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Spain
Espagne
Spanien
España

Branch Reporter
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1. Outline of VAT in Spain

1.1. Introduction

Value added tax is assessed on the production and distribution of goods and the provision of services in mainland Spain and the Balearic Islands, including the intra-Community acquisition and importation of goods.

This taxation was initially regulated by Act 30/1985, passed on 2 August 1985, but after the implementation of the EC Directive 91/680/EEC it is now regulated by Act 37/1992, passed on 28 December 1992.

The tax territory consequently excludes both the Canary Islands, where the Canarian indirect general tax (IGIC) applies, and the Spanish enclaves of Ceuta and Melilla in northern Africa, where the tax on production, services and imports (IPSI) applies. These taxes owe their existence basically to the fact that the territories of the Canary Islands, Ceuta and Melilla are excluded from the territorial application of VAT. The IGIC is applied in the Canary Islands and the IPSI in Ceuta and Melilla.

We can distinguish three types of taxable transactions:

- the supply of taxable goods or services in the tax territory by professionals or entrepreneurs within the scope of their business;
- the intra-Community acquisition of goods by professionals, entrepreneurs or legal entities;
- the importation of taxable goods into the tax territory by any person. Importation is defined as an acquisition of goods coming from third countries, out of the European Community (EC), but including the Canary Islands, Ceuta and Melilla.

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1.2. Internal transactions

The first VAT category is the supply of goods and services in mainland Spain and the Balearic Islands.

A distinction can be made between the delivery of goods, where there is a transmission of the power of disposal over tangible goods (with the exception of the supply of gas, heating, refrigeration or energy), and the provision of services, where there is no transmission or acquisition of the power of disposal of a good, but only of a right over the same physical good, or transactions which do not relate to physical goods at all (such as advertising or consulting services).

The distinction between the delivery of goods and the provision of services becomes especially important with regard to the applicable regulations of the place of transaction, as tax rates differ.

As for the delivery of goods, the general criterion is the place where the good is put at the customer's disposal. With regard to the location of the provision of services, the general criterion is the service provider's tax residence, although there are other special criteria, such as the receiver's tax residence, depending on the type of transaction and the conditions of the service provision.

The main aim of VAT is its universality and exempted cases are exceptional. They are exemptions without deduction of the input VAT on purchases, importation and intra-Community acquisitions. The following are the most important exempt transactions:

- medical and social services;
- educational and sports services;
- financial operations and insurance contracts; and
- lease or transaction of immovable property (in certain cases it is possible to refuse: transfer of land or dwelling).

Taxable persons are individual or corporate entrepreneurs or professionals making taxable supplies of goods or services. However, if the services supplier is located in another Member State, or outside the EC, the transactions are located in the country of the customer applying the rule of the reverse charge (VAT paid by the customer).

Generally speaking, the taxable basis is tantamount to the consideration paid by the person who receives the goods or services supplied or by a third person. In particular, the consideration is tantamount to the price paid plus general items (commission, transport, insurance cost, taxes and duties on the operation other than VAT, etc.) and minus other items (interest paid for delays, indemnities and settlement payments, discounts of any kind).

1.3. Intra-Community acquisitions of goods

With respect to intra-Community acquisition, the taxable person is the professional, entrepreneur or legal entity that realized the acquisition.

The assessment basis is the total consideration charged.

1.4. Importation of goods

As for the importation of goods, the taxable person is anyone carrying out the importation.

With regard to imported goods, it is the value of such goods for customs purposes, increased by any import-related tax (other than VAT itself), duties and charges to the first destination.

1.5. Tax liability and VAT management

In computing tax liability, input VAT may be credited against output VAT, so that in practice only the value added to the entrepreneur's supplies is taxed. However, exempt transactions within mainland Spain and the Balearic Islands – including the intra-Community acquisition of goods and the importation of goods – are without credit for input VAT.

Since 2001 (Act 14/2000), a company can recover Spanish VAT if during a certain period it has not made any supplies, on the basis that the VAT is borne by cost components of future supplies.

The VAT rates in mainland Spain and the Balearic Islands are:

- standard rate: 16 per cent;
- reduced rate (supplies of goods and services for general use: food, water, dwellings, transport, tourism, cultural events, etc.): 7 per cent;
- super-reduced rate (basic necessities: bread, milk, cheese, eggs, books, human medicines, etc.): 4 per cent.

1.6. Non-resident entrepreneurs

Non-resident entrepreneurs are required to appoint a fiscal representative and to communicate his/her name to the tax authorities.

