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Future VAT Regime for Financial Services from a Stakeholder Perspective: Analysis of the European Commission 2020 Public Consultation's Position Papers

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This study sought to address the challenges of formulating the European Union's value-added tax (VAT) reform for the financial services sector and implementing the proposed changes. The concerns and suggestions submitted by this sector's stakeholders during the European Commission's 2021 public consultation are used as inputs. The research included automated computer-assisted content analysis of fifty-two position papers, using up-to-date text mining techniques to define four cluster containing the most salient terms. An in-depth critical review highlighted the most significant concerns and suggested alterations to the current VAT framework. The results include a three-layered discussion model that goes well beyond a straightforward one-shot discussion of whether financial services should charge VAT. First, the technical rationality view of not charging VAT when providing financial services is no longer applicable. Second, intermediary and cost-sharing groups are characteristic of these services, which puts into question the tax's neutrality principle if the current VAT exemption regime remains in place. Last, abolishing the VAT exemption for these services could put an especially heavy burden on end consumers and small businesses, thereby implying extra measures will be needed to avoid a strongly negative socioeconomic impact. Significant implications for theory, practice and policy are presented.

Keywords: Value-added tax (VAT), Financial service, Insurance service, Tax policy, Public consultation, European Commission, Data mining, VOSviewer

1 Introduction and Theoretical Background

Value-added tax (VAT) is an indirect tax collected by businesses for the government. Worldwide, over a hundred countries apply VAT to goods and services. In the 1960s, the European Union (EU) adopted this tax system, which proved to be an important instrument of national fiscal policy (Hellerstein & Gillis, 2010).[1] Many decades later, academics are discussing the need to update VAT regulations (Keen et al., 1996).[2] Reform is especially required to improve financial services' VAT rules, which have never been revised since their adoption by the EU and which are now considered outdated (European Commission [EC], 2007a, 2007b).[3]

Financial services include assistance with loans and payments (Baydur & Yilmaz, 2021).[4] This type of service can be subdivided into three categories: (1) credit intermediary, (2) insurance and (3) fund, investment and savings services (Brederode & Krever, 2017; Organization for Economic Co-operation and Development [OECD], 1998; Schenk & Zee, 2004; Xu & Krever, 2016).[5]

1.1 Worldwide VAT Regimes for Financial Services

Most countries worldwide that have adopted VAT chose to exempt financial services. This tax policy has forced providers to increase their financial services' market price to reflect input VAT as a cost (Borselli, 2012; Genser & Winker, 1997; López-Laborda & Peña, 2022; Peña, 2019; Poddar & English, 1997; Schenk & Zee,

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1 W. Hellerstein, & T. H. Gillis, *The VAT in the European Union* Views on VAT - Tax Notes (2010).

2 M. Keen, S. Smith, R. E. Baldwin & V. Christiansen, *The Future of Value Added Tax in the European Union* 11(23) Econ. Pol'y 373 (1996), doi: 10.2307/1344708.

3 European Commission. (2007a). Modernising VAT rules applied on financial and insurance services – Frequently Asked Questions; European Commission. (2007b). VAT : The European Commission proposes to modernize the current legislation for financial services and insurances (Issue IP/07/1782).

4 I. Baydur & F. Yilmaz, *VAT Treatment of the Financial Services: Implications for the Real Economy*, J. of Money, Credit & Banking (2021), doi: 10.1111/jmcb.12780.

5 Y. Xu & R. Krever, *Applying VAT to Financial Services in China: Opportunities for China and Lessons for the World?*, 45(1) Austl. Tax Rev. 38–49 (2016); A. Schenk & H. Zee, *Financial Services and the Value-Added Tax. In Taxing the Financial Sector: Concepts, Issues, and Practices*, International Monetary Fund 60–74 (2004); H. Zee, *VAT Treatment of Financial Services: A Primer on Conceptual Issues and Country Practices*, 34(10) Intertax 458–474 (2006), doi: 10.54648/TAXI2006067.

2004).[6] Thus, academics have warned that this tax policy contributes to weakening the relevant companies' international competitiveness (Biernacki, 2013; Poddar & English, 1997).[7] Experts have also highlighted that financial services' VAT exemption puts into question this tax's neutrality principle (Jack, 2000; Merrill, 2011),[8] arguing that an exemption does not allow companies to apply the input VAT rule defined in directives.

The existing literature underlines these constraints and disadvantages, but charging VAT in financial services is far from straightforward. Adding this tax would be complex mainly due to companies' inability to determine how much of a service is taxable, which could cause various problems and distortions in the economies involved (Baydur & Yilmaz, 2021; Biernacki, 2013; Brederode & Krever, 2017; Cnossen, 2013; Ernst Young, 2000; Genser & Winker, 1997; Huizinga, 2002; Jack, 2000; López-Laborda & Peña, 2016, 2022; Poddar & English, 1997; Schenk & Zee, 2004; Xu & Krever, 2016).[9] Researchers have described the VAT rules applied to financial services as a 'technical exemption' (de la Feria & Krever, 2013)[10] because of the uncertainty surrounding how VAT should be applied, yet scholars now argue that this rationale can no longer be applied to maintain the existing exemption.

This theoretical discussion has focused in particular on financial intermediary services, which are provided by companies that help clients find the most appropriate intersectoral financial solution for their situation. Studies have found that some VAT jurisdictions' experience indicates that, in an updated VAT model that maintains the VAT exemption, zero-rating should be allowed in business-to-business (B2B) operations. However, a progressive post-modern VAT regime should apply full taxation. Notably, China has a VAT regime in which suppliers add VAT to financial and insurance services but at a reduced rate (Ahmad et al., 2005).[11]

The VAT system's efficiency is currently an important question debated by policymakers and academics (Keen, 2009; Peña, 2019).[12] More specifically, the extant literature considers the lack of reforms regarding how VAT is handled in financial services to be a factor that could cause a slowdown in the relevant economies (Biernacki, 2013; López-Laborda & Peña, 2022).[13]

1.2 Obsolescence of Current Financial Services' VAT Regimes

Experts in the EU have discussed the taxation of financial services for over two decades as a viable taxation system has been a recurring concern, especially for EU tax authorities (International Fiscal Association (IFA), 2003; López-Laborda & Peña, 2022; Merrill, 2011; OECD, 1998; Peña, 2019; Poddar & English, 1997).[14] On the one hand, financial services are mostly fee-based, which are seen as the most complex services to deal with from a VAT perspective because the taxable amount is difficult to determine (Ernst Young, 2000; Merrill, 2011; Schenk & Zee, 2004).[15] On the other hand, the principle of VAT neutrality has been compromised because the current VAT exemption prevents business from deducting input VAT from their costs, which this principle says should not occur (Amand, 2013; Bijl, 2020).[16] This tax instead has to be paid solely by end consumers.

6 F. Borselli, *A Sensible Reform of the EU VAT Regime for Financial Services*, 5 International VAT Monitor(Oct. 2009). B. Genser & P. Winker, *Measuring the Fiscal Revenue Loss of VAT Exemption in Commercial Banking*, 54(4) FinanzArchiv / Public Finance Analysis 563–585 (1997).; J. López-Laborda & G. Peña, *Financial VAT may Improve Trade Openness*, 54(19) Applied Econ. 2148–2160 (2022), doi: 10.1080/00036846.2021.1985072.; G. Peña, *Efficient Treatment of Banking Services Under VAT*, 8(2) Econ. & Bus. Letters 115–121 (2019), doi: 10.17811/ebl.8.2.2019.115-121.; S. Poddar & M. English, *Taxation of Financial Services under a Value-Added Tax: Applying the Cash-Flow Approach*, 50(1) Nat'l Tax J. 89–111 (1997), doi: 10.1086/NTJ41789244.; Schenk, A., & Zee, H. (2004). Financial Services and the Value-Added Tax. In Taxing the Financial Sector: concepts, issues, and practices (pp. 60–74). International Monetary Fund. https://doi.org/10.5089/9781589063167.071.

