

PRESS RELEASE

“INSURERS MUST IMPROVE PREMIUM TAX DISCLOSURE” - AIRMIC

16 November 2006, London – Insurers need to better demonstrate to clients that they are fully complying with Insurance Premium Tax (IPT) regulations within the European Union, according to Paul Hopkin, technical director of AIRMIC (Association of Insurance and Risk Managers). Speaking to a packed audience at the FiscalReps Insurance Premium Tax Forum in the City on Friday 10th November, he said that insureds need to press for fuller disclosure on IPT compliance, since they ultimately may be liable for unpaid taxes. Meanwhile, insurers and intermediaries need to accept that such requests are reasonable and justified.

“At present, premium tax payments are often an article of faith between the insured and their insurer. As the insurer usually bears direct responsibility for the tax the issue is seldom examined closely by the client”, observed Hopkin. “However, the complexity of European IPT means there is ample scope for miscalculation and under a European legal precedent tax authorities can ultimately pursue the insured for any unpaid taxes. Given this financial and reputational exposure, insureds have a duty and right to demand evidence that insurers have appropriate measures in place to handle their premium tax obligations.”

“Insurers do not necessarily need to open their books to their clients or provide a receipt for each tax payment”, he continued. “What may suffice is for insurers to be able to demonstrate that they have robust compliance measures in place for EU premium taxes. However, at present this issue is seldom addressed, and in the eyes of many insureds it is somehow improper for the insured even to ask about it.”

Strong demand for places at the FiscalReps Forum underlined the industry’s growing awareness and concern about the EU premium tax issue. The initial allocation of 30 places were quickly snapped up and ultimately over 60 delegates attended, including senior representatives from Marsh, Willis, Zurich, Munich Re, Hiscox and GlaxoSmithKline. Mike Stalley, chief executive of FiscalReps, commented, “The quantity and quality of delegates shows that the industry is waking up to the potential dangers of poor premium tax compliance. Insurers are bearing some heavy costs in this area but it is plain that few are achieving efficient or dependable solutions.”

Insurers’ present difficulties in managing IPT liabilities were discussed by another speaker, Adrian Smith, Head of Insurance Premium Tax at KPMG. “Over the past five years the insurance industry has become more aware of the complex EU/global requirements for premium tax. However, for insurers providing cover over several countries it remains an administrative nightmare: they face multiple tax rates, differing regulations, the need for local fiscal representatives, not to mention the language issue.

“In our experience a significant number of insurers do not have reliable processes in place for handling this burden”, he continued. “Due to inadequate systems, human error or a combination of the two, this leaves them susceptible to infringement of European/global tax laws. Ultimately these insurers and their clients remain open to potential fines and even litigation from national tax authorities.”

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Since there is no requirement for IPT harmonisation within the EU, there are presently separate IPT regimes operated by 18 EU member states. The majority of these deem insurance companies to be liable for the collection and payment of premium tax on risks covered within their jurisdiction, regardless of the insurer's own location. As tax rates, payment methods and regulations vary widely between territories, this represents a considerable administrative burden for insurers covering risks in multiple jurisdictions.

Although in most countries the insurer is deemed responsible for the collection and payment of premium taxes, in practice there is often confusion over which party is given operational responsibility for tax settlement. As the result of a landmark ruling in 2001 by the European Court of Justice in the Kvaerner case, EU national tax authorities can pursue buyers of insurance for any premium taxes not correctly declared or paid by the insurer. Few insurance buyers are aware of this exposure, which creates the risk of unwelcome surprise and embarrassment.

Nick Warner, Head of Financial Services VAT at PKF, told delegates that, although fraught with compliance difficulties, the existing EU premium tax regimes are unlikely to be replaced in the foreseeable future. "We believe that VAT on insurance would be immensely preferable to today's unrecoverable premium tax schemes. However, with premium tax revenues presently going straight into national exchequers it would be naïve to believe that EU members will vote for any change in the rules that results in their demise. Like it or not, IPT is here to stay."

The fourth speaker, Michelle Moore, vice president at Max Europe, provided a case study of how her firm embedded IPT management into its processes from the outset. While saying that the set up phase was both expensive and onerous, she argued that the investment has proved invaluable and strongly advised delegates to act quickly in order to minimise the difficulties of dealing with legacy tax issues.

Mike Stalley of FiscalReps concluded, "It is clearly in the interests of insureds, insurers and intermediaries that the management of EU premium taxes be better resolved. Current arrangements often saddle insurers with heavy costs yet fail to meet their needs or those of their clients. There needs to be proper recognition that all parties have a stake in tackling this issue, which will in turn encourage the adoption of lasting solutions."

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NOTES TO EDITORS

FiscalReps is an independent consultancy that helps insurers and insurance buyers to understand and manage their EU premium tax liabilities. Since its launch in 2005 it has amassed a client list that includes several of the world's top insurers and corporate captive owners, all of which have been attracted to FiscalReps' unique outsourced solution for premium tax liability management. Further information is available at www.fiscalreps.com.