ACCOUNTANCY EUROPE.

8 July 2025

Subject: **Call for Evidence: Savings and Investments Union, Fostering integration, scale and efficient supervision in the single market**

Dear Commissioners Hoekstra and Albuquerque,

For savers and investors, equity investments provide the potential for medium- to long-term capital growth. For European businesses, increasing the size and liquidity of European capital markets provides the potential for additional funds that can be utilised to innovate and to grow. Consequently, Accountancy Europe supports the European Commission's Savings and Investments Union ('SIU') initiative and is pleased to submit our initial views for developing a blueprint for a pan-European savings and investment products.

These views will mostly focus on the impact of tax incentives to boost equity investment but will also briefly cover other issues that we consider important that the Commission takes into account.

To make the SIU effective, it must consider many factors that determine why and how European citizens save for the future as well as the different policy objectives that could and should be addressed by the SIU initiative.

## POTENTIAL ADVANTAGES OF TAX INCENTIVES

### PERSONAL TAXES

As concluded by the 2018 OECD study, *Financial Incentives and Retirement Savings,* "the effectiveness of financial incentives needs to be measured against the intended policy objective. These policy objectives consist mainly of increasing national savings, reallocating savings into retirement products, or developing the supplementary role of private pensions in the provision of retirement income."

Whilst the primary policy objective of the SIU is to boost EU capital markets, it also has a strong potential to serve the additional policy objective of boosting savings and the financial security of citizens – particularly for retirement.

Studies have indicated that equity investment by individuals can be promoted by appropriate tax incentives, encouraging citizens to save – for medium-term projects but particularly for longer-term retirement saving. Boosting individual saving for retirement is a crucial policy objective, given the stress on public pension systems from increasing fiscal constraints on Member States and ageing populations.

Such savings are a large potential source of additional funding for the EU capital markets. Although the EU lags behind the US in capital market capitalisation, on average, EU citizens save almost twice the percentage of their disposable income compared to their US counterparts. This indicates a considerable untapped pool of funding for EU capital markets, which could be boosted by appropriate tax regimes.

Such tax regimes would normally encompass reliefs from personal income tax and from any taxes levied on capital growth of investment assets.

The incentive effects of tax reliefs on pensions savings have long been recognised by those governments that permit retirement savings based on what is known as an Exempt, Exempt, Taxed (EET) basis. This means that funds obtain tax relief on investment, grow tax free, and then form part of taxable income when withdrawn. It is also not uncommon to allow retirees to withdraw a significant amount of the fund as a “tax-free lump sum” – effectively increasing the tax relief. This is justified by policy makers as being, effectively, a premium to the saver who has lost access to the funds for what could be decades.

Conversely, early withdrawals from pension funds tend to be heavily penalised with a claw back of tax reliefs – which is consistent with the aim of encouraging long-term saving.

Such incentives have often been shown to be very successful in attracting savers and are naturally suited to equity investment due to the long-time scale over which investment takes place and the fact that capital growth is free from taxation.

Additionally, social security incentives can be effective in encouraging businesses to make pension payments on behalf of their employees. This is not only cost effective for employers but can be an excellent way of ensuring that lower paid employees have additional pension savings on top of their state pension. Normally, payments to pension funds on behalf of employees would be deductible expenses for the purposes of corporate income tax.

There is evidence that EET based retirement savings can be supported by investment products designed on the Taxed, Exempt, Exempt (TEE) basis. These tax schemes do not grant tax relief on the initial investment, but funds invested grow free of tax and no tax is charged on any capital growth when they are withdrawn.

These can be offered for both cash and equity-based products but are, like pension products, especially suitable for equity-based investments due to the potential for tax free capital growth. As such, they can act as an effective tool to encourage medium term savings – such as saving for property etc – and tie in well with longer term pension saving.

In many Member States there has been a notable shift in working patterns in the last few decades with a move away from traditional long-term, stable employment to various types of self-employments – including in the so-called gig economy. Such self-employment is often disadvantaged when it comes to social security treatment and in respect of entitlement or access to Tier 1 pensions (national/state) and Tier 2 pensions (fully funded occupational schemes). Member States should consider whether there are appropriate authorised pensions saving vehicles in place to incentivise all categories of self-employed workers to save for their retirement – which will, in turn, increase the potential pool of savings income that can be invested in equities.