7 K. Biernacki, *The VAT in the Bank System,* 2(3) J. Governance & Reg. (2013), doi: 10.22495/jgr_v2_i3_p2; Poddar & English, *supra* n. 6, at 89–111.

8 W. Jack, *The Treatment of Financial Services under a Broad-Based Consumption Tax,* 53(4 PART 1) Nat'l Tax J. 841–851 (2000), doi: 10.17310/ntj.2000.4.03; P. R. Merrill, *VAT Treatment of the Financial Sector*, Tax Analysts 163–185 (2011).

9 Baydur & Yilmaz, *supra* n. 4.; Biernacki, *supra* n. 7; R. F. Van Brederode & R. Krever, *VAT and Financial Services: Comparative Law and Economic Perspectives*, In Springer Nature (2017).; S. Cnossen, *A Proposal to Apply the Kiwi-VAT to Insurance Services in the European Union*, 20(5) Int'l Tax & Pub. Fin. 867–883 (2013), doi: 10.1007/s10797-012-9252-x.; Ernst Young, *Value Added-Tax: A Study of Methods of Taxing Financial and Insurance Services* (2000).; Genser & Winker, *supra* n. 6, at 563–585 (1997).; H. Huizinga, *A European VAT on Financial Services?*, 17(35) Econ. Pol'y 497–534 (2002), doi: 10.1111/1468-0327.00095; Jack, *supra* n. 8, at 841–851; J. López-Laborda, & G. Peña, *A new Approach to Financial VAT* In USA: International Center for Public Policy (2016). López-Laborda & Peña, *supra* n. 6, at 2148–2160; Poddar & English, *supra* n. 6, at 89–111; Schenk & Zee, *supra* n. 5. at 60–74.; Xu & Krever, *supra* n. 5. at 38–49.

10 R. de la Feria & R. Krever, *Ending VAT Exemptions: Towards a Post-Modern VAT*, in *VAT Exemptions: Consequences and Design Alternatives* 3–36 (Rita de la Feria ed., Wolters Kluwer 2013).

11 E. Ahmad, B. Lockwood & R. Singh, *Financial Consequences of the Chinese VAT Reform*, 16(3) Int'l VAT Monitor (May/Jun. 2005).

12 M. Keen, *What Do (and Don't) We Know about the Value Added Tax? A Review of Richard M. Bird and Pierre-Pascal Gendron's The VAT in Developing and Transitional Countries*, 47(1) J. Econ. Lit. 159–170 (2009), doi: 10.1257/jel.47.1.159; Peña, *supra* n. 6, at 115–121.

13 López-Laborda & Peña, *supra* n. 6, at 2148–2160.

14 International Fiscal Association (IFA), *Cahiers De Droit Fiscal International 2003: Consumption Taxation and Financial Services (vol. LXXXVIIIb)* Kluwer (2003).; López-Laborda & Peña, *supra* n. 6, at 2148–2160; Merrill, *supra* n. 8, at 163–185; OECD, *Indirect Tax Treatment of Financial Services and Instruments* (1998).; Poddar & English, *supra* n. 6, at 89–111.

15 Young, *supra* n. 9; Merrill, *supra* n. 8, at, 163–185; Schenk & Zee, *supra* n. 5, at 60–74.

16 C. Amand, *VAT Neutrality: A Principle of EU Law or a Principle of the VAT System?*, 2(3) World J. VAT/GST L. 163–181 (2013), doi: 10.5235/20488432.2.3.163.; J. Bijl, *VAT Deduction: The Relevance of Being 'The Recipient' of a Supply and the Use of the Supply*, 29(5) EC Tax Rev. 227–235 (2020), doi: 10.54648/ECTA2020049.

VAT in this context is thus often referred to as 'hidden' VAT (Borselli, 2012; Genser & Winker, 1997; Poddar & English, 1997; Schenk & Zee, 2004).[17] To minimize this burden, South Africa, Australia, New Zealand and Singapore have applied the fixed rate of deduction model to financial services (Merrill, 2011; Zee, 2006).[18] Researchers have also suggested additional measures, such as cost-sharing groups in insurance, that reduce hidden VAT in operations and thus promote investment in financial services companies (de la Feria & Lockwood, 2010).[19]

Another concern is the lack of harmonization between EU countries so that the same financial services are treated differently in each nation (Borselli, 2012; Merrill, 2011) [20] and additional levies are applied, namely, in insurance premium taxation (Cnossen, 2013; Gillis, 1987).[21] The theory of optimal taxation offers an argument in favour of a uniform VAT because it is much easier to administer and less susceptible to fraud than a VAT system with differentiated frameworks (Gamito, 2019).[22] This approach also ensures less risk or uncertainty, which encourage long-term planning and investment (Birch Sørensen, 2006).[23] In addition, the digital economy's growth has led to the provision of financial services through digital channels or new ways of payment including cryptocurrency, thereby requiring policymakers to rethink company taxation (Ting & Gray, 2019).[24]

Academics have, therefore, called for a change in the VAT regime for the financial services sector (Borselli, 2012; Genser & Winker, 1997; Schenk & Zee, 2004).[25] Bird and Gendron (2007)[26] assert that '*no convincing conceptually correct and practical solution for capturing the bulk of financial services under the VAT has yet been developed anywhere*' (page 97). This tax reform would require policymakers to consider the theoretical principles of taxation regarding the consequences of allocation input or unequal distribution when introducing VAT so that legislators can apply measures to minimize these dangers (Shome, 2021).[27]

1.3 Public Consultation Regarding VAT Regime Reform

In 2020, the EC launched a public consultation to collect stakeholders' varied opinions on the current VAT rules for insurance and financial services. The EC also expected that the input gathered would be incorporated into the EU's review of the VAT directives' relevant provisions (i.e., Council Directive 2006/112/EC) and into the list of possible ways the existing legislation could be improved.[28]

The public consultation comprised two phases. The first was dedicated to creating a roadmap, so, starting on 22 October 2020, 28 opinions were provided by stakeholders. The roadmap phase revealed that the EC is evidently focusing on two main policy options:

(1) Remove the existing VAT exemption given to financial and insurance services
(2) Keep the exemption but modify its scope by taxing only some types of services (e.g., fee-based as opposed to interest-based)

The second phase ran from 8 February to 3 May 2021. The sectors' stakeholders were invited to complete a questionnaire with sixty-three questions. A total of 468 questionnaires were received.[29]

1.4 Present Study's Goals and Contributions

The stakeholders were allowed to add greater depth to – or to complement – their opinions in addition to the points addressed by the questionnaire as item sixty-three permitted the participants to submit a '*position paper*'. In total, fifty-two different papers were filed that contained unstructured text – in some cases dozens of pages.

An analysis of these documents provides a deeper understanding of stakeholders' concerns about and suggested improvements to VAT legislation. In their position papers, organizations could provide unlimited input and explain both their reasons for proposing ways to reform the current tax legislation and the specific business context from which their ideas emerged. The participants' suggestions themselves cannot be consulted because the questionnaire's other items were unavailable to the public at the time this study was conducted.

