The newsletter for insurance brokers and MGAs

Issue two: Summer 2023

PKF

Broking Business

In this issue

FRED 82 – The shakeup might have wide reaching commercial impact

Embedding Consumer Duty – Approaching the end of the beginning?

Cybersecurity due diligence on acquisitions

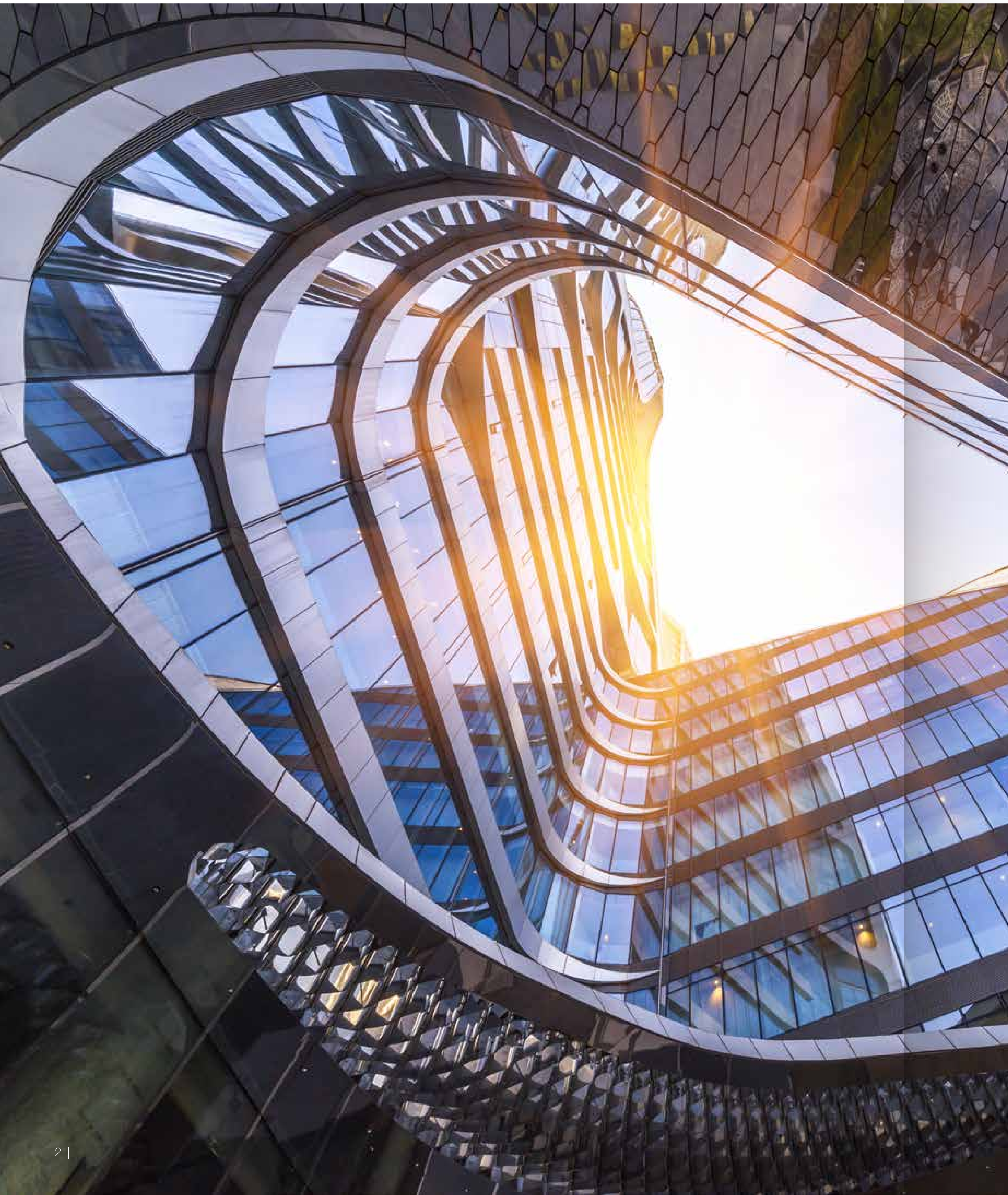
Transfer pricing considerations in a post-Brexit Europe

Common VAT misconceptions

Budget bites for Brokers

pkf-l.com

Contents



Broking Business
In this issue...

