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PENSIONS EUROPE

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AEIP and Pensions Europe have published a joint position paper calling for political action to relieve pension fund participants from unnecessary VAT burden for contracted management services.

The current interpretation of the VAT Directive[1] leads to different treatment of pension plans for VAT purposes based on the form and the place of residence of the plan. In addition, the current regime provides insufficient guidance for hybrid pension plans (e.g. DB pension funds, where all or part of the risk is shifted from the employer to the fund itself or the employee) which are becoming more commonplace. This means that similar pension schemes in different countries face different tax treatments concerning the management services they procure. PensionsEurope and AEIP therefore call for a review of the VAT Directive that exempts all pension funds from paying VAT on management services.

PensionsEurope CEO Matti Leppälä said:

"It is clear that we need to boost funded retirement provision in Europe to make sure our aging population will continue to have decent pensions. Pension funds manage to keep costs low for their participants through economies of scale, which makes a real difference to investment performance over time. Saddling pension funds with an unnecessary and arbitrary VAT burden makes them less attractive and ultimately undermines the objective of achieving adequate and sustainable pensions across Europe."

Alexandra Kaydzhiyska, Permanent Representative from AEIP, said:

"The VAT Directive has not kept up with developments in the pensions landscape. This leads to a different treatment of essentially similar pension funds. It is time to update the rules to ensure that all pension funds are exempt and that they respect the principles of non-discrimination and neutrality. "

Background

Article 135 (1) (g) stipulates the exemptions of VAT on management services rendered to special investment funds and has not been changed since the adoption of the VAT Directive in 1977.

According to current case law the European Commission makes the following distinction[2] in the application of the exemption:

[1] In particular article 135 (1) (g) which stipulates the exemptions of VAT on management services rendered to special investment funds, on which the exemption for pension funds is based
[2] On the basis of the judgments of the CJEU in the cases *Wheels Common Investment Fund Trustees case no. C-424/11 and Others* and *ATP no.C-464/12*.

1. Pension funds where the participants bear investment risks instead of the employer i.e. DC funds can be considered as special investment funds and therefore fall within the scope of the exemption;

2. Pension funds where the employer(s) bear(s) investment risks i.e. DB schemes do not fall within the scope of the exemption.

PensionsEurope and AEIP urge the European Commission and the VAT Committee to take the necessary steps to relieve all pension fund participants from unnecessary VAT burdens, regardless the character of the schemes or the Member State in which the services are being received in order to be fully in line with the *fundamental principle of neutrality*.

The joint position paper calls for an amendment to the VAT-Directive that would provide clarity, will be non-discriminative with regard to pension schemes and will remain fit-for-purpose, reflecting the latest market developments.

PensionsEurope and AEIP call for political decision-making since maintaining the current status quo does not contribute to an equal treatment of pension schemes within the EU and undermines the freedom of contract of pension providers and paritarian institutions.

The position paper is available on the AEIP website, here.

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About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes.

PensionsEurope has **23 member associations** in 18 EU Member States and 3 other European countries[3].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **30 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns;

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

[3] EU Member States: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK. Non-EU Member States: Iceland, Norway, Switzerland.

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ABOUT AEIP

The European Association of Paritarian Institutions – AEIP, founded in 1996, is a Brussels-based advocacy organization, representing Social Protection Institutions established and managed by employers and trade unions on a joint basis within the framework of collective agreements.

In the context of social protection, paritarism is a type of self-organization of social relationships which on the basis of equal negotiations, brings about agreements which are equally binding on both employers and employees. This kind of self-organization goes from the paritarism of negotiation to the paritarism of management and results in various types of agreements, from adhesion to a particular form of cover to the creation of a paritarian institution.

The Association has 20 Associate and Affiliate members - all leading large and medium-sized Social Protection Institutions, from 12 European countries, as well as 13 Task Force Members from 3 European countries. All AEIP members are not-for-profit organizations.

In particular, AEIP deals – through dedicated working groups – with EU coordinated pension schemes, pension funds, healthcare, unemployment and provident schemes, paid holiday and health & safety at work schemes. Complementary to their role as non-for-profit social protection providers, AEIP members are also long-term institutional investors.

AEIP represents its members' values and interests at the level of both European and international institutions.

For more information: www.aeip.net

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