Market Bulletin

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FROM: Manager, International Tax, Taxation Department

LOCATION: TAX/86/444

EXTENSION: 5228

DATE: 11 November 1994

REFERENCE: TAX/MCM/hrc/6716s/l/X583

SUBJECT: INSURANCE PREMIUM TAX.

ACTION: **Underwriters and Brokers to read and note as a matter of urgency.**

DEADLINE: **Effective Immediately.**

1. Introduction.

1.1 Further to the Market bulletin of 19 August 1994, additional information is now available on some of the detailed aspects of Insurance Premium Tax (IPT).

1.2 This bulletin covers the following:-

Section 2:	Definition of establishment.
Section 3:	Apportionment Rules
Section 4:	Further information about risks written in the Marine Market.
Section 5:	Further information about placing and closing requirements.
Section 6:	Record keeping requirements.

1,3 Sections 2 and 3 supplement the information given in Information Sheet 5/94 issued by Customs & Excise on 12 September 1994 (attached as Appendix" 1). This gives guidelines for insurers where a premium covers taxable and non-taxable risks and where the underwriter is required to apportion the premium.

2.0 Establishment.

2.1 A premium which covers a risk outside the UK is exempt from IPT. The rules which determine whether a risk is situated in the UK for the IPT legislation derive from the Insurance Companies Act 1982. A risk is located in the UK if the insurance :

(i) relates to buildings and their contents and the property is located in the UK.

(ii) relates to any vehicle of any type which is registered in the UK ("vehicle" includes motor vehicles, ships, yachts and aircraft) ;

(iii) is a policy of up to 4 months duration which covers a travel or holiday risk when the policy is taken out in the UK ; or

(iv) is of a type not covered in (i) to (iii) above and the policy holder is either :

an individual habitually residing in the UK, or
a business, and the establishment to which the policy relates is in the UK.

2.2 Paragraphs 21 and 22 of the Information Sheet define the term "establishment", An establishment for the purposes of IPT includes:-

Subsidiary companies
Branches
Offices managed by the undertaking's own staff or by independent persons who have the authority to act for the undertaking as an agency would.
Selling agents
Representative offices
Factories
Workshops
Mines
Oil and Gas wells
Quarries
Construction sites

Please note that the establishment must have some degree of permanence. A temporary exhibition would not, for example, qualify.

2.3 In all cases the insurer must be able to demonstrate that there is an identifiable risk attaching to the establishment.

2.4 Appendix 2 contains a number of examples to help Underwriters understand the principles of establishment.

3. Apportionment,

3.1 If a premium covers taxable and non-taxable risks, the legislation requires the underwriter to apportion the premium on a "just and reasonable" basis. IPT is only payable on the taxable part of the premium.

3.2 The Information Sheet sets out guidelines to assist insurers with the apportionment of premiums (see Appendix 1.) The use of these guidelines is not mandatory but any alternative basis must be justified.

3.3 In many instances, apportionment will require a subjective judgment on the part of the underwriter and, as a general guide, it is suggested that the underwriter follows the same methodology used to rate the business when making the apportionment. For example, where a premium has been determined by reference to exposure, the apportionment should also be made by reference to this criteria.

3.4 Each Market Association intends to formulate its own guidelines for various risks for which it is responsible. Although Customs & Excise have invited syndicates to contact them with suggested formulae for apportionment, it is believed that it would be more constructive to agree apportionment methods on a marketwide basis, Underwriters who wish to suggest or comment on apportionment methods should therefore contact either their Market Association or Taxation Department (Maureen McLeod or Debbie Wood on Lloyd's extensions 6860 or 6727 respectively).

3.5 The information sheet emphasises the need for Underwriters to record the methodology they use to apportion premiums. These records may be required by Customs & Excise as part of their IPT audit of syndicates.

4, Marine Market.

4.1 To assist underwriters determine whether a risk is taxable or not, lists have been produced covering many of the risks written by Lloyd's syndicates, The list for non-Marine and motor risks was attached to the Market bulletin of 19 August. Attached to this bulletin as Appendix 3 is the list prepared for the Marine Market. [The list for the Aviation Market will be issued shortly.]

4.2 The list contains a short description of the risk, the Lloyd's risk code and a letter Y or N. Y denotes a taxable risk and N a non-taxable risk. It should be read in conjunction with the notes which set out the rules for determining which risks are taxable and which are exempt.

4.3 The list has been prepared to help underwriters but is not definitive. Where appropriate it remains open to either Lloyd's or Customs & Excise to seek to change the tax status of any risks, although material changes are not anticipated.

4.4 If underwriters have any comments on the list, will they please contact either their Association or Taxation Department.

5. Placing and closing requirements,

5.1 Appendix 4 supplements the detailed instructions which were issued as Appendices 4 and 5 to the 19 August 1994 bulletin.

5.2 Underwriters are again reminded that the amount of the taxable premium must be shown in the "premium" area of the slip/endorsement text. This must be done even if the risk is 100% taxable. Tax must not be shown as a deduction from the premium as IPT should be charged to the assured with the gross premium.

6. Record keeping

6.1 Lloyd's will complete a central and composite tax return on behalf of all syndicates which use Central Accounting. The detailed arrangements are summarised below but were set out in full as Appendices 4 and 5 of the Market bulletin of 19 August 1994.

6.2 Brokers will collect the gross premium and the tax from the assured and retain it in their accounts until both amounts are debited simultaneously by Central Accounting settlement.

The net premium will be apportioned over participating syndicates and settled in the usual way. The tax will be settled to a dummy syndicate account held by the Corporation. The money in this dummy account will be paid over to Customs & Excise quarterly shortly after the tax return is submitted.

6.3 Although the underwriter's signing message will not contain any reference to IPT, work is progressing to provide information to syndicates detailing the taxable business that has been included in the central return on their behalf.

6.4 Electronic records of syndicates' taxable business will be retained by LPSO and they will be made available to Customs & Excise for audit whenever required. Customs & Excise accept that these records need only be kept in one place, i.e. LPSO and syndicates do not need to keep a duplicate record,

6.5 Syndicates are expected to keep their normal business records for six years and the only new records relate to apportionment. If premiums are apportioned syndicates should, as advised in 3.5, keep a record of the rationale used so that they can, if necessary, justify the apportionment to Customs & Excise. They should also keep supporting documentation to show the derivation of the figures used in their calculations. These records can be kept either in paper form or electronically.

7.0 <u>Conclusion.</u>

7.1 This bulletin is being sent to all underwriting agents, underwriters, Lloyd's brokers and recognised auditors. Underwriters and brokers may obtain full assistance by telephoning the <u>IPT Helpline</u> (071 -327-5111, Lloyd's extension 5111),

7.2 Further bulletins will be issued to deal with any additional issues which are identified during the introduction of the tax. It is hoped that a comprehensive IPT manual will be produced later this year.