05 Welcome from...
Paul Goldwin

06 FRED 82 – The shake-up might have wide reaching commercial impact
Satya Beekarry

10 Embedding Consumer Duty – Approaching the end of the beginning?
Richard Willshire

14 Cybersecurity due diligence on acquisitions
Michael Corcione

16 Transfer pricing considerations in a post-Brexit Europe
Farhan Azeem

18 Common VAT misconceptions
Mark Ellis

20 Budget bites for Brokers
Chris Riley

22 About PKF

24 Get in touch

Welcome to our latest issue of Broking Business...

Consumer Duty continues to remain high on the regulatory radar. In this edition, with the first implementation deadline for embedding Consumer Duty in business operations looming, Richard Willshire, Director in our Governance, Risk and Control Assurance team, sets out a plan of attack to get the job done ahead of the July 2023 deadline.

The FRC's proposed changes to FRS 102 are likely to have a significant impact on brokers. Satya Beekarry, Partner in our Financial Services team, explains why brokers should start planning now.

Transfer Pricing Director Farhan Azeem highlights why UK-based MGAs and brokers operating in the EEA should reassess their business operating model from a transfer pricing perspective.

Our cybersecurity specialist Michael Corcione explains why cybersecurity due diligence on acquisitions is essential, before and after the deal.

We also hear from VAT Partner Mark Ellis who looks at the common VAT misconceptions which could lead to significant penalties and put a damper on future deals.

And finally, Head of Tax Chris Riley summarises the measures announced in the 2023 Spring Budget that could impact insurance brokers.

We hope you find this edition useful and thought provoking. As always, please contact any of the team to discuss how we can support your business and let us know your thoughts on future topics.

Paul Goldwin
Head of Insurance Intermediaries

+44 (0)20 7516 2251
pgoldwin@pkf-l.com

FRED 82 – The shakeup might have wide reaching commercial impact

Consultation on FRED 82 ended in April. Its proposed changes to FRS 102 are likely to have a significant impact on brokers. Satya Beekarry, Partner in our Financial Services team, says that brokers should start planning now.

FRED who?

The Financial Reporting Council (FRC) issues FREDs (Financial Reporting Exposure Drafts) on a periodic basis and at least every five years. FREDs are a way for the FRC to seek feedback on proposed changes to Financial Reporting Standards in the UK and Republic of Ireland (FRSs). Once a FRED has been issued, the FRC typically holds a consultation period during which interested parties can send their comments. The FRC then considers these comments before finalising the proposed changes.
FRED 82 was issued in December 2022 following only the second periodic review of FRS 102 and the comment period ended in April 2023. It proposes several changes to FRS 102 to broadly align it with IFRS. The proposed effective date of the changes is 1 January 2025.

What are the key proposed changes?

In summary, the amendments most likely to affect brokers are:

- Revenue recognition (Section 23 of FRS 102): The new five steps model for revenue recognition will be broadly aligned with IFRS 15, but with some simplifications. The five steps of IFRS 15 are:

    1. Identify the contracts with a customer;
    2. Identify the performance obligations in the contract;
    3. Determine the transaction price;
    4. Allocate the transaction price to the performance obligations; and
    5. Recognise revenue when each performance obligation is satisfied.

- Lease accounting (Section 20 of FRS 102): The new lease accounting model will be broadly aligned with IFRS 16, but with some simplifications. It will require almost all leases to be brought onto the balance sheet from the lessee's perspective. It requires the recognition of a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

- Other changes: FRED 82 also proposes a number of other changes, mostly seeking alignment with IFRS, including the adoption of the IFRS 13 definition of fair value, guidance on factors to consider when accounting for uncertain income tax positions, share-based payments and business combinations.

Wide reaching commercial impact

In short, judging by the challenges that IFRS preparers faced with IFRS 15 (Revenue) and IFRS 16, FRED 82 is likely to have a significant impact on brokers. The commercial impact of these changes could be wide reaching for the broking industry.

Revenue recognition

It is important to review all major customer contracts in detail to understand the potential impact. The new revenue standard has requirements for identifying distinct performance obligations. Brokers need to consider the various services that they provide, make an allocation to performance obligations based on the relative stand-alone selling prices, and analyse potential patterns of revenue recognition. Entities might need to exercise judgement as to what constitutes a 'distinct' performance obligation and the period/pattern over which a customer receives the benefits of these distinct services.

