Insurance premium tax to rise to 12%

Standard insurance premium tax (IPT) rate will increase from 10% to 12%

In his Autumn Statement the UK Chancellor Philip Hammond announced that the IPT rate will increase from from 10% to 12% on 1 June 2017. This increase means the UK's IPT rate will have doubled since summer 2015, and will be the sixth highest rate in Europe. Unlike the previous increase from 9.5% to 10%, the additional tax will not be hypothecated to help fund flood defences.

The new rate will apply to policies starting from 1 June 2017. To prevent the use of artificial arrangements to avoid the IPT increase HMRC has anti-avoidance rules in place that you need to be aware of.

Speak to your usual Lockton contact to discuss the implications for your business.

How the rate rise will work

A longer-than-normal transitional arrangement of 12 months will apply for this change in IPT, due to lobbying by insurers and brokers.

Almost all insurers use the special accounting scheme where there is a 'transitional period', which this time starts on 1 June 2017 and ends on 1 June 2018. In practice, this is expected to mean that all policies incepting before 1 June 2017 will be at the current 10% rate.

During this period, 10% tax will still apply to taxable premiums received under contracts in which the insurance began before 1 June 2017, provided that the premium is written in the insurers' books before 1 June 2018.

The new 12% IPT rate will apply to all taxable premiums received under contracts with an inception date on or after 1 June 2017. All taxable premiums, regardless of the inception date, that are written by insurers after 1 June 2018 will be subject to the new 12% rate.

Additional premiums

If there is an additional premium added to an existing policy, IPT will be due at the old rate of 10% provided the policy starts before 1 June 2017 and is reported to the insurer by 1 June 2018.

This will only apply where the additional premium is not considered a 'new risk' that would normally be the subject of a new policy. In such cases, IPT will be due at the new rate regardless of whether the additional premium is reported before 1 June 2018.

Anti-forestalling/anti-avoidance provisions

Anti-avoidance measures are in place to limit opportunities to avoid paying tax at the new rates. These include pre-payments in circumstances where it is not 'normal practice' for the insurer to create a tax point before the contract cover begins.

For example, they prevent:

- New risks, that would normally be the subject of a new policy, being added to existing contracts in order to benefit from the old IPT rate rather than the new one.
- Policies that are longer than 12 months being subject to the old 10% rate even 12 months after the rate change, unless it is normal practice for such policies to be longer than 12 months.

Refunds of premiums

If any adjustment to a taxable insurance policy results in a refund, a refund of IPT will also be due and the insurer should repay the overpaid tax at the original rate charged to the customer and accounted for to HMRC, not at the new rate of tax.

Premium paid on a monthly basis

If the premium is written by the insurer as an amount at inception of the contract then tax will be at the original rate even if the option of payment by instalments is offered. Where monthly premiums are treated as separate contracts then the new 12% rate will be due on payments after 1 June 2018.

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