

Value added tax on financial services¹

1. Background

Financial services are exempted from value added tax. Proposition No. 1 (2012 – 2013) to the Storting; Bill and Draft Resolution on Taxes, discussed the issue of an activity tax for the financial sector; see Chapter 17. This is based on the premise that a tax on the financial sector would be an alternative to value added tax, and that it is appropriate for such tax to feature as many of the neutrality properties of value added tax as possible. The Proposition signalled that one would examine the scope for expanding the value added tax base to include financial services that are provided in return for a specific consideration in the form of fees, etc., as well as non-life insurance. It was also stipulated that the activity tax, if any, would need to encompass interest margins and other margin-based services. It was noted, moreover, that the tax would have to be structured such as to ensure that taxpayers do not pay both tax on margin income and value added tax on the same tax base. It was observed that the value added tax cascading currently taking place when the non-deductible input value added tax is passed on to businesses that are registered for value added tax should be eliminated, and that tax cascading on the part of such businesses should be minimised. The Proposition also discussed how the destination principle can be implemented to the maximum possible extent, thus preventing the tax from influencing location choices.

The Proposition emphasised that such comprehensive taxation of value added in the financial sector would be an innovation internationally, and that designing such a tax would raise a number of complex issues. It was also signalled that any proposal would be circulated for general consultation. In Law Recommendation No. 4 (2012 – 2013) from the Standing Committee on Finance and Economic Affairs, the majority (Labour Party, Socialist Left Party, Centre Party) voiced its support for the principle of an activity tax on financial services that retains, to the maximum possible extent, the favourable properties of the value added tax. The majority requested the Government to continue its examination of the matter and to accord it high priority.

The Ministry has pursued the matter. Designing a tax with properties as similar as possible to those of value added tax is challenging and raises complex issues. Two key characteristics, in particular, of value added tax are important in order for a tax to offer corresponding neutrality properties; deductibility for businesses that are registered for value added tax and equal treatment of domestic and foreign suppliers.

Below follows an outline indicating how a tax on financial services approximating the value added tax could be implemented. The outline is premised on expanding the value added tax base to encompass financial services wherever practicable. Moreover, it

¹ This text is a translation of the description given by the Norwegian government to the Storting in the National Budget 2014, see [Prop. 1 LS \(2013-2014\) Skatter, avgifter og toll 2014, chapter 23](#).

envisages the introduction of a tax on margin income that cannot, for practical reasons, fall within the scope of the value added tax regime. The properties of the said tax, as outlined here, closely approximate those of value added tax, and have less in common with an activity tax as discussed in earlier propositions. The outline will therefore in the following refer to value added tax on financial services and tax on margin income.

2. Current taxation of the financial sector

The financial sector is, like other sectors, subject to ordinary corporation tax on profits, whilst financial services are exempted from value added tax. Estimates presented below suggest that the said exemption implies a financial services taxation shortfall of about NOK 8 billion in 2014 prices, when compared to other services that are subject to value added tax; see section 7.

The Financial Crisis Committee (NOU 2011: 1) noted that the value added tax exemption for financial services has a number of undesirable implications. Value added tax is primarily motivated by the need to fund public sector consumption, investments and transfers. Hence, the design of value added tax attaches weight to minimising any undesired distortions in the economy caused by such taxation. The value added tax exemption for financial services causes undesired distortion of production and consumption in favour of such services to the detriment of more expensive, in relative terms, goods and services that are subject to value added tax. This is contrary to the neutrality principle underpinning the design of the value added tax system, and the exemption influences the consumption pattern and the industrial structure. The Ministry stated, in Proposition No. 2 (2000 – 2001) to the Odelsting; On Act pertaining to Amendments to Act of 19 June 1969 No. 66 relating to Value Added Tax (the 2001 Value Added Tax Reform), that financial services should, in principle, fall within the scope of the general value added tax regime. The value added tax exemption for financial services may result in a larger portion of society's resources than is economically optimal being allocated to the financial sector.

There are no special taxes on financial services in Norway, apart for the levy paid to the Norwegian Banks' Guarantee Fund by the banks. Many other countries have introduced either excise duty or value added tax on non-life insurance, and some countries have alternatives to value added tax in the form of special taxation of wage costs and profits in the financial sector. Some countries have made financial transactions subject to taxation. Box 1 discusses taxation of the financial sector in other countries.