This research thus focused on analysing the fifty-two position papers submitted during the EC's public consultation and made available in the EC repository.[30]

17 Borselli, *supra* n. 6; Genser & Winker, *supra* n. 6, at 563–585; Poddar & English, *supra* n. 6, at 89–111; Schenk & Zee, *supra* n. 5, at 60–74.
18 Merrill, *supra* n. 8, at 163–185; H. Zee, *supra* n. 5, at 458–474.
19 R. de la Feria & B. Lockwood, *Opting for Opting-In? An Evaluation of the European Commission's Proposals for Reforming VAT on Financial Services*, 31(2) Fiscal Stud. 171–202 (2010), doi: 10.1111/j.1475-5890.2010.00111.x.
20 Borselli, *supra* n. 6; Merrill, *supra* n. 8, at 163–185.
21 Cnossen, *supra* n. 9, at 867–883. M. Gillis, *VAT and Financial Services* In World Bank (1987).
22 P. Gamito, *Morgan Stanley Judgment: The Emergence of Transnational VAT Pro Rata Calculations*, 28(3) EC Tax Rev. 150–163 (2019), doi: 10.54648/ECTA2019018.
23 P. Birch Sørensen, *The Theory of Optimal Taxation: What is the Policy Relevance?* (2006–07; EPRU Working Paper Series).
24 A. Ting & S. J. Gray, *The Rise of the Digital Economy: Rethinking the Taxation of Multinational Enterprises,* 50(9) J. Int'l Bus. Stud. 1656–1667 (2019), doi: 10.1057/s41267-019-00223-x.
25 Borselli, *supra* n. 6; Genser & Winker, *supra* n. 6, at 563–585; Schenk & Zee, *supra* n. 5, at 60–74.
26 R. M. Bird, M. Richard & P.-Pascal Gendron, *The VAT in Developing and Transitional Countries* (Cambridge University Press 2007).
27 P. Shome, *Principles of Taxation* 53–61 (2021).
28 European Commission, *Group on the future VAT* Minutes - 36th Meeting (2021).
29 European Commission, Public consultation 'VAT rules for financial and insurance services today and tomorrow' Factual summary report (2021).
30 The papers are available in two places: here and here.

The analysis used automated computer-assisted text mining techniques made accessible via Orange3 and VOSviewer software.

The results contribute to systematizing the advantages highlighted by practitioners of applying the VAT regulations currently in force, as well as comparing these ideas with the concerns about the exemption previously identified in the academic literature in recent decades. The findings further include suggestions for how to improve VAT legislation from the stakeholders' viewpoint, thereby contributing to future legislative reforms to be proposed by the EC. The most significant implications for theory, practice and policy were also identified.

2 Methodology

2.1 Data Source

The EU public consultation collected fifty-three position papers from stakeholders with an ad-hoc or non-standardized layout and of different sizes. As mentioned previously, these documents are available to the public on the EC's official website, from which they were downloaded for this study on 16 December 2021.

2.2 Dataset Characterization

The dataset included documents in different formats (i.e., portable document format [PDF] and Microsoft [MS] Word) and lengths (i.e., from 308 to 7,704 words and 1 to 17 pages). A manual analysis of the papers' contents revealed that one organization submitted the questionnaire and the same paper twice, so one copy was removed from the dataset, for a final total of fifty-two position papers. This dataset included contributions from stakeholders in different EU countries, which meant that the documents were in different languages (*see* Table 1).

Table 1 Position Papers' Language

Language	*Number*	*Percentage (%)*
English	42	80.77%
German	3	5.77%
French	3	5.77%
Czech	3	5.77%
Italian	1	1.92%
Total	**52**	**100%**

2.3 Pre-analysis Data Processing

The data had to be processed before text mining techniques could be applied. First, one position paper in an image format was converted to an MS Word format using optical character recognition technology. Without this procedure, the document's content could not be analysed by the text mining software. Second, a language-standardization procedure was followed in which all documents in a non-English format were translated into English by Core Solutions' widely used translation software. Last, various stakeholders had copied some of their answers in items in the closed questionnaire, so all the position papers were manually checked to remove this material from the corpus input into the software for text analysis.

2.4 Text Mining

The documents' content was subjected to this technique using Orange3 and VOSviewer software. These programmes use artificial intelligence algorithms, which researchers have found to be valid, powerful tools for extracting insights, namely, identifying patterns, trends and significant correlations between words (Hassani et al., 2020; Moro et al., 2015, 2016).[31]

VOSviewer is an open-source software that facilitates this type of analysis based on words' co-occurrence detected by applying a natural language processing (NLP) algorithm (Wang et al., 2021).[32] The full methodological procedure is explained in Appendix A. The VOSviewer clustering procedure's results were complemented by an in-depth manual analysis of the parts of the papers containing the most important terms within each cluster in order to compile example comments on future avenues for VAT legislation reform.

All the position papers' references are listed in the Appendix B. The results and discussion sections provide the relevant statements selected from these documents. The stakeholder that authored and filed the respective position paper is provided in every quotation's citation, as well as the page on which the statement appears. For instance, the sentence taken from page two of the Association of the Luxembourg Fund Industry's (ALFI's) paper is followed by a citation with 'ALFI' and 'p. 2'.

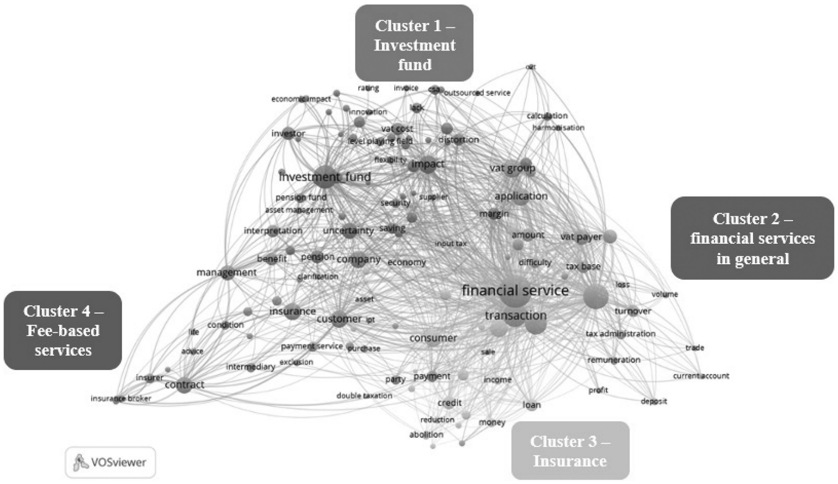
3 Results

VOSviewer's co-occurrence algorithm created the map in Figure 1, which contains four clusters of terms. Each term

31 H. Hassani, C. Beneki, S. Unger, M. T. Mazinani & M. R. Yeganegi, *Text Mining in Big Data Analytics*, 4(1) Big Data & Cognitive Computing 1–34 (2020), doi: 10.3390/bdcc4010001. S. Moro, P. Cortez & P. Rita, *Business Intelligence in Banking: A Literature Analysis from 2002 to 2013 Using Text Mining an Latent Direchlet Allocation*, 42(3) Expert Systems with Applications 1314–1324 (2015), doi: 10.1016/j.eswa.2014.09.024. S. Moro, P. Cortez & P. Rita, *An Automated Literature Analysis on Data Mining Applications to Credit Risk Assessment,* in *Artificial Intelligence in Financial Markets* 161–177 (2016).

32 S. Wang, N. Shrestha, A. K. Subburaman, J. Wang, M. Wei & N. Nagappan, *Automatic Unit Test Generation for Machine Learning Libraries: How Far Are We?* 2021 IEEE/ACM 43rd International Conference on Software Engineering (ICSE) 1548–1560 (2021).

Figure 1 VOSviewer term Co-occurrence Map for Position Papers



is associated with only one cluster, although terms from one cluster can also be linked to terms from another cluster. The four thematic clusters were labelled as follows: Cluster One – Investment Funds, Cluster Two – General Financial Services, Cluster Three – Insurance and Cluster Four – Fee-based Services.

The cluster 1 comprises terms related to the investment funds sector, with the terms 'investment funds', 'impact', and 'uncertainty' being the most frequently mentioned. Investment fund companies are currently expressing concerns about how investors might respond to potential changes in the VAT regime affecting their services. Cluster 2 predominantly centres around the adverse outcomes for families and companies in the event of the elimination of the existing VAT exemption regime. The papers associated with Cluster 3 delve into discussions about insurance services, specifically addressing challenges related to the estimation of taxable components in insurance premiums or the absence of harmonization among EU countries within their respective jurisdictions. Cluster 4 encompasses terms related to fee-based services, particularly those tied to consumers and credit, with stakeholders asserting the difficulty in determining the taxable amount in such financial services.