Foreign entrepreneurs which are VAT taxpayers under Spanish law may apply the general refund scheme for the recovery of the input VAT. A special refund scheme applies if:

- the entrepreneur is a resident of an EC Member State or of a country that grants reciprocal treatment to Spanish entrepreneurs;
- the entrepreneur has carried out only exempt transport transactions, or supplies of goods or services for which the reverse charge mechanism applies.

2. Characterization of financial services

We can distinguish three main categories of financial services, according to the International Standard Industrial Classification of all economic activities: financial intermediation, including lending and deposit taking; insurance and pension

funding, except compulsory social security; and activities auxiliary to financial intermediation.

Recently and more specifically, the EC Directive 2002/65, of 23 September 2002, concerning the distance marketing of consumer financial services and amending the Council directive, defines financial services as "any service of a banking, credit, insurance, personal pension, investment or payment nature".

On the other hand, financial services are not only provided by traditional institutions such as banks, savings banks, and insurance companies, but also by businesses whose activities are not primarily financial, such as credit provided to customers by retail businesses.

The Spanish VAT defines supply of services as every taxable operation other than delivery of goods, intra-Community acquisitions and importations of goods.

In particular, it considers supply of service the transfer of use or enjoyment of goods, insurance, reinsurance and capitalization transactions, and credits and loans in cash (article 11 of the Act 37/1992). Consequently, financial services are supplies of services in the VAT Act, which is important to determine the place of execution and the rate of the tax, among other aspects.

3. VAT on financial services

On the one hand, according to the Sixth Directive (EC Council Directive 77/388/ECC), most of the financial services are exempt (article 18, Act 37/1992).

However, since 1 January 1997, a new tax on the premiums corresponding to specific insurance and capitalization operations has been charged. The taxpayer is the insurance company, with the obligation of charging the tax to people who take out taxable insurance policies. The taxable base is the amount of the premium paid, and the taxable rate is 6 per cent. Consequently, in certain insurance operations VAT will not be applied but it will be substituted in a way by another indirect tax.

On the other hand, article 13C of the Sixth Directive provides that Member States may allow taxpayers a right of option for taxation in cases of the transactions covered in article 13B(d). It applies to financial intermediation, including lending and deposit taking, and activities auxiliary to financial intermediation. Spanish law has not exercised this option.

Hereinafter are classified the different services grouped by categories, indicating which are exempt and which taxable.

3.1. Services in the sphere of deposits, credits and loans

Spanish law declares exempt every deposit in cash (including deposits in current accounts or savings accounts), and other operations related to them, including the services of collection or payment provided by the depository to the depositor. The services that are considered exempt are those provided by the depository, acting in the exercise of its management or professional activity, for the benefit of the

depositor, on the occasion of the deposit in cash. For example: remitting of statements of accounts; records and account movements; payment of cheques issued by the holder; issuing of cheques with guarantee; payment of receipts, commercial drafts and other documents, in charge of the holder of the account; money transfers; administration and maintenance of accounts, etc. Deposits in cash are considered those containing national or foreign currency.

However, the exemption does not apply to the services of collection management, bills of exchange, receipts and other documents. Guarantee operations on account of cheques or cashier's cheques are not considered collection management. According to the administration, neither the services provided by the depositories to third persons, nor lottery ticket deposits and commercial drafts are exempt.

The transmission of deposits in cash, including by means of certificates of deposit or analogous titles, is also exempt. The granting of credits and loans in cash in any form is exempt, including by means of financial effects or titles of another class. The exemption also covers advances upon effects, discovered in current accounts, effects of commerce, availability of credit accounts, etc.

Not taxable are other operations, including the management, related to loans or credits carried out by those who granted them as a whole or partly, such as, for example, commission for appraisal of real estate for the granting of a mortgage credit. On the other hand, the management of loans when carried out by a third party will be taxable. In any case, the operations of financial exchange are exempt.

The transmission of loans or credits is also exempt. Factoring is included when the cession of credits implies the transmission of the ownership of those credits. This transmission takes place when the acquirer assumes the risk of the insolvency of the debtor. Also exempt are loans or credits by means of advances of money upon the value of credits yielded in commission of collection. However, collection management services provided by entrepreneurs or professionals in the exercise of their activity, with regard to credits owned by others but received in commission of collection, are not exempt.