The timing of revenue recognition for your business is also likely to be impacted. Revenue from placement income and claims management are likely to be impacted. Arrangements that feature contingencies and trail commissions require particular consideration. This is because the new revenue standard will require entities to recognise revenue when a performance obligation is satisfied, even if the amount of revenue is uncertain.

- Some entities might be able to recognise revenue earlier. However, if the amount of revenue is highly susceptible to factors outside the entity's influence, revenue recognition might be constrained. This might be the case with contingent profit commissions which vary with a carrier's claims experience. At the start of such contracts, the entity might need to constrain revenue recognised and over time as revenue becomes less susceptible to variation, the entity is able to recognise more revenue.

- The revenue standard might also lead to earlier recognition of revenue than current UK GAAP with regards to certain types of renewal commissions ('trail commissions') where the broker has no additional responsibilities to secure contract renewals or to perform any other activities under the contract. In this case recognising revenue at initial contract inception, including commissions relating to expected future renewals might be appropriate.

- The impact of the constraint on variable consideration might be affected by whether it is assessed for an individual contract or for a portfolio. It might be difficult to prove that the revenue for trail commissions upon renewal of an individual policy is highly probable of not being subject to significant reversal but the entity might be able to assess the constraint at the portfolio level instead.

- In many commercial lines of business, the broker might be performing ongoing services (e.g. claims management and customer care) in addition to the original placement. In these instances, recognition of the entire amount of commissions, including any renewal commissions, at initial placement would be inappropriate.

Leases

The new lease accounting model will require most leases to be brought onto the balance sheet. This could have a significant impact on financial statements and key ratios, as it will increase lease liabilities and right of use assets on the balance sheet while also increasing finance expenses and depreciation of the right of use assets and decreasing the operating lease rentals in the income statement.

The IFRS 16 definition of what constitutes a lease might also mean that new contracts are identified as leases that were not previously accounted for as such. For example, in group scenarios, consideration on which entity has the right of use of an asset could result in new leases and sub-leases being identified resulting in more complexity.

Other consequences

These changes could affect your profit margins, reward schemes, ability to meet financial covenants and pay dividends. So, it is important to understand the changes that are proposed and to start planning for the transition now.

What are commenters saying?

Most commenters have been broadly supportive of the proposed changes. This is partly because the FRC, to their credit, began the review process early in March 2021 with request for views and considered the views of stakeholders in drafting FRED 82. Most of the amendments are likely to be finalised as proposed, including those with regards to Sections 20 (leases) and 23 (revenue).

However, not everyone is happy with certain aspects of the proposals. For example, some believe that extending the requirements of IFRS 15 to micro-entities (FRS 105) is not commensurate. Commenters have also expressed concerns that the proposed effective date of 1 January 2025 provides a very short lead time for preparers. For context, the effective date of IFRS 15, initially issued in 2014, had to be deferred to 1 January 2018 to allow preparers sufficient time for transition.

What other amendments is the FRC working on?

The FRC most recently issued FRED 83 in April 2023 which proposes amendments to FRS 102 and FRS 101 to introduce a temporary exception to the accounting for deferred taxes arising from the implementation of the Pillar Two model rules, alongside targeted disclosure requirements. The OECD's Pillar Two model rules introduce a global system of interlocking top-up taxes that aim to ensure that large multinational groups pay a minimum amount of income tax.

The FRED 83 proposed amendments are like those issued by the IASB for IFRS reporters in May 2023. We expect FRED 83 to be uncontroversial in the UK as it has broad support as shown by the rapid finalisation of the corresponding IAS 12 (IFRS) amendment by the IASB. The comment period for FRED 83 was accordingly much shorter and ended in May 2023 and we expect the amendments to be finalised by the FRC this Summer.

Can we help?

Absolutely! Our experienced accounting advisory team can help you with impact assessment, implementation and transition to the amended FRS 102 standards. We have a team of enthusiastic and experienced individuals who have previously worked on IFRS 15, IFRS 16 and IFRS 17 transitions and understand the challenges these accounting changes pose to preparers. Please do not hesitate to contact us to discuss further.

Satya Beekarry
Partner

+44 (0)20 7516 2425
sbeekarry@pkf-l.com

Embedding Consumer Duty – Approaching the end of the beginning?

With the first implementation deadline for embedding Consumer Duty in business operations drawing near, we set out a plan of attack to get the job done.

