

Mrs Maria Elena Scoppio and Mr Ludwig De Winter  
European Commission  
DG TAXUD C – Indirect Taxation & Tax Administration

Brussels, 5 June 2025

## **European Commission Review of the VAT rules for financial and insurance services**

Dear Mrs Scoppio and Mr De Winter,

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors. Our members provide an essential source of funding for innovative businesses at key stages of their growth journey, taking a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but also dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

We have over 650 members, split roughly equally between private equity, venture capital and limited partners – with some 110 associate members representing advisers to our ecosystem. Those members are based in 57 countries, including 42 in Europe, and manage 60% of the European private equity and venture capital industry's €1,004 billion of capital under management. Businesses with private capital investment employ 10.9 million people across Europe, 5% of the region's workforce.

By way of background, in 2023 alone, private equity and venture capital funds invested over €99.8bn into 8,400 European companies, a large majority of which (85%) are SMEs. Private equity and venture capital funds thereby play a key role in connecting providers of capital from across the EU and beyond with companies in search of financing.

We are reaching out to you regarding the European Commission works on the review of the VAT rules for financial and insurance services. We are writing to you to offer additional insights into the specificity of the private equity and venture capital sectors, which is an important part of the financial services sector.

In general, we believe that increased convergence, clarity and transparency about the rules and their scope of the directive is important. As investors investing in businesses all over Europe, we therefore find it essential that the rules of the VAT regimes in all Member States across the EU are clear and transparent and provide regulatory stability and legal certainty. Due to the importance of regulatory stability, the advantages of any changes

must seriously outweigh the disadvantages. Furthermore, it should be kept in mind that changes to VAT rules will not necessarily have a positive impact on VAT revenues.

A uniform approach across the various VAT regimes in the different jurisdictions is important to ensure a level playing field between similar services. However, while a level playing field between similar financial products must be ensured, this should not be the case for diverse financial products. Different financial products which are diverse in origin, nature and effect on the market should on the contrary not be treated in the same way. Therefore, the various exemptions taking into account the specificities of each of the various financial services are of huge importance.

### **Private equity specific issues**

From a private equity perspective, the VAT exemption for fund management is of utmost importance. The exemption exists for various good reasons, and we believe it must be maintained and strengthened, as it is indeed still needed and relevant. An important rationale for the exemption is not to increase the VAT costs of investments when they are made through an investment vehicle, instead of a direct acquisition. This increases and encourages investments in the EU economy and is thus an advantage for all actors in the investment chain.

The scope of the VAT exemption for fund management differs within the EU member states. This sometimes leads to uncertainty for fund managers and the funds they manage and may result in an unlevel playing field within the EU. We would welcome a fully harmonized and broad exempt treatment of services for investment funds within the EU, with crystal clear guidelines as to the scope of the VAT exemption. In its Abbey National II-ruling (C-169/04), dated 4 May 2006, and its GfBk-ruling (C-275/11), dated 7 March 2013, the ECJ has given guidance with respect to the meaning of “management” of collective investment funds. This guidance, however, is open for interpretation, resulting in a lack of consistency among the EU member states in applying the exemption, in particular with respect to services outsourced by the fund manager. The EU investment fund sector has to compete within the EU, and also needs to compete with non-EU competitors. Fund managers are outsourcing activities to more specialized service providers to run a more efficient operating model. Any VAT on outsourced fund management services creates additional operating costs, and differences in interpretation between EU countries create barriers for operating internationally. These barriers make it for EU fund managers more difficult to compete internationally while non-EU fund managers can build a scalable business without or with lesser VAT impact on the operational costs. And economies of scale are crucial to compete with in this industry where there is fee pressure. Economies of scale can be achieved by generating more assets under management, which can be achieved by offering funds for a lower price due to lower operating costs.

Furthermore, currently member states do not use the same definitions when it is assessed if a fund qualify as a special investment fund or not. Today the investment funds and the managers are more regulated than back in 1977, why we welcome a more closed definition in the VAT directive that does not leave it up to the member states to define which funds qualify and which do not.

Having said that, it is also important to let asset managers have the flexibility to apply VAT to management services, if they consider that it is the best approach based on the situation of their investors and of their business.

For instance, in a Member State like France, the option for VAT can enable a French management company to avoid or mitigate

- (i) the costs related to input VAT that cannot be deducted and
- (ii) the salary tax which applies to companies that do not have a turnover sufficiently subject to VAT. The salary tax is a unique and significant burden under the French tax system that weighs heavily on French asset managers.

Importantly, the possibility to exercise this VAT option independently for each transaction empowers management companies to make the most commercially sound decision based on the particular circumstances, structure, and investor terms of each fund. This flexibility is a vital tool for ensuring efficient, competitive, and investor-aligned operations in the EU market.

### **In an unhoped-for scenario**

Private equity investors, who have made long term investments, have based their decisions on expectations of existing regulatory regimes, hereunder existing VAT regimes. In case of any potential changes to the current system, in particular if it were considered by the European Commission to narrow the scope of the VAT exemption for fund management services, we urge the European Commission to take into account the legitimate expectations which various investors might have had, when the various investments were made, and to carefully consider the impact on existing structures and implementation deadlines given that commitments are made for the long term, as private equity investors are per definition long term investors. For long term investors, legal certainty and clarity is thus essential, not only in the short term but also in the long term.

### **Final remarks**

The objective should be establishing a **Broad** and fully **Harmonized** VAT exemption for fund management services within the EU. **Consistency** and **Certainty** regarding the scope of the VAT exemption is needed for a level playing field across EU Member States and to run an efficient operating model by European fund managers, and will enhance their **Competitiveness** vis-à-vis the non-EU fund managers.

We would reiterate the importance of equal VAT treatment of all equal investment products, in order to avoid a situation where some investments are made less attractive due to VAT costs. It is essential that no additional VAT related costs are imposed on investments made through an investment vehicle, compared to investments made directly in the investee company, in order to safeguard the multifaceted contributions to European economy. Private equity funds invest in a diverse range of businesses, many of them being start-ups, scale-ups and SMEs, which would otherwise not have been able to get capital elsewhere or it would have been too expensive. Furthermore, private equity provides not only capital but also active hands-on support, knowledge and contacts, helping the investee businesses prosper and grow. Private equity investments are thereby an essential driver of European growth, employment, innovation, and economic and social prosperity.

If the fund management exemption were not maintained, it would lead to an increase of costs for EU based private equity funds. This will have direct negative economic and social impacts on long term investors as well as their investee companies, since it will eventually cause less investments in the EU economy and EU businesses. Therefore, it is key that any changes to the current regime will not make it more costly or more complicated to invest through private equity funds in the EU. A situation where investments in the EU would become more expensive and less attractive would be to the detriment of the EU economy and the many EU businesses, jobs and communities depending on those investments.

Therefore, we urge the European Commission to preserve and strengthen the exemptions, and notably the exemption for fund management, no matter what form a potential review of the VAT rules for financial and insurance services might take.

We would very much welcome the opportunity to discuss this important topic with you in greater detail (please contact Martin Bresson via [Martin.Bresson@investeurope.eu](mailto:Martin.Bresson@investeurope.eu) and Klaudia Luppino via [Klaudia.luppino@investeurope.eu](mailto:Klaudia.luppino@investeurope.eu)).

Yours sincerely,

Martin Bresson  
Public Affairs Director, Invest Europe