HMRC - IPT04280 - Long-Term Business: Medical Insurance

The Insurance Premium Tax (Taxable Insurance Contracts) Order 1997 (Statutory Instrument 1997 No.1627) amended Schedule 7A, to include an additional sub paragraph – 2(3) as follows:

A contract which would otherwise fall within this paragraph does not do so if it is for medical insurance.

The legislation then goes on to outline what types of medical benefits are not included within the VAT exemption by virtue of the paragraph above:

2(4) Subject to sub-paragraph (5) below, for the purposes of this paragraph a contract is a contract for medical insurance if it provides one or more of the following benefits, whether or not their provision is subject to conditions of limitations-

(a) medical, dental or optical, consultation, diagnosis or treatment;

(b) alternative or complementary medical treatment or therapy;

(c) convalescent care;

(d) goods or services related to any of the above;

(e) payment or reimbursement of, or a grant towards, the whole or part of the cost of any of the above;

(f) payment of a specified sum for optical, dental or medical appointments;

(g) payment of a specified sum for each specified period of treatment as a hospital in patient;

(h) payment of a specified sum for each specified period of convalescent care; or

(i) payment of a specified sum, except one to which sub-paragraph (6) below applies, when a person is diagnosed as requiring or has undergone a specified medical procedure.

2(5) A benefit which would apart from this sub-paragraph fall within sub-paragraph (4) above shall not do so if, before he can become entitled to the benefit, the insured is required-

(a) to be suffering from a disability which so impairs his ability to carry out normal activities of daily living that he requires long term care, supervision or assistance; and

(b) to have been suffering from the disability for a continuous period of not less than 4 weeks.

2(6) This sub-paragraph applies to a payment of a specified sum if the contract under which it is payable provides that only one such payment in relation to each specified medical procedure will be made in respect of each person in relation to whom benefit is payable under the contract.

Before this Order was introduced, a contract of insurance providing benefits of the kind set out above was taxable if written as general business but exempt when written as long-term business. The additional paragraphs above mean that insurance which is commonly referred to as private medical insurance, hospital cash plan insurance, or major medical insurance, will be taxable whether or not it is written as general or long-term business.

Certain health insurance, which is traditionally written as long-term business (i.e. permanent health insurance, critical illness cover and insurance to meet the costs of continuing care for the elderly or chronically sick), will normally remain exempt as long as it is written as long- term insurance.

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