Maureen McLeod

Mrs M C McLeod
<u>Taxation Department</u>

Enclosures

Appendix 1

Insurance Premium Tax
Information Sheet 5/94 12 September 1994

Insurance Premium Tax: Apportionment of premiums; and payment of premiums

H M Customs
and Excise

This Information Sheet contains guidelines to assist insurers writing insurance policies where part of the premium relates to insurance which is liable to insurance Premium Tax (IPT) and part relates to insurance which is exempt, and there is thus a need to apportion the premium. In Part II it also contains details about how to deal with premiums which are paid in certain ways, for example, in advance, or in a foreign currency.

PART I - APPORTIONMENT

The law

2. Section 70(1) of the Finance Act 1994 provides for all insurance contracts to be treated as taxable, unless they are specifically exempt under Schedule 7A of that Act. Section 69(2) requires contracts which relate to both taxable and exempt risks to be apportioned on a “just and reasonable” basis.

Accounting for IPT

3. Liability to account for IPT rests with each insurer underwriting each policy. If you write a policy which relates to both exempt and taxable risks you will have to calculate that amount of the premium which relates to the taxable element. Although you may do this by consulting with the broker or the insured party, you the insurer are responsible for ensuring that the final apportionment is made in a just and reasonable manner.

4. If you and your insured decide to split the cover under a mixed policy into two separate policies (one wholly taxable and one wholly exempt) to avoid the need for apportionment, each separate policy must carry a premium which is independent of the premium on any other policy. That is, it must be set at open market value.

5. Where several insurers are involved, the lead insurer will normally be expected to make the decision about how much of a premium relates to a taxable risk. Co-insurers will normally follow this lead, although, on the basis of the information available to him, the co-insurer is also responsible for ensuring that any apportionment is just and reasonable. Where co-insurers have followed such a lead and an underdeclaration of tax is later established, both the lead insurer and co-insurers will still be liable for any IPT undeclared on their portion of the risk, plus any interest. The liability of each insurer for tax and interest will be limited to each insurer's share of the risk. If you are the lead insurer in a co-insurance arrangement you are responsible for retaining the paperwork to demonstrate to Customs that any apportionment is done on a just and reasonable basis. If, as a co-insurer, you are given information on how an apportionment was performed, you should retain it for production to Customs if requested.

Record keeping

6. In the Annex to this Information Sheet you will find examples of the type of formulae you could use to apportion mixed policies. Whether you use one of these examples, or an alternative method to apportion a premium, you must be able to demonstrate to Customs that the method used gives a just and reasonable result. Whatever the method you use for apportionment, you should ensure that you keep the following information:

- a note of the rationale used, so that you can justify the apportionment if requested to do so by Customs; and
- an audit trail to show from where you derived the figures used in your calculations.

As part of their audit of your IPT systems Customs may wish to make selective tests on the credibility of apportionment calculations.

De minimis limits

7. If the premium relating to a contract is £500,000 or less and the taxable element of the premium is 10 per cent less then you need not account for tax on that contract. You may use any basis, including those listed in the Annex to this Information Sheet to apportion a policy to see whether it falls below the de minimis limits as long as the result is just and reasonable. The use of the de minimis rule is optional for insurers.

8. In co-insurance arrangements the entire premium is subject to the de minimis test and not just that proportion of the premium which relates to the risk underwritten by each co-insurer.

9. Where a policy covers different risks, for example, property, vehicles, and product liability, you may not split the policy into its component parts (ie property, vehicles, etc) with a viewto applyingthe de minimis limits to the component parts. (You may, of course, split the cover into two or more separate policies to avoid the need for apportionment at all, as indicated in paragraph 4,)

10. Insurers who plan to use the de minimis provisions will need to assess at the outset of cover whether the contract is likely to be de minimis. For fixed term contracts the de minimis test must be applied to the totality of premiums due during the period of the contract, and for open covers the de minimis test must be applied on a consistent annual basis.

11. However, once an insurer has made the decision about whether to treat a contract as de minimis, the figures upon which the decision was based may be altered by the receipt of additional premiums or by return premiums. If additional premiums clearly take the contract over the

£500,000 limit or the 10 per cent limit then the insurer must immediately cease to treat that premium as de minimis. (See paragraph 13 for information about the tax point.) If a return premium puts it beyond doubt that a contract is de minimis, the insurer may claim a tax credit for the amount of tax previously accounted for under that contract by deducting the relevant amount of tax from any tax due for the accounting period in which the premium was repaid or any later accounting period.

12. Where additional premiums are a regular feature of the policy, for example under marine cargo and goods in transit insurance, the variations in cover may make it difficult for the insurer to monitor the 10 per cent limit each time a premium is received. In these cases, therefore, once the initial decision on whether to treat a contract as de minimis has been made, the insurer would not be expected to reconsider whether or not additional premiums have taken the premium over the 10 per cent limit until the end of an annual contract (or, if it eases IPT collection difficulties, prior to charging the final additional premium). Where such policies are longer term or open ended, an insurer will be expected to re-examine eligibility under the de minimis 10 per cent rule on a regular (usually annual) basis at a convenient review date.

13. When additional premiums take a contract over the de minimis limits, so that the insurer must account for tax on the entire taxable element, all tax due under the contract to date should be accounted for on the date of entry (if the insurer is using the special accounting scheme) or the date of receipt (if the insurer is using the basic cash receipts method) of either:

a) the additional premium associated with the review of the 10 per cent de minimis limit (see paragraph 12); or, if earlier

b) the additional premium which clearly takes the contract outside the de minimis limits.

Where an additional premium takes a premium over the £500,000 limit the tax point will always be as described at (b) above,

Two examples may be useful here in illustrating how these rules operate:

Example 1

Where an annual policy covering property world-wide is amended after six months to include a UK building it may be clear that this puts the taxable UK element of the premium above 10 per cent of the total premium. In such a case, and under the terms of (b) above, the insurer must account for the total amount of tax using the date of entry of the additional premium as a tax point, rather than waiting until the end of a period of cover.

Example 2

Where the cumulative effect of routine additional premiums under a marine cargo or goods in transit policy take the premium over the 10 per cent de minimis limit the tax point for all tax due will be as described in (a) above, the date of entry or date of receipt of the additional premium associated with the annual review of the 10 per cent de minimis limit.

Under this type of policy the impact of individual premiums will be disregarded for tax point purposes until the tax point described at (a) above, unless they either take the premium over the 1500,000 limit or, are accompanied by an exceptional change in circumstances which clearly takes the contract outside the 10 per cent de minimis limit. In such cases the tax point described at (b) will apply.

14. If you only underwrite business where each policy falls under the de minimis limits, you should nevertheless notify Customs of the fact that you are writing taxable insurance business. However, you may apply for a waiver of registration, so that you do not have to charge IPT or complete IPT returns. Even if granted this waiver you remain a registerable person, (because you are writing taxable insurance business) and Customs are entitled to contact you periodically for assurance that all the business you write still falls under the de minimis limits. You must also monitor this yourself and contact Customs as soon as you write any business which does not fall within the de minimis limits so as to avoid any retrospective liability to tax.

