Agenda

1. Introduction: how VAT works?

2. Visible and invisible VAT

3. VAT exemption for financial services

4. Outsourcing

5. VAT and funds - practical

6. VAT an increasing cost, a trend that will not stop
1. Introduction: How VAT works?
“Indirect tax levied at each stage of the production and distribution process on the value added by each of the suppliers in the process”
Economic impacts:

<table>
<thead>
<tr>
<th></th>
<th>Manufacturer</th>
<th>Wholesale</th>
<th>Retailer</th>
<th>Final Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Price</td>
<td>100,00</td>
<td>200,00</td>
<td>300,00</td>
<td></td>
</tr>
<tr>
<td>VAT 15%</td>
<td>15,00</td>
<td>30,00</td>
<td>45,00</td>
<td></td>
</tr>
<tr>
<td>Output tax:</td>
<td>15,00</td>
<td>30,00</td>
<td>45,00</td>
<td></td>
</tr>
<tr>
<td>Input tax:</td>
<td>-</td>
<td>15,00</td>
<td>30,00</td>
<td></td>
</tr>
<tr>
<td>VAT due:</td>
<td>15,00</td>
<td>15,00</td>
<td>15,00</td>
<td>45,00</td>
</tr>
</tbody>
</table>

Neutral for the taxable person through the deduction mechanism (output – input VAT), irrespective of the number of transactions before the final supply
Introduction

► It is intended to harmonize the VAT regime within the EU, but it is still subject to many discrepancies:

► Differences in rates

► Differences in interpretations (e.g. management of investment and pension funds etc.)

► Many options provided by the VAT Directive (e.g. option to tax, implementing VAT grouping);

► Returns to be filed, deadlines to file VAT returns, frequency of VAT returns;

► Different attitude of the local tax authorities (e.g. input VAT recovery).
2. Visible and invisible VAT
Visible and invisible VAT

► Comparison between the impact of:

- the standard VAT rate,
- the reduced VAT rate,
- the VAT exemption,
- the 0% rate
Visible and invisible VAT

► VAT is a cost for the « final customer »
  ► Final customer = private person or any entity which could not recover VAT (e.g. public body, fund (most often))
  ► Final customer supports VAT as a final cost

► VAT exemption
  ► Welcomed by the final consumer
  ► The supplier cannot recover VAT on its costs
    ► The « business » becomes « a final customer »

► Invisible VAT (embedded VAT)
  ► The supplier will take into account the non-recoverable VAT when determining his price
  ► He will try to pass on this cost to his client
Visible and invisible VAT

- **Suppliers** pay 20 - 10 = 10
- 50 + 10 of VAT

**Business**
- Recover VAT on its costs (input VAT)
- VAT is not a cost

**Client**
- 100 + 20 of VAT
- Output VAT

**Treasury**
Visible and invisible VAT

► VAT exemption and 0% rate
  ► VAT exemption: no VAT on the invoice and the supplier cannot recover VAT incurred on its costs (« input VAT »)
    ► No visible VAT for the client
    ► Invisible VAT: VAT not recoverable transferred to the client
  ► 0% rate: no VAT on the invoice and the supplier can recover (be reimbursed) of its input VAT
    ► No VAT cost for the client
    ► No VAT cost for the supplier/provider

► Examples:
  ► Newspapers in Belgium
  ► Shoes for kids in UK
Visible and invisible VAT

► VAT exemption and reduced VAT rate

► VAT exemption: no VAT on the invoice and the supplier cannot recover VAT incurred on its costs (« input VAT »)
► Reduced rate: reduced VAT on the invoice and the supplier can recover of its input VAT
► Examples:
  ► Cultural goods and services
  ► Social services
Visible and invisible VAT

- Reduced VAT rates: visible VAT or not?
  - Depends on
    - VAT rate
    - nature of costs incurred by the supplier

- Two types of costs
  - Costs liable to VAT (equipment, IT, cars, ..)
  - Costs not liable to VAT (mainly wages)

- Example - assumptions
  - Standard rate: 20%
  - Reduced rate: 3 or 7%
  - Costs liable to VAT: 20%/80%
  - Costs not liable to VAT: 30%/70%
  - No profit: the client is invoiced for 100 + VAT
Visible and invisible VAT