Consumer Duty continues to remain high on the regulatory radar, with specific provisions identified within the FCA's business plan 2023/24 to consider firms' approach to positive consumer outcomes within the authorisation and supervision of solo regulated firms.

The timeframes for embedding Consumer Duty within the business operations of firms were clearly expressed in the original policy statement (PS22/9), with the FCA's subsequent review of implementation plans (Consumer Duty implementation plans | FCA) reinforcing those elements requiring greater focus by firms to deliver on implementation plans for all live products.

With the first of the phased implementation dates (for new and existing products open to sale or renewal) falling due 31 July 2023, we have reviewed the final considerations and areas of important focus for firms, and have provided our insight on what firms should do in designing and operating effective governance and controls in this area.

Firms who are nearing the end of their implementation journey will find this article useful by way of comparison to good market practice. For those firms who are not as advanced with their implementation, this article will provide useful considerations and suggested activities to gain assurance on the implementation and embeddedness of the Consumer Duty.

Considerations for firms:

Focus areas	What should firms do	Assurance activities
Implementation project	Ensure implementation projects are nearing completion, having identified and prioritised the riskiest products or most vulnerable consumers. Document and prioritise a record of products and associated value measures reflecting the risk and consumer vulnerability. Complete consumer journey mapping and consider the overall culture, training and processes needed to support the delivery of outcomes.	Review the governance, oversight and monitoring of implementation activities, schedules, risk assessments and prioritisation to ensure that management is focussed on the most vulnerable consumers and products. Review implementation project delivery and outcomes to ensure that objectives have been met and Consumer Duty is embedded across the firm. Review first and second line training, metrics and reporting to ensure that existing and new metrics have been developed and are being used when considering products, services and consumer engagement.
Governance and oversight	Establish clear roles and responsibilities for Consumer Duty across SM&CR / governance structures, including the allocation of the 'Consumer Champion' role. Effective oversight and monitoring of the plans to implement and embed Consumer Duty in firm operations. Embed consumer outcomes in decision making, commercial and operational forums, monitoring and metrics. Engage firm, insurer and distribution chain stakeholders to ensure a consistent and co-ordinated approach across product delivery and service.	Review new or enhanced roles / responsibilities across SM&CR positions to ensure that Consumer Duty remains a high priority within governance processes. Review the governance structure and reporting channels to ensure effective oversight of Consumer Duty, sufficient airtime within relevant committees and incorporation into risk, culture and strategic discussions. Review the oversight, engagement and challenge of counterparties across the distribution chain to ensure that the Consumer Duty is embedding.
Management and operations	Review and assess current firm culture and seek to embed 'good consumer outcomes' within the culture of the firm. Map and understand the specific consumer touchpoints within product distribution / consumer journeys across the lifecycle of each product. Assess the impact of continuing or discontinuing provision of products or services to vulnerable consumers. Review and align reward and/or remuneration structures to reflect consumer impacts and the objectives of the Consumer Duty.	Review the approach, focus and metrics used to measure individual, division and firm performance to ensure they reflect consumer interests and measure outcomes. Review the mapping and analysis of consumer journeys and how these support a consumer focussed approach in line with the nature of the product / service. Review the remuneration and reward objectives to ensure they promote a consumer focussed culture and operating environment.
Processes, systems and controls	Upon mapping consumers' journeys, review and update processes, systems and controls aligning to consumer requirements. Review and assess current systems and metrics to ensure they are configured to capture new or amended data captured against consumer outcomes. Review and update existing procedures and processes to capture instances of poor consumer outcomes.	Review the design and operating effectiveness of new or amended controls within placement, support and claims processes. Provide assurance that firms have defined and enabled appropriate data fields capturing relevant and timely consumer focused data. Ensure that where personal consumer data is retained, this is done in compliance with established internal processes and relevant GDPR controls are working effectively. Review process documentation to ensure this remains reflective of current processes and is up to date.

