



**Response by TISA: HM Treasury and HMRC Consultation  
on: VAT treatment of fund management services**

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## About TISA

**The Investing and Saving Alliance (TISA)** is a unique, rapidly growing membership organisation for UK financial services.

**Our ambition is to improve the financial wellbeing of all UK consumers.** We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry**. We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.



## Executive Summary

We welcome the opportunity to respond to this consultation on VAT treatment of fund management services, and our detailed comments are as set out below.

But even on its own terms, this is a very limited reforms and not the wholesale reform that is needed. The departure from the EU opens an opportunity to reform and restructure VAT on financial services to ensure a regime that offers competitiveness, legal certainty, and simplicity, whilst achieving the political aim of fiscal neutrality.

There are areas that would benefit from some narrower and more targeted reform, and specifically we call for treating exempt outputs as zero-rated outputs, which would radically simplify administration for firms and HMRC and lead to lower costs for customers, as irrecoverable VAT costs are, ultimately borne by customers. It would also improve the competitive position of the UK. Ahead of the delivery of wholesale reform we would like to see clear and consistent VAT treatment applied across all taxpayers, and for VAT guidance to consider new products including digital services and be rationalised and simplified.

We believe there are a number of issues with the proposals, which we have set out below in response to the detailed questions

**Q1. Do you agree that the proposed approach to refine the UK law covering the VAT treatment of fund management, set out above, achieves its stated aims?**

Even though the proposed reform is very limited we fear that the aim of providing greater legal certainty and clarity will not be met, because

- A principles based approach may increase uncertainty for taxpayers and therefore the likelihood of disputes with HMRC and litigation
- As the existing fund list will not be updated, different interpretations of the principles may arise meaning that there is not a level playing field
- The definition of a SOF should be clearer, for example in the context of “intended for retail investors”.
- There is no definition on management and therefore reliance, or at least guidance, will be sought from the existing CJEU case law.

We note that the consultation refers to UCITS, which are derived from EU legislation and that it is not clear how the proposal would impact non-UK funds



Q2. Do the proposed legislative reforms present any issues for your business?

Members' feedback is that, unfortunately, the answer to is yes

Many TISA members provide investment management services to non-UK funds, such as in Luxembourg and Republic of Ireland, which not covered by the proposal.

In addition, how investment management will be defined is not clear from the proposal.

Q3. Do you currently rely on Items 9 and 10 of Group 5, schedule 9 of VATA or exempt any transactions using that law?

Yes, as many TISA members provide exempt investment management services to funds or qualifying pension funds

Q4. Would the legal definition for 'Collective Investment' in FSMA 2000 meet the intended aim of providing much greater certainty over correct application of the associated qualifying criteria?

Unfortunately, adoption of this definition could exclude DC pension funds and investment trust companies from the scope of the exemption

Q5. If the answer to 4 is no, how might the government improve the definition to attain that aim?

See answer to Q4.

We believe that the absence of a specific list of funds may lead to more disputes with HMRC to define limits of definition/criteria



**Q6. Are there any further VAT related modifications the government might introduce under these or future reforms to improve the fund management regime for taxpayers?**

The current regime for financial services is complicated and imposes heavy financial and operational burdens on businesses. A simple change would be to replace the current regime where services are exempt with zero rating.

This would be easy to understand and administer.

It would sweep away the complicated and burdensome partial exemption schemes, reducing administration and collection costs for firms and HMRC.

It would also reduce costs to end consumers and strengthen the UK's competitiveness