Instalments of bail, backings, pledges and other real or personal guarantees, as well as the issuing, notice, confirmation and other operations related to documented credits, are also exempt. The exemption includes loan or credit guarantee management carried out by those who granted the guaranteed loans or credits or guarantees themselves, but not the management carried out by third parties.

Finally, the transmission of guarantees is also considered exempt.

3.2. Services in the sphere of money

Operations, including their transmission, related to transfers, bank giros, cheques, drafts, commercial papers, bills of exchange, payment of credit cards and other orders of payment, are exempt. The exemption extends to the interbank clearing of cheques, the acceptance and management of the acceptance, the R/D (return of bill to drawer) or statement in place of it and the management of the R/D, as well as the transmission of discounted effects. Not included in the

exemption are bills of exchange collection service or other documents that have been received in terms of collection management, or the delivery of effects in commission of collection.

Also exempt are transactions, including negotiation, concerning currency, banknotes and coins used as legal tender.

Coins and banknotes for collectors, as well as gold, silver or platinum pieces, are not exempted. Collectors' coins and banknotes are those which are not normally used as legal tender or having numismatic interest. Coin minting and delivery operations are not exempted, as these coins do not become legal tender until they are duly issued by the competent authority.

3.3. Services in the sphere of shares and securities

Such services and operations, except management, on shares, bonds or other securities are exempt. Likewise, their transfer and related services, including those due to their issuing or redemption, are exempt. Excluded from exemption are warrants (documents establishing title to goods) and those whose possession assures, of fact or of right, the ownership, use or exclusive enjoyment of the whole or a part of real estate (basically, time sharing properties), not including any share.

Nor is taxable mediation in the exempt operations above described, carried out by entrepreneurs, nor in similar operations carried out by anybody without the status of entrepreneur or professional. Logically, mediation in operations that, carried out by entrepreneurs, were not exempt will be taxable. The exemption extends to mediation services in the transmission or in the placement in the market of deposits, loans in cash or values, carried out on account of their issuers, their holders of the same or other middlemen.

3.4. Services other than core financial services

The safekeeping of shares and securities is specifically excluded from the exemption for transactions in shares and securities.

The management and deposit of collective investment institutions, funds of pensions, mortgage market regulatory entities, securitized mortgage institutions and pensioners' collectives are exempt, as are capital risk entities. Nevertheless, the management of other funds (in particular of private funds and investment portfolios) is taxable.

Advisory services are taxable. However, where they fall within the meaning of "negotiation", with the place of supply being determined in accordance with article 9 of the Sixth Directive, they are considered exempt.

3.5. Supply of specific goods

Supplies, intra-Community acquisitions and importations of investment gold (Act 55/1999, in force since 1 January 2000) are exempt. Under such supplies are understood the corresponding loan and swap operations and the resulting futures

contracts, provided that they imply transferring the power of disposal of the gold. The object of this special scheme is to avoid any kind of unfair competition and apply a scheme similar to that of other financial investments. Exemptions are not applicable to service provisions regarding investment gold, or intra-Community acquisitions of such gold if the taxable person who makes the supply renounces the exemption established by the Member State of origin. Also exempted are the mediation services in exempted operations provided for a third party.

In order to avoid the effects of limited exemptions by which the tax has to be incorporated in the price, this scheme allows the transferor to renounce the exemption if the consignee is an entrepreneur or a professional.

4. Taxable persons

Taxable persons would include financial institutions, other businesses acting as financial intermediaries and other businesses with financial transactions linked to their non-financial commercial activities. Taxable persons would not include consumers and individual investors.

Generally, the passive subject of VAT is the entrepreneur or professional that offers the service.

However, in financial services whose customers are subject to VAT, the following two assumptions must be distinguished:

- those in which the supplier and customer of the services are established in the same Member State. In these cases the transactions are located in the said state and the taxable person will be the service supplier: the financial entity;
- those in which the supplier is located in a Member State, or outside the EC, the transactions being located in the country of the customer applying the rule of the reverse charge (VAT paid by the customer).

Transactions where the customers are established in the EC must be taxed with a Community VAT. Moreover, the abolition of fiscal barriers to intra-Community transactions implies that the intra-Community transactions with final consumers are treated as internal transactions, that is to say, as transactions within each Member State.

In Table 1 we can see what the taxation would be in function of the fiscal residence of the supplier and the customer (see section 6).