The circumference size of the terms' circle represents the absolute frequency with which each term appears in the position papers. That is, the larger the circle's size, the more times that term appears within the dataset's documents. For example, the term 'financial service' was used more often in the position papers than the term 'deposit' (i.e., both in Cluster 2 and in green). Table 2 lists the most frequent terms in each cluster and each term's number of occurrences.

Table 2 Cluster Profiles

Cluster	*10 Most Frequent Terms*	*Nr of terms' Occurrences*	*% of terms' Occurrences*
***Cluster* #1: Investment Fund (Red) = 52 Terms**	*Investment fund*	198	11%
	Impact	116	7%
	Uncertainty	93	5%
	Investor	63	4%
	Pension	60	3%
	VAT cost	55	3%
	Service provider	54	3%
	VAT rate	52	3%
	Distortion	51	3%
	Competition	50	3%
***Cluster* #2: Financial Services In General (Green) = 29 Terms**	*Financial service*	381	19%
	Financial institution	233	12%
	Transaction	214	11%
	Financial activity	172	9%
	VAT group	121	6%
	Application	119	6%
	VAT payer	94	5%
	Approach	69	4%
	Amount	61	3%
	Tax base	59	3%
***Cluster* #3: Insurance (Blue) = 27 Terms**	*Customer*	107	10%
	Company	105	10%
	Insurance	104	10%

Cluster	*10 Most Frequent Terms*	*Nr of terms' Occurrences*	*% of terms' Occurrences*
	Contract	97	9%
	Management	87	8%
	Interpretation	59	5%
	Benefit	54	5%
	Payment	45	4%
	Insurer	37	3%
	Party	37	3%
Cluster #4: Fee-Based Services (Yellow) = 25 Terms	*Fee*	118	14%
	Consumer	109	13%
	Credit	66	8%
	Loan	56	7%
	Economy	47	6%
	Complexity	45	5%
	Consumption	43	5%
	Income	30	4%
	Revenue	30	4%
	Money	29	3%

3.1 Cluster one – Investment Fund

This cluster is shown in red, and it includes fifty-two terms that fall within the investment funds sector. The terms investment funds, impact and uncertainty appear the most frequently. Investment fund companies are concerned about how investors will react to a change in the VAT regime applied to their services. One of these stakeholders stated that '*investment funds play an important economic role in a context of over reliance on banks as the main source of financing of the economy*' (ALFI, page 2). These funds also represent an important slice of the savings and retirement market (European Fund and Asset Management Association [EFAMA], page 2).

The stakeholders argue that the VAT exemption of investment fund management included in the Article 135 VAT Directive should be maintained. These firms assert that the exemption ensures the VAT system's neutrality in this sector and has a positive impact by encouraging small investors to invest their capital in investment funds. Alternative investments (e.g., securities markets) are less attractive because of the existing VAT exemption, which places a lighter tax burden on investors (e.g., Associazione Intermediari Mercati Finanziari [ASSOSIM], page 3).

Although stakeholders are in favour of keeping the exemption, their position papers also discuss an hypothetical scenario in which VAT is charged in investment fund services. The papers' authors argue that, if the EC discards the current exemption applied to these services, taxpayers should be able to deduct input VAT in B2B transactions. In addition, some investment fund service fees need to be zero-rated (e.g., Associazione Italiana Private Banking [AIPB], page 3). In this way, financial and insurance service providers would not have to charge their clients any VAT but would be able to deduct the VAT paid on their company's costs, which would, however, have a quite negative impact on governments' VAT receipts. Another possible solution with less negative effects would be to charge VAT at a reduced rate in investment fund services.

3.2 Cluster Two – Financial Services in General

This cluster appears in green and includes ten terms related to general financial services, institutions and transactions. The terms mainly focus on the negative consequences for families and companies if the current VAT exemption regime is removed.

Various position papers include a discussion of how and why the exemption first appeared and what made the regime the best fit for financial services in general. Legislators opted to exempt these services from VAT due to the technical limitations of the computer systems used at the time by the banking sector. These barriers prevented the assessment of the taxes owed because 'it … [was] difficult to find the taxable amount [of operations] (such as interest charges)' (Finance Finland [FFI], page 1).

The stakeholders also proffer other arguments in support of the present VAT exemption regime including that, from a social good perspective, 'services provided to end consumers should be as inexpensive as possible' (PensionsEurope, page 4). Other position papers present further content in favour of the exemption as abolishing the exemption would lead to higher financial service prices and a heavier tax burden for final consumers because they cannot recover input VAT. In addition, this reform would create a competitive disadvantage for EU companies compared to those in countries that do not have a VAT system (European Banking Federation [EBF], page 2; United States Council for International Business, page 2). The EBF, in its position paper, specifically states that 'competition between Member States could also become possible as Member States with the lowest VAT rates would have a competitive advantage' (page 8).

If the VAT exemption is maintained, these stakeholders suggest that a special right to recover input VAT (i.e., at a fixed rate) could be introduced into the existing legislation. This measure 'would allow businesses to claim a credit for a fixed portion of input VAT, perhaps depending on type [sic] of services or type of customers' (Association of Financial Services Companies [FINCO], page 5). The proposed solution would be viable given 'the possibility of simplification in VAT deduction reconciliations and a reduction in the hidden VAT suffered by financial service providers' (International Personal Finance Plc [IPF], page 8).

However, the position papers' authors recognize that valid arguments can be made in defence of abolishing financial services' VAT exemption. The most cited point is that the exemption infringes on fiscal neutrality principles as 'the non-recoverable VAT constitutes a significant additional cost for financial institution [sic], unlike other businesses, who can deduct it' (Fédération Bancaire Française [FBF], page 1). The stakeholders also argue that many years have passed, so the current technology allows banks' computer systems to collect and process data in order to 'identify supplies, the recipients of the supplies, and the value added to a given supply' (Electronic Money Association [EMA], page 3).

Besides taking a firm position for or against VAT exemption reform, the position papers also present complementary measures that could potentially improve the current VAT regime for financial services. First, the stakeholders argue that companies should be able to choose whether to charge VAT in B2B transactions. More specifically, 'the option to tax allows providers of financial services to charge VAT on certain otherwise exempt services, and thus to increase the proportion of taxed turnover and the corresponding input deduction' (FBF, page 2). This suggestion goes beyond the existing option-to-tax mechanism for real estate and financial services, which excludes insurance. The solution would instead allow financial service providers to decide whether to charge VAT or apply the optional exemption on a transaction-by-transaction basis.

Second, the position papers present the possibility of cost-sharing groups (e.g., cost-sharing agreements). Some stakeholders see this as a complementary measure because 'cost-sharing arrangements … are very effective to reduce the impact of irrecoverable VAT' (Fédération Française de l'Assurance [FFA], page 3). Last, various documents' authors believe that introducing a zero rate for financial services could avoid VAT's negative impact on the financial services market's prices and concurrently allow companies to deduct input VAT (Deloitte, page 7).

In parallel to the above discussion, the stakeholders mention the obsolete definition of financial services included in the EU's VAT directives, which is 'outdated and does not correspond to the current form of the financial market' (Česká Leasingová a Finanční Asociace [ČLFA], page 2). One entity argues that, because of 'constant technological evolution, even in case of an update, such definitions will need to be monitored and adapted regularly' (EBF, page 3). The papers thus call for an ongoing discussion about financial services' conceptual framework.