<table>
<thead>
<tr>
<th>Price</th>
<th>Visible VAT</th>
<th>VAT recoverable</th>
<th>True VAT cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>3% rate - 20% of costs liable to VAT</td>
<td>103</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3% rate - 30% of costs liable to VAT</td>
<td>103</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>7% rate - 20% of costs liable to VAT</td>
<td>107</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>7% rate - 30% of costs liable to VAT</td>
<td>107</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>
Visible and invisible VAT

► Standard VAT rate: 20%
► Reduced VAT rate: 5%
► No profit
► Costs: 100 (excl. VAT)
► Structure of costs
  ▶ Purchase liable to VAT (20%): 40% of costs
  ▶ Salaries (not liable to VAT): 60% of costs
Visible and invisible VAT

► Hypothesis one: standard VAT rate applicable on the supply to the final client

100 + VAT: 120

Suppliers  Business  Client

Visible VAT: 20

Costs: 40 (VAT recoverable) + 60 (no VAT) = 100 + VAT: 20: cost for client 120
Visible and invisible VAT

- Hypothesis two: reduced VAT rate applicable on the supply to the final client

\[ 100 + \text{VAT: 105} \]

Costs: 40 (VAT recoverable) + 60 (no VAT) = 100 + VAT: 5: cost for client 105
Visible and invisible VAT

► Hypothesis three: 0% VAT rate applicable on the supply to the final client

Costs: 40 (VAT recoverable) + 60 (no VAT) = 100 + VAT: 0: cost for client 100

Visible VAT: 0
Visible and invisible VAT

- Hypothesis four: exemption applicable on the supply to the final client

108 + no VAT: 108

VAT:
Visible VAT: 0
Invisible VAT: 8

Costs: 40 + 8 (VAT not recoverable) + 60 (no VAT) = 108 + VAT: 0: cost for client 108
### Visible and non visible VAT

<table>
<thead>
<tr>
<th>Category</th>
<th>Final price</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal rate</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td>Reduced rate</td>
<td>105</td>
<td>5</td>
</tr>
<tr>
<td>0% rate</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Exemption</td>
<td>108</td>
<td>8</td>
</tr>
</tbody>
</table>
Visible and invisible VAT

► Standard VAT rate: 20%
► Reduced VAT rate: 5%
► Profit of 10% (costs + 10%)
► 100 of costs (ex VAT)
► Structure of costs
  ► Purchase liable to VAT (20%): 40% of costs
  ► Salaries (not liable to VAT): 60% of costs
Visible and invisible VAT

► Hypothesis one: standard VAT rate applicable on the supply to the final client

Costs: 40 (VAT recoverable) + 60 (VAT non recoverable) = 100 + 10% = 110 + VAT: 22: cost for client 132

Visible VAT is 22
Visible and invisible VAT

- Hypothesis two: reduced VAT rate applicable on the supply to the final client

Costs: 40 (VAT recoverable) + 60 (VAT non recoverable) = 100 + 10% = 110 + VAT: 5.5 : cost for client 115.5
Hypothesis three: 0% VAT rate applicable on the supply to the final client

Costs: 40 (VAT recoverable) + 60 (VAT non recoverable) = 100 + 10% = 110 VAT: 0: cost for client 110
Visible and invisible VAT

- Hypothesis four: exemption applicable on the supply to the final client

\[
\text{Costs: } 40 + 8 \text{ (VAT not recoverable)} + 60 \text{ (VAT non recoverable)} = 108 + 10\% = \text{VAT: 0; cost for client 118,8}
\]

\[
\text{118,8 + no VAT}
\]

Visible VAT: 0
Invisible VAT: 8,8
## Visible and non visible VAT

<table>
<thead>
<tr>
<th></th>
<th>Final price</th>
<th>VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal rate</td>
<td>132</td>
<td>22</td>
</tr>
<tr>
<td>Reduced rate</td>
<td>115,5</td>
<td>5,5</td>
</tr>
<tr>
<td>0% rate</td>
<td>110</td>
<td>0</td>
</tr>
<tr>
<td>Exemption</td>
<td>118,8</td>
<td>8,8</td>
</tr>
</tbody>
</table>
**Visible and non visible VAT**

<table>
<thead>
<tr>
<th></th>
<th>No profit</th>
<th>10% profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Final price</strong></td>
<td>VAT</td>
<td>VAT</td>
</tr>
<tr>
<td>Normal rate</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>132</td>
<td>22</td>
</tr>
<tr>
<td>Reduced rate</td>
<td>105</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>115,5</td>
<td>5,5</td>
</tr>
<tr>
<td>0% rate</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>110</td>
<td>0</td>
</tr>
<tr>
<td>Exemption</td>
<td>108</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>118,8</td>
<td>8,8</td>
</tr>
</tbody>
</table>