Agreements with your Local Insurance Premium Tax Office (LIPTO)

15. You are required to apply an apportionment which gives a "just and reasonable" result. In many cases the best method of achieving such a result will be routine and self evident. In other cases you may need to devise a method tailored to the particular circumstances of a policy. In cases giving rise to doubts or difficulties you are advised to consult your LIPTO to obtain approval for a method, although this is entirely optional.

16. Where a policy covers a number of different risks (for example, property, vehicles, and product liability) you may wish to apply a different apportionment method to each part of the policy. Again, as long as this gives a "just and reasonable" result, this is acceptable.

17, It is open to you or to your LIPTO to review any apportionment method at any time. Where your apportionment method(s) have been agreed with your LIPTO any proposed changes should be discussed between the parties. Such changes will normally be made by consensus but, in any event, will not give rise to a retrospective liability to tax (except in cases of arithmetical or similar errors). You will, of course, be expected to notify Customs should, at any time, the agreed method(s) cease to produce a just and reasonable apportionment.

18. Where Customs are considering an apportionment method for the first time and, exceptionally, consider an alternative method to give a fairer result and a larger taxable element they will nevertheless not seek to apply their method retrospectively unless the increase in the taxable element of a policy is more than 5 per cent or the additional tax considered to be due under the policy exceeds £2000. Customs may withdraw this concession (with prior notice) for an insurer who consistently underdeclares. Where these parameters are exceeded and an assessment is issued it will be for the full amount that, in Customs' best judgement, is underdeclared, although before deciding to issue an assessment your LIPTO will usually take into account the amount of tax involved.

Exemption

19. For further details on insurance contracts which are treated as exempt, you should refer to IPT Information Sheet 3/94.

20, Insurance contracts relating to risks which are situated outside the UK are amongst the contracts which are treated as exempt. To determine whether or not a risk is located inside the UK, the IPT legislation uses the location of risk rules as laid down in Section 96A(3) of the Insurance Companies Act 1982 (ICA 1982).

Definition of Establishment

21. The location of risk, and thus the need to apportion, is often dependent on where the insured business has its establishment or establishments. An establishment for the purposes of apportionment includes:

- any presence or undertaking even if it does not take the form of a branch or agency, but consists of an office managed by the undertaking's own staff, or by a person who is independent but who has the authority to act for the undertaking as an agency would;

- selling agents, representative offices, factories, workshops, mines, oil and gas wells, and quarries.

22. In all cases, of course, it will be necessary for the insurer to demonstrate that there is a clearly identifiable risk attaching to the establishment for apportionment to be applicable. For example, for liability insurances, an identifiable risk would be the fact that the insured would probably be sued in the territory of the establishment.

Methods of apportionment

23. The Annex to this Information Sheet contains examples of formulae you might use to calculate the taxable element of a premium. You should remember that these are examples and should only be used if they produce a just and reasonable apportionment.

PART 11: DIFFERENT FORMS OF PAYMENT OF PREMIUMS

Payments in installments

24. If, as an insurer, you offer the facility of payment by installments the IPT treatment of the premium payments will depend on the method of accounting you have chosen.

25. An insurer using the basic cash receipt method of accounting will account for tax on each installment payment received on or after 1 October 1994, even if these payments are made under a contract which incepted before 1 October 1994.

26. If an insurer has chosen to account for IPT using the special accounting scheme, the tax point for a premium will be the date as at which the insurer makes an entry in his accounts showing the premium as due. (Of course, the insurer may have chosen an alternative tax point - such as the date of entry, or the policy renewal date - as described in the Update to IPT Information Sheet 1/94 (dated 22 August).) Whatever the tax point operated by the insurer under the special accounting scheme, if the premium is written into the insurer's accounts as a single amount at inception then tax is due on that amount, in full, even if the option of payment by installments is offered.

Credit charges

27. If an insurer makes a credit charge to customers who pay in installments, then the interest charges, whether or not they are referred to as this, are liable to IPT if they are charged under the contract of insurance. If, however, these charges are made under a separate contract, such as one regulated under the Consumer Credit Act, then IPT is not due on these payments.

Advance payments

28. The treatment of advance payments will depend upon the method of accounting chosen by the insurer. If the insurer is using the basic cash receipts method then the receipt of the cash creates a tax point. If the cash is received before it was due to be paid, then, as long as the insurer does decide to renew the policy and there is a contract of insurance in place,

the trigger for the insurer to account for tax is the date of receipt of the cash.

29. However, if the insurer is accounting for tax under the optional special accounting scheme, the receipt of the cash does not create a tax point. Tax is not therefore due until the date as at which the insurer makes an entry in his accounts showing the premium as due to him (or until the consistently applied alternative tax point date as described in the Update to IPT Information Sheet 1/94). However, Customs would still expect the premium to be written by the insurer within 90 days of the tax point which would apply under the basic cash receipt method of accounting (see the guidelines in IPT Information Sheet 1/94).

Payments in a foreign currency

30. Where premium payments are made in a foreign currency such payments should be converted to sterling at the relevant tax point - that is, the receipt of cash or the date as at which the premium is written (or any other consistently applied and approved tax point if the insurer is using the special accounting scheme) - using the period rate of exchange published by Customs (available from your LIPTO). If this is impractical an alternative method and date may be agreed with your LIPTO, (for example, the same exchange rate as that used by an insurer for Value Added Tax partial exemption calculations would usually be acceptable). Customs would expect insurers to adhere consistently to any alternative date agreed.

Value of premiums

31. A premium may consist wholly or partly of anything other than money. However, IPT should be accounted for on the entire value of the premium due to the insurer under the contract of insurance, whatever form the premium payment takes.

Discounts

32. Where an insurer offers discounts to its own employees then that insurer should account for tax on the discounted amount. In other circumstances, and where a genuine discount is offered by an insurer, then, as a general rule, if the discounted amount is what is due to the insurer under the contract of insurance, the insurer should account for tax on this amount. Examples of a reduced premium being due under the contract of insurance would include an insured party qualifying for a discount because of a no claims bonus. However, if an insurer using the optional special accounting scheme offers a discount but writes the fill value of the premium in its accounts (showing the value of the discount as a cost) then IPT will be due on the full amount of the premium written, although credit would be available in relation to the amount of the discount (under Regulation 25(1)(a) of the IPT Regulations).

33. Brokers may offer a discount by sharing their commission with the insured party, or by passing all of their commission on to the insured and charging a fee under a contract which is separate from the contract of insurance. In both cases, if the commission is included in what is contractually due to the insurer under the contract of insurance, IPT is due on the gross amount (and whether or not the broker retains the commission, or shares it with the insured, is irrelevant). However, if the broker charges a fee to the insured under a separate contract (that is, not under the contract of insurance) this fee is not liable to IPT.

Further help

34. If you have any queries about the contents of this Information Sheet, please contact Linda Allen or John Holton on the telephone numbers shown below.

