

9 June 2006

Commissioner László Kovács
 European Commission
 Directorate-General Taxation and Customs Union
 VAT and other Turnover Taxes Unit
 B-1049 Brussels
 Belgium

Dear Commissioner Kovács

Response to the European Commission's Consultation Paper on modernising Value Added Tax obligations for financial services and insurances

It is our pleasure to respond to this consultation.

Scotland has a distinguished history in financial services that dates back over 300 years. It is now one of Europe's leading financial centres and the second largest financial hub in the UK next to London. The international financial services industry based in Scotland has a long-held reputation for innovation and excellence, and provides financial products and services to businesses, private and public organisations and individuals across the world.

The financial services industry is of major importance to the Scottish economy. In the last five years (2000 to 2005) financial services in Scotland grew by 36% while the overall Scottish economy grew by 9% and the whole of the UK financial services industry grew by 15% in the same period. The financial services industry accounts for one in 10 Scottish jobs, with over 113,000 people directly employed in the industry and over 100,000 more employed in support services.

Scottish Financial Enterprise (SFE) is the independent organisation, formed in 1986, that supports and represents the interests of Scotland's financial services industry. Our members encompass all sectors of the industry including banks and building societies, general insurance, life assurance and pensions, investment managers, asset servicing, corporate finance and broking services, professional advisors and support services.

The competitiveness of Scotland as a business base for financial services companies - and thus Scotland's ability to attract and retain the financial services investment that is so vital to the Scottish and UK economies - is affected significantly by the policies determined at Scottish, UK and EU levels.

SFE welcomes the Commission's action to re-examine this issue. Likewise, SFE's membership appreciates the challenges of the application of VAT to financial services in the modern marketplace. Capital flows, services and the overall sophistication of operations across Europe (and the world), including those conducted by SFE's membership, are vastly more complex than when the Sixth Directive was adopted in 1977.

SFE supports the Commission's three stated objectives in re-examining this area.

1. Reducing the administrative costs for supervision and compliance is both necessary and desirable. Migration towards electronic reporting and compliance systems would be most welcomed by the financial services industry - one of the world's largest consumers of IT systems and services. The Commission should ensure that it fully harnesses the potential for increased efficiency to the benefit of economic operators and Member State treasuries and fiscal supervisors.
2. Creating budgetary certainty for Member States and legal certainty for economic operators is of paramount importance. Member companies have expressed particular interest in this objective. They have indicated that achieving it will be important to the long-term development of their operations in Scotland and the business they undertake elsewhere in Europe. Companies based in Scotland engage in extensive and diverse activities that all require stability of legal framework. These include long-term contracts, systems development, and investment in infrastructure to name but a few.
3. Addressing the inconsistencies between the 1977 provisions and the more recent regulatory and legal provisions would be most welcomed by our members. Regulatory parity within the EU, as far as possible, will enable financial services companies based in Scotland and elsewhere in Europe to be more globally competitive.

Among SFE's membership there is support for devoting time and energy to achieving greater clarity with regard to which specific services should attract VAT and which should be exempt. Clearer definitions would make VAT calculations less ambiguous and more consistent, providing they are robust, durable and appropriate to the market they seek to serve. They would, in turn, lead to less hidden VAT and fewer competitive distortions in the market. Fundamentally, the definitions should be understood, adopted and applied consistently throughout the European Community. This will be no easy task, but worthwhile and essential if any meaningful reform is to be achieved and the single market realised successfully.

At present, SFE is not able to offer comment on the technical solutions to non-deductible input VAT. We wish only to highlight what we see as major impediments to a more effective VAT system on financial services and insurances in the EU, namely a lack of clarity in definitions and a lack of consistency in how they are applied across Member States. Once these issues are solved, many perceived problems of hidden VAT and distortive impacts may be significantly mitigated. Solving these issues should be the first priority to create a common foundation across Member States before any technical solutions are pursued.

I hope these comments are of help. Please contact me directly if you would like more information or further input from our members.

Yours sincerely



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Chief Executive