Box 1 Taxation of the financial sector in other countries

The financial sector is, as a main rule, taxed like other business activities in most countries. An important difference, however, is that financial services are exempted from value added tax. The scope of the exemption is, roughly speaking, in line with the regulations governing the value added tax system adopted by the then EC in 1977. The rationale behind the exemption was that no satisfactory method had been identified for calculating the tax base.

Some countries have introduced taxes that partly compensate for the value added tax exemption for financial services. France introduced a special tax on wages in exempted industries, including the financial sector, as early as in 1968. Denmark has since 1990 made wage costs in several sectors with value added tax exemptions, including the financial sector, subject to special taxation. Such additional taxation of wage costs will in principle capture the value added reflected in the remuneration of labour, whilst value added extracted through profits is not captured. However, Iceland introduced an activity tax for the financial sector in 2012, which encompassed both wage costs and large profits. Israel also has a special tax on wage costs and profits in the financial sector.

Insurance premiums are subject to taxation in many countries with value added tax systems. Some countries that have introduced tax systems corresponding to value added tax fairly recently have made non-life insurance subject to value added tax. This is exemplified by New Zealand and Australia. The EU exempts insurance from value added tax alongside other financial services. Instead, most EU countries levy special taxes on insurance premiums. Non-life insurance is subject to special taxes to a much greater extent than life insurance. Finland taxes non-life insurance premiums at the same rate as applies under ordinary value added tax, although subject to some exemptions. On 1 January 2013, Denmark introduced a special tax on non-life insurance premiums, which replaced the former stamp duty upon the establishment of insurance contracts. No country levies value added tax on life insurance. However, some countries with excise duty on insurance premiums include life insurance premiums, including, *inter alia*, Belgium and Austria, but partly at lower rates than apply to other insurance premiums.

Stability fees or bank levies have been introduced in many countries in the wake of the financial crisis. The design of such taxes varies, in some respects, very considerably between countries, but is generally comparable to the levy paid by banks in Norway to the Norwegian Banks' Guarantee Fund. However, in some countries these tax revenues are channelled into the treasury, instead of being earmarked for a fund to safeguard deposits and prevent future crises in the banking sector.

Financial transactions are subject to taxation in some countries. The United Kingdom has a stamp duty on the transfer of shares and other equity instruments between investors. Belgium and Switzerland also have taxes on securities exchange trading. A number of countries make securities trading outside regulated market places subject to taxation, including Finland.

On 28 September 2011, the EU Commission published a proposal for a common EU tax on financial transactions, restricted to secondary trading in shares and debt instruments, as well as derivatives trading. The tax would apply to all transactions where at least one of the parties is resident or domiciled in an EU member state, irrespective of whether the transaction is executed within or outside the EU. EU taxation decisions require member states to reach unanimity. There proved to be considerable discord between member states, and the proposal for a common EU tax was finally abandoned in the summer of 2012.

Since then, 11 EU member states, including Germany and France, but none of the Nordic member states, have been considering a common transaction tax. The agreed procedure requires these 11 countries to adopt any joint regulations unanimously. However, France introduced a less comprehensive transaction tax on a national basis on 1 August 2012, and Italy did so on 1 March 2013.

3. The value added tax exemption for financial services

The value added tax exemption for financial services is broad in scope, primarily encompassing the core areas within banking, insurance and securities trading. Whether or not the exemption applies to a given service depends on the nature of such service. In other words, it is not the financial institutions themselves that are exempted, but services and transactions that are typically performed by such institutions. Most businesses within the financial sector currently also provide services that are subject to value added tax, and thus have both sales that are subject to value added tax and sales that are exempted from value added tax (dual-regime businesses).

The Norwegian value added tax exemption for financial services is largely structured in the same way as the corresponding exemption in the EU, although the EU value added tax regulations are not binding on Norway under the EEA Agreement. Financial services are also exempted from value added tax in most other countries. The Value Added Tax Directive (Council Directive 2006/112/EC) defines a framework for EU member states' design of their financial services exemptions, and member states' value added tax regulations for the financial sector are harmonised. Elsewhere, the design of the value added tax exemption for financial services varies from country to country. Several countries have adopted various methods within their value added tax systems to counter any undesired consequences arising from the value added tax exemption for financial services. New Zealand has opted for a method that zero-rates the sale of financial services to businesses that are registered for value added tax, whilst Australia has opted for a narrower definition of exempted financial services. South Africa has also chosen an approach that narrows the scope of the financial services exemption. This makes most financial services provided in return for a specific consideration in the form of fees, charges, commissions, etc., subject to value added tax at the standard rate of 14 pct.