The position papers using terms included in this second cluster further highlight the lack of harmonization between the national legislation of EU countries that apply the VAT exemption regime. The EC consultation's participants contend that this situation increases businesses' uncertainty regarding the VAT component of financial services. The EMA states that:

> [This uncertainty is due to] the differing positions taken by fiscal authorities of different EU member states … . [T]he same product can be treated differently in different member states, … [which] creates a barrier in [sic] the operation of the single market. (page 4)

Some entities argue that the VAT exemption could be maintained by 'improving and harmonising the relevant definitions for the application of the exemption across the EU' (ALFI, page 1). This solution is discussed in the context of new digital services. In this context, the stakeholders additionally suggest that removing the exemption and ensuring conceptual redefinition may solve the neutrality principle and lack of harmonization issues. The EBF asserts that this approach 'would also solve or significantly decrease the distortive effect on competition and the unlevel playing field between banks and digital tech/fintech' (page 8).

3.3 Cluster Three – Insurance

This cluster is shown in blue, and it comprises twenty-seven terms covering discussions about insurance services, especially those related to customers, companies and insurance in general. The position papers using these terms indicate that the current VAT exemption in the Article 135 VAT Directive applied to insurance services was formulated years ago to address the difficulty of estimating insurance premiums' taxable components. This issue is similar to the banking sector's information barriers (Insurance Europe, page 1). In the stakeholders' opinion, current computer systems have greatly improved insurance companies' tools for overcoming this challenge, so these services' VAT exemption is obsolete. The papers' authors observe that hidden VAT increases insurance coverage costs paid by customers (PensionsEurope, page 6), especially in B2B transactions, given that, 'for clients that offer taxable services, the hidden VAT cost creates no advantage at all' (FFI, page 2). Removing the VAT exemption would 'free the suppliers of insurance services from the [sic] irrecoverable input VAT' (Fantozzi & Associati, page 4).

In contrast, opponents to the abolition of insurance services' VAT exemption argue that taxation would increase these services' market price, which would be prejudicial to the final customers (e.g., Insurance Europe, page 2). These experts argue that maintaining the current VAT exemption would keep 'benefiting … the client … [whether this is] a consumer or a business that offers non-taxable [sic] (as in these cases the hidden VAT cost can be assumed lower [sic] than having to pay the VAT)' (FFI, page 2).

In position papers, both the end consumers and intermediation service providers are cited as justifications for preserving insurance services' VAT exemption. Companies operating as intermediaries in insurance contend that the VAT exemption should be applied to the services that link insurance companies to end consumers. Contrary to the current legislation's wording, this exemption, however, 'should not depend on the organizational structure or number of entrepreneurs performing this intermediation process jointly together' (Bundesverband Deutscher Vermögensberater [BDV], page 2).

Thus, the stakeholders assert that cross-border and cost-sharing groups or shared-services centres (i.e., similar to the banking sectors' cost-sharing agreements) should be allowed under the VAT exemption. This strategy would 'therewith reduce hidden VAT and finally [sic] the price for financial products of the [sic] European citizens' (BDV, page 3), which means that the exemption should be not only maintained but also extended to the entire supply chain (e.g., back-office outsourcing) (CFE Tax Advisers Europe [CFE], page 2). This topic is especially important because providers increasingly outsource activities or functions, so these companies must issue invoices for services charging non-deductible VAT.

The lack of harmonization between EU Member States' legislation was highlighted by cluster two, and this problem is similarly discussed in cluster three's papers regarding insurance services. One example of this missing harmonization's impact is brought up by Fantozzi & Associati, who explain that, in Italian VAT legislation:

> [T]he Italian Tax Authorities considered that the handling of the [sic] claims, carried out by reinsurers directly in favour of the policyholders, does not form an essential part of the reinsurance activity nor can [sic] be considered an insurance service and [sic] is, as a consequence, subject to VAT. However, … such [sic] conclusion is not shared by other EU Tax Authorities. (page 3)

The lack of harmonization is evident in that various specific insurance premium taxes are applied by EU countries within their jurisdictions, for instance, Finland's taxation of certain non-life insurance services (FFI, page 2). The EU consultation's participants warn that introducing a VAT rate other than a zero rate for insurance services would 'undoubtedly imply a mandatory repeal by the given Member State of all special taxes currently applicable to insurance premiums' (FFA, page 2), or any other forms of indirect taxation (Fantozzi & Associati, page 4). Otherwise, this situation could increase the risk of double taxation of insurance services and hinder the development of any cross-border insurance and financial services (CFE, page 2). Notably, Insurance Europe (i.e., the European Insurance and Reinsurance Federation) states that it is in favour of voluntary taxation. However, this support is given 'on the condition that insurance premium taxes and similar levies are abolished and that VAT exemption of health and life insurance, as well as contributions to pension scheme [sic], is [sic] guaranteed' (Insurance Europe, page 1).

3.4 Cluster Four – Fee-Based Services

The last cluster appears in yellow and includes twenty-five terms related to fee-based services, especially those connected to consumers and credit. One stakeholder argues that, in fee-based financial services, the taxable amount is difficult to determine and that, 'for some types of transactions, it is also difficult to say which party represents the provision of a service and which represents a remuneration' (ČLFA, page 2). The resulting lack of clarification and definition needs to be addressed in the VAT conceptual framework applied to financial services. Taxpayers must distinguish between 'fee-based on the one hand and interest and trading income on the other hand[, which] will bring [sic] enormous complexity and uncertainty' (European Savings Banks Group [ESBG], page 10) if fee-based financial services are taxed.

These constraints and potential negative impacts motivated various stakeholders to suggest that fee-based financial services should only be taxed when companies can easily establish which operations' fees are taxable. In the remaining cases, the VAT exemption regime should not be abolished (BDV, page 3; CFE, page 3). The solution thus primarily involves clarifying and simplifying how the taxable amount of fee-based transactions is determined because, without this clarification, charging VAT in these services is only a theoretical possibility given their present complexity (ČLFA, page 7).

Cluster four's position papers further mention issues related to consumers and credit. The authors express concerns about a non-exemption regime's social and economic impacts on households that pay property loans and interest, as the non-deductible VAT will increase consumers' costs in business-to-consumer (B2C) transactions. One stakeholder states that, if VAT is charged on loans, mortgages and even credit cards' interest, many customers would be unable to keep up with their payments and thus 'the entire housing market could collapse and another financial crisis would be the result' (Anonymous 1, page 6).

From this perspective, increasing the tax burden on consumer loans would not only 'spoil the demand for regulated and supervised financial services, but also increase the share of [sic] unofficial, grey economy … in the financial sector' (IPF, page 4). These experts anticipate that VAT exemption reform will have a negative impact (i.e., reducing customers' solvency) including 'limit[ing …] access to financing especially to [sic] low-income earners' and 'micro, small and medium businesses' (IPF, page 3). These individuals and companies often take out loans to finance assets whose VAT is non-deductible. The stakeholders also see eliminating the VAT exemption as a scenario that could 'cause a shift of a large portion of the consumer loans market to providers from outside of the EU, operating remotely based on new, electronic means of financial services, through devoted applications or cryptocurrencies' (IPF, page 6).

4 Discussion and implications

The present study's results include four thematic clusters in position papers submitted to the EU public consultation on the VAT regime applied to financial services. The documents' contents reveal concerns about the VAT exemption regulations already in force and suggestions for future legislation related to abolishing this VAT exemption.

The findings on financial service providers' perspectives corroborate the theoretical knowledge in the extant literature, namely, that the current financial services VAT regime is outdated. However, the results show that the solution is not simply to charge VAT on these services or to continue the exemption. The issues involved are bigger than that. The outdated legislation is caused by obsolete VAT policies and theoretical frameworks that have not changed to accommodate the financial services market's evolution in terms of complexity and technological innovations in how services are commercialized.

