HMRC - IPT04350 - Commercial Ships

The Finance Act 1994, Schedule 7A paragraph 4(1) exempts a contract:

… if it relates only to a commercial ship and is a contract of general insurance of a relevant class.

Paragraph 4(2) defines a relevant class:

… if it insures against risks arising from or in relation to

(a) accidents,

(b) ships, or

(c ) liabilities of ships,

(and no other risk)

Of course, the fact that a policy covers marine risks does not mean that the entire related premium is exempt, and you should inspect policies for any taxable element.

Definition of a “commercial ship”

The Finance Act 1994, Schedule 7A, paragraph 4(3) defines a “commercial ship” as a ship that is:

(a) of a gross tonnage of 15 tons or more; and

(b) not designed or adapted for use for recreation or pleasure.

The gross tonnage of the ship is that determined by the Merchant Shipping Acts. The exclusion from exemption for ships, “designed or adapted for recreation or pleasure” does not refer to ships of gross tonnage of 15 tons or more, which are designed or adapted for the business of recreation or pleasure e.g., cruise ships. Military ships of a gross tonnage of 15 tons or more are commercial ships for IPT purposes.

The exemption from IPT will apply if a commercial ship is of a gross tonnage of 15 tons or more and has been designed or adapted for use solely as a place of permanent habitation.

Private yachts over 15 tons are excluded from the exemption. However, where owners of yachts weighing 15 tons or more put those yachts to private use for part of the year, and allow them to be chartered for the remainder, then the related premium should be apportioned between the taxable private element and the exempt business element. An endorsement that allows commercial use of a private pleasure craft of 15 tons or more does not automatically qualify the premium for exemption.

For the purposes of IPT the term “ship” includes hovercraft, light vessels, fire floats, dredgers, barges or lighters, mobile floating docks or cranes, and offshore oil or gas installations, used in underwater exploitation of, or exploration for, oil and gas resources, which are designed to be moved from place to place. A “ship under construction” becomes a ship for IPT purposes upon its launch (which is deemed to be the date on which the ship first takes buoyancy in the water). Up until that point a contract covering the construction of a ship in a UK shipyard is taxable.

Purpose of the exemption

The exemption for commercial ships was introduced to provide IPT relief for British registered ships equivalent to that for foreign flagged vessels. Were it not for the exemption, insurance of British registered ships would, under the location of risk rules, be taxable, while foreign registered ships would be exempt. It would have been possible for a policyholder to avoid UK IPT by registering a vessel outside the UK; therefore the exemption acknowledges the mobile nature of the risk.

The exemption was also created so as not to increase the costs associated with exporting. However, it was not the intention to exempt the entire shipping sector as this might be seen as preferential treatment compared to that for other industries. The exemption is therefore limited to those classes of insurance (Classes 1, 6, and 12 of Schedule 1 part 1 of the RAO 2001 – see IPT04100), which are most closely related to ships.

Policies relating to associated liabilities such as employer’s liability, and legal expenses which do not fall within these classes but which attach to a commercial ship are taxable. However, similar policies relating to a commercial ship, which is registered abroad, may be treated as exempt because the location of the underlying risk is deemed to be outside the UK.

Previous page

Next page