LLOYD'S

MARKET BULLETIN

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Title	UK insurance premium tax (IPT) rate change (2016)
Purpose	To advise Lloyd's brokers and underwriters of a rate increase to UK IPT and provide guidance on the transitional arrangements.
Type	Event
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Deadline	This bulletin has immediate effect
Related links	

Purpose: To advise the Lloyd's brokers and underwriters of the increase of the standard rate of UK insurance premium tax to 10% and provide guidance on the transitional arrangements.

With effect from 1 October 2016 the standard rate of UK IPT will increase from 9.5% to 10%. The higher rate of IPT remains at 20%.

The new standard rate (10%) will apply to new insurance policies and renewals (business), incepting on or after the 1 October 2016, however there are transitional arrangements that allow certain business to continue to be processed at the old rate (9.5%).

There are also anti-forestalling provisions to deal with attempts to avoid the increased rate by extending cover, advancing premium payments or applying additional premiums. These are more fully described in section 14 of HMRC's IPT Notice 1 (replicated in annex 1 to this bulletin) and are effectively the same as those used in 1999 and 2015.

Interpretation of the arrangements

For the purposes of applying the rate change transitional arrangements the date on which a contract is "made" has been confirmed by HMRC as meaning the date at which the policy incepts. They also define inception date as being the date at which cover provided by the insurance policy begins.

Business processed in relation to cover that incepted prior to 1 October 2016 may be taxed at the 9.5% rate if it is processed (signed by Xchanging/LDR) before 1 February 2017.

All business processed on or after the 1 February 2017, apart from return premiums, will attract the new rate of IPT irrespective of the inception date.

Treatment of additional premium

Additional premiums in relation to cover that incepted prior to 1 October 2016 may be taxed at the 9.5% rate if they are processed (signed by Xchanging/LDR) before 1 February 2017.

Additional premium applied as a result of a change in the nature of the cover effective after 1 October 2016 may also be taxed at the old rate if it is the underwriter's normal practice for such adjustments to be made and subject to the premium being processed before 1 February 2017. Please see annex 2 of this bulletin for examples of additional premiums that would qualify to be processed at the old (9.5%) rate.

Treatment of return premium

Return premium must be processed using the tax rate that was applied to the transaction to which it relates irrespective of inception date or process date.

Treatment of instalments

In relation to business incepting prior to 1 October 2016 if the premium payments are simply paid on an instalment basis, i.e. under arrangements such as a credit agreement or the deferred scheme, the business will attract the 9.5% rate, subject to the first instalment being processed before 1 February 2017. In this situation the premium will have been written in full when the policy was first processed by Xchanging and the nature of how the premium payments are made will not affect the tax treatment.

However if the business is processed in parts and tax is brought to account on each instalment then the 10% rate would apply to those processed on or after 1 February 2017.

If the cover is provided via a series of policies, e.g. monthly policies, then those policies incepting on or after 1st October 2016 will attract the 10%.

Anti-forestalling provisions

These are described in more detail in HMRC's guidance set out in the annex to this bulletin.

Tax accounting point

The tax accounting point is the date at which tax should be reported on the IPT return. Lloyd's uses the special accounting scheme (SAS) and the agreed tax accounting point is the LPSO signing date. For Lloyd's Direct Reporting (LDR) purposes the accounting point is the date data is processed into LDR. Lloyd's syndicates that have opted to use the Lloyd's composite IPT return must adhere to these accounting points. The rules in relation to cash accounting are not relevant for Lloyd's business reported on the composite return.

It is strongly recommended that Lloyd's underwriters ensure that "9.5%" business, particularly bordereaux business is presented for processing by Xchanging in a timely manner, i.e. before 1 February 2017, to avoid the premium being subjected to the new 10% rate of tax.

It is the Managing Agent's responsibility to ensure business is processed correctly however Lloyd's tax department will be running exception reports and where the tax rate is found to have been incorrectly applied will adjust the tax calculation accordingly and collect any shortfall from underwriters.

Underwriters should note that any arrangement to facilitate processing business will not affect the rate of tax applicable under the transitional rules set out above.

For further guidance on the application of UK premium taxes please see Crystal.