Focus areas	What should firms do	Assurance activities
Third parties	Identify all key third parties included within consumer mapping documentation, with clear roles, responsibilities and accountabilities agreed and formalised. Establish new or enhance existing governance and oversight requirements within third party service-level agreements to ensure consistent and effective adherence to Consumer Duty requirements. Develop systems and processes to ensure third parties are clear on the reportable data and metrics needed to demonstrate adherence to the Consumer Duty.	Review and confirm the identification of third parties within consumer journeys, provide assurance that third parties are correctly identified, categorised and clear roles and responsibilities have been agreed. Review third party service-level and other commercial agreements to ensure these are consistent, where possible, and reflect requirements specific to meeting Consumer Duty obligations. Provide assurance that respective roles and liabilities are clearly established. Review the data and reporting requirements set by the firm to ensure these remain clear, consistent and meet Consumer Duty requirements across all consumer touchpoints undertaken by third parties.
Data strategies and reporting	Assess current data capture and reporting to identify known gaps in your current suite, or seek to centralise and standardise potentially disparate reporting. Develop new or enhance existing data capture fields and reporting requirements reflecting Consumer Duty expectations. Ensure that data is captured consistently across groups of products, customers and distribution channels to analysis and comparison. Consider how you will monitor outcomes across different groups of consumers, including vulnerable consumers.	Benchmark specific data and reporting metrics against industry observed practices to ensure they are consistent and reflect Consumer Duty requirements. Review the systems and processes in place to ensure that data is captured, recorded, analysed and reported consistently and reflects a consumer focus.

Considerable effort is needed for firms to implement and fully embed Consumer Duty and meet the FCA's expectations. Firms are working hard to meet the immediate deadline. There are likely to be subsequent data and oversight requests to follow as the FCA seeks to validate efforts across the sector and identify poor performing firms, potential consumer detriment or failings.

This increased and proactive activity by FCA will rely on firms establishing and maintaining well designed and effective control environments that provide confidence in the culture, governance and operations across retail products.

If you haven't assessed your updated consumer focussed governance and controls, speak to Jess or Richard in our Governance, Risk & Control Assurance team for further insight on how we can support you.

Richard Willshire
Director - Governance, Risk and Control Assurance

+44 (0)20 3650 3676
rwillshire@pkf-l.com

Cybersecurity due diligence on acquisitions

Michael Corcione explains why cybersecurity needs to be one of the priority areas for acquiring firms' transaction due diligence and highlights the key areas for focus.

Michael Corcione
Senior Consultant, Cybersecurity and Privacy Advisory

+44 (0)20 7516 2200
mcorcione@pkf.com

Many firms in the insurance sector look for acquisition targets to grow their organisation and support the needs of their customers and investors. Making acquisitions and conducting due diligence is not new, but new risks continually emerge, and one of the latest, and maybe most damaging risk if exposed is cybersecurity risk. We are seeing that cybersecurity risk has risen in recent years to a top-three risk concern for the executive board and senior leadership of companies around the globe.

Cybersecurity's primary risks are theft (monetary, intellectual property, etc), data breaches, and business disruption or outages. Exposure to these risks can lead to several equally or more impactful secondary risks including reputational damage, regulatory fines and penalties, legal damages, or loss of revenue. The cyber threat landscape is more challenging than ever. Global tensions have heightened the threats of nation-state cyber-attacks, and the capabilities of threat actors are greater than ever. The attack surface for firms increases every day with the addition of new computers, mobile devices, applications, vendors, and employees, etc. These factors are why firms must include a thorough cybersecurity assessment to their due diligence efforts for acquisitions.

Pre-acquisition

Pre-acquisition due diligence efforts should include assessing an acquisition target's current cybersecurity maturity and cyber risks. The assessment should identify implemented controls and, most importantly, highlight any control gaps and weaknesses that may expose the acquisition target to cyber risk.
The need to fully understand and get a deeper view into an acquisition target's cybersecurity controls, gaps, and weaknesses, has risen to a new level. Until recently, cybersecurity due diligence reviews were more of a "check the box" exercise, if conducted at all. Cyber risk is a real business risk. Acquiring firms must ask more questions, and engage the expertise of third-party cybersecurity specialist firms, where needed, to conduct a thorough and appropriate assessment of an acquisition target's cybersecurity maturity and areas for improvement.

Post-acquisition - cyber risk remediation and monitoring

Once an acquisition is completed, remediation efforts should begin regardless of whether the firm will be integrated, held separately, or acquired for investment purposes with an exit strategy.

An oversight and remediation plan must be established, implemented, and maintained. Oversight and monitoring of remediation efforts and conducting routine cyber risk assessments are crucial to the success of integrating acquired firms or avoiding surprises upon exit.

Routine cyber risk assessments and regular testing of all cybersecurity controls should be conducted to ensure they are efficient and effective. Cybersecurity is not a one-off or "check-the-box" exercise, it's a continual process of assessing risks, threats, and testing and refining controls.