HM Customs and Excise
VAG (Insurance Premium Tax Branch)
4th Floor East
New King’s Beam House
22 Upper Ground
London SE 1 9PJ

Telephone:
0718654791 (Linda Allen)
0718655328 (John Holton)

Fax:
0718655083

ANNEX

TYPE OF POLICY	FORMULA	NOTES
BUILDINGS	value of UK property --------------------------- value of all property insured	‘Buildings’ includes bridges, fixed cranes, fixed offshore platforms and similar structures fixed to land. Where a policy covers contents, the location of the risk is deemed to be where the building in which the contents are located is situated whether or not the contents are covered by a buildings policy. This formula can be used where a policy covers buildings situated both inside and outside the UK, and separate premiums are not quoted for each building.

VEHICLES	No of vehicles registered in the UK ------------------------------ Total no of vehicles	'Vehicles' includes motor vehicles, ships, and aircraft. (NB: Where a vehicle is not registered-for example, in the case of a privately owned yacht-the location of the risk will be determined by the usual place of residence of the policyholder.)

OTHER WORLD-WIDE RISKS	Turnover of UK establishments ----------------------------- Turnover of non-UK and UK establishments	Examples of other world-wide risks include public, employer's, product and directors' and officers' liability, business interruption, professional indemnity and product tamper, employers' policies covering employees for personal accident and fidelity guarantee cover (ie a policy held by an employer to cover against theft by employees). Where the policy holder is a private individual, the risk is located where that individual habitually resides and so no apportionment is necessary unless the policy covers buildings, buildings and contents, or vehicles. Where the policyholder is other than a private individual the risk is located where the organisation, sole proprietor or partnership has its establishment or establishments, provided that a risk attaches to the establishment(s) (see paragraphs 21 and 22).

MAT - marine cargo cover	Number of intra-UK journeys ----------------------------- Number of world-wide journeys	This formula can be used if the policy covers journeys world-wide, including some which are totally within the UK (and thus taxable).

Examples to Illustrate the principle of Establishment

The followlng examples are only illustrative. In practice Underwriters may be asked to underwrite policies where the rules we not clear. In these circumstances Underwriters should contact the IPT Helpline (extension 5111) for further guidance.

Example 1 - Construction risk

A UK contractor takes out a contractor's all risk policy to cover the construction of a new road in Thailand. The construction site is deemed to be an establishment for IPT purposes so all the risks covered by the policy are attributable to a non UK establishment. The whole premium is exempt from IPT,

Cover for maintenance and extended warranty may continue after construction is complete but the premium will be taxable as there will no longer be a non-UK establishment.

Example 2 - Contingency

A UK company promotes a concert which is held in Hong Kong with a US Band. It uses a local agent to handle the administration and to sell tickets. The UK company takes out a policy to cover its loss of profits and expenses if the concert is cancelled. The local agent is not covered by the policy. He will be paid for his work whether the concert is held or not and he will therefore not suffer a financial loss through cancellation.

The Hong Kong agent does not constitute an establishment to which a clearly defined risk is attached.

The whole of the premium is therefore attributable to the UK company and is subject to IPT.

Example 3 - Contingency

A UK company arranges a conference in Paris for senior management. It takes out insurance to cover any expenses it may incur if the conference is cancelled. Although a claim under the policy may be triggered by either an event in Paris, e.g. the hotel burns down, or in the UK, e.g. the major speakers are prevented by illness from attending, the risk does not attach to any form of establishment in Paris. There is a UK establishment and the whole of the premium is therefore taxable.

Example 4 - Directors and Officers

A UK company takes out D & O cover for the directors of a UK company and its Australian subsidiary. Two of the directors of the UK company are also directors or the Australian subsidiary. The IPT position is as follows:-

(i) premium attributable to individuals who are only directors of the UK company - taxable

(ii) premium attributable to individuals who are only directors of the Australian company - exempt.

(iii) premium attributable to individuals who are directors of both companies - the premium has to be apportioned and the part attributable to the UK company is taxable. The balance is exempt.

The establishment is the company and its subsidiary, not its directors.

Example 5 - Product Liability

A U K company manufactures a product for a US subsidiary. Although the product is sold in the US, the UK parent takes out the product liability protect to cover the liability of its subsidiary. The US subsidiary is considered to be the business establishment as a purchaser will potentially sue this company rather than the UK parent. The premium is therefore exempt.

The position will be different though if there is no US company and the product is sold by mail from the UK. The product liability cover will protect the UK company and the premium is therefore taxable.

Example 6 - Employers' Liability

(i) A UK company takes out an employer's liability policy to cover employees working on two fixed oil rigs. One oil rig is within the twelve mile nautical limit and the other is outside. The oil rigs are establishments; one being a UK establishment and the other a non-UK establishment. The premium needs to be apportioned. The proportion relating to the rig which is outside territorial waters is exempt but the balance is taxable.

(ii) The catering for employees working on the rigs is sub-contracted to a separate catering company. This catering company takes out an employer's liability policy to cover its own employees while they are working on the rig.

The rig is also an establishment for the catering company as it carries on business activities there by virtue of its catering contract with the oil company. The proportion of the premium relating to the rig which is outside territorial waters is exempt but the balance is taxable.

MARINE RISK GUIDANCE LIST

SUMMARY NOTES

Exempt Vessel

A commercial ship of a gross tonnage of 15 tons or more which is not designed or adapted for recreation or pleasure.

This exemption covers ships which are used for the purpose of a business which provides recreation or pleasure, eg cruise ships or commercial charter vessels.

Taxable Vessel

A ship of a gross tonnage of **less** than 15 tons regardless of its use,

A ship of a gross tonnage of 15 tons or more which is not used for commercial purposes, ie a private pleasure use.

NB

A SHIP MAYBE AN EXEMPT VESSEL FOR PART OF THE PERIOD COVERED BY THE POLICY AND A TAXABLE VESSEL FOR THE REMAINDER, eg yacht owner uses the yacht for his own private use for six months of the year and charters the yacht commercially for the balance In these cases the premium should be apportioned between the taxable and non taxable parts and IPT is only due on the taxable part.

Please note that if the premium is £500,000 or less and the taxable element of that premium is 10°/0 or less, the whole premium can be treated as non-taxable.

Customs and Excise will accept an apportionment based on the commercial and private use for the previous year, although if an underwriter believes this will not give a fair result he can use another method. For example he could use an estimate of the anticipated use during the period covered by the policy provided by the broker/assured.

Goods in International Transit -

The exemption covers contracts entered into by an insured in the course of a business carried on by him. The exemption does not apply to the removal of goods if the insured is acting in a private capacity

Goods are considered to be in international transit where their carriage begins or ends outside the UK

United Kingdom

For the purposes of IPT the UK consists of England, Scotland, Wales, Northern Ireland and the waters within twelve nautical miles of the coastline.