## TAXATION OF INVESTMENT VEHICLES

Pooled fund investment vehicles are the preferred, and arguably the most appropriate, means of investment in equities for many individual savers.

However, the tax treatment of such funds (encompassing both pension funds and other collective investment vehicles) is often opaque, based on old business models and could benefit from a more harmonised approach across Member States.

For pension funds, offering a tax-free status for the fund can promote the attractiveness to savers as taxation on the fund reduces the potential return generated. Not offering such a tax-free status might otherwise negate one of the principal ‘rewards’ for the saver foregoing access to the funds for a very long period.

For all investment vehicles a lack of harmonised tax treatment can lead to jurisdictional and/or treaty shopping with funds seeking to locate in jurisdictions with the most favourable tax regimes – such as those that offer lower rates of capital gains tax or are free of capital taxes. This jurisdiction shopping may favour certain EU Member States, but it also favours jurisdictions outside of the EU.

We are also seeing evidence that in some non-EU jurisdictions, investment funds are using technology to artificially reduce the taxes suffered by the fund – for example, by using automated loss offsets between different elements of pooled funds. As such funds are generally available to investors at a global level, this could result in European investment vehicles appearing less attractive than those in other jurisdictions.

If the SIU is to succeed, there needs to be a thorough review of the taxation of investment funds across Europe with a view to a unified pan-EU system for the competitive taxation of such vehicles. The Commission’s intention to develop a blueprint or guidance for Member States may be the most sensible initial step to this direction.

Most investment vehicles in the EU are likely to be exempt for VAT purposes. This means that they will suffer irrecoverable input VAT on their activities, increasing the costs incurred by the fund - thereby reducing the yield for investors. It is important that the VAT treatment of investment services be reviewed as a matter of urgency to ensure that it is appropriate for current business models and competitive with the regime in other key competitors.

## LIMITATIONS OF TAX INCENTIVES

It should be noted that there are also some limitations from a policy point of view in respect of such tax incentives.

The above-mentioned 2018 OECD report concludes that “tax incentives, especially the tax deductibility of contributions, encourage participation in, and contributions to, retirement savings plans for middle-to-high income earners because individuals respond to the upfront tax relief on contributions that reduces their tax liability. Low-income earners are, however, less sensitive to tax incentives, because they may lack sufficient resources to afford contributions, they may not have enough tax liability to fully enjoy tax relief, and they are more likely to have a low level of understanding of tax-related issues”.

There are also related social equity issues (as tax incentives work best for higher earners) and governments are nervous about the use of unrestricted retirement savings for estate planning and of the risk of capital flight. Consequently, previously very generous tax environments for certain forms of equity investments previously offered in some jurisdictions are being scaled down due to their cost.

In terms of social equity, it is important that measures to boost savings and pension provision for lower-income households are included in any package of tax incentives that are more attractive to middle- and higher-income households.

A further issue that can act as a disincentive for lower earning individuals to invest in pensions occurs where post-retirement tax credits or social benefits are dependent on income levels and are reduced if additional income, such as pension income, is received. Careful design of tax systems, and the interaction with the social benefits systems, is required to avoid such unwelcome consequences.

It should also be noted that such tax incentives do not necessarily mean that all the funds invested into such tax preferred structures are new – in fact, research from both the EU and US suggests that, on average, such schemes only attract 25% of new savings[1]. The remainder is the transference of funds from schemes with fewer tax advantages. However, as some of the 75% will come from existing cash deposits, this still represents a considerable potential benefit to increase EU capital market capitalisation.

However, it must be recognised that it is not a good investment strategy for individuals to put all their investment funds solely into EU capital markets – proper investment strategy needs a balanced portfolio, including geographical diversification. This means that a considerable amount of additional capital market investment generated in the EU by favourable tax regimes could end up benefiting other capital markets. However, this may not be a problem if the policy objective is to mainly provide citizens with better value for their savings and reinforce the sustainability of European pension system.

