

Insurers warned over multi-million offshoring VAT bill

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Her Majesty's Revenue and Customs is to seek industry views on changes to European Union VAT rules, threatening savings made by insurers that offshore back-office administrative processes.

Offshored administration, call centres, claims processing, accounting and finance services, could all face tax increases upwards of 25% under new proposals, according to Richard Asquith, managing director at TMF VAT & IPT.

The first 'place of supply' change is a shift throughout Europe in the rules determining which country's VAT rules apply when providing any back-office service.

The second targets abuses of the VAT groupings rules that would undermine some strategies adopted in the 'place of supply' rules to help avoid unwanted VAT.

Given the high value of services now provided from India and elsewhere to the insurance market, these changes could potentially run to several hundred million pounds for insurers involved in offshoring, according to Mr Asquith.

He told Post: "Companies are going to have to either pressurise the UK HMRC to appeal against the EU, or come up with new VAT groups quickly, otherwise these services are going to have to be hit with a VAT bill in the UK."

From 1 January, the place of supply changed from where the service is provided to where it is consumed. The outcome of this being that the UK insurer now has to account for the VAT bill.

An HMRC spokesman said it will study the latest opinion from the Commission before deciding how the UK should respond.

He said: "This is not a general inquiry into the concept of UK VAT grouping as a whole, but merely a challenge to a small, though important, part of it."

"HMRC will be seeking views of businesses potentially affected, in determining the UK response shortly."