Neither the Channcl Islands nor the Isle of Man are part of the UK for IPT purposes,

NOVEMBER 1994

MARINE RISK GUIDANCE LIST

SPECIFIC NOTES

1. The exemptions are listed in Schedule 7A to the Finance Act 1994. Insurers should be aware of the limits to the scope of these exemptions, in particular; for marine classes of business, these relate to:

   1.1 *certain marine insurances, under classes 1, 6 and 12 of schedule 2 of the Insurance Companies Act 1982, where the vessel is more than 15 gross tonnage and is not designed or adapted for use for recreation or pleasure.*

   1.2 *commercial goods in international transit and any container in which they are carried.*

2. On the basis of the following UK situs criteria and **assuming that the above exemptions apply,** the enclosed list indicates whether a marine risk SHOULD or SHOULD NOT qualify for IPT:

   2.1 for risks relating to buildings or buildings and their contents, the determining factor is the physical location of the exposure for the risk insured.

   2.2 for marine risks relating to a vessel, the situs is determined by the port of registry of the vessel. All other marine risks are determined as non-marine business in accordance with paragraph 2.3 below.

   2.3 *for all other business, the determining factor is the location of the establishment to which the risk relates or for insurance supplied to an individual the habitual place of residence of the assured.*

   A ‘Y’ in the right-hand column denotes the risk is taxable. An ‘N’ in the right-hand column denotes the risk is non-taxable. The list is for guidance only. It does not, in any way, absolve the insurer of the responsibility to determine the correct liability of contracts of insurance issued by the insurer.

   The phrases “UK risk” or “Non-UK risk”, when applied to specific risk descriptions, indicates that the criterion to be applied should be in accordance with paragraphs 2.1 or 2.3 above.

3. The abbreviation FOMP in the Risk Code column denotes ‘follow original main peril’.

4. The list has been prepared for marine risk codes, in consultation with the LUA.

5. The numbers in brackets after the risk description denote the class of the Insurance Companies Act 1982, under which the risk qualifies for exemption from IPT. The letter ‘C’ denotes that the risk is exempt from IPT by virtue of the commercial international cargo exemption for goods in transit.

6. Section 1 (2) of the Insurance Companies Act 1982 allows insurers to treat a contract of insurance whose principal object is within one class of insurance business, but which contains ancillary provisions within another class or classes, as constituting business of the first mentioned class. This arrangement does not apply to IPT and such contracts should be apportioned as necessary. (Section 69 of the Finance Act 1994 requires a premium that relates to a contract that covers taxable and exempt elements to be apportioned between those elements on a just and reasonable basis.)

7. Certain issues relating to marine risks have been clarified with Customs and Excise. These areas follows:

Free On Board Cargo Sendings; where FOB cover is taken out in respect of goods which are going for ultimate export from the UK, then such insurance is exempt from IPT.

Storage of Cargo; where cover is provided, as part of an export cargo contract, for insurance relating to a period where goods are stored in the UK, before their transportation overseas, this falls within the commercial international transit of cargo exemption and the entire premium is exempt from IPT. The period allowed for such storage risks to be considered as non-taxable is limited to 60 days.

International Goods in Transit; goods are considered to be in foreign or international transit where their carriage begins or ends outside the UK. Where a cargo insurance contract relates to cover for some international movements of goods and to cover for goods which are in transit within the UK, (that is, where their carriage does not begin or end outside the UK) the element of the premium which relates to cover for the goods that are in transit only within the UK, is liable to IPT (unless the de minimis rules apply).

The exemption for contracts relating to goods in international transit is restricted to loss or damage to the goods where the assured enters into the contract in the course of his business. If a premium relates to goods that are not in international transit, or to cover which does not relate to loss or damage (ie third party liability) it is taxable. For example, bailees employer's liability or public liability must be treated as taxable.

The exemption for goods in international transit only applies to commercial goods, not those insured by a private individual. such as the shipment of house contents.

Vessels Under Construction; a construction risk needs to be assessed in two stages. Firstly, the landbased element in the UK, prior to launch is liable to IPT. Secondly, from the time the vessel goes into the water (launched) the risk becomes non-taxable, if the vessel is non-taxable, ie over 15 GRT and is not to be used for private pleasure purposes. If the vessel is under 15 GRT and is not registered at the time of launch, then the risk must continue to be treated as taxable, until such time as the vessel's registration can be established, in order to determine whether a tax exemption applies.

Yachts; a vessel. which is by nature and characteristic a private pleasure boat or yacht, does not come within the exemption from IPT. However, a policy covering a vessel which is of gross tonnage of 15 GRT or more and which is adapted for the business of recreation or pleasure, does come within the exemption. The exemption can therefore cover yachts. Insurers need to be satisfied that a yacht is being used or is intended for use in a business. The exemption does not apply to yachts which are used primarily for private pleasure purposes with the occasional charter.

8. **The classifications on the list are based on information available at the date of issue. They are not binding on Customs and Excise and, in the light of further information, may be changed or modified by Customs and Excise at any time. (However, any such amendments to the list will usually be effective from a current date and Customs and Excise will not normally seek to assess insurers for any retrospective tax liability.)**

MARINE RISK CATEGORIES	Risk Code	IPT
Admiralty Guarantee after Arrest (Care, Custody and Control) - exempt vessels (12)	G	N
Admiralty Guarantee after Arrest (Care, Custody and Control) - taxable vessels	G	Y
Admiralty Indemnity (Building Risks) *To **be apportioned***	T	N/Y
Air Freight Legal Liability (excluding Third Party Liability) for cargo in International Transits (C)	VL	N
Air Freight Legal Liability (excluding Third Party Liability) for cargo in UK Transits	VL	Y
Armoured Carriers - UK risk	CT	Y
Armoured Carriers - Non-UK risk	CT	N
Average (General) Disbursements - exempt vessels (6)	T	N
Average (General] Disbursements - taxable vessels	T	Y
Aviation Cargo - International Transits (C)	v	N
Aviation Cargo - UK Transits	v	Y
Bail (Marine) - UK risk	T	Y
Bail (Marine) - Non-UK risk	T	N
Bailees Liability for Cargo in Care, Custody and Control (excluding Third Party Liability) -UK Transits	VL	Y
Bailees Liability for Cargo in Care, Custody and Control (excluding Third Party Liability) - International Transits (C)	VL	N
Balancing Charges - exempt vessels (6)	B	N
Balancing Charges - taxable vessels	B	Y
Bill of Lading Liability - exempt vessels (12)	VL	N
Bill of Lading Liability - taxable vessels	VL	Y
Blockage of Waterways - UK risk	T	Y
Blockage of Waterways - Non-UK risk	T	N