The value added tax exemption implies that value added tax represents a cost element with regard to goods and service inputs used in the production of financial services. This is undesirable, as it may influence the structuring of production. The value added tax regime may, for example, prevent the outsourcing of services (which are subject to value added tax), although such outsourcing might be economically more efficient than for the financial institutions to produce the relevant services themselves. For dual-regime businesses, the exemption also implies that a distinction must be made between inputs acquired for use within and outside such portion of their activities as is subject to value added tax. Such distinction can be challenging to implement and to verify. The exemption may give rise to adjustments to avoid tax. Such adjustments will entail both fiscal and economic costs.

Value added tax is not intended to be paid by businesses, but by the end users in the system (the consumers). The non-deductibility of goods and service inputs in the financial sector implies that financial services provided to businesses are subject to excessive taxation. The value added tax exemption for financial services implies that there is a taxation shortfall with regard to financial services provided to ordinary consumers. It is likely that the exemption results in too low consumption of financial services on the part of businesses and too high consumption on the part of ordinary consumers.

4. Expansion of the value added tax regime to services sold in return for a specific consideration

The Ministry is of the view that financial services should be made subject to value added tax when they, technically speaking, can be included in the ordinary value added tax system. The consideration structure in the financial sector is heterogeneous. Payment for financial services is made either as a specific consideration, in the form of fees, commissions, etc., as insurance premiums or as margin-based payments.

Financial services provided in return for a specific, readily identifiable consideration, such as fees, commissions, etc., can be technically well-suited for charging value added tax. This is in line with the views expressed by the Storvik Committee, cf. the NOU 1990: 11 General Value Added Tax on the Sale of Services. A main argument from the Storvik Committee against the introduction of value added tax on services provided in return for a specific consideration, was the risk of unwanted distortion away from fee-based services towards higher margins. If a tax on margin income is introduced simultaneously, applying the same tax rate; see section 6, there would be no reason to expect any distortion away from fee-based services towards higher margins.

Although the consideration structure in the financial sector is heterogeneous, such heterogeneity does not in itself prevent expansion of the value added tax regime to encompass services sold in return for a specific consideration. The various providers of financial services know themselves which services are affected. Moreover, firms in the financial industry are required to specify different forms of income in their public financial statements. Making financial services sold in return for a specific consideration subject to value added tax will not involve major technical problems. An extensive technical drafting effort would, nonetheless, be required before a specific regulatory proposal can be submitted to the Storting.

If the domestic sale of financial services sold in return for a specific consideration is made subject to value added tax, the purchase of corresponding services from abroad must also be made subject to value added tax. Financial services are predominantly services capable of delivery from a remote location. The value added tax liability of businesses and government entities that acquire, from abroad, services that are subject to value added tax and capable of delivery from a remote location, already follows from

Section 3-30 of the Value Added Tax Act. These regulations establish reverse charging, thus implying that it is the purchaser who is responsible for value added tax reporting in such cases.

Besides, when financial services are sold from abroad, in return for a specific consideration, to private individuals and non-business entities in Norway, tax liability must be established by way of the supplier completing a registration and assuming responsibility for value added tax reporting. The specific design of such a registration scheme needs to be studied in more detail.

If such ordinary value added tax liability is introduced, businesses that are required to collect value added tax will, when purchasing financial services subject to value added tax, be able to deduct their input value added tax in their value added tax returns in the usual manner. Hence, the introduction of value added tax on financial services will not pose any burden on businesses. It may result in the price of such services being somewhat reduced, since the financial service provider will be able to deduct input value added tax on its procurements.

No value added tax shall be charged on financial services sold in return for a specific consideration for use abroad (export), i.e. exports will be zero-rated. Deductibility of input value added tax will also be established with regard to goods and service inputs for use in such part of the activities of financial institutions as is subject to value added tax. Such deductibility must, at the outset, be limited to procurements pertaining to the provision of financial services in return for a specific consideration. However, if financial services provided in return for margin payments are also made taxable; see section 6, deductibility can be expanded to encompass all procurement.

