Taxation - IPT changes: A taxing issue across Europe

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2011 brings with it many changes to insurance premium tax across Europe and a big headache for insurers operating locally in different countries or across multiple European territories. Edward Murray explains why it is crucial for insurers to stay on top of these administrative issues this year.

Insurance Premium tax used to be a sleepy backwater of the accounting world. But, in recent years, this rolling tumbleweed has turned into a battering boulder forcing European insurers to get to grips with a raft of changes.

Bulgaria introduced IPT at a rate of 2% at the start of this year, while the UK bumped its rate from 5% to 6% at the same time. In the Netherlands, IPT is going from 7.5% to 9.7% in March this year, before being scaled back to 9.5% in 2015.

In the summer of last year, Hungary stuck a 6.2% tax on insurance premiums raised by local insurers, while the Greeks have had a pop at the life market, introducing a levy of between 0.3% and 1.5% to finance the newly formed Private Life Insurance Guarantee Fund.

Mike Stalley, founder and chief executive officer of Fiscal Reps, says the breadth of the changes are astounding and comments: "Four or five years ago there was cause for a major celebration when a rate change took effect because so little had happened for an awfully long time. Over the past 12 or 24 months, however, we have seen an increase in changes beyond any previous experience."

So, what is driving these changes and what impact will they have on insurers?

Influencing the increases
In short, there are four major influences pushing the IPT increases. Countries need to raise capital; pressure is being applied to countries by the likes of the Organisation for Economic Co-operation and Development and World Bank to introduce IPT; there is a general trend towards indirect taxes such as IPT; and, finally, many countries are looking to move towards taxing individuals rather than businesses where possible.

Richard Asquith managing director of TMF VAT & IPT Services, says one of the OECD's roles is to look for harmonisation of taxes around the world and, in doing so, it recommends to countries what a good tax regime should include. One of those things is IPT.

Similarly, he says the World Bank — and to a lesser extent the International Monetary Fund — do the same, although their interest is in lending money to countries and particularly those in crisis.

He adds: "What you often see, and it is almost laughably predictable, is that the IMF will show up in a country, and it will issue recommendations encouraging things like the introduction of IPT. Lo and behold, six months or a year later the country will do it. It is often part of the terms of the debt financing."

From an insurer's point of view, the bottom line is that the introduction of IPT, or a change in the rate it is levied at, brings both administrative and operational burdens.

The tax is typically collected as a percentage of gross written premium, sometimes excluding the commission paid to a broker and so is not dramatically difficult in this regard.

However, there are numerous other issues to deal with, as Mr Stalley explains: "We have made an official request to the Bulgarian tax authority to ask them exactly how these taxes need to be submitted and, although they have introduced the rate at 2%, there is no real practical information available.

"What does the tax return look like? What is the bank address you send the money to? Where does the tax return go? It is these operational things that often get left behind and that uncertainty factor is difficult."

Where insurers get it wrong, tax authorities are becoming significantly more aggressive over the imposition of fines, the collection of those fines and the potential withdrawal of an insurer's licence or passporting rights to do business in the country concerned.

George Zafiriou, managing director of Athens-based broker Comergon, comments: "There is no choice whether an insurer complies or not: non-compliance would definitely lead to serious tax problems and eventually their licence would be revoked. The penalties for the new PLIGF levy not being paid on time have not been announced yet, but we expect to have a scenario similar to that existing for other IPTs — a 50% to 100% penalty on the actual tax per delayed month."

Mr Asquith readily backs up the stiff stance now taken by the tax authorities and adds: "There was a spate about 18 months ago where we had three or four cases of carriers knocking on our door saying they had lost their passporting rights because they had not been compliant with tax."

However, IPT is not just an issue for insurers writing business in individual territories; it is increasingly creating headaches for those writing global programmes. In these instances, insurers allocate a portion of the total premium payable to each of the territories covered, in accordance with the risk they represent. The appropriate taxes are then due to each country's tax authority on the premium paid.

Gathering up the pennies
Other than the administrative issues this creates, part of the problem is that it is quite easy for one of these countries to say it should be taking a larger chunk of the premium and the tax due on it, as it does not agree with the way the amount of premium has been allocated.

When tax authorities are pushing so hard to gather up every penny they can, Mr Stalley believes international insurance schedules are going to be put under more scrutiny in the future: "Global programmes where there are allocated premiums across multiple countries is a great place for a tax office to go and investigate."

If insurers are found to have allocated their premiums inappropriately — and, as such, the tax due on them — the cost implications could be very significant indeed.

Mr Stalley adds: "When you have a situation where in Germany the tax rate is 19%, in Finland 23%, but in Bulgaria it is only 2%, there is a real tax arbitrage and by getting the allocation wrong your tax bill could change dramatically."

For insurers operating locally in different European countries and for those writing business across multiple European territories, the changes to IPT are not going to be welcome. Making sure they are on top of the administrative and procedural implications will prevent them facing further headaches in the form of fines and regulatory sanctioning.

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