Profit increases VAT burden, except when % rate applied
Visible and invisible VAT

► Exemption hides VAT cost
► 0% rate the must (subsidy)
► Reduced rate nice
► VAT is not only a tax on turnover but also on
  ► Salaries
  ► Costs
  ► Profit
► The reduced rate could be more interesting than an exemption depending on
  ► the level of the reduced rate,
  ► and the breakdown of costs (liable or not to VAT)
3. VAT exemption for financial services

- Current system
- Future system
The Directive exempts from VAT “financial services”

The Directive exempts from VAT “the management of special funds as defined by Member States”
- Freedom given to Member States
  - To define eligible funds
    - Pension funds: yes in Luxembourg, not in the Netherlands
  - To define eligible services
- From domestic markets to EU markets
- Role of the European Court of Justice to define eligible entities
  - JP Morgan Claverhouse case
  - Wheels case, PPG cases: eligibility of pension funds
Services as stated in Annex II of UCITS Directive include:

- Investment management
- Administration:
  - Legal and fund management accounting services
  - Customer inquiries
  - Valuation of portfolio and pricing of the shares or units (including tax returns)
  - Regulatory compliance monitoring
  - Maintenance of shareholder or unitholder register
  - Distribution of income
  - Share or unit issues and redemptions
  - Contract settlements (including certificate dispatch)
  - Record keeping
Role in the ECJ to define eligible services

- GfBk: could “portfolio investment advisory services” be considered as “management” services of investment funds?
- The manager of an investment fund delegates to an advisor the role of selecting investments taking into account the investment policy and limitations of the fund
- No (legal) power of decision of the advisor even if its advices are almost always followed
VAT exemption for financial services - Current

Is the VAT exemption applicable or not to portfolio investment advice services:

Now:
90 (No VAT)
100 (No VAT)

Future?
90+VAT (15%)
100 (No VAT)

- VAT cost: 13.5 (90*15%):
  - if supported by the Manco, its profit of 10 become a loss of 3.5
  - if supported by the fund, the cost increases by 13.5%
Tax rules and pension: VAT

VAT exemption for financial services - Current

- Role in the ECJ to define eligible services

  - Conclusions of AG on 8th November in favour of the VAT exemption
  - EUCJ decision on 7 March 2013
VAT exemption for financial services - Current

► Role in the ECJ to define eligible services

► Deutsche Bank case: could “discretionnary asset management services” to clients other than investment funds (private persons, insurance companies, pension funds if not assimilated to investment funds) be considered as composed of a combination
  ► VAT exempt intermediary services
  ► VAT taxable management services
► EUCJ: No, one single service, fully taxable
VAT exemption for financial services - Future

- Proposals for an EU Directive and Regulation on the VAT treatment of insurance and financial services

- Provide definitions and list of services which shall in particular, be covered or not by the exemption
VAT exemption for financial services - Future

- A lot of proposed texts but no more major changes since 2010

  - Investment/pension funds is one of the most difficult and debated question
    - A lot of different texts have been proposed and discussed

  - In the last versions available the pension funds are eligible to receive VAT exempts services (same treatment than investment funds)

  - Illustrates the complexity of the changes

  - The processus is currently on stand-by and no indication about the outcome
4. Outsourcing
Outsourcing

- Intervention of the ECJ in the definition of eligible services
  - Outsourced/delegated services: in principle, taxable
  - Abbey National case
  - Criteria under which an outsourced/delegated service could be VAT exempt
  - “distinctive whole of essential and specific services”
Outsourcing

► VAT group
  ► Member States decide to implement it or not
    ► UK, NL, FR, BE, SP, etc
  ► National basis
  ► Transactions between Members are disregarded from VAT
Outsourcing

► Independent group of person
  ► Mandatory in all Member States
  ► Cross-border
  ► Exemption of services rendered by the IGP to its members
  ► Could be (with some limits) compared with an (European) Economic Interest Grouping
  ► Conditions to be met (services “directly” necessary, IGP could not make a profit, no distortion of competition, etc.)
Outsourcing