4.1 Main Concerns and Suggested VAT Legislation Reforms

The first important concern was concepts' definition so that taxpayers can clearly identify different financial service packages. Given a scenario in which the VAT conceptual framework is well thought out, taxable amounts could be accurately estimated, and taxpayers could correctly identify the services that should include VAT (e.g., Association Française des Marches Financiers [AMAFI], page 2). This concern is particularly evident among fee-based financial service providers in the stakeholders highlight the difficulty of ascertaining and isolating the real taxable components of intermediation services.

The second key issue is harmonization. On the one hand, this problem derives from how financial services – especially insurance – are subjected to multiple taxes and levies in EU countries based on national legislation. When these laws deem insurance premiums to be subject to VAT, this sectors' stakeholders argue that EU legislation must anticipate that EU Member States' national tax laws have to be revoked or double taxation will occur. On the other hand, globalization implies that EU and non-EU financial service providers need to remain competitive. However, the current VAT exemption for financial services creates a competitive disadvantage for EU companies compared to firms in countries that lack a VAT regime or that are allowed to deduct input tax (EC, 2007a; Huizinga, 2002; OECD, 1998; Pricewaterhouse Coopers, 2006).[33]

Because no overall harmonization exists in the EU, financial services companies are unhappy with a scenario in which they cannot deduct input VAT when they must apply output VAT to the services they provide. This concern has been previously identified in the existing literature as a serious issue (Baydur & Yilmaz, 2021; Borselli, 2012; Brederode & Krever, 2017; Genser & Winker, 1997; Merrill, 2011; Pons, 2006).[34] In addition, the EU consultation participants suggest that not charging VAT in services within a cost-sharing group would allow them to avoid non-deductible input VAT and promote investment in diverse areas of the insurance sector. The academic literature has already put forth this solution (de la Feria & Lockwood, 2010).[35]

Finally, researchers and practitioners have mentioned that technological gaps are no longer a sound rationale for not charging VAT in financial services. New techniques and data analysis software can facilitate the automatic identification of all transactions, clients and amounts in order to determine these operations' taxable components. The present study's results reveal that this former justification is no longer used to argue in favour of the current financial service VAT exemption.

Technology is instead mentioned when stakeholders discuss the novel ways in which financial institutions communicate and sell their services. The position papers' authors assert that EU VAT regime reform – whatever its final version may be – must consider the growing financial market for services remotely provided through electronic channels. Payment-processing workflow might also not pass through regulated, supervised financial services, so B2C and B2B transactions may benefit from web applications dedicated to financial services or cryptocurrencies (Kollmann, 2019).[36]

4.2 Three-Layered Discussion Model

In summary, VAT regime reform in the financial services sector is more than just a straightforward discussion about charging VAT. This issue requires a dialogue on three topics between regulators, companies, clients and legislators so that the entire financial services market can adapt to changes in VAT regulations without forcing end consumers to struggle with a heavier tax burden.

These three topics are the pillars to propose a three-layered discussion model regarding the EU financial and insurance services' VAT regime (Figure 2).

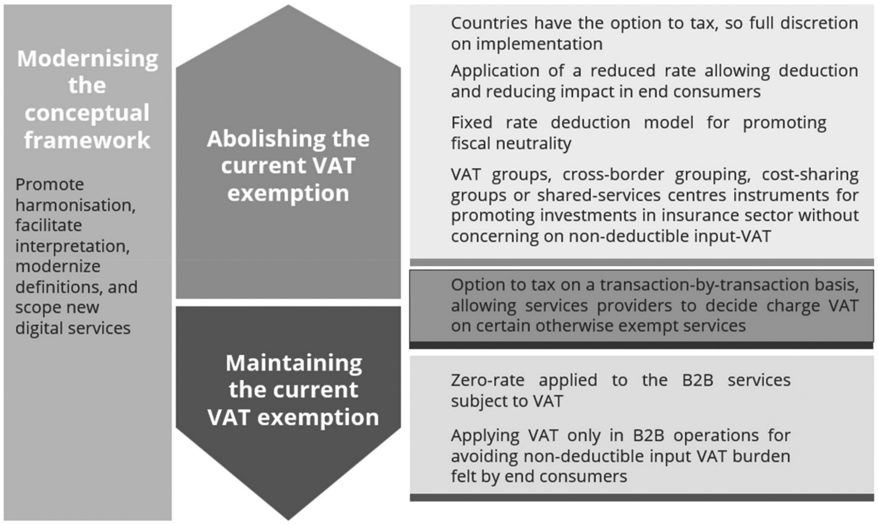
[33] European Commission, *Modernising VAT rules Applied on Financial and Insurance Services – Frequently Asked Questions* (2007).; Huizinga, *supra* n. 9, at 497–534. OECD, *Indirect Tax Treatment of Financial Services and Instruments.* Pricewaterhouse Coopers (2006) (1998). Study to Increase the Understanding of the Economic Effects of the VAT Exemption for Financial and Insurance Services: Final Report to the European Commission. *European Comission, November.*

[34] Baydur & Yilmaz, *supra* n. 4. Borselli, *supra* n. 6. R. F. Van Brederode & R. Krever, *VAT and Financial Services: Comparative Law and Economic Perspectives* in Springer Nature (2017). Genser & Winker, *supra* n. 6, at 563–585. P. R. Merrill, *VAT Treatment of the Financial Sector* Tax Analysts 163–185 (2011). T. Pons, *Option for Taxation of Financial Services in France*, 3 International VAT Monitor 182–185 (2006).

[35] de la Feria & Lockwood, *supra* n. 19, at 171–202.

[36] Kollmann, J. (2019). The VAT Treatment of Cryptocurrencies. EC Tax Review, 28(Issue 3), 164–170.

Figure 2 Three-Layered Discussion model on European Union Financial and Insurance Service VAT



First, the conceptual framework must be subjected to a comprehensive update that ensures its definitions and interpretations are clear in light of current financial services' diverse characteristics and forms of provision (i.e., online and/or offline). These alterations would promote harmonization between EU Member State tax authorities' treatment of VAT in financial operations. Ultimately, the financial services sector and its end consumers would enjoy more legal and economic certainty, which encourages innovative services and new acquisitions. Moreover, tax compliance costs could be reduced through harmonization reforms in the EU (Barrios et al., 2020).[37]

Second, if the VAT exemption is kept as it is, a discussion is needed about possibly applying a fixed rate of deduction. This model is already applied in multiple countries (Merrill, 2011; Zee, 2006),[38] and it could reduce hidden VAT in the existing regime and promote fiscal neutrality. In addition, all stakeholders should determine whether the system could make room for cross-border and cost-sharing groups or shared-services centres (i.e., similar to the banking sector's cost-sharing agreements). In the insurance sector, these instruments would stimulate more investment in technological or human resource improvements without generating non-deductible input VAT (de la Feria & Lockwood, 2010).[39]

Last, all the actors involved should discuss whether to abolish the financial services sector's current VAT regime. EU financial service providers have requested that the zero rate be applied to the services subject to VAT in B2C operations, as well as suggesting only applying VAT in B2B operations so that the non-deductible VAT burden would not be carried by the sector's end consumers.

Thus, stakeholders are concerned about changes in financial services' VAT regime, particularly their consequences for end consumers. However, an up-to-date regime (i.e., even one charging VAT in these operations) would eliminate the current exemption's negative consequences by promoting VAT's fiscal neutrality. Simultaneously, surgical measures, namely, zero-rating and fixed rate of deduction for input VAT recovery, could reduce or eliminate the burden on financial service providers' end customers.

4.3 Implications for Theory, Policymakers and Practitioners

4.3.1 Theoretical Implications

First, the above findings indicate that scholars need to discuss insurance and financial services' current conceptual framework before designing and proposing VAT-related theoretical models. Inappropriate tax models and strategies could be generated by this sector's lack of clear concepts, interpretative guidelines and rules for operations, as well as countries' different VAT procedures. The proposed three-layered discussion of EU financial and insurance services' VAT regime could thus guide studies focusing on VAT-related issues.

