Savings from offshoring swallowed by vat hikes

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Richard Asquith, managing director of TMF VAT, said changes included in the EU VAT package in 2010 could lead to tax increases of more than 25% for insurers that offshored operations such as administration, call centres, claims processing and finance.

He said the changes would also impact providers with parent companies based outside the EU such as Bermuda.

Mr Asquith explained that from the start of this year, under tax definitions, the place of supply changed from where the service was provided to where it was consumed.

"For example, for offshore insurance services provided from India, the VAT territory would now become the UK. The outcome would be the UK insurer having to account for the VAT bill. Since insurance and other financial services are exempt for VAT in Europe, this would leave the insurer with a big VAT irrecoverable cost of 17.5%, the UK VAT rate from 2010. Given the high value of services now provided from India and elsewhere, this VAT would potentially run to several hundred million pounds for insurers," he added.

He said that some insurers had tried to create VAT grouping structures in the UK, which would allow related companies to offset this type of irrecoverable VAT liability, but that the EU was clamping down on this.

Mr Asquith said: "The 2010 VAT package has been a long time coming, and many insurers had been changing their offshore VAT arrangements in anticipation of potential cash losses. However, this challenge to the rules will undermine many of these efforts."