Supply of services and goods

VAT

Company A

+ VAT

Supply of staff

Pension fund/scheme A

Recharge of costs

Pension fund/scheme B

Pension fund/scheme C

+ VAT

Tax rules and pension: VAT
Outsourcing

Supply of services and goods

VAT

IGP

- Administrative services
- IT services
- Accounting services
- Supply of staff

A
IGP member

B
IGP member

C
IGP member

D
IGP member

No VAT

► Supply of administrative, IT, accounting services and supply of staff by the IGP solely to its members
► Avoid irrecoverable VAT for the members on the salaries paid by the IGP, not on third parties supplies
5. VAT and funds – practical
VAT and funds practical

1st pillar

Costs of collection and payment of pensions are rather limited
  - No costs on assets managed
1st pillar is managed by public bodies
Activities of public bodies are considered as outside the scope of VAT
No VAT deduction right
Impact limited on overhead costs of the administration (offices, IT, etc.)
Specific example of the Luxembourg Insurance Scheme
  - Administrative costs are around 1.1% of the pensions paid
  - Reserves are managed in an investment fund
    - Cost of management of the fund
VAT and funds practical

► 2nd and 3rd pillars
  ► Costs of management of the assets are more substantial
    ► Different studies indicate a cost of 1%-2% of assets under management
  ► The need of specialized resources to manage the assets implies a higher cost
  ► Importance to have a favourable VAT treatment of services received from third parties

► Following slides are based on a study carried out by Ipsos Mori on behalf of DWP (Department for Work and Pensions, Working Paper n 91, M. Chatterton, E Smyth and K. Darby) on a sample of UK pension funds
  ► Assets under management (median): £ 31.5 millions
  ► Number of members (median): 770
  ► Administration cost (median): £ 550,000 (1.7%/£ 700 per member)
VAT and funds practical

- No specific EU regulations regarding VAT status of investment funds
  - Are these funds “VAT taxable persons”?
    - Payment of VAT on services received from abroad
    - In countries like UK, pension schemes are usually considered as pool of assets without legal personality and are represented by their trustee which assumes the VAT obligations
  - Are these funds able to recover VAT on their costs?
    - In most cases, no.
    - A few Member States considers pension funds as insurers which can recover VAT if they have non EU clients → marginal in most cases
A fund and its services providers

NO VAT recovery
VAT is not a cost
## Inhouse/third party

<table>
<thead>
<tr>
<th>Professional Category</th>
<th>Third party (in number)</th>
<th>In-house (in number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment managers</td>
<td>87</td>
<td>4</td>
</tr>
<tr>
<td>Actuaries/Legal advisers</td>
<td>88</td>
<td>1</td>
</tr>
<tr>
<td>Investment consultants</td>
<td>75</td>
<td>2</td>
</tr>
<tr>
<td>Accountants</td>
<td>42</td>
<td>30</td>
</tr>
<tr>
<td>Custodians</td>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>Pension fund managers</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Benefit consultants</td>
<td>22</td>
<td>2</td>
</tr>
</tbody>
</table>
### Annual cost of employing professionals

<table>
<thead>
<tr>
<th>Third party (median - £)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment manager/consultants</td>
<td>137,572/45,795</td>
</tr>
<tr>
<td>Administrators</td>
<td>86,15</td>
</tr>
<tr>
<td>Actuaries</td>
<td>83,209</td>
</tr>
<tr>
<td>Custodians</td>
<td>46,5</td>
</tr>
<tr>
<td>Insurers</td>
<td>31,711</td>
</tr>
<tr>
<td>Legal advisors</td>
<td>27,85</td>
</tr>
<tr>
<td>Communication consultants</td>
<td>26,667</td>
</tr>
<tr>
<td>Trustee</td>
<td>24,25</td>
</tr>
<tr>
<td>Pensions consultant</td>
<td>17,969</td>
</tr>
<tr>
<td>Others</td>
<td>Less than 10,000</td>
</tr>
</tbody>
</table>

These amounts are median.
The median of assets managed per fund is £ 31.5 million and the median costs per fund is around £ 550,000.
The cost per member is around £ 700 and represents 1.7% of the assets managed.
## Annual cost of employing professionals