If you have any questions or require further information please contact Nick Marman, Senior Manager Indirect Tax on +44 (0) 20 7327 6727 or e-mail at nick.marman@lloyds.com

Annex 1 - Extract from HMRC's Notice IPT1

In relation to the 2016 standard IPT rate change:

The announcement is to be taken to have been made on 16 March 2016,
The date of the change is 1 October 2016, and
The concessionary date is 1 February 2017

14. Changes in rate - transitional arrangements

14.1 Rate changes

The tax rates, since the introduction of IPT, are:
1 October 1994 to 31 March 1997 - a single rate of 2.5%

The standard rate:
1 April 1997 to 30 June 1999 - a standard rate of 4%
1 July 1999 to 3 January 2011 - a standard rate of 5%
4 January 2011 to date - a standard rate of 6%

The higher rate:
1 April 1997 to date a selective higher rate of 17.5% on certain types of insurance arranged through certain suppliers of other goods and services
from 1 August 1998 the higher rate was extended to all taxable travel insurance, regardless of the type of supplier
from 4 January 2011 to date - a higher rate of 20%

14.2 Terminology

14.2.1 The announcement date

This is the date that the change is announced by a Minister (usually Budget Day). (See paragraph 14.8 for previous announcement dates.)

14.2.2 The implementation date

This (sometimes known as the 'date of the change') is the date that the change comes into effect, as announced on the announcement date. The previous implementation dates are shown in paragraph 14.8 as the date the changes took effect.

14.2.3 The concessionary date

Where a concessionary period is granted in connection with a rate rise, this is the date (also announced on the announcement date) on which the transitional period ends; where the tax point under the special accounting scheme (see paragraph 12.4) takes place after the concessionary date, the new rate applies irrespective of when the policy incepted. See paragraph 14.9 for previous concessionary dates.

14.2.4 The inception date

This is the date when the period of cover under an insurance policy begins.

14.3 Policies taken out or paid for around the date of a rate change

14.3.1 Cash receipt method

Under the cash receipt method of accounting (see paragraph 12.3), all taxable premiums received on or after the implementation date (see paragraph 14.2.2) of a rate change will bear the new rate of tax. Any premiums received before the implementation date will be subject to tax at the old rate (unless the anti-forestalling measures mentioned in paragraph 14.7 apply.) Premiums received on or after the implementation date in relation to a policy taken out before that date will be subject to tax at the new rate.

14.3.2 Special accounting scheme

If a concessionary period is granted when the rate of tax changes, then, under the special accounting scheme (see paragraph 12.4), there is a concessionary period; this is known as the ‘transitional period’ ending on the concessionary date (see paragraph 14.2.3).

During this period, the old rate of tax will apply to taxable premiums for contracts which are have an inception date (see paragraph 14.2.4) before the implementation date (see paragraph 14.2.2) of a rate change (even if the contracts are written on or after that date), provided the tax point for those premiums occurs before the concessionary date (see paragraph 14.2.3).

The new rate of tax will apply to all taxable premiums for contracts with an inception date on or after the implementation date of a rate change.

14.3.3 Tax points after the transitional period

All taxable premiums, regardless of the inception date of the contract to which they relate, that have a tax point after the concessionary date will be subject to the new tax rate.

14.4 Additional premiums

14.4.1 Anti-avoidance measures

Anti-avoidance measures help prevent abuse of the statutory transitional period when additional premiums are received in relation to a taxable insurance contract at or around the time of a rate increase.

The intention is to prevent new risks, which would normally be the subject of a new policy, being added to existing contracts and thereby benefiting from the old tax rate rather than the new rate.

14.4.2 Normal practice

The concept of normal practice is the insurer's normal practice and not the market's normal practice. If there is any attempt by an insurer to misrepresent their normal practice so as to benefit form this approach, we will consider assessing for any tax underdeclared.

14.4.3 Cash receipt method

Under the cash receipt method, any additional taxable premiums that are received on or after the implementation date (see paragraph 14.2.2) will be subject to tax at the new rate notwithstanding the contract inception date (see paragraph 14.2.4).