5. Expansion of the value added tax regime to non-life insurance

Insurance activities operate on the premise that the insurance company undertakes, in return for the payment of an insurance premium, to pay compensations upon the occurrence of an event covered under the policy terms and conditions. Insurance is, like other financial services, exempted from value added tax. The exemption implies that value added tax is not payable on insurance premiums. On the other hand, insurance companies are not able to deduct input value added tax. Consequently, insurance companies are charged value added tax on their goods and service inputs, like other businesses engaged in activities exempted from value added tax.

Value added tax on non-life insurance is not a new prospect internationally, and Norway can draw on experience from other countries in this respect. New Zealand introduced a value added tax (Goods and Services Tax; GST) system in 1986, which exempts financial and life insurance activities, but encompasses non-life insurance. Australia introduced GST in 2000 and has, like New Zealand, included non-life insurance.

Value added tax on non-life insurance may be governed by the general regulations on the calculation of output value added tax on company sales (premiums) and the deductibility of value added tax on goods and service inputs, but would require special tax rules to deal with compensation payments. This is because the value added to be taxed on the part of insurance companies is the difference between premium income and compensations payments. In order to tax only such difference one must, when levying value added tax on premium payments, grant a deduction in respect of compensation payments. The tax systems in New Zealand and Australia illustrate how deduction for compensation payment can be calculated and incorporated into the value added tax system. There is some dissimilarity between the solutions adopted in these countries. What specific solution is the most suitable for Norway would need to be examined in detail.

An extensive technical drafting effort would be required before a specific regulatory proposal can be submitted to the Storting. It would, *inter alia*, be necessary to draft detailed rules defining tax liability with regard to compensations payable in respect of insured events in other countries or compensation payments from insurance companies in other countries. However, this should not be significantly more complex than the corresponding issues in relation to other cross-border service provision, and will in the main rely on the general value added tax rules. Insurance consumption will be taxable, including insurance of real estate located in Norway. Insurance relating to real estate located abroad will be exempted. A number of issues will arise in relation to cross-border insurance service provision, and the specific drafting of the regulations will require careful consideration.

The EU has exempted non-life insurance from value added tax. In principle, this does not prevent Norway from introducing value added tax on non-life insurance. However, many of the EU member states make insurance premiums subject to excise duties; see Box 1. The use of excise duty is administratively straightforward, but results in undesired distortions. Such taxes will, for example, also have to be paid by businesses, whilst insurance companies are still charged value added tax on their procurements.

Life insurance includes a significant element of savings, which makes it more challenging to apply ordinary value added tax to life insurance than to non-life insurance, and no country has extended the scope of value added tax to include life insurance.

6. Tax on margin income in the financial sector

The Ministry is of the view that the best solution would be to levy ordinary value added tax on activities that can, technically speaking, be incorporated into the ordinary value added tax system, cf. the above discussion. It is technically challenging to subject margin-based services (such as interest margins – represented by the spread between lending rates and borrowing rates) to ordinary value added tax. This is because it is

hard to identify the margin income pertaining to each transaction. Comprehensive taxation of value added in the financial sector would require margin income to be subject to a separate tax. The expansion of value added tax to services provided in return for a specific consideration in the form of fees, commissions, etc., must apply to all businesses that provide such services. However, which businesses shall calculate and pay a tax on margin income would have to be specifically defined.

It is suggested that specific consideration in the form of fees, commissions, etc., be excluded from the tax on margin income, thus ensuring that the firm does not pay both tax on margin income and value added tax on the same tax base. Hence, it will from a taxation perspective be irrelevant whether income takes the form of specific consideration or margin income, provided that the tax rates applicable under value added tax and the tax on margin income are identical.

6.1 Entities subject to tax

Which entities are potentially subject to tax on margin income should be determined on the same basis as which entities are potentially subject to general taxation. This implies that only entities whose activities are potentially subject to general taxation in Norway would be potentially subject to the tax on margin income. Furthermore, which entities amongst the above would in actual fact be subject to such tax on margin income should be determined on the basis on the licensing regulations for the financial sector. Such an approach would imply that the scope of taxpayers is determined on the basis of whether entities are engaged in financial activities of such a type as to either require a licence from, or notification to, the Financial Supervisory Authority of Norway. Although the licensing regulations have been introduced in order to ensure that financial institutions engaged in financially prudent activities, such regulations can also be suited as a basis for defining which entities shall be subjected to the tax on margin income.

