the maximum length of 30 pages (excluding annexes).

2) IAB scrutiny process

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