5. Effects of exemption

This exemption is of a technical nature and aims to avoid any kind of disturbances in financial operations. With regard to the liabilities (deposits in current accounts, savings accounts and time deposits), VAT taxation would cause great complications. We must not forget that it is the clients of the financial institutions

Table 1

Supplier	Customer	Taxable person
In Spanish VAT territory	Entrepreneur or professional in EC	Customer
	Non-entrepreneur or professional in EC	Supplier
	Person from outside the EC	Customer
	Entrepreneur or professional in Canary Islands, Ceuta or Melilla	Supplier
Out of Spanish VAT territory	Entrepreneur or professional in Spanish VAT territory	Customer
	Non-entrepreneur or professional in Spanish VAT territory	Supplier

who receive the interest for such deposits. There is no problem if the depositor is not an entrepreneur and therefore not subject to this tax. But if he is, he will have to pass on the VAT of the interest obtained on the bank or savings bank and enter it as an activity isolated from the remaining usual activities. With regard to the assets (credit and commercial discount), it is the financial institutions which receive the interest and should pass on the VAT to their clients. If the payee of the credit is an entrepreneur who is accountable for VAT, he may deduct the VAT paid on the loan. But if he is not taxable or is exempt, the cost of money would significantly increase for him.

Financial operations subject to but not exempted from VAT would increase the cost of money. Private clients would furthermore be subject to double taxation, as they normally apply for a loan in order to purchase goods and services, which are also burdened by VAT. If one were to burden the financial operations of the final consumers, VAT would have to be paid twice: first on the value of the consumed good and second on the financial operation aimed at the acquisition of the good. This would justify an exemption for financing the final consumers, but not for financing the entrepreneurs. By generalizing the exemption, the problem of having to make a distinction between financing consumers and financing entrepreneurs is obviated on the one hand, and on the other hand it has no negative effects on tax collection.

Indeed, the exemption in financial operations is a limited exemption which does not allow financial entities to deduct the input VAT for receiving goods and services, so that this VAT goes to the public finances. These operations are consequently not profitable for banks or savings banks, excepting the fact that the actual price reduction of their services is not detrimental to their business. This can also lead to an increase in the price of the service, as the tax is incorporated as an additional cost for the lending institution. Under the exemption method the sale of financial services is not liable to VAT, but the purchases of goods and services by the exempt financial institution are liable to VAT, and no input tax credit is given. This tax liability will be passed on in higher prices for services provided by the financial institution. The exemption method leads to over-taxation. Because of this, Checa González has advocated a tax lien but at a reduced rate,

exempting some specific credit operations like consumer credits as well as some related to housing construction, which are always directed to non-taxable persons for the purpose of VAT.

To minimize such cascading, the Sixth Directive of the EC allows members to grant an option to financial institutions to treat all or part of their financial services as taxable supplies. This allows the financial institution to recover the tax on its inputs, but Spain does not allow the option at all.

Nevertheless, the tax cascading effect should not be exaggerated because a significant proportion of the input tax which is initially borne by financial institutions rests with them and only a small proportion is probably recovered via the interest margin or fees and other charges: corporate borrowers with good credit ratings are able to raise money themselves directly from the market and they are able to extract very good rates from the banks. Consequently, a substantial burden of input VAT rests on the financial services sector, but this certainly represents a distortion by comparison with the burden on other corporate business.

On the other hand, because financial and insurance institutions supply services which are not fully exempt from VAT and because they also occasionally supply goods and services taxable under VAT rules, there is a need to consider the deductibility of a percentage of their input VAT.

This deductibility could operate with three schemes which have opposite effects:

(a) under the most common general pro-rata system;
(b) option system of the so-called special pro-rata;
(c) in cases of differentiating sectors according to the economic activity system. The supply of bullion and leasing operations are themselves considered as different economic activities.

In cases (b) and (c), the VAT charged on inputs involved in the operation or activity which is taxable is fully deductible. On the other hand, the VAT charged on inputs involved within exempt operations is not deductible. In the case of VAT amounts levied on inputs used for both activities, these VAT amounts would be deductible depending on the percentage of the taxable activity as compared with the whole economic activity of the taxable person.

In Spain, financial institutions are allowed to use a single pro-rata calculation in order to calculate recoverable VAT. This allows the institutions to recover overhead input tax which cannot be directly attributed to a particular supply, in the ratio that taxable (or exempt with deduction) income bears to total income.

The fact that financial institutions use the pro-rata rule makes things even more complicated.

Another matter is the provision of services by intermediaries acting for a third party, when they take part in exempted operations related to export activities. In this case there will be a full exemption with a right to a deduction of the VAT deductible. The rationale for zero-rating is to place domestic financial institutions on a competitive footing with foreign financial institutions which may not be subject to any sales taxes on their inputs.