Cyber attackers and their methods are getting more complex and sophisticated. These evolving threats must be monitored, and cybersecurity controls will require continual review and enhancement.

Exiting/selling

Exiting an investment is hopefully a rewarding proposition for the selling firm and its investors. Years of hard work to improve the business and increase its institutional value will be rewarded. Of course, the next acquiring firm will conduct its due diligence, so it is critical for the selling firm to have confidence and visibility over the current state of the cybersecurity risks, and the maturity of the cybersecurity control of the firm they're selling. Cybersecurity control weaknesses, failures to keep up with industry best practices, and cyber-attack and breach history will be discovered, and then the deal's value will be diminished, or the deal could fall apart.

Cybersecurity risk is a business risk

Cyber attackers operate real businesses, and their industry is growing year after year with no slowdown in sight. Firms must be diligent in identifying and fully understanding a firm's cybersecurity risks before making an acquisition. After the acquisition is completed, monitoring and remediation of cyber risks is a continual process all the way until the acquired firm is exited or fully integrated into another organisation.

Transfer pricing considerations in a post-Brexit Europe

Increased scrutiny from regulatory and tax authorities means that UK-based MGAs and brokers operating in the EEA will need to (re)assess their business operating model from a transfer pricing perspective.

Historically, UK-based insurance intermediaries were able to operate throughout the EEA through the EU single passport regime. Post-Brexit, these rights have been lost, effectively forcing groups to restructure their operations to access EEA-wide markets.

A common post Brexit structure has been to set up a branch in an EEA member state. By becoming licensed or authorised in an EEA member state, the UK group regained EU passport rights. Belgium and Ireland have been popular choices, especially for UK-based brokers. EEA regulators impose stringent requirements regarding personnel, reporting and other controls to establish an EEA branch, and deter so-called "brass plate" entities of overseas based groups.

As post-Brexit operating models are increasingly subject to regulatory and tax authority scrutiny, UK groups should perform a (re)assessment of the underlying economics of the business and cross-border flows relating to products, services, IP, and financing from a transfer pricing perspective. This should identify whether the group's current arrangements are on arm's length terms, and in line with the requirements of the relevant tax authorities.

Transfer pricing rules and EEA branches

The UK and EEA member states follow the international principles which govern the attribution of profits (or losses) to a permanent establishment ("PE") under Article 7 of the OECD Model Tax Convention. The Authorised OECD Approach ("AOA") is therefore generally applied to an EEA branch of a UK-based insurance group, which is carrying on insurance business in the EEA through the PE.

Under the AOA approach, the performance of key entrepreneurial risk-taking functions ("KERTs") is the guiding principle for allocation of underwriting profits and investment income to an EEA branch of a UK insurance carrier. This focuses on the assumption of insurance risk as a result of the underwriting function, including setting the underwriting policy, risk classification and selection, pricing, risk retention, and the acceptance of the insured risk.

However, depending on circumstances, product development and management, sales and marketing, and risk management and reinsurance, may represent active decision-making functions concerning the acceptance of insurance risk. Generally, the relevant tax authorities focus on the ability of local employees to make decisions regarding risk bearing opportunities, as well as their capability to respond to these opportunities.

As European countries may have different interpretations to the application of the AOA approach, local country insights are important to manage potential double taxation issues on the structuring of cross-border business arrangements.

UK-based groups with an EEA branch, including MGAs and brokers, should consider whether their post-Brexit operating model has a transfer pricing policy which appropriately rewards value creation in the UK. In particular, the factors that were taken into account in 2020 (or prior) to be ready for Brexit may now have been overtaken by subsequent commercial events, meaning that the fact patterns that informed previous pricing decisions may no longer be relevant.

The UK company (head office) may be providing a range of business critical and enabling services with cost recharges allocable to an EEA branch, covering UK based management, back-office support, business placing, actuarial, and increasingly now, access to software or platform technology. Each will require appropriate reward to the UK through appropriate pricing options, such as cost plus, commission sharing, or profit split, depending on the group's operating model and where value is created.

UK groups will have to consider the arm's length principle to ensure that appropriate income and profits (or losses) are booked in the UK company and its EEA branch, in compliance with transfer pricing rules. Transfer pricing rules in the UK and EEA member state may have additional requirements, such as preparation of transfer pricing documentation, Country-by-Country Reporting, and transaction reporting to the relevant tax authorities. Non-compliance can result in potential tax authority enquiries, tax adjustments, and interest and penalties.

