The United Kingdom recently introduced the Diverted Profits Tax which is now effective from 1 April 2015. The intent of this tax is to counter the use of aggressive tax planning used by large multinational corporations to divert profits from the U.K. to lower taxed jurisdictions. The tax rate is 25% and is calculated on the diverted profit plus any true-up interest. This new tax is intended to encourage behavioural changes in support of the OECD/G20 Base Erosion and Profit Shifting (BEPS) initiative rather than the generation of significant tax revenues.

The Diverted Profits Tax rules are designed to promote the application of transfer pricing principles and to ensure disclosure to HM Revenue & Customs (HMRC) in the U.K. of any applicable arrangements.


The tax addresses three situations:

1) Activity in the U.K. is supplied by a non-U.K. company and that activity is structured so that the non-U.K. company does not create a permanent establishment in the U.K. and the purpose of such an arrangement is the avoidance of U.K. tax or that the total tax derived from U.K. activity is significantly reduced

2) A U.K. company engages in transactions that lack economic substance in order to exploit tax rate differences on profits

3) A non-U.K. company with a U.K. tax establishment uses transactions that lack economic substance in order to exploit tax rate differences on profits

In the interim guidance, HMRC have identified captive insurance and reinsurance transactions as potentially being in scope of the Diverted Profits Tax. Their concerns surround:

- Establishment of captives in lower taxed jurisdictions and;
- That the non-tax financial benefits outweigh any reduced tax benefit at the outset of the transaction and;
- Adherence to economic substance and transfer pricing guidelines.

The Willis Global Captive Practice insists that all of its clients pursue legitimate risk retention and tax structures for their captive insurance companies. We encourage all of our clients impacted by this new U.K. tax to seek independent tax advice on the application of this tax to their operations and affected captive insurance companies.
The Willis Global Captive Practice manages more than 400 captive insurance vehicles, mutual insurers, risk retention groups (RRGs) and commercial insurance companies. With more than 190 dedicated professionals around the world, Willis employs their global knowledge and consulting expertise to provide internal risk retention advice through strategic insight, analytical services, program structuring, insurance management and consultancy. This includes designing bespoke, innovative, captive solutions, while providing clear and accurate management information that facilitates strategic decision making and regulatory compliance.

**No Tax, Legal or Investment Advice Provided**
Please be aware that while the Willis Global Captive Practice provides general tax information as it applies to captives and insurance matters, Willis does not give formal tax, legal or investment advice. Willis strongly recommends that clients consult with qualified tax, legal and investment advisers to ensure that the structure, program and the domicile of the captive are appropriate for their needs. We would, of course, be pleased to discuss any of these issues with your advisers.

The Willis Global Captive Practice is part of the Willis group of companies - the global risk adviser, insurance and reinsurance broker. (Willis Group Holdings plc. (NYSE: WSH))