Second, a context-based approach can help researchers analyse and understand VAT legislation's impact on the financial services sector. Their findings would then expand the existing knowledge about how local tax authorities interpret EU legislation and what actions they take during tax audits. The lack of harmonization between national legislative frameworks and EU VAT directives needs to be examined in greater depth. The

37 Barrios, S., d'Andria, D., & Gesualdo, M. (2020). Reducing tax compliance costs through corporate tax base harmonization in the European Union. Journal of International Accounting, Auditing and Taxation, 41, 100355.

38 Merrill, P. R. (2011). VAT Treatment of the Financial Sector. Tax Analysts, 163–185. Zee, *supra* n. 5, at 458–474.

39 de la Feria & Lockwood, *supra* n. 19, at 171–202.

results could ensure that future studies' theoretical and practical implications will resolve – rather than further complicate (i.e., creating double taxation situations) – the existing issues in insurance and financial services' VAT regime.

4.3.2 Policy Implications

The proposed three-layered discussion model encourages an integrated approach to reforming the VAT directive provisions related to financial and insurance services, which is a key strategy for improving these VAT rules. In addition, the stakeholders' different recommendations require this sector's professionals to have the skills and competencies needed to adopt new compliance practices and well-parameterized computer systems. These findings translate into two recommendations for policymakers.

First, EU countries' governments should seek to enhance cooperation with each other to develop uniform guidelines for their tax authorities' interpretation and auditing of financial and insurance companies' operations. This coordination will generate shared advantages when addressing the difficulties commercial operators encounter while supplying cross-border financial and/or insurance services. These issues are often related to double taxation or legal uncertainties about which framework to use for operations.

Second, the EC public consultation's closed questionnaire itself rather timidly addressed issues in the existing conceptual and interpretive frameworks. The EC could thus ensure the proposed three-layered discussion runs better and digs deeper by promoting other initiatives and debates. In these settings, practitioners can share examples of how current legislation has failed to present concepts clearly and to guide stakeholders' interpretations of rules, thereby contributing to a more complete, successful reform of financial and insurance services' VAT regime.

Last, public higher education institutions providing tax-related courses should keep their docents up to date with regard to possible shifts in VAT legislation affecting the financial and insurance services sector. These courses' graduates can help companies develop training and other pedagogical tools so that their staff can deal with upcoming compliance challenges associated with possible VAT alterations.

4.3.3 Practical Implications

The above findings provide insurance and financial services stakeholders with an in-depth understanding of the main issues arising from current VAT legislation affecting these sectors. This study analysed the position papers submitted as part of the EC public consultation in order to guide the relevant stakeholders through the ongoing legislative review process. The results are of interest to not only financial service providers and insurance companies but also the individuals and firms who comprise financial sectors' clients through contracts for credit or insurance.

Based on the different reform options discussed previously, practitioners can invest in preparing their information technology systems for computing financial services' taxable amount in terms of VAT. This upgrade process will enable companies to detect gaps in their computer systems and make plans for resolving the detected problems and finding solutions that ensure compliance with possible new VAT obligations.

In addition, the relevant sectors' human resources should, at this point, gain a fuller awareness of the main solutions discussed by stakeholders in the EU public consultation Future legislative alterations may affect the way professionals conduct compliance tasks, design financial and insurance services, determine prices and manage costs. This research developed a systematic understanding of the stakeholders' concepts, arguments and overall solutions to allow practitioners to anticipate the upcoming VAT legislation reforms. The above findings should help financial service professionals to prepare better for the practical challenges they will face and allow these practitioners to anticipate the need for – and redesign as needed – appropriate strategies and procedures.

5 Conclusion

The current VAT rules for financial and insurance services are complex and thus difficult to apply, as well as not having kept pace with new services' development. This reality has obliged the EC to work with stakeholders to launch a legislative proposal for updating financial and insurance services' VAT rules, including a first phase to define a roadmap and a second phase to conduct a public consultation. The latter allowed these sectors' stakeholders to play a part in this important review process. Using the responses collected, the EC sought to clarify service providers' views on current VAT rules and on proposed changes to the existing legislation.

The present study downloaded the stakeholders' position papers and applied automated content analysis techniques and an in-depth interpretative approach. The results and discussion sections above highlighted the financial service providers' concerns about and proposed solutions for a future VAT regime and incorporated the findings into a three-layered discussion model. The proposed dialogue acknowledges that the current inadequate conceptual and interpretative frameworks require EU public entities, each Member State's tax authorities and the financial and insurance sectors to engage in a boarder discussion about how to reform VAT legislation. This cooperative approach could help improve the way taxpayer and tax authority interact on this tax reform (Siglé et al., 2022).[40]

[40] M. A. Siglé, S. Goslinga, R. F. Speklé & L. E. C. J. M. van der Hel, *The Cooperative Approach to Corporate Tax Compliance: An Empirical Assessment*, 46 J. Int'l Acct., Auditing & Tax'n 100447 (2022), doi: 10.1016/j.intaccaudtax.2022.100447.

A strong link exists between the definition of the scope of VAT's application to financial services (i.e., whether VAT exemption should be abolished) and of the components that make up financial service operations. This connection requires EU countries to cooperate given that the existing rules and interpretative guidelines have drawn on multiple sources (i.e., local, national and EU authorities). This necessary cooperation will ensure that all actors stay focused on managing the constraints faced by suppliers and customers. The process needs to include promoting debates, training courses and the publication of accurate materials for not only internal use but also external providers of cross-border services. This dialogue can still be more fully developed as the Group on the Future of VAT, which is responsible for advising the EC on VAT legislative reform, has postponed the presentation of their proposal for reforming financial and insurance services' VAT rules to 2023.[41]

The three-layered approach should be applied so that the EC can minimize the risk of abolishing the VAT exemption for financial and insurance operations before more accurate, solid conceptual and interpretative frameworks are in place to help service providers comply with the new rules. This could contribute to avoid accidental tax evasion, which is a reality worldwide (Benkraiem et al., 2021).[42] The proposed discussion model could also be useful to companies seeking to be proactive by addressing possible upcoming legislative reforms and anticipating how their professionals and computer systems will be affected by the solutions suggested by stakeholders.

5.1 Limitations and Future Directions

The present results clarify financial service providers' concerns and solutions only in light of the fifty-two position papers submitted, which contain much less input than the hundreds of closed questionnaire submitted during the public consultation. Further research is needed to analyse the relevant items from the questionnaires and compare the findings to the current study's results. This additional investigation would fall within the theory-testing category, which frequently favours positivist quantitative methodologies over interpretive analysis.

While we have undertaken rigorous measures to mitigate potential biases stemming from stakeholders' vested interests, it is important to acknowledge the inherent challenges associated with objectivity in stakeholder perspectives. Our study relies on position papers submitted by stakeholders, and their viewpoints may be influenced by individual or organizational interests. Despite our commitment to impartiality, the nature of stakeholder engagement inherently introduces a level of subjectivity. To address this concern, we employed various strategies, including a diverse stakeholder selection by considering all position papers, ensuring transparency in our data collection and analysis methods, and conducting impartial analyses with the involvement of two experts who provided VAT consultancy services for more than a decade. These measures were implemented to enhance the reliability and objectivity of our stakeholder analyses. However, it is crucial to recognize that complete elimination of bias in stakeholder perspectives may be unattainable. Future research should consider these limitations and explore additional methodologies to further refine the objectivity of stakeholder analyses in the context of regulatory consultations.

The present research sought to unveil financial and insurance stakeholders' main concerns and solutions, but these sectors' entire input during the public consultation may not have been covered because the dataset was limited to the position papers submitted. Future investigations could focus on analysing other debates on this topic in which more – and more diverse – opinions have been provided by financial and insurance providers.

