

VAT Deductibility for Insurance & Reinsurance

This document should be read in conjunction with sections 59 and 61 and paragraphs 6 and 8 of Schedule 1 of the VAT Consolidation Act 2010 (VATCA 2010)

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Introduction

The purpose of this guidance is to outline the VAT deductibility rules that apply to supplies of insurance and reinsurance.

1 Insurance

Insurance is a service whereby the insurer undertakes, in return for prior payment of a premium, to provide the insured, in the event of the materialisation of the risk covered, with the service agreed when the contract was signed.

This guidance deals with the following categories of insurance:

- Life insurance
- Non-life insurance
- Reinsurance

2 Life Insurance

Life insurance is an agreement between an insurance company and a policyholder whereby the insurance company agrees to pay a benefit to the policyholder's beneficiaries upon the policyholder's death. It is typically for a specified term.

Life assurance is a type of life insurance that covers the policyholder for their entire life, as long as the policy is active.

Life insurance contracts transfer significant insurance risk from the policyholder to the life insurance company, whereby the life insurance company is on risk in the event of the death of the policyholder.

For the purposes of this guidance, the term “life insurance” is used to include both life insurance and life assurance contracts.

3 Non-life insurance

This covers insurance, other than reinsurance, that does not qualify as life insurance. It includes motor insurance, home insurance, health insurance and travel insurance. This list is not exhaustive.

4 Reinsurance

Reinsurance is insurance for insurance companies, whereby an insurance company transfers a specified risk to the reinsurance company and the reinsurance company assumes all, or part of, the risk of one or more insurance policies issued by the insurance company.

5 VAT Treatment

The supply of [insurance](#) (life and non-life) to policyholders located within the EU is VAT exempt.

The supply of [reinsurance](#) to insurance companies located within the EU is VAT exempt.

6 VAT Deductibility – Insurance Activities

Any costs directly attributable to the supply of insurance policies to EU policyholders are not eligible for VAT deductibility.

The supply of insurance policies (life and non-life insurance) to policyholders located outside of the EU constitutes a [qualifying activity](#) for which VAT deductibility is available.

Any costs that are directly attributable to the supply of insurance policies to non-EU policyholders are eligible for VAT deductibility.

Where costs are not directly attributable to supplies of insurance policies to EU or non-EU policyholders, but have been used for both, an apportionment of VAT deductibility is required in accordance with normal [deductibility rules](#).

7 VAT Deductibility – Reinsurance Activities

The rules for VAT deductibility for reinsurance companies are the same as for insurance companies.

8 VAT Deductibility - Investment Activities

Insurance and reinsurance companies will often earn income from dealing in financial assets, such as shares. Further guidance can be found here [VAT treatment of share transactions and trading platforms](#).

VAT on costs in relation to the sale and/or transfer of shares and trading in shares with EU counterparties are not eligible for VAT deductibility.

The sale or transfer of shares and trading in shares with non-EU counterparties are “[qualifying activities](#)”. VAT on costs in relation to qualifying activities are eligible for VAT deductibility.

VAT on costs that relate to the sale and/or transfer of shares and trading in shares with both EU and non-EU counterparties needs to be apportioned in accordance with normal [deductibility rules](#).

9 VAT Deductibility - General Overheads

Where VAT is incurred on costs that relate to both: -

- (i) insurance and/or reinsurance and
- (ii) investment activities,

a VAT deductibility methodology needs to be formulated that correctly reflects: -

- the way that such costs are used for the purposes of the deductible activities and
- has due regard for the total supplies and activities of the business.

Each business will need to select a methodology that adheres to the principles above which must be used consistently unless there are substantial changes to the business operating model.

See [Appendix 1](#) for examples.

10 Life Insurance Companies

Life insurance companies can offer life insurance products that do not transfer significant insurance risk from the policyholder to the life insurance company but carry financial risk instead.

These products are treated as investment products, not as traditional life insurance products, from a financial reporting perspective.

Therefore, life insurance companies can have two distinct income streams, being a life insurance business and an investment business.

The VAT deductibility rules for the investment business carried out by life insurance companies is set out in Sections [8](#) and [9](#) above.

Appendix 1

Examples of methodologies to use to determine VAT deductibility

Example 1

Where investments are managed “in-house”, i.e., where there are general costs that are used for the investment activities.

An insurance company has turnover of €500m.

€150m is insurance income (premiums from insurance policies) and €350m relates to the investment activities.

All premiums from insurance policies are from EU policyholders and the investments are 60% non-EU, 40% EU.