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MARINE RISK CATEGORIES	Risk Code	IPT
Break-up Risks - exempt vessels (6)	T	N
Break-up Risks - taxable vessels	T	Y
Bridges - UK risk	FOMP	Y
Bridges - Non-UK risk	FOMP	N
Brokers' Liability under Salvage Guarantee - UK risk	T	Y
Builders Guarantee (ships etc) - exempt vessels (6)	T	N
Builders Guarantee (ships etc) - taxable vessels	T	Y
Bumbershoot and/or Umbrella Liabilities (Marine) - UK risk	G	Y
Bumbershoot and/or Umbrella Liabilities (Marine) - Non-UK risk	G	N
Bunkers - exempt vessels (6)	v	N
Bunkers - taxable vessels	v	Y
Care, Custody and Control, Liability for goods in UK Transits	VL	Y
Care, Custody and Control, Liability for goods in International Transits (C)	VL	N
Cargo (Commercial) All Risks - International Transits (C)	v	N
Cargo (Private Assured) All Risks - International Transits	v	Y
Cargo All Risks - UK Transits	v	Y
Cargo War - International Transit (C)	Q	N
Cargo War - UK Transit (C)	Q	Y
Cargo on deck with underdeck bill of lading - exempt vessels (12)	VL	N
Cargo on deck with underdeck bill of lading - taxable vessels	VL	Y
Carnet Liability - UK risk	VL	Y
Carnet Liability - Non-UK risk	VL	N

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MARINE RISK CATEGORIES	Risk Code	IPT
Carrier's Liability - road transits in UK	VL	Y
Carrier's Liability - road transits overseas	VL	N
Cash on Board - exempt vessels (6)	CT	N
Cash on Board - taxable vessels	CT	Y
Cash in Transit - International Transits (C)	CT	N
Cash in Transit - UK Transits	CT	Y
Catch - International Transits (C)	v	N
Catch - UK waters only	v	Y
Charter Hire on TLO Conditions - exempt vessels (6)	B	N
Charter Hire on TLO Conditions - taxable vessels	B	Y
Charterer's Liability - exempt vessels (6)	G	N
Charterer's Liability - taxable vessels	G	Y
Confiscation Risks - Cargo in International Transits, Marine (C)	Q	N
Confiscation Risks - Cargo in UK Transits, Marine	Q	Y
Confiscation Risks - Hull, exempt vessels (6)	W	N
Confiscation Risks - Hull, taxable vessels	W	Y
Construction of ships - pre launch element and prior to registration	T	Y
Construction of ships - post launch element, for exempt vessels	T	N
Construction of ships - post launch element, for taxable vessels	T	Y
Container Liability - International Transits only (C)	G	N
Container Liability - UK Transits only	G	Y
Container TLO - International Transits only (C)	B	N
Container TLO - UK Transits only	B	Y

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MARINE RISK CATEGORIES	Risk Code	IPT
Containers - International Transits only (C)	v	N
Containers - UK Transits only	v	Y
Containers - War only - International Transits only (C)	w	N
Containers - International Transits only **(c)**	T	N
Containers - UK Transits only	T	Y
Contingency - UK risk	P	Y
Contingency - Non-UK risk	P	N
Cost of Cleaning Up, Cost of Control - UK risk	EW	Y
Cost of Cleaning Up, Cost of Control - Non-UK risk	EW	N
Cranes - landbased - UK risk	FOMP	Y
Cranes - landbased - Non-UK risk	FOMP	N
Crews Effects - Insured by Shipowner or Operator - exempt vessels 12)	v	N
Crews Effects - Insured by Shipowner or Operator - taxable vessels	v	Y
Dams - UK risk	FOMP	Y
Dams - Non-UK risk	FOMP	N
Difference in Conditions, Hulls - exempt vessels	T	N
Difference in Conditions, Hulls - taxable vessels	T	Y
Difference in Conditions, Cargo - International Transits	v	N
Difference in Conditions, Cargo - UK Transits	**v**	**Y**
Disbursements and Excesses - exempt vessels (6)	B	N
Disbursements and Excesses - taxable vessels	B	Y
Docks - Fixed - UK risk	FOMP	Y
Docks - Fixed - Non-UK risk	FOMP	N

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MARINE RISK CATEGORIES	Risk Code	IPT
Dry-docking with Cargo on Board - exempt vessels (12)	VL	N
Dry-docking with Cargo on Board - taxable vessels	VL	Y
Energy - Liability, Offshore, (beyond 12 nautical miles) - Claims Made	EG	N
Energy - Liability, Offshore, (within 12 nautical miles) - Claims Made	EG	Y
Energy - Liability, Offshore, (beyond 12 nautical *miles)* - All Other	EH	N
Energy - Liability, Offshore, (within 12 nautical miles) - All Other	EH	Y
Energy - Operators Extra Expenses and Control of Well - (beyond 12 nautical miles)	EW	N
Energy - Operators Extra Expenses and Control of Well - (within 12 nautical miles)	EW	Y
Energy - Search and Production Vessels and Offshore Property - (exempt vessels or property beyond 12 miles)	ET	N
Energy - Search and Production Vessels and Offshore Property - (taxable vessels or property within 12 miles)	ET	Y
Excess Calls - UK risk	G	Y
Excess Calls - Non-UK risk	G	N
Excesses (Institute Excess Clause) on their own - exempt vessels (12)	T	N
Excesses (Institute Excess Clause) on their own - taxable vessels	T	Y
Excesses including Excess P & I - exempt vessels (12)	G	N
Excesses including Excess P & I - taxable vessels	G	Y
Extra Contractual Obligations/Excess Policy Limits - UK risk	FOMP	Y
Extra Contractual Obligations/Excess Policy Limits - Non-UK risk	FOMP	N

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MARINE RISK CATEGORIES	Risk Code	IPT
Extra Expense other than Operators Extra Expenses - UK risk	FOMP	Y
Extra Expense other than Operators Extra Expenses - Non-UK risk	FOMP	N
Fish Farms in UK	T	Y
Fish Farms outside UK	T	N
Floating Cranes - UK risk	T	Y
Floating Cranes - Non-UK risk	T	N
Floating Docks - UK risk	T	Y
Floating Docks - Non-UK risk	T	N
Floating Docks TLO - UK risk	B	Y
Floating Docks TLO - Non-UK risk	B	N
Forwarding Agents Liabilities (excluding Third Party Liability) for goods in UK Transits	VL	Y
Forwarding Agents Liabilities (excluding Third Party Liability) for goods in International Transits (C)	VL	N
Foul Berth - UK risk	G	Y
Foul Berth - Non-UK risk	G	N
Freight (Full) - exempt vessels **(6)**	T	N
Freight (Full) - taxable vessels	T	Y
Freight (TLO) - exempt vessels (6)	B	N
Freight (TLO) - taxable vessels	B	Y
Freight Forwarders Liabilities (excluding Third Party Liability) for goods in UK Transits	VL	Y
Freight Forwarders Liabilities (excluding Third Party Liabilities) for goods in International Transits (c)	VL	N