Additionally, there is a view that the size of the EU capital markets is too small to absorb the huge amount of potential additional investment – pushing up equity prices without necessarily increasing the provision of additional capital to those businesses listed on EU capital markets - at least in the short term.

This also raises the question as to how more businesses are persuaded to join EU capital markets – in growth markets perhaps as a first step to listing on a full market. Smaller entities are often reluctant to seek external investment due to a perceived loss of control of their business, due to the costs involved, and the additional public scrutiny etc. Additionally, many investors are cautious of investing in SMEs due to their significantly higher risk profile. First stage investors such as 'business angels' and venture capitalists are key drivers in opening up private owned businesses to the concept, advantages and constraints inherent in securing external funding.

## SPECIFIC TAX CONSIDERATIONS FOR ENCOURAGING INVESTMENTS

Consequently, consideration should be given as to how such investors can be incentivised to invest in smaller, inherently riskier, businesses. As part of the SIU initiative, we believe that the European Commission should also examine Member States tax regimes to identify good tax practices that ameliorate the following common issues that our members encounter. In particular, there is a lack of neutrality often demonstrated in tax systems in respect of investments in innovative private businesses, such as:

- Overly restricted loss offsetting. Restrictions on the use of capital losses reduce the attractiveness of investing in high-risk investments (including investments in innovative companies). Many tax systems restrict loss relief to the same source of funds (income or capital), to the same entity, or only to future income rather than current or past income. This disincentives investment, for example, by business angels who may only be able to offset losses on investment against future capital gains, or losses made only against profits made in respect of the same company.
- Discrimination against dividends compared to interest. In many countries, both are taxed equally on individuals, but only interest is deductible at company level - which leads to a structural disadvantage, incentivising companies to use debt financing.
- At present, as losses are only deductible to a limited extent, many governments participate in the rewards of business investment by taxing the income from successful investments, but do not participate appropriately in the risk. This asymmetry discourages private investment in innovative and riskier ventures. To mitigate this, for example, personal tax allowances could be increased, which could apply specifically to dividends and capital gains. This could

[1] "*Effectiveness of tax incentives to boost (retirement) saving: Theoretical motivation and empirical evidence*" Attanasio, Institute for Fiscal Studies

incentivise investment in innovative (and riskier) ventures. At the bare minimum, taxation should at least not put riskier investments at a disadvantage.

## OTHER ISSUES

As noted above, tax incentives can be an effective tool for certain groups of taxpayers to invest more in equities, but they cannot solve every issue that inhibits European citizens from playing a more active role in capital markets.

There is wide variation between Member States of the tax incentives offered for equity investment via certain vehicles – such as pensions. There is also considerable divergence between Member States of the willingness of citizens to invest in equities, either by direct investment in individual equities or via collective investment vehicles such as UCITS.

Possible reasons for this could be:

- A cultural bias to investing in other forms of assets, such as land
- Lack of education of how financial markets operate, inhibiting a reasonable assessment of the risk-reward ratio and promulgating an impression that equity investment is difficult
- A fear that equity investments are too risky, perhaps exacerbated by national scandals involving investment product mis-selling. This could partly explain why EU households typically hold around 30% of their financial assets in cash and deposits (compared with 13% for US households) and around 30% in shares and investment funds (compared with around 50% for US households)
- A perception that other forms of investment are safer (e.g. land and property) or offer more returns (e.g. crypto-assets).

This divergence is likely to impair SIU and this is an area that requires more research at an EU level so that tools (such as communication strategies) can be introduced to encourage EU citizens to engage in capital markets in an appropriate manner for their needs and circumstances.

As with all financial services products, there is a need for an effective regulatory structure to reduce as far as possible the risks of mis-selling of equity-based investment projects, to avoid excessive cost, and to offer the possibility of obtaining a return that is appropriate with the level of risk that the individual is comfortable with. For example, the pan-European Personal Pension Product (PEPP) has many of these elements, including low cost and a range of investment options balancing risk and return.

Sincerely,

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President

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