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Since Our Last Newsletter

Whereas for many account handlers the last couple of months in the year are devoted to renewals, quite a few independent brokers are looking at their overseas representation and client servicing partners. Also brokers who handle incoming business referrals are keen to increase the flow of business coming their way. We have worked with some of these organisations to clarify expectations versus the possibility of re-aligning some of their international relationships. Where the perceived benefits of an international business relationship appear to be dwindling one must be decisive and avoid hanging on and hoping that things will change. Dissatisfaction affects commitment and this is a major part of the glue which keeps voluntary organisations ticking over. There is natural attrition in the membership of most networks of independent brokers and we have been helping some of them with the search for alternatives - many of whom have quickly turned out to be very effective.

If you would like us to carry out an audit of your existing international relationships (we probably know most of the brokers concerned) or gaps in your international network, please contact us.

In our SPOTLIGHT series we will help you understand the way different markets around the world operate so that those of you who do business there can feel more "at home abroad." Different does not need to mean difficult but knowledge of the needs and characteristics of specific geographic markets is an advantage to those who are active in the global economy. This helps avoid misunderstandings and unfulfilled expectations. We have now done articles on Turkey, Takaful, Australia and more; if you would like copies, please let us know.

SPOTLIGHT – TAXTION ISSUES

[IPT – the Euro tax man's new revenue source](#)

Insurance premium tax compliance across many countries around the world, especially Europe, has been one of the most challenging obligations for multi-territory insurers. Historically, it has not been a big issue since tax authorities have been almost as disinterested as insurers have been poorly informed. However, this is changing fast. European tax authorities, armed with new EU legislation, are moving in on insurers and insureds, which they see as easy targets.

[The Tax Man Cometh](#)

For many years, premiums paid for policies which covered more than one territory only attracted IPT in the country of policy issuance. For example, IPT on an English property policy covering locations in the U.K. and the Netherlands would only be paid to the Inland Revenue in England – none of it would be forwarded to their Dutch counterparts. Similarly, if a Spanish parent pays the whole premium and asks its French subsidiary to reimburse their share internally, the issue of IPT will probably not be handled properly. "But who cares? This is the way it has always been done" - is probably what people say. But in these days of Compliance, Financial Service Authorities, Transparency, etc, all parties involved in the transaction need to get things sorted out before the Tax Man comes along with a big stick – and not only the Tax Man but the Compliance Officer, too.

What has brought IPT to the centre stage recently is the keenness of tax authorities in Europe to chase the non-compliant and catch up on missing taxes. They are using a variety of tricks:

- The latest Mutual Assistance Directive has given the authorities powers to exchange data on insurers. This tool is proving very popular in Germany, who is actively approaching tax bodies elsewhere to see whether foreign insurers have been providing cover in their territory
- Insurers correctly applying for foreign Passporting rights abroad are finding that the tax authorities are now checking this off with their own records to see that the insurer is properly registered for IPT. Greece and Italy are hot on this
- Long term, there is talk of regulators starting to cooperate too; but it's early days.

How IPT works

IPT is an indirect tax on the gross premium written. Insurers providing risk coverage across European borders under the Freedom of Services Directive are probably liable for IPT in almost every country covered under their policies. Where an insurer is writing a domestic only policy, the tax authorities will expect the insurer to register for IPT, calculate amounts payable on policies, collect this, file periodic returns and pay over any taxes due. In some countries, like the Netherlands, the broker does a lot of this preparatory work. Where an insurer covers a handful of countries under one policy, they are expected to be registered for IPT in each of those territories and they usually are through their branches or subsidiaries. If we are talking about a cross border policy and the insurer does not operate in the territory concerned, there is no local policy but the insured there has to pay their share of the premium, the carrier should appoint a local fiscal representative to collect the relevant tax. But how often does this happen? This is when problems can start.

One of the key developments over the past few years has been understanding where the IPT is due. A landmark case, *Kvaerner*, determined that the tax is due in the country where the risk is located. This means many multi-jurisdiction insurers are now liable to comply in as many countries as they underwrite risks.

Why is it so difficult to get to grips with?

The principle reason for the difficulties around European IPT is that it does not come from a central, source code of legislation – like VAT. Whilst the separate jurisdictions have built up the fundamentals from the same risk classes, details vary enormously. Tax rates, too, vary hugely from 1% of the premium right up to 45%.

On top of this, there is limited credible information covering the whole of Europe. There are very few directories to be purchased, and those which exist are light on the detail of compliance. (Of course, the French tax authorities 'losing' their IPT team this summer in a property move did not help the cause either).

Parafiscal Charges as well?

Whilst insurers have started to get to grips with IPT, the next hurdle is Parafiscal Charges. These are levies set by various national organisations on top of the IPT on policies. The most common and (relatively!) easy to understand is Fire Brigade charges on property insurance. This occurs in many countries.

However, beyond this, each country's individual national pre-occupations start to take over: Victims of Extortion Fund on Italian motor and fire insurance, or Fund for Agriculture on certain classes in France are some examples.

Which countries levy IPT

There is an IPT system in most of the 'old' European countries and in many countries globally. Variations are enormous, particularly around Life and Pensions business. In the new EU Accession countries, there are some early adopters (e.g. Slovenia), and some viewing it as a VAT issue (e.g. Bulgaria). Otherwise, beyond Europe, regulators will insist on local establishment which is the easiest way to ensure payment of taxes.

Compliance

Most European countries still require insurers to appoint a local fiscal representative. This is a person who is jointly and severally liable. The good news is that this person will be able to keep the insured compliant for IPT and the wealth of Parafiscal Charges.

During the past five to ten years, forward thinking organisations who have sought to prevent rather than cure a Kvaerner type situation have often been confronted with the comment: "you have a solution, but

we don't see the problem." Times are changing, because what will happen when the following question is incorrectly answered: "are we compliant?" For those in a non-compliant position – which includes many famous names, then coming clean seems to pay dividends. Tax authorities are often amiable to compromise on penalties and fines. However, for those who are putting it off until the increasingly energised tax authorities catch up with them, start practising that apology e-mail to your CFO.

In preparing this Spotlight article we received invaluable assistance from the global management and accounting outsourcing firm TMF in London (www.tmf-ipt.com e-mail richard.asquith@tmf-group.com) for which we are grateful.