Using the proposed three-layered discussion model, scholars can conduct case studies of these sectors' companies to assess alterations in non-deductible input VAT that would occur should the exemption be abolished. These case studies should also evaluate how prepared financial and insurance companies are in terms of human resources and computer systems to comply with the possible upcoming VAT exemption reform. Further research could provide public organizations, companies and stakeholders with tools for assessing the risk of incorrectly adjusted insurance and financial service operations. The findings could help these sectors deal with concerns regarding – and obstacles arising from – alterations in VAT legislation and thus avoid failures to comply fully with new tax regulations.

Finally, EU Member States, companies and consumers are all affected in this tax ecosystem, so researchers must assess the VAT exemption abolishment's financial impact on each type of actor. The results should facilitate an accurate assessment of whether the principles of optimal taxation theory are being respected, namely, tax reforms' consequences in terms of allocation input or unequal distribution. The findings could also be used to improve public policy by instituting measures that would minimize projected adversities.

Annex A – Methodological procedure

VOSviewer is well-suited software for use in data analysis and visualization, so this software has been utilized by many academics in recent years.

[41] European Commission, *Group on the future VAT* Minutes - 36th Meeting (2021).

[42] R. Benkraiem, A. Uyar, M. Kilic & F. Schneider *Ethical Behavior, Auditing Strength, and Tax Evasion: A Worldwide Perspective*, 43 J. Int'l Acct., Auditing & Tax'n, 100380, doi: 10.1016/j.intaccaudtax.2021.100380.

VOSviewer analyses texts' content after it is input into Excel files, so documents in a PDF and MS Word format must be converted to Excel. Position papers in these formats were thus first input into Orange3, and the output was downloaded as a Excel file (i.e., an .CSV format) containing a table with the document's identification, the organizational author and the contents. The full process is shown in Figure 3.

The new dataset created by these procedures comprised the aforementioned Excel files ending in .CSV (i.e., the corpus), which was then input into VOSviewer for word co-occurrence analysis. The second item required to apply text mining in this software was a supplementary .TXT file containing a thesaurus used in the pre-analysis data processing phase, that is, stemming and stop word removal (Ball, 2018; Guerreiro et al., 2016). Stemming ensured the analysis would detect words with the same meaning as the same phrase with different wording (i.e., 'Court of Justice of the EU' and 'CJEU'). To ensure the correct synonyms would be eliminated, the thesaurus file had previously been validated by two tax experts who had provided VAT consultancy services for more than ten years.

The files input into VOSviewer allowed it to create a term-frequency matrix, apply the co-occurrence algorithm and produce the cluster map in Figure 4. The software thus grouped the position papers' terms into clusters according to their co-occurrence.

To generate the co-occurrence clusters, VOSviewer's default definitions were maintained: terms appearing at least ten times, with a relevance of at least 60%. These criteria are in line with previous researchers' parameters.

Figure 3 Orange3 Procedure

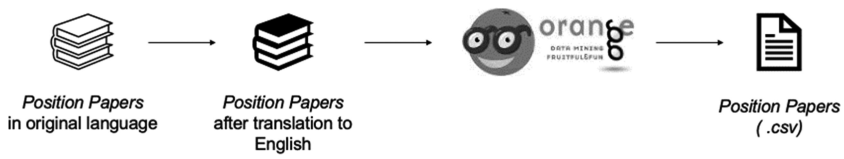
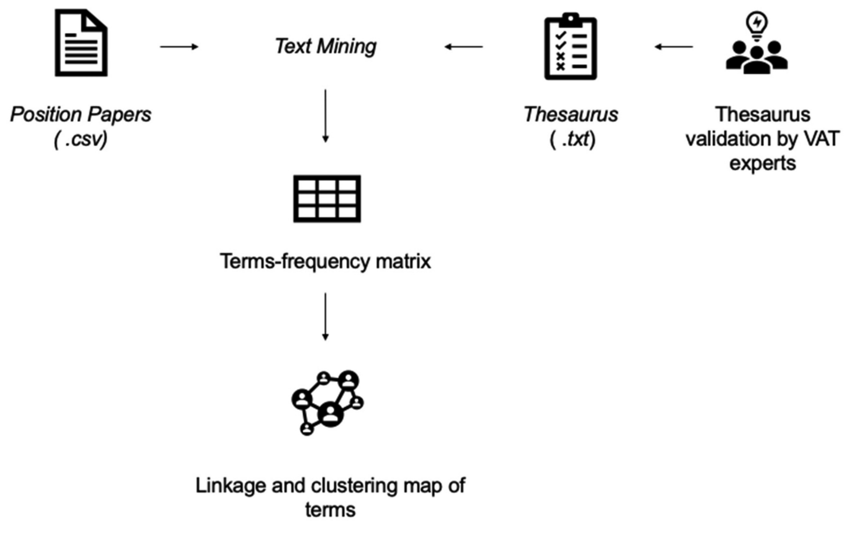


Figure 4 VOSviewer Procedure



Note. VAT = value-added tax.

Appendix B – List of position papers' authors

This list includes the names of the authors that filed the position paper at the EC website. This dataset is accessible in here.

Abbreviation used to identify the position paper in the present study	*Name of the author of the position paper*
ABBL	ABBL – Association des Banques et Banquiers, Luxembourg
ABI	ABI – Association of British Insurers
IBA	IBA – Italian Banking Association
AIPB	AIPB – Associazione Italiana Private Banking
ALFI	ALFI – Association of the Luxembourg Fund Industry
AMAFI	AMAFI – Association Française des Marches Financiers
Anonymous 1	Anonymous 1
Anonymous 2	Anonymous 2
ASBA	ASBA – Austrian Savings Banks Association
ASSOSIM	ASSOSIM – Associazione Intermediari Mercati Finanziari
BDV	BDV – Bundesverband Deutscher Vermögensberater e.V.
BDB	Bundesverband deutscher Banken e.V./ Association of German Banks
BusinessEurope	BusinessEurope
CBA	Česká bankovní asociace
CFE	CFE – Tax Advisers Europe
CLFA	ČLFA – Česká leasingová a finanční associasse
CWE	Confederation of Swedish Enterprise
Deloitte	Deloitte
DUFAS	DUFAS – Dutch Fund and Asset Management Association
DUV	DUV – Deutscher Unternehmensverband Vermögensberatung e.V.
EBF	EBF – European Banking Federation
EFAMA	EFAMA – European Fund and Asset Management Association
EMA	EMA – Electronic Money Association
EPIF	EPIF – European Payment Institutions Federation
ESBG	ESBG – European Savings Banks Group
Fantozzi & Associati	Fantozzi & Associati Studio Legale Tributario
FBF	FBF – French Banking Federation
FFA	FFA – Fédération Française de l'Assurance
FFI	FFI – Finance Finland
FD	Finance Denmark
FINCO	FINCO – Association of Financial Services Companies
FSAT	Florent Serge André Thièbeaux
FGL	Folksam Group and Länsförsäkringar AB
GVYV	Groupe VYV
HKCR	Hospodářská komora ČR (The Czech Chamber of Commerce)
IA	IA – The Investment Association
IPD	Insurance & Pension Denmark
Insurance Europe	Insurance Europe – European Insurance and Reinsurance Federation
Invest Europe	Invest Europe
IPF	IPF – International Personal Finance Plc
LPEA	LPEA – Luxembourg Private Equity and Venture Capital Association
MB	Markus Burger
NAFOP	NAFOP (The National Association FeeOnly Planners) e AssoSCF (Società di consulenza finanziaria)
PensionsEurope	PensionsEurope
PCSCA	Planète CSCA – Commission Assurances de Personnes
PFR	Provident Financial Romania IFN S.A
SBA	SBA – Swedish Bankers' Association
SF	SF – Spotřebitelské fórum, z.ú. (Consumer forum)
SLA	Standard Life Aberdeen
TFSH	TELIS FinancialServicesHolding AG
USCIB	USCIB – United States Council for International Business
WKO	WKO – Division Bank & Insurance, Austrian Federal Economic Chamber