

EU changes leave offshore insurance services with VAT bill

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Two changes to EU VAT rules threaten the huge savings made by European insurers who have been off shoring much of their back office administrative processes to low-cost locations such as India. Services facing tax increases of upwards of 25% include: offshore administration, call centres, claims processing, accounting and finance etc.

These potential losses are the unintended consequence of attempts by Brussels to simplify VAT and curb billions of pounds lost to fraud.

Brussels censures UK and others on VAT Grouping rules

The EU in Brussels, which sets the VAT rules for the region, is now targeting some of the abuses of the VAT Groupings rules which would undermine some of the strategies adopted above to help avoid unwanted VAT. In November 2009, the European Commission gave warning to the UK (Spain, Czech Republic, Ireland and Denmark) to change their rules.

This censurer from the EU in terms of insurance is the bringing into VAT Groups companies which are not fully bound to one another, a principle requirement of the EU VAT Directive, to enable the offsetting of VAT. This means that many insurers hoping to avoid the VAT losses on their off shoring activities which have arisen from the new EU VAT Package (above) will lose their main avoidance strategy.

Richard Asquith, MD of TMF VAT & IPT Services commented: 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 from irrecoverable VAT. However, this new challenge to the VAT Grouping rules will undermine many of these efforts. It is likely that the UK will have to respond to the Commission by Spring, which gives little time for the insurers to recalibrate their business organisation.