An enterprise in another EEA state may provide financial services in Norway through a branch of such foreign enterprise, provided that this is permitted under its home state license. Foreign financial enterprises with branches in Norway that hold a license in another EEA state should be subject to taxation alongside Norwegian enterprises. Enterprises headquartered outside the EEA that are engaged in financial activities in Norway will normally have to apply for a licence from Norwegian supervisory authorities, and will thus be subject to taxation.

6.2 Tax base

The margin income of financial enterprises is their consideration received in return for the relevant financial product (apart from any specific consideration), less direct financial costs. Interest margins, i.e. interest income less interest costs, represent an important source of income for many financial enterprises. Margins on trading in foreign exchange, bonds, derivatives, etc., also give rise to margin income. The tax

base for a tax on margin income should be defined by reference to aggregate numbers, and not for each transaction as with the value added tax. When both income from services provided in return for a specific consideration and margin income are subjected to taxation, full value added tax deductibility can be granted in respect of the inputs of financial enterprises.

In order to prevent businesses that are registered for value added tax from being charged tax on the margin income, such tax should only apply to margin income relating to customers that are not registered, predominantly households. Such a tax would require financial enterprises to keep track of which customers are registered for value added tax. In order to prevent tax from being charged on margin income from these customers, financial enterprises may be granted zero-rating on their margin-based services to such customers. Zero-rating means deductibility of input value added tax on procurements made by the financial enterprise for use in the production of these services, thus eliminating the current tax cascading.

Margin income in the financial sector associated with services purchased by customers that are not registered for value added tax (households) should be subject to tax. Such income could be added up and the tax calculated, for example, once a year. The tax base for services premised on interest margins could be defined as total interest income from lending to households, less total interest payments on deposits from households and total loss on lending to households. This assumes that total lending to households equals total deposits from households. Lending normally exceeds deposits, thus indicating that financial enterprises should be granted an additional deduction in respect of interest costs relating to the difference between lending and deposits. Corresponding adjustments should be made in case deposits exceed lending. The objective is to subject only the interest margin to taxation. See Box 2 for an example of such a calculation. The tax should encompass margin income in different types of financial enterprises. One might envisage the development of separate models for the calculation of other margin income, such as, for example, margin income from households' foreign exchange trading. It may, however, be challenging to capture all types of margin income earned by financial enterprises.

Box 2 Illustration of a potential tax on income from interest margins

The tax base for a tax on income from interest margins is defined by formula (1) below. By households are meant those customers of the financial enterprises that are not registered for value added tax. The benchmark interest rate in the formula is used in the event of discrepancy between total lending to households and total deposits from households. It is required for purposes of calculating further deductions from, or additions to, the tax base. Ideally speaking, the benchmark interest rate should be designed in such a way as to make the tax base match the actual interest margins of enterprises. This may be difficult to achieve in practice. The benchmark interest rate may therefore, as a main rule, be determined by the authorities, but could also conceivably be calculated by each financial enterprise. The other variables would have to be added up by the financial enterprise, based on transactions within a given period of time, for example annually. These variables cannot be obtained directly from the financial statements of these enterprises. This is because these shall only include services provided to customers that are not required to collect value added tax. One might, however, envisage such variables being linked to corresponding accounting definitions for all customers.

(1) Tax base = interest income from lending to households – interest costs on deposits from households – benchmark interest rate * (total lending to households – total deposits from households) – loss on lending to households

Table 1 provides a simple example as to how the tax on interest margins might be calculated. The example distinguishes between lending to, and deposits from, households (including other non-registered customers) and customers that are registered for value added tax, respectively. Lending exceeds deposits, and it is assumed that the difference is funded by equity and capital from other sources. The amounts are solely intended as illustrations for purposes of presenting a calculation example.

Table 1 Calculation example for a tax on income from interest margins. NOK million

Information concerning the activities of the bank		
	Amount	Interest
Lending to households	2,000	80
+ Lending to customers that are registered for value added tax	2,000	80
= <i>Total lending</i>	<i>4,000</i>	<i>160</i>
Deposits from households	1,000	20
+ Deposits from customers that are registered for value added tax	1,000	20
+ Equity	500	-
+ Other sources of capital	1,500	45
= <i>Total funding</i>	<i>4,000</i>	<i>85</i>
Calculation of tax on interest margin		
		Base
Lending to households		80
- Deposits from households		-20
- Benchmark interest rate * (total lending to households – total deposits from households) = 3 pct. * (2,000 – 1,000)		-30
- Loss on lending to households		-5
= <i>Tax base</i>		<i>25</i>
<i>Tax (25 pct. of the tax base)</i>		<i>6.25</i>

Source: Norwegian Ministry of Finance.