<table>
<thead>
<tr>
<th>Professional</th>
<th>Cost per member (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment managers/consultants</td>
<td>63/10</td>
</tr>
<tr>
<td>Administrators (third party)</td>
<td>32</td>
</tr>
<tr>
<td>Actuaries</td>
<td>12</td>
</tr>
<tr>
<td>Legal advisors</td>
<td>6</td>
</tr>
<tr>
<td>Custodians</td>
<td>5</td>
</tr>
<tr>
<td>Pension consultants</td>
<td>3</td>
</tr>
<tr>
<td>Insurers</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>1-2</td>
</tr>
</tbody>
</table>

The cost per member is mean and is thus different from the median costs mentioned above.
## Other costs

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Cost per member</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT and systems</td>
<td>3.48</td>
</tr>
<tr>
<td>e-communications</td>
<td>1.26</td>
</tr>
<tr>
<td>Accommodation costs</td>
<td>2.37</td>
</tr>
<tr>
<td>Other communication to members</td>
<td>1.12</td>
</tr>
<tr>
<td>Subscription to online information services</td>
<td>1.12</td>
</tr>
<tr>
<td>Printing costs</td>
<td>0.78</td>
</tr>
<tr>
<td>Others*</td>
<td>1.13</td>
</tr>
</tbody>
</table>

*Internal training (0.21), stationery (0.37), travel costs (0.37), magazines (0.13), membership fees (0.13)
Exemption of management services available for pension funds?

<table>
<thead>
<tr>
<th>Country</th>
<th>Exemption</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>Yes</td>
<td>Luxembourg pension funds under the supervision of the Luxembourg regulator.</td>
</tr>
<tr>
<td>France</td>
<td>No</td>
<td>VAT exemption only for UCITS - No specific fund scheme available – Alternative vehicles not eligible to receive VAT exempt management services like UCITS – Possible application of the exemption for transactions on securities (but more restrictive)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>No</td>
<td>Pension funds are not considered as collective schemes but as individual investors → PPG case. Pension funds are seen as insurers and could have a VAT recovery right (non EU beneficiaries)</td>
</tr>
<tr>
<td>Sweden</td>
<td>No</td>
<td>Exemption limited to funds listes under the Swedish Investment Fund act. Pension funds are seen as individual investors.</td>
</tr>
<tr>
<td>UK</td>
<td>No</td>
<td>Pension funds are not mentioned in the list of eligible funds. They are seen as a pool of assets. → Wheels case</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>No</td>
<td>No. Only investment funds and mutual funds are eligible to receive VAT exempt services. Pension funds are seen as insurers and could have a VAT recover right (non EU beneficiaries)</td>
</tr>
<tr>
<td>Germany</td>
<td>Yes</td>
<td>The exemption applies to both vehicles aimed by the investment and insurance acts</td>
</tr>
<tr>
<td>Belgium</td>
<td>Yes</td>
<td>Specific legal form.</td>
</tr>
</tbody>
</table>

*Internal Ernst & Young survey*
VAT and employer

- If the employer is a “normal” business (trading, industrial, (non financial) services) company, he is able to recover VAT on its costs

- If the employer commits to pay a pension, he should be able to recover VAT on related costs

- If he “transfers” this to a pension fund/scheme, costs will be born by this fund/scheme
  - Could it be considered that the costs (or a part of the costs) are employer costs and that he could deduct (at least partly) this VAT?
  - PPG Holdings BV case to be decided by ECJ (C-26/12)
6. VAT an increasing cost, a trend that will not stop
VAT an increasing cost

- **Standard rate**
  - 15% minimum in the Directive
  - 25% maximum not in the Directive → Hungary: 27%

- **Minimum rate/zero rate**
  - Limited application
  - Not the favoured tool
  - Difficulties of interpretation, risk of fraud, etc,

- **Narrower interpretation of VAT exemptions**
  - Clear in the discussions regarding the revision of the VAT exemption of financial services
  - EUCJ jurisprudence: e.g. Deutsche Bank case
  - EU Commission own resources
VAT an increasing cost

► Political/economical/social aspects
  ► “VAT is an unfair tax” → Nordic countries
  ► VAT is the easiest/most productive tax
  ► VAT shift the burden from the producer to the customer
    ► Workforce not cheap in EU

► Shifting tax balance:
  ► Consumption tax accounts for 30% of all Government revenue across the OECD*
  ► VAT is the principal method of taxing consumption in 33 of the 34 OECD countries*
  ► Clear increase of the VAT rates since 2008 in the EU (average standard rate from around 19% to around 21%)

* Source: OECD 2010 Consumption Tax Trends
VAT an increasing cost

► OECD report indicates that:

