Insurance | Risk Management | Consulting

Major Risks Practice

Tax Liability Insurance

What is Tax Liability Insurance (TLI)?

- TLI is a bespoke insurance product designed to provide cover for identified tax risks.
- Typically there is a differing interpretation of specific tax law or regulation which has led to a tax exposure.
- It is used both in an M&A context where tax risks have been identified as part of the due diligence and outside of an M&A context where standalone tax risks may have arisen as part of an internal reorganisation, debt restructure, operational activities, transfer pricing policies, and from activities undertaken in various jurisdictions outside of the taxpayer's home jurisdiction.

What does TLI cover?

- Loss arising from the crystallisation of a tax liability.
- Interest and penalties.
- Defence costs.
- 'Gross-up'.
- Policy period—typically seven years can be increased to 10 years in certain cases.

Rates typically range from 1%-4% of the limit purchased

Why use TLI?

- Replaces a tax liability with a more certain quantum.
- Removes the need for an escrow or a price chip in a transaction.
- Streamlines M&A negotiations whereby known tax risks can be ring-fenced and insured allowing a cleaner exit.
- Can be used to enhance a bid in an auction situation.
- Frees up cash by releasing funds reserved for tax liabilities.

TLI examples

- Corporation taxes, VAT, employment taxes, stamp tax risks.
- Group reorganisations (maintaining tax-neutral status).
- Debt restructuring (debt waivers, writeoffs, connected party risks).
- Transfer pricing.
- Valuations.
- Fund wind-up.
- Preservation of tax assets (losses, capital allowances, R&D tax credits, etc.).
- Income taxes for individuals (e.g. business asset disposal relief).
- Withholding taxes (e.g. beneficial ownership and substance).
- Inheritance tax risks.
- IR35 risks (off-payroll contractor risks).
- Tax litigation.

Other points

- Limit: can be used to mitigate tax risks ranging from £500,000 to over £1 billion.
- Cost: rates typically range from 1%-4% of the limit purchased but depends on the nature and complexity of the risk.
- The premium is a one-off payment charged as an upfront cost.

What is the underwriting process?

- Initial call with Gallagher.
- Written overview provided of exposure, ideally from an advisor.
- Typically, 5-10 days (subject to information being made available in a timely manner).

How can Gallagher help you?

- Call us below and we will be happy to advise on potential solutions.
- We at Gallagher's Major Risk Practice have been consistently delivering exceptional results in the TLI space for the past 10 years.
- Our team is made up of former City tax lawyers, M&A lawyers, Big 4 tax advisors, and insurance professionals.

Covers tax risks arising within an M&A context or on a standalone basis from a variety of jurisdictions

Major Risks Practice (MRP)

We are a dedicated team of professionals focused on M&A and Tax Insurance Advisory and Placement activity.
MRP is uniquely positioned to assist in all areas as regards insurance. Under one roof, our broking and client team, together with our Mergers & Acquisitions, Tax, and Litigation unit, are able to deliver for you in these challenging times. We are ready to support you and your organisation to reassess and redefine a way forward.

Would you like to talk?

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