

PRESS RELEASE

EU PREMIUM TAX HEADACHE INTENSIFIES FOR INSURERS NEW OUTSOURCING APPROACH OFFERS SOLUTION

London, 6 May 2005 - The increasing complexity of Insurance Premium Tax ('IPT') obligations across the expanding European Union is harming insurers' operating efficiency and dissuading some from pursuing profitable business opportunities. This was a key conclusion of a recent forum held jointly by the Association of British Insurers ('ABI') and the Insurance Underwriting Association ('IUA') in London attended by over 100 leading insurance delegates.

Participants in the seminar on Overseas Premium Taxes held at the ABI on 6 April 2005 expressed a majority view that, in the absence of a uniform tax regime across the EU, insurers were failing to find an efficient way to meet their IPT liabilities. Some have increased their central costs by creating dedicated IPT teams and others are considering following suit, either to manage payments directly or coordinate a web of independent national tax reps. All expect the cost burden to increase as more EU members introduce IPT regimes and the overall EU membership expands. However, with tax authorities tightening up on IPT policing, few insurers are content to risk non-compliance.

There was further agreement that the potential cost of monitoring and discharging IPT liabilities can act as a deterrent to taking on certain risks if the additional resource required to achieve compliance outweighs the likely premium revenue.

"Insurance premium tax in the EU is effectively a block against insurers' new freedom to write business across the region", says Mike Stalley, chief executive of Fiscal Reps Ltd, an IPT consultancy that has developed a unique outsourced premium tax management service. "Theoretically, the EU now gives insurers unprecedented opportunities to provide cover within its markets. However, unless they can find a cost-effective and efficient way to manage premium tax compliance at a national level, insurers face being bogged down in costly administration that makes it uneconomic to operate in all the markets they might wish to."

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 schemes, this represents a considerable administrative burden for insurers covering risks in multiple jurisdictions.

Insurers are awarding a higher priority to the IPT issue in part because of the increasing vigour with which tax authorities are addressing non-compliance. The EU Mutual Assistance Directive was expanded in 2004 to include IPT, enabling national tax authorities to share information in order to pursue companies failing to make correct IPT payments. For national tax authorities under pressure to increase revenues, improved IPT collection is an obvious area of focus.

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"As well as its direct financial impact, IPT compliance also represents an increased source of reputational risk", says Stalley. "Firms failing to comply run the chance of fines and prosecution. They also may also strain or endanger client relationships because tax authorities are also able to pursue insurance buyers for unpaid taxes."

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.

In response to this challenge, Fiscal Reps has developed a unique clearing house service for IPT payments in the EU, offering insurers a complete solution for the management of their IPT liabilities. Fiscal Reps assumes responsibility for ensuring the insurer's compliance with IPT legislation and can act as its tax representative in each required market. The insurer simply reports all taxable premiums and remits all premium taxes collected once a month to Fiscal Reps, which in turn ensures that the appropriate tax returns and payments are made to the relevant tax authorities.

"IPT is a complex issue and requires a combination of specialist tax expertise, insurance experience and a physical network to provide a smooth running solution", says Stalley. "Fiscal Reps has assembled a team with precisely those qualities and has IPT experts in every EU country. We therefore offer a far more cost-effective and manageable solution than building an in-house resource or trying to coordinate the activities of multiple independent tax reps.

"Premium taxes are a fact of life but shouldn't be a barrier to trade", he concludes. "By giving insurers a single point of contact for all their EU IPT affairs, we can help them focus on the far more important task of building profitable business."

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FOR FURTHER INFORMATION

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NOTES TO EDITORS

Fiscal Reps is a specialist premium tax consultancy providing advice to insurers, buyers of insurance and their professional advisers. Fiscal Reps' team has extensive experience in international finance, insurance, compliance and tax. Headquartered at the heart of London's insurance market, Fiscal Reps has offices in Spain, France, Netherlands and Portugal and will open further offices in 2005. It has a network of IPT experts in every EU member state. Fiscal Reps is independently owned by its directors and employees and offers entirely impartial advice. More information is available at www.fiscalreps.com