

Exempt financial services

Tax exemption of financial services is related to the essential point of the service – not to the provider. Thus, a person whose main business activity is not the provision of financial services, can also apply tax exemption for financial services. As the exception, input VAT related to the provision of exempt financial services to a non-EU country person is deductible (according to subsection 1 of § 29 of the VAT Act). According to subsection 2 of § 32 of the VAT Act, the provision of the financial services, in so far as these are incidental transactions, shall not be taken into account upon the calculation of proportion of taxable supply to total supply. For example, financial service is incidental transaction if a business grants a loan to its employee or to a person who is not its employee and the provision of such financial service is not the main business activity of the business. Also, the financial activity has incidental character if a business transfers securities which belong to the business (including money market fund units).

The supply of the following financial services is exempt from VAT:

1) deposit transactions for the receipt of deposits and other repayable funds from the public.

Only a credit institution who has the correspondent authorisation can provide such service, its service fee is supply exempt from VAT.

2) borrowing and lending operations, including consumer credit, mortgage credit and other transactions for financing business transactions.

As a rule, a loan agreement includes the obligation of the recipient of the loan to repay the loan to the lender by agreed deadline and to pay interest, i.e. consideration for the use of the loan. Thus, received loan interests are exempt supply.

Since 1 May 2005, there is directly stipulated in the Credit Institutions Act that consumer credit is also a loan transaction treated as financial service. Interests, paid by a bank from money which is deposited in a bank account, are not treated as loan interests. The receipt of such kind of interests is not exempt supply for a business.

3) leasing transactions.

In the case of leasing transactions, the supply exempt from tax is the leasing interest. Interest is generally a fee for a financial service. If a leasing company provides a financial service to a client in addition to the rental service, the interest is exempt from tax regardless of whether the lessor and the lessee have entered into a leasing agreement under the terms of an operational lease agreement or a financial lease agreement. It should be taken into account that, in accordance with clause 9 of subsection 7 of § 37 of the VAT Act, the invoice submitted to the purchaser of the goods or services

must set out, inter alia, the taxable amount broken down by different rates of VAT together with the applicable rates of VAT or the amount of supply exempt from tax – thus, the taxable value of the rental service and the amount of tax-exempt supply of the financial service must be set out separately on the invoice.

4) settlement, cash transfer and other money transmission transactions.

Abovementioned determination means the provision of the service of financial transmissions. As a rule, the provider of the service of financial transmissions is a banking institution. Service fee for financial transmissions, made by a postal institution, is also treated as a financial service exempt from VAT because the postal institution receives cash to carry forward it to third persons.

AS of 01.07.2022, payment services within the meaning of the [Payment Institutions and E-money Institutions Act](#) are not subject to value added tax, excluding transactions in collector coins which are not investment gold.

5) issue and administration of non-cash means of payment, such as electronic payment instruments, electronic money, traveller's cheques and bills of exchange.

Non-cash means of payments are credit cards, traveller's cheques, bank bills of exchange etc. As a rule, it's a service provided by a bank – including the case when the traveller's cheques are sold by travel agencies.

6) guarantees and commitments and other transactions creating binding obligations to persons.

Guarantee transactions and service fees related to such transactions are both treated as exempt supply.

7) transactions for their own account or for the account of clients in traded securities provided in clauses 1–7 of subsection 1 of § 2 of the Securities Market Act and in foreign exchange and other money market instruments, including transactions in cheques, exchange instruments, certificates of deposit and other such instruments.

In this case, service fee is exempt supply. The transfer of security itself is also exempt supply (clause 6 of subsection 2 of § 16 of the VAT Act). **Security** is defined in subsection 1 of § 2 of the Securities Market Act. Security is a transferable proprietary right – thus, security is a service. The following also shall be taken into consideration:

- ✓ if a natural person or any other person not engaged in business transfers securities which belong to him, it's not treated as business;
- ✓ if a business transfers securities which belong to him, the transfer of securities is exempt supply –

- ✓ but it has no influence to the deduction of input VAT of the business because the transfer of securities, in so far as it is incidental transaction, shall not be taken into account upon the calculation of proportion of taxable supply to total supply. The transfer of securities (for example, money market fund units) has incidental character also in the case when the transactions are made every day but the seller is not a financial institution and its main business is something else (not the transfer of securities). Upon the transfer of securities, value of exempt supply is comprised of the total consideration received (incl. the cost of security itself).

A greenhouse gas emission allowance for the purposes of subsection 1 of § 137 of the Atmospheric Air Protection Act, which is also treated as security in the meaning of the Securities Market Act since 03.01.2018, is **taxable** transaction since 01.05.2018.

8) transactions and acts related to the issue and sales of securities specified in clause 7 of subsection 2¹ of § 16 of the VAT Act.

The service related to the issue of securities, the public offer of securities and their admission to trading on regulated securities markets.

9) money broking.

Intermediation of transactions with money and currencies in the meaning of brokerage contract, enacted in Article 658 of the Law of Obligations Act.

10) negotiation services related to the services specified in clauses 1–9 of subsection 2¹ of § 16 of the VAT Act;

11) management of investment funds provided for in the Investment Funds Act and other investment funds of a Contracting Party to the EEA Agreement and subject to financial supervision, including the provision of services related to the management of funds to the funds in the case of transfer of duties of a management company.

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