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MARINE RISK CATEGORIES	Risk Code	IPT
Goods in Transit (Legal Liability) - International Transits (C)	VL	N
Goods in Transit (Legal Liability) - UK Transits	VL	Y
Goods in Transit (Own Goods) - International Transits (C)	v	N
Goods in Transit (Own Goods) -UK Transits	v	Y
Hauliers Liability for Loss or Damage to Goods Carried -UK Transits	VL	Y
Hauliers Liability for Loss or Damage to Goods Carried - Intemational Transits (C)	VL	N
Increase Value/Excesses - exempt vessels (6 or 12)	B	N
Increase Value/Excesses - taxable vessels	B	Y
Interest TLO - exempt vessels (6)	B	N
Interest TLO - taxable vessels	B	Y
Jetties - UK risk	FOMP	Y
Jetties - Non-UK risk	FOMP	N
Jones Act Liability - UK risk	G	Y
Jones Act Liability - Non-UK risk	G	N
Life Boat Equipment	T	N
Life Boats	T	N
Loading Bridges - UK risk	FOMP	Y
Loading Bridges - Non-UK risk	FOMP	N
Loss of Hire, Vessels (Pecuniary Loss) - UK risk	T	Y
Loss of Hire, Vessels (Pecuniary Loss) - Non-UK risk	T	N
Marine Legal Liability for Risks Relating to Exempt Vessels (12)	G or GC	N
Marine Legal Liability for Risks Relating to Taxable Vessels	G or GC	Y

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MARINE RISK CATEGORIES	Risk Code	IPT
Maritime Employers Liability - UK risk ***(still under discussion with Customs and Excise)***	**G**	***Y***
Maritime Employers Liability - Non-UK risk ***(still under discussion with Customs and Excise)***	G	*N*
Mortgagees Additional Perils (Pollution) - exempt vessels (6)	*G*	N
Mortgagees Additional Perils (Pollution) - taxable vessels	**G**	Y
Mortgagees Interest, - exempt vessels (6)	T	N
Mortgagees Interest - taxable vessels	T	Y
Navigation Aids Services Liabilities - UK risk	***G***	Y
Navigation Aids Services Liabilities - Non-UK risk	**G**	*N*
Non-delivery or Late Delivery of Vessels - UK risk ***(still under discussion with Customs and Excise)***	*T*	***Y***
Non-delivery or Late Delivery of Vessels - Non-UK risk (still under ***discussion with Customs and Excise)***	*T*	N
Nuclear Liability, Marine - UK risk	*G*	**Y**
Nuclear Liability, Marine - Non-UK risk	**G**	***N***
P&I and Excess of P&I - exempt vessels (12)	**G**	N
P&I and Excess of P&I - taxable vessels	**G**	*Y*
Passage Money - exempt vessels (6)	CT	*N*
Passage Money - taxable vessels	CT	**Y**
Piers - UK risk	FOMP	**Y**
Piers - Non-UK risk	FOMP	*N*
Pipelines within the UK, including the 12 miles territorial waters limit	FOMP	*Y*
Pipelines outside the UK, including beyond the 12 miles territorial waters limit	FOMP	***N***

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MARINE RISK CATEGORIES	Risk Code	IPT
Port Equipment - land based in UK	FOMP	Y
Port Equipment - waterborne exempt vessels	FOMP	N
Premiums Reducing - exempt vessels (6)	B	N
Premiums Reducing - taxable vessels	B	Y
Prize Indemnity - UK risk	P	Y
Prize Indemnity - Non-UK risk	P	N
Products Liability (Marine) - UK risk	G	Y
Products Liability (Marine) - Non-UK risk	G	N
Removal of Wreck Liability - exempt vessels (6)	G	N
Removal of Wreck Liability - taxable vessels	G	Y
Ruining-down Clause - exempt vessels (6 or 12)	G	N
Running-down Clause - taxable vessels	G	Y
Salvage Guarantee - UK risk	T	Y
Salvage Guarantee - Non-UK risk	T	N
Salvers Legal Liability - exempt vessels **(12)**	**G**	**N**
Salvers Legal Liability - taxable vessels	G	Y
Sea Walls - UK risk	FOMP	Y
Sea Walls - Non-UK risk	FOMP	N
sScond Seamen's - UK risk ***(still under discussion with Customs and Excise)***	***G***	***Y***
Second Seamen's - Non- UK risk ***(still under discussion with Custom and Excise)***	***G***	***N***
Seepage and Pollution Liability - Marine - UK risk	G	Y
Seepage and Pollution Liability - Marine - Non-UK risk **(12)**	**G**	**N**

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MARINE RISK CATEGORIES	Risk Code	IPT
Sellers Interest on cargo in International Transits	v	N
Sellers Interest on cargo in UK Transits	v	Y
Ship Breakers Legal Liability for taxable vessels	G	Y
Ship Breakers Legal Liability for exempt vessels (12)	G	N
Ship Repairer's Legal Liability for taxable vessels	G	Y
Ship Repairer's Legal Liability for exempt vessels (12)	G	N
Shipbuilders Risks - pre launch element and prior to registration	T	Y
Shipbuilders Risks - post launch element for exempt vessels	T	N
Shipbuilders Risks - post launch element for taxable vessels	T	Y
Shipbuilders Risks - TLO - pre launch element and prior to registration	B	Y
Shipbuilders Risks - TLO - post launch element for exempt vessels	B	N
Shipbuilders Risks - TLO - post launch element for taxable vessels	B	Y
Shipowners Interests, including Charter Hire other than Hull on TLO including General Average Contribution - exempt vessels **(6)**	B	N
Shipowners Interests, including Charter Hire other than Hull on TLO including General Average Contribution - taxable vessels	B	Y
Shipowners Liability to Cargo in International Transits (C)	VL	N
Shipowners Liability to Cargo in UK Transits	VL	Y
Ships less than 15 GRT	T	Y
Ships over 15 GRT <u>and not</u> used, designed or adapted for recreational purposes	T	N
Ships over 15 GRT <u>and</u> used. designed or adapted for recreational purposes	T	Y

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MARINE RISK CATEGORIES	Risk Code	IPT
Stevedores Liability (excluding Third Party Liability) - for goods in UK Transits	G	Y
Stevedores Liability (excluding Third Party Liability) - for goods in International Transits (C)	G	N
Strikes Physical Damage - Cargo in International Transits (C)	Q	N
Strikes Physical Damage - Cargo in UK Transits	Q	Y
Strikes Physical Damage - Hull - exempt vessels (6)	W	N
Strikes Physical Damage - Hull - taxable vessels	w	Y
Strikes Demurrage - Hull (Pecuniary Loss) - UK risk	w	Y
Strikes Demurrage - Hull (Pecuniary Loss) - Non-UK risk	w	N
Strikes Expenses - Cargo (Pecuniary Loss) - UK risk	v	Y
Strikes Expenses - Cargo (Pecuniary Loss) - Non-UK risk	v	N
Submarine Pipelines and Cables outside UK - including beyond the 12 miles territorial waters limit	FOMP	N
Submarine Pipelines and Cables within UK - including within the 12 miles territorial waters limit	FOMP	Y
Terminal Operators Liability (excluding Third Party Liability) - for goods in International Transits	G	N
Terminal Operators Liability (excluding Third Party Liability) - for goods in UK Transits	G	Y
Tow, Cargo in International Transit only covered	v	N
Tow, Cargo in UK Transit only covered	v	Y
Tow, Hull and Machinery and/or Interest TLO - exempt vessels (6)	B	N
Tow, Hull and Machinery and/or Interest TLO - taxable vessels	B	Y
Tow, Hull and Machinery Full Conditions - exempt vessels (6)	T	N
Tow, Hull and Machinery Full Conditions - taxable vessels	T	Y

