



# Insurance Premium Taxes

## Compliance solutions for multi-national insurers

Insurance Premium Tax and parafiscal charges ('IPT') applicable to insurance contracts has become a hot topic following judicial developments, the need for government to increase revenue yield and improved collaboration among tax authorities

In particular, the last few years has seen a focus on insurance regulation and IPT issues that apply to cross-border insurance solutions. This focus has not been limited to insurers alone, with larger numbers of risk managers, brokers, lawyers and captive insurance managers placing compliance higher on their list of priorities than ever before. There is a growing trend for insurers pursuing to be globally compliant has resulted in raising the bar for less compliant organisations.

### 1. Global IPT Compliance

#### What is the issue?

Within the EEA, member states use 'location of risk' rules to determine liability, but may choose to define classes of business slightly differently or may apply exemptions specific to that member state. Outside the EEA, liability to tax may not be clearly defined. The same premium may be liable to tax in more than one country and the liability to tax may depend on the licensing position of the insurer as much as the location of insured parties/risks.

#### Our approach

KPMG member firms have been involved in a number of multinational projects assisting large global insurers with IPT advice in relation to their global insurance programmes (for both life and non-life products). KPMG has developed systems and uses technology to provide bespoke advice such as rate of product, basis of charging IPT, calculation of the tax, etc. in relation to such global

insurance programmes for use by those insurers in their multi-national insurance underwriting databases. Member firms have and can help you to maintain this information on an agreed periodic basis to reflect, for instance, any changes to tax rate and legislation so that your IPT compliance achieves a high level of accuracy.

### 2. KPMG IPT Reference Point – A central repository of IPT rate information

#### What is the issue?

IPT compliance can be a complicated area and add another significant layer of complexity. IPT rates change regularly and new taxes are often introduced. With no easily accessible or centrally available sources of reliable information specific to that company's business, insurance companies run the risk of major penalties for non-compliance.

#### Our approach

KPMG is currently developing the "KPMG IPT Reference Point" system through which insurers and insurance intermediaries can run queries against an extensive database of global IPT and Parafiscal tax information, enabling them to determine the correct generic in-country IPT rates. The expansion of the global insurance market, with risk increasingly being underwritten cross-border, has resulted in making sourcing the correct IPT rates challenging:

- Cost of gathering high – no available database of reliable rates
- Scale of data collection
- Frequency of change
- Number of countries
- Taxes often vary at a state/province level
- No uniform approach or harmonisation globally
- Local knowledge and language often required to interpret legislation and case law



### 3. Global IPT compliance reviews

#### What is the issue?

In recent years IPT compliance has become a significant issue for insurers, brokers and insureds alike. For many insurers this is a commercial differentiator in the marketplace.

The insurer must charge and account for IPT correctly and have robust systems and procedures to ensure this.

Weak controls can mean that IPT is under or over-charged.

Under-charging may give rise to a large IPT assessment (plus interest charges and penalties) from the tax authorities which cannot be recovered from the policyholders. Over-charging IPT can mean that a product is not price-competitive and a claim for over-payment may be rejected or lost or reduced by time-capping. Reputational damage to the organisation is also a major consideration for many.

#### Our approach

Being IPT compliant helps to protect your reputation and status in the market. Therefore you need sufficient comfort that you are dealing with IPT correctly and that all your IPT obligations globally are being dealt with correctly. KPMG's IPT compliance reviews will enable you to confirm your IPT compliance position. They give you comfort on whether IPT is being calculated and declared correctly and may help avoid unnecessary tax audit which tie up management time. Our reviews can be tailored to your requirements, ranging from a risk based review to an all encompassing review of your systems and procedures.

### 4. Training Workshops

#### What is the issue?

IPT Europe is generally applied on a transactional basis to individual premiums charged on all policies except those that are specifically exempt or otherwise outside the scope of the tax. This requires that the correct IPT treatment is ascertained by front office staff and applied at the moment each policy premium is charged.

Although appropriate IPT rates for generic products can be built in to the underwriting system, deciding the correct IPT treatment can be a complex task where bespoke, multi-risk and multi-jurisdictional products are written. On a global basis IPT is extremely complex and in some countries multiple taxes apply to the same premium or to certain coverages within a program.

Regional and provincial taxes can also be due with separate authorities potentially having taxing rights for each tax.

Compliance deadlines and filing requirements may vary from tax to tax within the same territory. Outside the EEA, location of risk/taxing rules are not so clearly defined. The same premium may be liable to tax in more than one territory.

### Our approach

We can offer training solutions for individual underwriting or back office teams which, in turn, can help you reduce the risk of incorrect tax treatment and additional costs for you and your clients. These are tailored to the types of insurance products you offer and will assist in building team awareness and understanding of IPT compliance requirements and common issues. If required, we can also assist you in drafting/updating appropriate internal procedure manuals/guidance.

### 5. Bespoke IPT advice

#### What is the issue?

An insurance product may be subject to IPT and parafiscal charges or it may be exempt or outside the scope of the tax altogether. Therefore an insurer must ensure that all their insurance products are treated correctly for IPT. This includes multi-risk / multi-jurisdictional policies where the premium will need to be apportioned in a way that is just and reasonable to tax authorities. Applying the wrong rate can, for example, result in an uncompetitive product or trigger a tax authority assessment for underpayment (plus interest/penalties). Although the liability for IPT normally rests with the insurer, the task of charging IPT correctly often lies with the intermediary. Although there may be a contractual indemnity in place, the insurer could be liable for any IPT that the intermediary has not reported correctly.

#### Our approach

KPMG member firms regularly advise clients both in UK and globally on the applicable rate of IPT for specific existing and new products, which can vary depending on the nature of the cover provided and the sales channel; location of risk rules; apportionment of risks and relevant IPT rates. If not already registered, KPMG advise clients on whether they need to register for IPT and how IPT should be accounted for. This is made possible through KPMG's Global IPT network. In addition to assisting clients at each stage of the process, from planning and benchmarking to process control and negotiation, we also assist with IPT solutions which are specific to client business and which can enable clients to achieve potential savings to their organisation.

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