Transfer pricing risks and opportunities

A (re)assessment of post-Brexit operating models of UK-based insurance intermediary groups from a transfer pricing perspective is critical for identifying potential tax compliance gaps, but there are also opportunities. Reassessing profit attribution to an EEA branch can assist groups to understand where and how value creation takes place and optimise the business operating model. How the branch model has developed for the group may give a reality that is different to assumptions made when the structure was initially designed – resulting in potential opportunities and risks in respect of the current transfer pricing arrangements.

If you would like further guidance, please contact our Transfer Pricing Director Farhan Azeem, who collaborates with local experts across our international network.

Farhan Azeem
Transfer Pricing Director

+44 (0)113 360 8385
fazeem@pkf-l.com

Common VAT misconceptions

In the regulated world, adherence to false beliefs is a risky business. We take a look at the most prevalent VAT misconceptions that could cause your business to come a cropper.

It is a common misconception that if a company is regulated by the FCA, everything it does is exempt from VAT. It is actually the other way around. What matters is the nature of the service, not the nature of the supplier.

An often-quoted illustration of this is where the Tax Tribunal found that a taxi firm was supplying VAT-exempt insurance to its drivers, despite the taxi firm not being a regulated entity like an insurer or an insurance broker.

Another frequent misconception is that all services that are related in some way to VAT-exempt supplies of insurance, or insurance broker services, are also exempt from VAT. There is only one exemption in the VAT Act for "closely related" services and that relates to education services supplied by a relevant supplier. There is no other "closely related" services exemption in the VAT Act. As a result, many of the additional services that are supplied in the insurance sector are likely to be subject to standard rate VAT, rather than be exempt. Real life examples of services that fell foul of the rules as a result of this misconception include:

- Legal helpline fees relating to insurance policies;
- Charges for use of insurance-specialist staff;
- Fees to use insurance software;
- Charges to an unlicenced broker for effectively being able to use the licence of an FCA-regulated broker;
- Fees earned by insurers / brokers from lawyers, vehicle hirers, vehicle repairers, medical reporting agencies etc for referring the details of insured parties (and their accidents) to those third-party suppliers;
- Intra-company "management charges" (or any other name you can come up with) to reallocate costs from one company to another.

Most of the time, the identification of these VAT-able services is made not by HMRC, but by trained VAT specialists when carrying out due diligence in preparation for a sale, investment, or flotation of the business. This is because the insurance-sector business is usually not registered for VAT and is therefore not on any HMRC VAT officer's radar for a VAT inspection. It is left to the VAT specialist to deliver the bad news that the insurance-sector business should have registered for VAT many years ago and probably owes HMRC a significant amount of VAT plus a considerable "late VAT registration" penalty.

Not only can this cause eleventh-hour angst prior to the completion of a deal or flotation, but it also usually results in back-dated VAT registrations, significant payments to HMRC, indemnities and warranties in sale and purchase agreements and ultimately delays the whole transaction process by weeks or months and, in some cases, can derail the transaction completely.

The message is simple: just because your insurance-sector business is not VAT-registered now does not mean that it should not be registered for VAT (and in some cases with effect from a date many years ago). It is far better to investigate your VAT position fully now with a VAT specialist and avoid any potential buyer, or investor, unearthing a can of VAT worms when they carry out their due diligence on your business. That way, you can address any issues early and get yourself VAT-compliant, if needs be, before any future transaction.

You may even be able to restructure your business and change the way you operate (including changing the wording of contracts that support your transactions) in order to give yourself a fighting chance of persuading HMRC (and the Tribunals or Courts, if necessary) that your services are actually exempt from VAT. Without the time-pressure of an impending transaction, a VAT specialist can sometimes stave-off future potential disasters.