The company has incurred €5m in VAT on costs. Of this: -

- €1m is directly attributable to the insurance business
- €1.5m is attributable to the investment activities
- €2.5m relates to general overheads (such as rent, electricity or other utilities).

The VAT of €1m directly attributable to the insurance business is not deductible as the premiums are from EU policyholders, which is a VAT exempt activity, with no deductibility entitlement.

Of the €1.5m related to the investment activities, 60% (or **€900,000**) relates to “[qualifying activities](#)”, namely sales or transfer of shares and trading in shares with non-EU counterparties, and is deductible. The other 40% (or **€600,000**) is not deductible as it relates to sales or transfer of shares and trading in shares with EU counterparties, which is not a qualifying activity for deductibility purposes.

A turnover method can be used for the general overheads of €2.5m if it correctly reflects the extent that these costs are utilised for deductible activities.

As the only deductible activity is within the investment activities, the VAT deductibility attributable to these costs can be calculated as follows: -

○ €2,500,000	x (€350m/€500m)	=	€1,750,000
○ €1,750,000	x 60%	=	€1,050,000

Therefore, the total amount of VAT deductible is **€1,950,000**, consisting of: -

- **€900,000** (relating to the investment activities), and
- **€1,050,000** (relating to the general overheads).

Example 2

Where investments are not managed “in-house”.

In this example, an investment manager has been engaged to manage the investments in return for an investment management fee of €3m. No general overheads were used for the investment management activity.

An insurance company has turnover of €500m.

€150m is insurance income (premiums from insurance policies) and €350m relates to the investment activities.

All premiums are from EU customers and the investments are 60% non-EU, 40% EU.

The insurance company has incurred €6m in VAT on costs. Of this: -

- €1m is directly attributable to the insurance business.
- €3m is attributable to the investment activities (the investment management fee).
- €2m relates to general overheads (such as rent, electricity or other utilities).

The VAT of €1m directly attributable to the insurance business is not deductible as the premiums are from EU policyholders, which is a VAT exempt activity, with no deductibility entitlement.

Of the €3m directly attributable to the investment management activities (i.e., the investment management fee), 60% (or **€1,800,000**) are deductible “[qualifying activities](#)”, namely sales or transfer of shares and trading in shares with non-EU counterparties. The other 40% (or **€1,200,000**) is not deductible as it relates to sales or transfer of shares and trading in shares with EU counterparties, which is not a qualifying activity for deductibility purposes.

In calculating the amount deductible for the general overheads of €2m, the investment management activities should not be taken into account where none of the general overheads were used for the purposes of the investment management activity.

Example 3**Where insurance premiums are from EU and non-EU policyholders.**

An insurance company has turnover of €500m.

€150m is insurance income and €350m is related to the investment activities.

70% of the premiums are from non-EU policyholders and **30%** are from EU policyholders.

Investments are **60%** non-EU, **40%** EU.

The company has incurred €5m in VAT on costs. Of this: -

- €1m is directly attributable to the insurance business
- €1.5m is attributable to the investment activities
- €2.5m relates to general overheads.

70% (or **€700,000**) of the VAT of €1m directly attributable to the insurance business is deductible as 70% of the premiums from insurance policies are from non-EU policyholders, which is a qualifying activity. The other 30% (or **€300,000**) relates to supplies to EU policyholders which is not a qualifying activity and is not deductible.

Of the €1.5m related to the investment activities, 60% (or **€900,000**) relates to “[qualifying activities](#)”, namely sales or transfer of shares and trading in shares with non-EU counterparties, and is deductible. The other 40% (or **€600,000**) is not deductible as it relates to sales or transfer of shares and trading in shares with EU counterparties, which is not a qualifying activity for deductibility purposes.

An apportionment methodology needs to be calculated in respect of the general overheads of €2.5m on a basis that correctly reflects the way that such costs are used and has due regard for the total supplies and activities of the insurance company.

General Overheads:	€2,500,000
VAT Recovery rate for insurance:	70%
VAT Recovery rate for investments:	60%
Insurance income with right of recovery:	€150m
Investment activity with right of recovery:	€350m

Calculation of VAT Recovery Rate for General Overheads: -**Calculation 1:**

Insurance income with a right of recovery:	€150m x 70% =	€105m
Investment activity with a right of recovery:	€350m x 60% =	<u>€210m</u>
Total Income with a right of recovery:		€315m

VAT Recovery Rate for General Overheads:	€315m/€500m =	63%
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€2,500,000 x 63%	€1,575,000
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Calculation 2: -

€2.5m x (€150m/€500m)	x 70% =	€525,000
+		
€2.5m x (€350m/€500m)	x 60% =	<u>€1,050,000</u>
Total		€1,575,000