



The European Federation of Insurance Intermediaries

La Fédération européenne des intermédiaires d'assurances

BIPAR RESPONSE

European Commission's consultation on taxation of the financial sector

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BIPAR, the European Federation of Insurance Intermediaries, is a non-profit European organisation grouping professional associations of insurance intermediaries in Europe. It presently has a membership of 50 national associations, established in 32 countries, and represents some 80,000 insurance agents and brokers, employing in all about 250,000 people. Founded in Paris in 1937, BIPAR headquarters were moved to Brussels in 1989. It is today the recognised single voice of insurance intermediaries with the European Institutions.

Introduction

BIPAR (the European Federation of Insurance Intermediaries) appreciates the opportunity to comment on the European Commission's consultation document on taxation of the financial sector and supports the Commission in conducting a detailed impact assessment on the effect an FTT and/or FAT tax levy would have on the financial sector both from a European single market perspective and from a global trade perspective.

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BIPAR submitted an initial reaction following the Commission communication issued in October 2010 to DG TAXUD. The following is a more detailed response to various sections of the consultation.

Section 4.1 Problem definition

The European Commission's initial analysis is that the financial sector has *"benefited from substantial public support during the crisis and shall therefore make a fair and substantial contribution to fiscal consolidation efforts"*.

BIPAR would like to provide some preliminary comments as a response to this initial analysis. This observation may not be entirely impartial as it does not take into account that financial services is a service industry and so not just financial services but all areas of the economy benefited from the substantial public support during the crisis.

BIPAR equally notes that it is not possible to provide a final position on this consultation as the implications must be considered in combination with the parallel European Commission's Green Paper on the future of VAT in the Europe as well as the ongoing Council VAT review on VAT exemptions for financial services and insurance services.

Furthermore, BIPAR believes it to be important to distinguish the objectives of the Commission's impact assessment. The issues considered and conclusions reached will be different if the main rationale is to investigate the suitability of introducing a new tax levy due to national budget reinforcement, repayment of government financial bail-outs and subsidising of the sector or if the objective is to enhance the efficiency and stability of the financial sector in the longer term.

BIPAR appreciates that the European Commission must take policy actions following the financial crisis to achieve a stable, robust and effective financial system for the future. Indeed, it is a reasonable measure to require that those responsible for the crisis afford *"a fair and substantial contribution"* to remedy the health of the economy.

However, BIPAR is of the opinion that the insurance sector, and more particularly the insurance intermediation sector, should not be covered by this additional taxation of the financial sector, and it is a mistake to conflate insurance activities with banking activities in this context. The insurance sector is fundamentally different from the banking sector and

was not a source of the financial crisis. A number of global organisations have found that the insurance sector has largely been a bystander in the crisis, and has been impacted by its wider effects, such as the fall in equity markets, decline in interest rates, economic slowdown and decline in credit quality, and, in some cases, counterparty exposures to failed financial institutions.

The insurance sector has arguably helped to provide a stabilising influence in light of its longer-term investment horizon and conservative investment approach.

In addition, insurance intermediation is a specific profession and the majority of insurance intermediaries are micro to SME sized businesses. An added tax levy on the insurance intermediary will have a detrimental effect on the sector. Much of the additional burden will fall on the final consumer, many of whom will be private individuals or micro or SME sized entities. The result at the margin may even be that people are under-insured or un-insured even for compulsory classes such as motor insurance. BIPAR stresses that any action taken by the European Commission on taxation must be proportionate and neutral in intent so as not to put the real economy at risk.

Section 4.2 Taxation as a relevant measure

Taxation should not be applied as a sanction or a corrective instrument. In our view, regulators should prioritise evaluation of the shortcomings of both the industry and its regulatory and supervisory system. More importantly, regulators should focus on developing systems that will prevent the recurrence of such a system and market failure rather than focussing on the establishment of safeguards effective only after a financial market failure.

Equally, taxation should not be applied as a means for funding temporary public budgetary shortfalls. These short-term problems are in danger of distorting the perspective of various Member States in their consideration of establishing taxation frameworks for the long term prosperity and competitiveness of the European Union.

