TAXATION

# Taxing reforms

Amending tax frameworks is challenging — and must be carefully thought out

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Modernising and, to an extent, harmonising the European taxation framework is necessary to ensure that European economies remain adequately funded. It is also needed to achieve a functioning common EU market for the benefit of its citizens and companies. Any reform, however, must not fail to take into account those characteristics of insurance that allow the sector to provide crucial services to millions of customers.

Since the early 2010s, there have been continuous efforts at EU and international level to establish a consensus on how to best adapt taxation rules to today's digital world. The key challenge has been to find the right level of harmonisation required, while avoiding a shrinkage of the tax base.

Several EU and international (OECD/G20) initiatives have been launched, principally concerning corporate taxation, value added tax, countering tax avoidance and improving the administrative cooperation between jurisdictions.

## Measures must be feasible and reasonable

European insurers generally support these initiatives but continue to emphasise that taxation reforms must be feasible for insurers to implement and should not result in excessive requirements for insurance companies.

Modernising the European taxation framework is a huge challenge, first and foremost because taxation remains under the exclusive jurisdiction of individual countries and because each country has its own taxation practices and customs. For any reform to be effective, it is essential to ensure that the current discussions on taxation at EU and international level result in an outcome that works for all stakeholders, including governments and businesses. For insurers specifically, it is important to ensure that any future framework allows them to continue playing a key role in protecting European citizens and companies in the most effective way.

**"Any initiative to reform taxation rules should fully take into account the unique characteristics of the insurance business model."**

This means that whether we are talking about the harmonisation of corporate taxation, improving administrative cooperation or countering tax avoidance, any new rule or future framework that affects insurers should take account of the specific characteristics of the insurance business model. In practical

terms, this means that any requirement imposed on the sector is workable, proportionate and, to the extent possible, in line with existing frameworks and practices. Insurance Europe therefore continues to engage with policymakers to seek to ensure that they keep in mind the key principles in the box below.

- **Take account of insurance specifics**

First and foremost, any initiative to reform taxation rules should fully take into account the unique characteristics of the insurance business model. A blanket approach to the financial sector should be avoided. Not only are insurers inherently different from, for instance, banks, but there are also many differences between insurers in different countries and even between insurers within countries. For example, in the context of the reform of corporate taxation, the initiative to reform the allocation of tax profits stemming from cross-border activities between different jurisdictions is welcome, but the formula adopted should reflect existing practices in the insurance sector.

Another area in which the sector’s specific characteristics should be considered is the treatment of investment funds in the upcoming reform to achieve a minimum level of taxation on large companies. Investment funds are important for insurers to manage and diversify their investment portfolios effectively and meet their investment objectives while balancing risks and returns, thereby building the financial resources necessary to cover the claims of policyholders. The income derived from investment funds is already taxed at the level of the investor, so, to avoid double taxation, investment funds should be excluded from the requirements.

- **First perform an impact assessment**

Before introducing new rules, it is crucial to get a full picture of the possible impact these rules may have. For instance, before harmonising corporate taxation, the impact of the introduction of minimum taxation should be assessed and time should be given to companies to adapt to the new rules.

- **Ensure consistency with existing frameworks**

Another aspect that should be considered by EU policymakers before creating a common framework of corporate taxation is that it should be consistent with the existing and local legal frameworks with which they would interact. This is essential because these frameworks are used by many firms for making tax declarations.

- **Make new rules proportionate**

Measures should also be proportionate to any specific risks, especially when it comes to tax evasion affecting insurance companies. The rules should not over-burden the companies with excessive requirements. This principle applies to most reforms, for instance to the Directive on administrative cooperation (DAC), which aims to improve the exchange of information requirements to avoid tax evasion.

In fact, the DAC has been amended multiple times (DAC8 is currently being discussed), with every amendment increasing the administrative burden. In the view of European insurers, to alleviate this concern tax authorities should, as a rule, only request the information that is directly relevant for fighting tax crimes and make full use of the information to which they already have access.

The European insurance industry continues to contribute to the important discussions currently ongoing in the realm of taxation. While the reforms are necessary, it is also important to take into due consideration the unique features of the insurance business model.