This example uses a fixed benchmark interest rate of 3 pct. However, there may be large variations between the interest rates that make up the interest margins of various financial enterprises. One may therefore consider permitting each financial enterprise to calculate its own benchmark interest rate contingent on approval by the authorities. In this example, nonetheless, a benchmark interest rate of 3 pct. may not necessarily be particularly misleading. This is because the benchmark interest rate in the example corresponds to the average capital cost rate applicable to other sources of capital ($45/1,500 = 3$ pct.), and the benchmark interest rate in the example is halfway between the average interest rate on lending to households ($80/2000 = 4$ pct.) and the average interest rate on deposits from households ($20/1,000 = 2$ pct.).

Value added tax adheres to the destination principle, i.e. exports are exempted from tax, whilst imports are subject to tax. This implies that value added tax is a tax on consumption in Norway. Hence, it does not influence the location decisions of enterprises. A tax on margin income should adhere to the same principle. Financial service exports may be exempted from the tax in the same manner that customers registered for value added tax are exempted from such tax. This will eliminate the current value added tax costs on the inputs used in financial service exports, thus reducing the cost of exporting such services from Norway. Financial services imported in return for consideration in the form of margin income should be subject to taxation. This can be effected in a similar manner to the taxation of Norwegian financial enterprises. The tax base on, for example, lending to Norwegian households from abroad should be interest paid on the loan, less interest costs. Interest costs can be defined by applying a fixed interest rate, for example the benchmark interest rate discussed in Box 2. Reporting of the tax on margin income should take place in a manner corresponding to that applicable to the value added tax on financial services.

This is a preliminary outline indicating how margin income might be subjected to a form of value added tax. A number of issues would need to be examined in more detail and a specific set of draft regulations would have to be prepared.

7. Economic implications

The value added tax on financial services and the tax on margin income outlined above may remedy a number of distortions caused by the current value added tax exemption. Such changes would result in financial services for households being taxed in line with most other goods and services. At the same time, the current hidden value added tax costs on financial services for businesses would be eliminated, thus reducing the costs of businesses. The incentives of financial enterprises to produce services in-house would disappear. Moreover, a value added tax on financial services might result in improved resource utilisation in the economy, whilst raising considerable government revenues.

All in all, the outlined expansion of value added tax and the tax on margin income are estimated to generate annual government revenues in the region of NOK 7 billion. The estimate is prepared on the basis of data for 2010. It has been assumed that the tax rate is 25 pct., which is equivalent to the ordinary value added tax rate. The apportionment of the tax revenues across different categories of financial enterprises and different types of income and deductions is shown in Table 2. The tax revenues would amount to about NOK 8 billion for 2014, based on general inflation and consumption growth projections. The calculations are uncertain, and must be considered a preliminary indication as to the order of magnitude.

Table 2 Estimated tax revenue effects from introducing value added tax on financial services and a tax on margin income, both at the rate of 25 pct. NOK million. 2010

Sector	VAT on fees /premiums	Margin income	Input VAT	Change in tax revenues
Banks	1,900	4,400	-1,400	4,900
Non-life insurance	1,600	–	-600	1,000
Other financial institutions*	1,100	2,000	-2,200	900
<i>Total</i>	<i>4,600</i>	<i>6,400</i>	<i>-4,200</i>	<i>6,800</i>

* Includes investment firms, credit institutions and securities fund management companies.

Sources: Statistics Norway and Norwegian Ministry of Finance.

If the tax changes are fully reflected in the prices of financial services, such changes may entail cost savings in the region of NOK 2 billion for businesses. This is because the financial sector will be able to deduct input value added tax relating to these services, thus eliminating the current tax cascading. These cost savings may trigger somewhat lower lending rates and non-life insurance premiums, and somewhat higher deposit rates, for customers that are registered for value added tax.

For households, the public sector and others that are not registered for value added tax, these changes may trigger a price increase in the form of somewhat higher lending rates and somewhat lower deposit rates. Premiums on non-life insurance may also increase somewhat. It must, however, be assumed that part of the tax changes will not be passed on to customers, and instead influence, *inter alia*, profits and wages within the financial industry. This suggests that prices may change less than would otherwise have been the case.