BIPAR would like to highlight that the general level of taxation of other sectors must also be taken into consideration so as not to risk creating imbalances and distortions in the national fiscal systems of the various Member States.

Section 4.3 FTT (Financial Transaction Tax)

BIPAR believes that an FTT may generate increased costs on the consumer rather than on the financial sector. The IMF report on financial sector taxation to the G20 (September 2010) recognised in its analysis that *“a large part of the burden may well be passed on to the users of financial services (both businesses and individuals) in the form of reduced returns to saving, higher costs of borrowing and/or increases in final commodity prices.”*

The proposed FTT will inevitably not only increase the tax cost but also introduce new compliance burdens. It is noted that capital is highly mobile and that if taxes are applied to certain geographical areas and not others then inevitably capital and the resulting economic activity will move to locations where the burdens of doing business are lower.

Furthermore, since it is levied on every transaction, BIPAR believes there is a risk for cumulative cascading effects of an FTT. The Commission should assess the potential efficiency of an FTT raising real revenue.

The argument that an FTT would cause little distortion because it would be levied at a very low rate on a very broad base is not proven: it is a central principle of public finance that if the sole policy objective is to raise revenue then taxing transactions between businesses (which many financial transactions are) is unwise: distorting business decisions reduces total output, so that more could be raised by taxing that output directly. A tax levied on transactions at one stage 'cascades' into prices at all further stages of production.

Section 4.4 FAT (Financial Activities Tax)

It is outlined by the Commission that an FAT would compensate for the VAT exemption, taxing the sum of wages and profit. The supply of insurance intermediation by intermediaries is indeed generally exempt from VAT, although this exemption is both construed narrowly and interpreted differently in the Member States. Furthermore the Commission is aware that the treatment for VAT of financial services has been under review for a number of years and a wide range of options have been considered.

Insurers and insurance intermediaries also deal with a number of other burdensome national but widespread taxes such as insurance premium taxes which were brought into existence to compensate for the absence of VAT on insurance activities - and a range of parafiscal taxes (Fire Brigade Tax, Hunting Tax, Kidnapping Tax, Extortion tax) which differ in existence, application and rate across the Member States.

Additionally, a number of Member States have taken unilateral action in imposing specific levies and taxes to the financial services sector and these do not appear to have been taken into account.

Despite all these factors, a general perception appears to have arisen, that the financial services industry, generally is under-taxed. This appears to arise from the exemption from VAT. Notwithstanding the lack of evidence for this perception, BIPAR kindly asks for details of the supporting analysis which determines and demonstrates the relative taxation burden of different EU industry sectors. BIPAR is concerned that the documentation falls short of taking into account the fact that exemption from VAT on supplies gives rise to a restriction in credit for input VAT for the provider. This restriction in VAT recovery is a form of taxation which in the case of insurance intermediaries in the EU alone amounts to costs of tens of millions of Euros, and applies in far greater numbers to insurers and banks. There appears to be no recognition of this fixed cost in the consultation.

The proposed FAT is a tax which applies generally to the activities and profits of a financial services enterprise. Has the Commission considered that such taxes already exist as corporation taxes in all Member States? BIPAR recommends that the European Commission looks into a harmonisation of corporate tax amongst the Member States rather than scrutinising an introduction of an FAT levy. Not to consider the overall framework of taxation across the Member States before introducing new taxes risks exacerbating the market distortions, inefficiencies and unintended anti-competitive consequences arising from a range of independent and overlapping taxes applying.

Summary and conclusion

BIPAR believes that an introduction of additional taxation on an already fiscally burdened (as outlined above) insurance and insurance intermediation sector must be studied in great detail and BIPAR strongly recommends that the European Commission reconsiders its objectives for this initiative taking on a proportionate approach when looking at the insurance and insurance intermediation sector. The Commission should study the real benefits/disadvantages in practice of an FTT and FAT and analyse who will bear the final cost.

BIPAR stresses the importance for the Commission to consider the parallel initiatives, the Green Paper on the future of VAT in Europe and the Council review of Directive 2006/112/EC on the common system for VAT of insurance and financial services, and their long-term impact on the market.

Again, BIPAR appreciates the opportunity to comment on this consultation and remains at the Commission's disposal for further comments and clarification throughout the process.