

Changes to VAT rules set to hit insurers

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CHANGES to European Union (EU) tax rules could see UK-based insurers with offshore domiciles facing considerable reverse charge VAT payments for any management services provided by their parent.

At the start of this year, the EU changed VAT rules so that tax is now paid in the country where a service is consumed as opposed to the country where the service is performed. Therefore, a company in the UK that uses offshore services in India will now have to apply VAT costs in the UK.

And according to accounting and services firm TMF Group, insurers could see taxes for services such as offshore administration, call centres, claims processing, and accounting and finance rise by more than 25%.

Speaking to Insurance Day, Ben Flockton, a director in PricewaterhouseCoopers' financial services tax business, said: "It doesn't just affect the standard back office operations but also inter-company services." He explained: "There are only certain insurance companies that have offshore centres and there's probably a larger group of insurance companies that have non-EU headquarters that will face inter-company charges."

Christoph Graszitz, a manager in KPMG's indirect tax for insurance team, said the new rule would impact businesses that have "sought commercial efficiencies through off-shoring, shared service centres or outsourcing", while the chair of the International Underwriting Association of London's Indirect Taxation group, Peter Wintersgill, noted: "Management services from offshore parents could well be a major VAT cost [for insurers in the UK]."

And Graszitz added insurers must assess the impact of the charges they could now be faced with: "It will be necessary to ensure that systems and processes are set-up to deal with any of the accounting charges required."

The introduction of the new rules is something many insurers have been aware of for a while, and both Graszitz and Flockton admitted they have been busy in helping work through the rules with their clients with the latter saying: "It's certainly something that's been on the agenda of the larger insurance groups that have offshore and international operations."