The exemption only comprises mediation services in export operations, on any activity on the goods to be exported or on the services related to the same,

independently of where the mediator is established (within the European Community or not).

The quotas borne will be deductible to the extent that the goods or services, of which the acquisition or importation determines the right of deduction, are used by the taxable person when carrying out insurance, underwriting, capitalization or related services, and banking or financial services which would be exempted if they are carried out in the context of applying the tax, as mentioned before, as long as one of the following conditions is observed:

- that the operations are directly related to exportations outside the EC and carried out from the time that the goods are shipped to the destination, irrespective of when they were ordered; or
- that the addressee is established outside the EC.

In this respect, such persons or entities who are not entrepreneurs or professionals are not regarded as being established within the EC in the following cases: when neither their usual or second residence or the centre of their economic interests lies in this territory or if they do not regularly provide services in the territory as industrial or administrative relations.

6. Financial transactions cross-border

Regarding the localization of service provisions, as a general rule the services are understood to be provided at the address where the person providing the service has his economic activity.

Nevertheless, the special rule will be applied regarding international financial operations (including the Canary Islands, Ceuta and Melilla), establishing the tax address in relation to the address of the recipient of the service when this person is an entrepreneur or a professional. If the general rule were applied, taxes would be levied on service provisions carried out in one territory but consumed in another, which would go against the purpose of the VAT to levy taxes on consumption. In this way it is also possible to exert a greater control on the tax.

The law applies this rule to insurance, underwriting, capitalization and financial services, including those which are not exempted.

However, if the recipient is not an entrepreneur or a professional and has his address in another Member State (or in the Canary Islands, Ceuta or Melilla), these services are understood to be provided in Spain. If it is a private person resident outside the EC, the service is considered to be provided in the country of the recipient.

In this way the financial intermediaries are compelled to know who are the recipients of their services, which can be a drawback.

In lease brokerage a distinction has to be made between the delivery of goods and the provision of services. In a leasing of transport means for use in the Canary Islands, on 12 Septembr 1996 the Central Administrative Court (TEAC) ruled that this operation was a service provision, as neither the call option nor the

initial commitment thereof was exercised, and so the tax event was considered to be made in the Canary Islands, outside the territory for tax payment.

The safe custody service is governed by the rule which determines that the services directly related to real estate in Spanish territory are understood to be provided in Spain. The law provides that the safe custody service is directly related, so that the tax event is considered to be made wherever the safe is located.

7. Financial transactions through e-commerce

VAT is characterized by its aim of absolute generality, exempted cases being of an exceptional character. In consequence, it is a tax, which falls on e-commerce transactions, for which the introduction of adequate adjustments, in its regulation will be necessary. Under these premises, the application of VAT to e-commerce becomes necessary.

The difficulties emerge essentially in online transactions, where all the elements are of an electronic nature.

The following principles must govern e-commerce taxation:

- internationalization principle: a minimum degree of international consensus is needed on basic matters;
- neutrality principle: significant discrimination must be avoided regarding different kinds of traditional commerce taxation;
- simplicity principle: e-commerce presents multiple and complex aspects, but tax regulation must not become a barrier for its development;
- sufficiency principle: scarce or null taxation of e-commerce transactions would cause a tax collection loss impossible to assume;
- efficiency principle: tax compliance and management costs must be kept to a minimum. The tax framework must also produce very few distortions in the decisions of economic agents;
- legal security principle: the legal framework must be clear and e-commerce must evolve in a secure legal context allowing the development of its potential;
- equity principle: horizontal (non-discrimination of operators over the way they operate) as well as vertical (the taking into consideration of the different capabilities of economic agents involved);
- flexibility principle: given the dynamism of services in the information society and the constant technological changes, taxation rules will have to adapt continually;
- coordination principle: with the other regulations on e-commerce, with international institutions and tax authorities of other countries and with all national authorities.

The regulation now in force has been harming internal market competence, due to the fact that EC firms are discriminated against with respect to those located externally. Thus, with the electronic trade under the regulation in force, the prod-

ucts sold by EC territory suppliers are subject to VAT, even though they are sold outside the Community. However, the same products sold in the EC by external suppliers are not subject to such VAT, harming the principles of equity and correspondence.

Therefore, the 2002/38/EC Directive proposes that in those cases of services provided by non-Community firms to members with EC residency, the tax would be paid at destination, reversing the fulfilment place of the taxable fact. By doing so, the fiscal disadvantage of the firms established in Community territory would be avoided, although its efficacy is limited to the year 2006, in which it could be extended unanimously, and based on a Commission proposal.

