MARSH

December 2016

ADVISER

INCREASE IN UK INSURANCE PREMIUM TAX

The UK Government announced on 23 November 2016 that the standard UK Insurance Premium Tax (IPT) will increase by 2% (from 10% to 12%), with effect from 1 June 2017. The higher rate of 20% for insurance supplied with selected goods and services (such as certain travel, motor cars, and domestic appliances) remains unchanged. The change is subject to the Finance Bill 2017, to be issued next year.

When the new IPT rate of 12% applies depends on two considerations:

1. Whether the insurance cover begins before or after 1 June 2017.

2. Whether the premium in respect of that cover is treated as received (that is, has a tax point under either the special accounting scheme or cash receipt method[1]) on or after 1 June 2017.

Unless the anti-forestalling rules apply, premiums with tax points falling before 1 June 2017 will be taxed at the old IPT rate of 10%, regardless of when the cover under the policy commences.

There is also a backstop date which means that all premiums treated as received, that is, with tax points under either the special accounting scheme or cash receipt method, that fall on or after the 1 June 2018 will be taxed at the new IPT rate of 12%, regardless of when the cover for the risks under the insurance policy began.

DEFINITION OF PREMIUM

"Premium" means all payments receivable under the contract of insurance by an insurer or by a third party on behalf of the insurer. In particular, this includes any payments in connection with:

- Risks insured that are located in the UK.
- Cost of administration (that is, administrative costs which are charged to the policyholder).
- Commission (paid to or retained by brokers or other intermediaries).
- Interest (where credit arrangements allow for payment in instalments, whether or not the payment for this facility is called interest). If this facility is offered under a separate contract, for example, under a contract regulated by the Consumer Credit Act, any payment received for credit is not part of the premium and is not liable to IPT.

ADJUSTMENT OR ADDITIONAL PREMIUMS

If there is a mid-term adjustment to an existing policy which commenced before 1 June 2017, any additional premium received by insurers in respect of new risks for which the cover commenced after 1 June 2017 will be liable to tax at the new IPT rate of 12%.

INSTALMENT PREMIUMS

Where premiums are paid in instalments in respect of risks for which cover commences before 1 June 2017 and the premiums are received by insurers before 1 June 2018, then insurers are liable to pay tax at the old IPT rate of 10%. However, where the instalment premiums relate to risks for which cover commences on or after 1 June 2017, then the insurers are liable to pay tax at the new IPT rate of 12%.

If any instalment premiums are received by insurers on or after 1 June 2018, then the insurers will be liable to tax at the new IPT rate of 12%, regardless of when the cover for the risks commenced.

If a premium instalment payment has a tax point falling between 1 June 2017 and 1 June 2018 and is in respect of an insurance policy that covers several risks (some of which were included in the contract when cover first commenced prior to 1 June 2017 and some of which have been added after that date), then the instalment premium will need to be apportioned between the amount that relates to cover for the original risks and any amount that relates to cover for the new risks, and taxed at the appropriate rate for each.

REFUND OF PREMIUM TAXES

If any adjustment to a taxable insurance policy results in a refund of insurance premiums to the insured, then any refund from HMRC of the IPT accounted for on that premium will also be due. The insurer would claim the overpaid tax at the original IPT rate charged to the insured and not at the rate of tax that is in force at the time the return premium is paid.

ANTI-FORESTALLING PROVISIONS

The current anti-forestalling provisions will be reviewed and any changes will be announced in the 2017 Budget.

RECOMMENDATION

We suggest you review your insurance arrangements with your Marsh team and insurers, and carefully evaluate the potential impact of this new IPT rate change on the overall cost of risk.
Key points to consider in managing your premium tax liability include:

- Use of deductibles/policy excesses or captives to reduce overall premium spend.
- Use of data and analytics to help set optimum insurance levels and support risk financing decisions to reduce premium spend.
- Claims analysis to ensure you are providing the insurance market with an accurate reflection of your risk, in order to maintain the total cost of risk at an optimal level.
- Review of premium allocation methodology to ensure that it is not only "just and reasonable" but also robust, defensible, and equitable.

If you have any questions, please contact your usual Marsh representative. For specific IPT queries, please contact:

PRAVEEN SHARMA
Managing Director
Global Leader Insurance Regulatory and Tax Consulting Practice
Marsh Ltd
+44 20 7357 5333
praveen.sharma@marsh.com

[1] NOTES:

Tax Point:

The tax point is the trigger to account for IPT, and tax is due one month after the end of the accounting period in which the tax point occurs. The tax point depends on whether the insurer is using the cash receipt method or the special accounting scheme. The tax point is the date the premium is:

- Received, if you are operating the cash receipt method.
- Due, if you are operating the special accounting scheme.

CASH RECEIPT METHOD:

Under the cash receipt method, the tax point is when the insurer receives taxable premium payments or when they are received on its behalf by any person – whether an agent or not.

SPECIAL ACCOUNTING SCHEME:

Under the special accounting scheme, the tax point is the date when the insurer's accounts show the premium due to the insurer.

GRAPHICS NO. 16-1276