14.4.4 Special accounting scheme

If a concessionary period has been granted, then under the special accounting scheme, any taxable premium instalments written on or after the implementation date (see paragraph 14.2.2), but which relate to contracts with an inception date (see paragraph 14.2.4) before then, are liable to tax at the old rate provided that the:

- tax point relating to that instalment occurs before the concessionary date (see paragraph 14.2.3), and
- additional premium written does not relate to a new risk

14.5 Extensions to policies incepting prior to a rate change

If a concessionary period has been granted and you receive a request to extend a policy that incepted prior to a rate change, and you write the premium in the transitional period, then any additional premium called for in relation to that extension may be treated as liable to tax at the old rate unless the:

- premium is in respect of a risk which would normally be covered by a new contract
- anti-forestalling provisions (see paragraph 14.7) apply

For example, if a policy is extended to bring the period of cover into line with a client's other insurance policies, and the additional premium is written before the concessionary date, then that premium will be liable to IPT at the old rate. If, however, the extension has been made to avoid IPT at the new rate and the risk would normally be covered by a new contract, the additional premium is liable to IPT at the new rate.

14.6 Tax credits

Tax credits on return premiums should be claimed at the IPT rate applicable to the original premium where this can be established. Where this is not possible, you should use an estimation process that can be shown to give a reasonable result based on the specific circumstances in question.

14.7 Anti-forestalling provisions

Special arrangements have been made to prevent tax avoidance during the period between the announcement date (see paragraph 14.2.1) of a rate rise and the implementation date (see paragraph 14.2.2) for that rate rise.

Certain premiums received or written during this period are deemed to be received or written on the date of the rate change, and are subject to the new rate.

These provisions apply to advance payments and extended cover. Similar anti-forestalling provisions also apply in relation to the transitional period under the special accounting scheme.

14.7.1 Advance payments

Where:
- insurance contracts commence (or have a renewal date) on or after the implementation date of a rate change, and
- premiums due under those contracts are received or written between the announcement date and the implementation date of the rate change

those premiums will be deemed to have been received or written on the implementation date (and will accordingly be subject to the new rate of tax).

This will not apply if the insurance is of a sort where it is the insurer's normal practice for premiums to be received or written before the date when cover begins.

14.7.2 Extended cover

Where:
- insurance contracts are taken out or renewed between the announcement date and the implementation date of a rate change, and
- extended periods of cover are provided under those contracts, and
- that cover commences before the implementation date of the rate change

the premium will be apportioned between that relating to cover up to the first anniversary of the implementation date and that relating to the remainder of the policy, with tax at the new rate on the latter portion becoming due on the date of the rate change.

These provisions will not apply to contracts where the type of insurance normally covers periods exceeding 12 months. Examples of the type of contract that normally offer cover for a period exceeding twelve months include:
- single premium creditor insurance
- credit gap shortfall insurance
- some mechanical breakdown insurance
- building latent defects policies, and

•mortgage indemnity insurance

14.8 Announcement dates and Implementation dates

(see paragraphs 14.2.1 and 14.2.2)

For the purposes of the anti-forestalling provisions the announcement dates are as follows:

Date the changes took effect

Announcement date

14.9 The transitional period for rate changes

(see paragraph 14.2.3)

The transitional periods for the rate changes were as follows for:
•1 April 1997 - 6 months, that is, until 30 September 1997
•1 August 1998 - 6 months, that is, until 31 January 1999
•1 July 1999 - 6 months, that is, until 31 December 1999
•there was no concessionary period granted (so no transitional period) for the standard and higher rate rises with an implementation date of 4 January 2011

Annex 2 – Examples of additional premium subject to the old rate of IPT

- Personal lines annual household policy incepting on 1 July 2016. The policyholder advises the underwriter of a change to the risk as a result of an extension being built attaching to the existing house. An additional premium is charged effective from 1 January 2017.

- Personal lines annual household policy incepting on 1 July 2016. The policyholder advises the underwriter that they have moved. An additional premium is charged reflecting the change in risk effective from 1 January 2017.

- Commercial property damage policy (annual) incepting on 1 July 2016 covering a property portfolio of 10 houses. On 1 December the developer adds 5 more houses to the policy and an additional premium is charged by the underwriter.

- Commercial domestic cargo (open cover) policy incepting on 1 January 2016. A deposit premium was charged at inception and at the end of the period of cover the actual premium established and an additional premium is charged (31 December 2016).

HMRC have confirmed that IPT will be due on the additional premiums at the old rate (9.5%) in all of the above cases unless the anti-avoidance rules apply, i.e. so long as it is the insurer's normal practice to add the additional risks to the existing policy rather than write a new policy.