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## **VAT shock for UK insurers with off shore operations**

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**Story link:** [VAT shock for UK insurers with off shore operations](#)

Compliance specialist TMF VAT & IPT Services is warning that changes to EU VAT rules represent a threat to European insurers that have off shored back office operations.

UK firms that have relocated functions such as administration, customer contact, claims processing and accounting to lower cost counties could be facing tax increases of upwards of 25%.

According to TMF, any potential losses are the “unintended consequence” of attempts by Brussels to simplify VAT and prevent fraud.

From 1st January 2010, EU regulations on determining which country’s VAT rules apply have changed; the term “place of supply” now means the place where a service is consumed, rather than where it is located.

For example, in the case of off shored UK insurance services provided from India, the VAT territory will become the UK, meaning the insurer has to account for the VAT bill.

Since insurance and other financial services are exempt for VAT in Europe, this could leave the insurer with an irrecoverable VAT cost of 17.5%.

Some UK firms have already created “VAT Grouping” structures, whereby related companies can offset this type of irrecoverable VAT liability.

However, this process is also under threat from the EU and TMF managing director, Richard Asquith, warns that a new challenge to the VAT Grouping rules could undermine the efforts of insurers using this strategy.