Budget IPT rate rise announcement

The standard rate will increase to 10% from 9.5% on the 1 October 2016.

In his budget The Chancellor increased insurance premium tax (IPT) from 9.5% to 10%. This is the second IPT rise in under a year following the increase from 6% to 9.5% in November 2015. The justification for the rise is that it will be used to help fund flood defences.

The UK rate is still below the European average.

The new rate will apply to policies starting from 1 October 2016.

To prevent the use of artificial arrangements to avoid the IPT increase HMRC has anti-avoidance rules in place which you need to be aware of.

Speak to your usual Lockton contact to discuss the implications for your business. We can help you:

- review your insurance programmes to ensure that they remain efficient and appropriate for your business; and
- comply with HMRC's IPT anti-avoidance rules.

How the rate rise will work

Transitional arrangements will apply for this change in the rate of tax. Almost all insurers use the special accounting scheme where there is a "transitional period" which this time starts on 1 October 2016 and ends on 1 February 2017.

During this period, 9.5% tax will apply to taxable premiums received under contracts in which the insurance becomes operative before 1 October, provided that the premiums is written in the insurers books before 1 February 2017.

The new rate of tax will apply to all taxable premiums received under contracts with an inception date on or after 1 October 2016. All taxable premiums, regardless of the inception date that are written by insurers after 1 February 2017 will be subject to the new 10% rate.

Additional premiums

If there is an additional premium added to an existing policy, IPT will be due at the old rate of 9.5% provide the policy starts before 1 October 2016 and it is reported to the insurer by 1 February 2017.

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 February 2017.

Anti-forestalling/anti-avoidance provisions

There are anti-avoidance measures in place to limit the 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 which would normally be the subject of a new policy being added to existing contracts and so benefiting from the old tax rate rather than the new rate.
- Unless it is normal practice to write policies of more than 12 months, they require that policies longer than 12 months be apportioned so that the cover 12 months after the rate change is at the new rate.

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 a single amount at inception of the contract then tax will all be at the original rate even if the option of payment by instalments is offered. Where the monthly premiums are treated as separate contracts then the new 10% rate will be due on payments after 1 February 2017.

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