Mark Ellis
Partner

+44 (0)20 7072 1102
mellis@pkf-l.com

Budget bites for Brokers

The Spring Budget of 15 March 2023 contained many measures trailed through the media in advance, some of these were of relevance to the Insurance Broking Community:

- The confirmation that the main rate of Corporation Tax would increase to 25% as from 1 April 2023. For independent brokers with taxable profits below £250,000, their effective rate of tax will be lower than the headline rate (due to marginal relief) but no lower than the previous 19% rate.
- Changes to Capital allowances will provide for full relief for much capital expenditure in the year that it is incurred, significantly accelerating tax relief for brokers with high capital spend.
- Changes to the Research and Development Tax credits regime will likely give rise to both winners and losers in the sector for those incurring qualifying R&D work on innovative software projects. This is in advance of a likely wholesale redrawing of the rules from 2024.
- The removal of the Pension Lifetime allowance rules will give additional opportunities for those (typically older) brokers who have been unable to make pension contributions in recent years due to the cap on the size of pension funds. However, as the income based tapering of Annual contribution allowance remains, very high earners may struggle to make meaningful additional contributions.
- Finally, and again not a change from the announcements before Christmas, the starting point for the 45% band of Income Tax reduced to £125,000 from £150,000 from 6 April 2023, bringing many more people into the top rate of tax for the first time.

Chris Riley
Head of Tax

+44 (0)20 7516 2427
criley@pkf-l.com

About PKF
Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

With over 150 years' experience in the insurance market, PKF has built up a solid and comprehensive reputation as one of a small number of UK accounting firms with in-depth expertise in supporting businesses, their owners and investors across the insurance industry.

Ranked as the largest auditor of insurance intermediaries in the UK and the 7th largest auditor of general insurers, our dedicated insurance team acts for major carriers and syndicates, brokers and MGAs including many businesses harnessing the power of technology to transform the insurance industry.

How we can help

Statutory Audit →

Governance, risk and control assurance →

Tax →

Transaction advisory →

Restucturing →

Business outsourcing →

PKF UK in numbers	Insurance intermediaries in numbers	PKF International in numbers
9th Largest audit practice in the UK in the latest Accountancy Daily rankings	**1st** Largest auditor of insurance intermediaries	**Part of the 14th** Largest global accounting network
24 Offices across the UK	**90+** Insurance intermediary clients	**480** Offices in 150 countries
1,322+ Employees and 129 partners	**30%** Advisor to one third of the UK's Top 50 Brokers	**$1bn+** In aggregate fee income
£153m Fee income and growing rapidly	**15** PE backed insurance intermediary clients	**20,000** Employees

Get in touch today to see how we can help...

Paul Goldwin
Partner – Audit & Assurance
+44 (0)20 7516 2251
pgoldwin@pkf-l.com

Satya Beekarry
Partner – Audit & Assurance
+44 (0)20 7516 2425
sbeekarry@pkf-l.com

John Needham
Partner – Transaction Services
+44 (0)20 7516 2284
jneedham@pkf-l.com

Chris Riley
Head of Tax
+44 (0)20 7516 2427
criley@pkf-l.com

Richard Willshire
Director - Goverance, Risk & Control Assurance
+44 (0)20 7516 2200
rwillshire@pkf-l.com

Tom Golding
Director - Tax
+44 (0)20 7516 2413
tgolding@pkf-l.com

Martin Watson
Partner – Audit & Assurance
+44 (0)113 524 6220
mwatson@pkf-l.com

Jessica Wills
Partner – Goverance, Risk & Control Assurance
+44 (0)20 7516 2229
jwills@pkf-l.com

Azhar Rana
Partner - Audit & Assurance
+44 (0)20 7516 2232
arana@pkf-l.com

Will Lanyon
Director - Transaction Services
+44 (0)20 7516 2411
wlanyon@pkf-l.com

Farhan Azeem
Director - Transfer Pricing
+44 (0)113 360 8385
fazeem@pkf-l.com

Ian Singer
Senior Consultant - IT Assurance
+44 (0)20 7516 2393
isinger@pkf-l.com

PKF

PKF Littlejohn LLP
www.pkf-l.com

London
15 Westferry Circus
Canary Wharf
London E14 4HD
Tel: +44 (0)20 7516 2200

Leeds
3rd Floor, One Park Row,
Leeds, Yorkshire,
LS1 5HN
+44 (0)113 244 5141

Manchester
11 York Street,
Manchester,
M2 2AW
+44 (0)161 552 4220

This document is prepared as a general guide. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher.

PKF Littlejohn LLP, Chartered Accountants. A list of members' names is available at the above address. PKF Littlejohn LLP is a limited liability partnership registered in England and Wales No. 0C342572.

Registered office as above.

PKF Littlejohn LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

PKF International Limited administers a network of legally independent firms which carry on separate business under the PKF Name.

PKF International Limited is not responsible for the acts or omissions of individual member firms of the network.