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MARINE RISK CATEGORIES	Risk Code	IPT
Towers and Excess Towers Liability - exempt vessels (12)	G	N
Towers and Excess Towers Liability - taxable vessels	G	Y
Tunnels outside the UK, including certain Channel Tunnels risks, as defined in paragraphs 10 and 11 of Schedule 7A of the Finance Act 1994	FOMP	N
Tunnels within the UK	FOMP	Y
Umbrella Liabilities, Marine - UK risk	G	Y
Umbrella Liabilities, Marine - Non-UK risk (12)	G	N
War - Aviation Cargo in International Transits (C)	**Q**	**N**
War - Marine Cargo in International Transits (C)	**Q**	**N**
War - Hulls - exempt vessels (6)	w	N
War - Hulls - taxable vessels	w	Y
Warehouseman's Legal Liability (excluding Third Party Liability) - for goods in UK Transits	VL	Y
Warehouseman's Legal Liability (excluding Third Party Liability) - for goods in International Transits (C)	VL	N
Wharf - UK risk	FOMP	Y
Wharf - Non-UK risk	FOMP	N
Wharfingers Liability (excluding Third Party Liability) - for goods in UK Transits	G	Y
Wharfingers Liability (excluding Third Party Liability) - for goods in International Transits (C)	G	N
Yachts under 15 GRT	**o**	**Y**
Yachts over 15 GRT and not used, designed or adapted for recreational purposes	**o**	**N**
Yachts over 15 GRT and used, designed or adapted for recreational purposes	**o**	**Y**

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Placing and Closing Requirements

The following details supplement those previously circulated as Appendices 4 and 5 to the 19 August 1994 bulletin.

1. Deferred Premium*

1.1 The tax point for deferred premiums is the date when the premium is entered into the insurer's books (signed by LPSO). Tax is due on the amount of gross premium recorded at that time.

Consequently, where the deferred account scheme is used, the tax for the whole risk is payable up-front at the time of allocating the signing. This is because the whole premium is recorded under one signing number and date.

This requires underwriters to pay all the tax, when the assured may have only actually paid one installment of premium to the broker. As the insurer is responsible for the tax at all times, the funding of the whole tax amount due is to be deducted by the Lloyd's settlement system from the amount of the first installment. This effectively means that underwriters will be forfeiting part of their net premium to meet their tax liability.

The important factor determining tax liabiiity is how the premium is signed to the insurer, NOT how the assured pays the premium to the broker or coverholder.

For **example,** where the assured pays a monthly premium to a coverholder who sends this to a Lloyd's broker on a monthly bordereau, as only one month of premium is being recorded for the bordereau and this will receive a single signing number and date, tax is due on the monthly premium paid.

1.2 For any original premium, AP or RP submission that is to be signed using the deferred account scheme, i.e under one signing number and date, the LPAN should be completed in box 31 with the installment amounts **inclusive** of tax. This procedure has now been confirmed by the LIBC.

The LPAN must be completed so that the figures in boxes 17 and 25 equal the sum of the installments shown in box 31. The size of the installments may be unequal.

1.3 For deferred account scheme signings and the resulting need to pay the whole tax due from the first instalment amount shown in box 31, it is essential that the amount of the first installment is sufficient to cover the insurer's tax liability.

2. Tax Refunds on Return Premlums

2.1 Refunds of tax are only permitted where there is a return of taxable premium, i.e the premium paid to Lloyd's had suffered a charge for IPT.

2.2 In addition, refunds of tax are only allowed on return premiums where the premium is being passed back to the assured. For example, a profit commission payable to the assured may attract a tax refund, but a profit commission to a broker or coverholder cannot.

2.3 To claim a tax refund arising from a return of taxable premium, an RP signing needs to be processed through LPSO. This must be submitted on an LPAN showing Lloyd's proportion of the tax to be refunded in the settlement currency in box 17 and the usual net return premium settlement amount in box 25. The slip must be endorsed with the details producing the return premium and indicate the amount of taxable return premium being paid to the assured.

2.4 To claim a tax refund where there is no return of premium being made to the assured, for example, where underwriters have assessed the risk as being taxable and paid tax, but subsequently discover at the expiry of the risk that the total premium and taxable exposure fall within the de minimis provisions, then this situation must be processed as a non-premium endorsement. The slip must be endorsed with the correct tax details and resubmitted to LPSO,

The refund of tax will be processed by LPSO as a records and amendments correction.

3. Tax Errors

3.1 Where a broker or underwriter notices that there has been an error in the amount of tax assessed on a risk and the premium for the risk has been signed at LPSO, this could result in any of the following situations:

* a risk has been signed as non-taxable when it should have been taxable, ie no tax has been paid at all, or
* a risk has been signed as taxable, but to a lesser extent than it should have been, ie under payment of tax, or
* a risk has been signed as taxable when it should have been totally non-taxable, ie total tax refund is due, or
* a risk has been signed as taxable, but to a greater extent than it should have been. ie partial tax refund is due,

3.2 In any of these circumstances, the procedure to be followed is:

* the signed slip must be endorsed with the correct details of the tax assessment, showing, at least, the correct taxable gross premium and amount of IPT due.
* the signed slip must then be resubmitted to the section of LPSO that signed the entry on which the error has occurred.
* where there has been an under payment of tax, the broker must provide advice of who is to fund the shortfall of tax. Where the underwriters agree to pay the tax due, it is necessary for LPSO to sign a return premium entry to move money from the syndicates back to the broker, The broker should therefore supply an extra RP LPAN, with the return premium details completed in the manner described in section 2 of this appendix.

LPSO will process a records and amendments correction at the same time as signing the RP, so that the Premium credited to the broker is settled directly to the Corporation tax account for IPT simultaneously. Further consideration on this method of processing is being pursued by LPSO, in order to streamline the process. However, at this time, the method described above is being employed to satisfy audit requirements. The RP signing is a true return of premium from the syndicates' net premium income. Once the money reaches the broker's account, it is to be treated as tax expense for payment to Corporation of Lloyd's. The RP should not be described as being in respect of tax only.

3.3 All tax errors will be processed by LPSO as Records and Amendments corrections to previously recorded signings. LPSO will not accept signings presented as APs or RPs in respect of tax only. The important point to note is that tax is not premium; tax is a charge on premium.

3.4 Lloyd's are required to report all under and over payments of tax, resulting from tax errors, to Customs and Excise at the end of each processing quarter.