There is already a law project that implements what is set out in the directive, and will enter into force on 1 January 2003. It regulates a new special regime applicable to specific non-Community operators that provide electronic trade services and defines the localization rules applicable to such services and those of broadcasting and television, according to what is foreseen in the directive. It also systematizes the special rules for localization of the provided services.

One of the problems outlined by the new regulation derives from the obligation of non-established taxable persons to register themselves in one of the Community states where they provide services by telematic means. This can generate problems between customer's VAT and suppliers' VAT in that, as a general rule, they are taxable in different states. The Member State of identification can have difficulties in knowing the output VAT in other states, which necessitates an increase in the level of collaboration and information exchange among Member States.

Another problem derives from the existence of differences in the VAT rules among goods of the same nature. This is the case with digital books, which are taxable at 16 per cent in comparison with traditional books, which are taxable at 4 per cent, against the neutrality principle.

8. Discussion and suggestions

Financial services present problems as to their location and the form of taxation.

As to location, when the customers of the service are situated outside the territory of application of Spanish VAT – entrepreneur or professional in the EC or person from outside the EC – the special rule is applied that considers the services carried out in the place where the customer has established his business or has a fixed establishment to which the service is supplied, or, in the absence of such a place, the place where he usually resides (see section 4). More specifically, electronically supplied services provided from third countries to persons established in the Community or from the Community to recipients established in third countries should be taxed at the place of the recipient of the services, according to the 2002/38/EC Directive.

With respect to taxable method, the exemption does not generally allow the deduction of input VAT. It can increase the price of financial services. A solution

could be a tax lien but at a reduced rate, exempting some specific credit operations such as consumer credits as well as some related to housing construction, which are always directed to non-taxable persons for the purpose of VAT.

The analysis of the VAT regulation in financial services should be done taking as a starting point the different regulation at Community and international level. Any measure to be taken should take into consideration the most important countries of the world in the economic plan or the normative will be to change again. On the other hand, the system to be established for the calculation of the tax is as important as its management process, which should not be excessively complicated.

9. Summary and conclusions

An important associated problem under the current treatment of financial services involves cascading of the tax. The exemption method can lead to over-taxation, but it is very difficult to quantify the distorted effects of the current VAT treatment of financial services. Another problem is that off-shore financial centres have a competitive advantage. Also, the value added is often hidden in the margin between the payment to savers and the charges to borrowers and it is generally very difficult to identify the value added on financial services on a transaction-by-transaction basis because of pooling of risks and other extraneous factors.

The exemption is applied to the supply of gold bullion as well, because it has the same footing as other investments which are exempted in the VAT Act, but it is possible to apply the option predicted for this special system.

The Spanish legislator exempts most financial services from paying VAT. The law does not admit renunciation of a possible exemption by a passive subject, foreseen in the Sixth Directive. One of the solutions adopted by the Spanish legislator to compensate the VAT exemption in insurance operations has been to create a tax on insurance premiums, applicable since 1997. I believe that, if insurance companies add the non-deductible VAT cost to the insurance premium amount, a double burden could be produced with this measure.

There is also a double burden in the loans and corporation loans of the tax system due to the stamp duty that burdens public deeds to be inscribed in the Public Register, with a tax rate of 0.5 per cent. The non-deductible VAT by the financial entity will be added to this burden.

On the other hand, a system based on the taxation of the financial entity's intermediary margin (difference between the gross interest rate charged to the client and the interest rate paid to the depositor) does not solve the present existing problems in the VAT taxation of financial operations: the cascade effect, international competitiveness, lack of neutrality. The double taxation imposed in the bank loans received by VAT non-passive individuals is also maintained.

From all exhibited so far, we deduce that a global analysis of the indirect taxation of financial operations is required, procuring a well-balanced and effective

taxation. A look at the whole financial taxation sector, not only VAT, has to be seen, and it is necessary to quantify their impact.

Eventually, the adoption of a new taxation system for VAT on financial operations should be conditional on a detailed analysis of their effects, not only by the firms but also by the administration, and to the calculation simplicity and the tax application. The complexity of the proposed cash flow method clearly demonstrates the difficulty in applying VAT to financial services. On the other hand, it is necessary to look at the entire taxation of the financial sector and not only VAT. Spain and the other countries need to look at possible amendments in the VAT treatment of financial services in a global context.

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