

12. Review of VAT on insurance

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ABI Lead Committee: Taxation Strategy Committee

Other interested committees: European Committee

Issue: In 2007, the Commission published proposals for a VAT Directive and Regulation on the financial services and insurance exemption. This defines insurance and the services falling within the exemption when carried out by third parties or intermediaries on behalf of insurance companies.

Status: The Swedish Presidency issued their compromise text on both the Directive and Regulation in September 2009, which was discussed at the Council Working Group. The ABI has some concerns with the compromise text and has, through the CEA, asked for clarification from the Presidency. We understand that the Council Working Group's consideration of outsourcing and intermediation definitions has been slow. The Directive was not considered at the December ECOFIN meeting and discussion will continue under the Spanish Presidency.

ABI action: The ABI supports the principles behind the Commission's initiative. The current proposals reflect the extensive lobbying carried out by the ABI directly, and through the CEA, with the Commission, HMT, HMRC and other stakeholders. We will continue to work with these organisations to refine the current proposals and ensure certainty and clarity. HMT will play a leading role in advising UK Ministers in the Council on the proposals and we will continue to work with them to seek an approach that is workable for the UK industry. This includes providing HMT with the evidence they need to fully understand the detail behind the current definitions, the business needs that drive third-party service arrangements and how this affects corporate structures when looking at intermediation, cost-sharing and related services.

Further to the Secretariat's meetings with HMT, it is clear that they do not intend to fight to keep a wider exemption for intermediation despite us providing them with details to demonstrate that it is crucial for the industry to have a wider exemption to keep costs down. In light of this, the Secretariat intends to continue efforts to convince HMT of the merits of the industry's position in addition to seeking to influence the Council Working Group through the CEA. The ABI also intends to gain support from other Member States by supplying information to the European offices of our members.

Background: VAT rules are set by the 6th VAT Directive, which exempted insurance from VAT. As a result of the recent European Court decision on Arthur Andersen (C-472/03), changes - that could cost the UK industry £200 million per annum - are required to the existing UK VAT regime for insurance. These changes mainly affect the VAT status of third party supplies of services to insurance companies. Following strong ABI representations, the UK Government has deferred implementing the Anderson case changes until the conclusion of the Commission's review.

The VAT exemption for insurance and financial services has two consequences: VAT is not charged when insurance is sold; and VAT incurred by the insurer in providing insurance is not recoverable. Insurers must pass this burden on to consumers, whether the customer is registered for VAT or not. The VAT position can also distort insurers' management decisions, for example the Andersen case has had significant influence on outsourcing decisions.

Useful documents

[Draft Directive](#)