



Operational taxes in the insurance industry

A clear focus

Perhaps at no other time in modern history has the insurance industry faced greater challenges. Costs of claims continue to rise significantly, and when combined with intense competition and falling premium volumes this has led to a significant drop in market profit in recent years. In addition to this, increased regulation has raised the cost of compliance, which is further amplified by the consequences of non-compliance. The necessity of managing operational taxes has never been as crucial as it is in the current environment.

What are they?

Operational taxes are neither conventional direct or indirect taxes, but are essentially taxes on the customers of an insurance company. The onus, however, remains directly on the insurance company to collect and administer these taxes on behalf of their customers. This presents significant challenges to insurance companies, particularly as responsibility for compliance and reporting will often not fall easily within the remit of any discrete business unit.

How do they impact insurance?

The management of operational taxes can be extremely challenging as these taxes can take many different forms, their rates are often dependant on customer-specific documentation and while some taxes are specific to a particular tax jurisdiction others operate across borders, regionally or globally. As such, the cost of compliance coupled with the substantial administrative burden placed on insurance companies can potentially be significant.

Some of the key questions you should consider include:

- In respect of life policies do you have an understanding of what a chargeable event is, how it is triggered and what taxes are triggered by same? Have you procedures in place to collect the associated exit taxes?
- Are you aware of the annual return required in respect of certain life assurance policies, further to the introduction of the 'Return of Payments (Insurance Undertakings) Regulations 2011'? Have you procedures in place to collect the information that is required to be disclosed?
- Are you compliant with Insurance Premium Tax in the form of levies on life and non-life insurance policies and do you have effective procedures in place to monitor associated

payment and reporting deadlines?

- Are you aware that non-life insurance companies that cover Irish situate risk are now required to contribute 2% of gross written premium to the Insurance Compensation Fund on a quarterly basis, effective from 1 January 2012?
- Are you needlessly suffering DIRT as a company within the charge to corporation tax?
- Have you suffered withholding tax and if so, have you considered the potential to reclaim such tax suffered in light of recent EU case law?
- Are your customers eligible for exemption from withholding tax? If so, how do you manage the associated documentation required to qualify for this exemption?
- Are you aware of the reporting requirements under the EU Savings Directive? If so, have you considered your obligations in respect of these?
- Are you aware of Foreign Account Tax Compliance Act (FATCA) reporting requirements? The introduction of the FATCA legislation in the US imposes considerable withholding tax obligations and/or reporting obligations on all institutions that have dealings with US investors.
- Are you an authorised insurer operating Tax Relief at Source on Medical Premiums under a Revenue approved TRS Scheme? Are you satisfied that you have adequate procedures in place to ensure the system is effectively monitored and that all claims are processed with Revenue?
- Are you aware of the third party reporting requirements in respect of certain interest and other similar payments made by assurance companies? If so, have you considered your obligations in respect of these?

Non-compliance can trigger significant financial risks. For example, under-withholding can obligate the insurance company to make a payment to Revenue at a later date when it is unlikely to be able or willing to make a claim on the customers. Tax authorities might also impose fines and penalties.

Operational taxes have created a delicate balancing act for insurance companies. Customers are likely to be dissatisfied with any insurance company that fails, for instance, to withhold correctly, but are also likely to be unimpressed where they are subjected to excessive, superfluous

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requests for information exceeding the requirements of the particular withholding tax regime.

How we can help?

Deloitte offers a wide range of tax services to support you in managing your tax compliance obligations and meeting your administrative requirements.

Our range of specialists, with many years experience of the particular challenges presented by global compliance with operational taxes, managing reporting systems and in respect of withholding tax related issues, can assist you with effective management of operational taxes.

Our dedicated team are ready to assist you with:

- A hands-on health check/audit to assess the current level of compliance with various regulatory regimes.
- To advise on the effectiveness of systems currently in place and to identify and highlight any weaknesses.
- To identify any additional withholding tax or administrative requirements.
- To review the procedures in place to capture all the required documentation and declarations.
- To identify the potential for any savings or withholding tax reclaims.
- To perform any additional advisory services in respect of reporting or withholding obligations.

By gaining control over management of Operational Taxes, with the support of our focused team, you can turn a significant financial risk into a distinct competitive advantage.

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