

Preface

For over half a century, countries have struggled to reconcile the principles and design of a VAT or GST system and the unique features of financial supplies. A VAT taxes the value of transactions, which is relatively straightforward where explicit fees are charged, but intriguingly difficult where implicit fees are charged as is the case with some types of financial services. At the same time, the VAT has mechanisms to remove tax from business-to-business transactions involving no final consumption but these, too, are difficult to apply to some types of financial services. The fundamental design features of the tax also appear problematic in terms of the goal of removing tax from pure savings in the form of financial instruments. Relieving financial services from the tax altogether runs counter to the character of the VAT as a broad-based tax levied on all final consumption. Equally at odds with the design principle of the VAT is imposing a limited tax on business-to-business transactions along the supply chain or imposing a limited tax on pure savings. No VAT or GST systems have yet achieved these objectives consistently.

Financial services constitute an important and large economic sector and the application of VAT to financial services is particularly complex and has given rise to a multitude of problems and selective solutions. At the same time, financial services are becoming increasingly globalized. The growth of cross-border trade and investment has led to financial service providers providing global services to entire company groups. Consumers, too, have access to cross-border services from internet gambling to investment and personal banking facilities. With the increasing number of free trade agreements, there is pressure on governments to simplify oversight regulation to allow foreign financial service providers such as banks and insurance companies access to their markets. This will exacerbate difficulties arising from inconsistent treatment of financial services across different VAT regimes.

The difficulties of taxing financial services are well known among specialist academics and policy-makers; absent is an overview of the problems and possible solutions in a single, comparative study. Missing, too, is a study combining theory and practice that financial institutions and their advisors can use to plan global operations and develop advocacy positions for reform in their home and operational

jurisdictions. This volume seeks to fill these gaps, acting as a helpful reference for policy-makers tasked with (re)designing VAT rules for financial services, and for academics and practitioners when providing insight and counsel on how VAT is applied to different types of financial services.

The volume provides an overview of the VAT treatment of financial supplies in the European Union, covering 27 jurisdictions that apply variations of the traditional VAT under a common EU-mandated umbrella, as well as a selection of countries applying modern VATs with remarkably divergent approaches to the treatment of financial supplies

This volume is divided into four parts. Part I provides the general introduction to this study. It first lays out the scope of and defines the purpose of the collaborative research. It then demonstrates the consequences of, and problems associated with, partial taxation of financial services, as is the practice in most jurisdictions. Since VAT is aimed at taxing personal consumption, it is essential to determine the nature of consumption and define this concept, and the second chapter offers two theoretical approaches, which yield different tax bases. Parts II–IV deal with the application of VAT to different types of financial services. Part II focuses on loan intermediary services, starting with a theoretical chapter, followed by treatises on how VAT is applied to such services in nine jurisdictions: Argentina, Australia, Brazil, Canada, China, the European Union, Israel, New Zealand, and South Africa. Part III deals with financial investments, again starting with a theoretical chapter, followed by two jurisdictional chapters, covering the European Union, and South Africa. In addition, there are chapters explaining the intricacies of VAT as it relates to cost-sharing arrangements and crowdfunding. Part IV focuses on financial pooling services: one chapter is dedicated to gambling and three jurisdictional chapters cover the VAT treatment of insurance services in Australia, the European Union and Singapore.

To facilitate comparisons between the approaches of the selected jurisdictions, all authors followed guidelines as to the topics to be covered in each chapter. The chapters do not mirror one another in terms of structure, however, which reflects the very different taxation approaches used in different jurisdictions.

The bibliography is organized separately for each chapter and found directly following each individual chapter. A register of case law is also organized by chapter and found in consolidated form after Part IV.

This volume is current with literature and case law through September 2016.

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