HMRC - IPT04100 - Purpose And Outline Of This Section

Introduction

In IPT03000 you are introduced to the legal basis for IPT, given guidance on how to determine whether a person is an insurer for IPT purposes and whether the contracts they enter into are contracts of insurance. This section helps you decide whether or not the contracts are taxable.

Insurers are authorised to write (provide) specific types of insurance. These are referred to as classes of insurance and are set out in the Financial Services & Markets Act (Regulated Activities Order) 2001, Schedule 1, part I and II (referred to as the RAO elsewhere in this part of the guidance). In this section, classes of insurance within Schedule 1 part I are referred to as general insurance and classes of insurance in Schedule 1 part II, are referred to as long- term insurance.

Basic principles

The Finance Act 1994, section 70(1) states:

Subject to subsection (1A) below, any contract of insurance is a taxable insurance contract.

Section 70(1A) goes on to say:

A contract is not a taxable insurance contract if it falls within one or more of the paragraphs of Part 1 of Schedule 7A to this Act.

The effect of these provisions is that all insurance contracts are taxable unless they are exempt under Schedule 7A. The exemptions are summarised very briefly below and, for this purpose, fall into a number of groups.

reinsurance;

long term business (e.g. life);

risks situated outside the UK;

the Channel Tunnel, commercial ships, lifeboats, aircraft, international railway rolling stock;

international trade and international trade finance;

motability insurance.

Where an insurance contract covers a principal risk in one class, but also covers related or subsidiary risks in another class, it is regarded, for regulatory purposes, as a contract written under the class into which the principal risk falls. It is important, therefore, to remember that whilst an insurer may only be authorised to write a particular category of business, which is wholly IPT exempt, they may actually write policies that are partly liable to IPT because of the related or subsidiary risk they cover. More information on long-term contracts that include an element of general cover can be found in IPT04270.

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