« In June 2009, OECD Ministers agreed that: « Growth-oriented tax reforms would generally involve shifting revenue from corporate and personal income taxation or social security contributions onto consumption and property taxes, including housing taxation. In particular, recent research shows that it would be more efficient to broaden the VAT base at the standard rate by removing most exemptions and by abolishing domestic zero and reduced rates »*

► * Source: OECD 2010 Consumption Tax Trends
Any question?
Many thanks for your attention

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Enclosure 1

VAT exemption of financial services - Future
Following slides are based on texts of February 2010 and should only be considered as exemples (6880/10 and 6679/10)
« Pension funds » means undertakings for collective investments established for the sole purpose of achieving the objective for which the pension schemes included in those pension funds were set up.

« Pension scheme » means a contract, an agreement, a trust deed or rules which have the sole purpose of defining and establishing the conditions for obtaining retirement benefits using funded schemes.
VAT exemption for financial services - Future

Are exempt:

- Management of investment funds means services included within the functions of portfolio management, administration and distribution aimed at achieving the investment objectives of the investment fund concerned.

- Management of pension funds means services included within the functions of portfolio management, administration and distribution aimed at achieving the investment objectives of the investment fund concerned.

- Consistent approach: the next slides apply to both pension and investment funds
VAT exemption for financial services - Future

Are considered as VAT exempt services:

- Strategic and tactical asset management and asset allocation, including currency and risk management

- Operational asset management, including stock selection, decision making and implementation, decisions to buy and sell investments, netting of trades, pre-trade broker liaison, administration and control of trades and post-trade liaison with brokers and custodian

- Guarantee provision, including the operation of hedging portfolio
VAT exemption for financial services - Future

Are considered as VAT exempt services, the bundle of at least the following services if they, viewed broadly, form a distinct whole, and are specific to, and essential for, the management of such funds:

► Administration of shares or units, including distribution and trustee liaison,
► Arranging and processing loans of stocks and bonds,
► Fund order processing, including automated processing;
► Market and company analysis;
► Performance measurement, including the provision of investment performance reports and attribution analysis of returns;
► The provision of valuations, tax refund claims and management information and the calculation of net asset value;
Safe-custody, security safe-keeping and control;

Oversight of the fund by the depositary;

Payment of income to customers and proxy voting.
VAT exemption for financial services - Future

Are not considered as VAT exempt:

► External audit of the fund, marketing and management of fund overheads;
► Development of systems such as planning and implementation of new technology, major enhancements to existing systems and systems maintenance;
► Services relating to regulatory compliance, auditing and bookkeeping services,
VAT exemption for financial services - Future

Distinct services:

► Where a supply of goods or services comprises, in part, insurance or credit which constitutes an aim in itself, and whose price is thus set out separately, that part shall be considered a distinct supply of services exempted under point (a) or (b)

► Where a supply of goods or services comprises, in part, an insurance or credit which does not constitute an aim in itself, even if its price is set out separately, that part shall not be considered a distinct supply of services exempted under point (a) or (b)
Enclosure 2

VAT an increasing cost – Example of increase of VAT rates
VAT an increasing cost

Increase of VAT rates in the EU:

<table>
<thead>
<tr>
<th>Country</th>
<th>Up to 12.2010</th>
<th>From 01.2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Reduced rate</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>. Super reduced rate</td>
<td>5.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard rate</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>. Reduced rate</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard rate</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>. Reduced rate</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Portugal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard rate</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard rate</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard rate</td>
<td>17.5%</td>
<td>20%</td>
</tr>
</tbody>
</table>
VAT an increasing cost

- Increase of Indirect Tax rates around the World:

<table>
<thead>
<tr>
<th>Country</th>
<th>Up to 12.2010</th>
<th>From 01.2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Quebec Sales Tax rate</td>
<td>7.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Fiji</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard VAT rate</td>
<td>12.5%</td>
<td>15%</td>
</tr>
<tr>
<td>Jersey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard GST rate</td>
<td>3%</td>
<td>5%(in June)</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard VAT rate</td>
<td>7.6%</td>
<td>8%</td>
</tr>
<tr>
<td>. Reduced VAT rate</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Norway</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>. Standard VAT rate</td>
<td>7.6%</td>
<td>8%</td>
</tr>
<tr>
<td>. Reduced VAT rate</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>. Special VAT rate</td>
<td>3.6%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>