HMRC - IPT04640 - What The Exemption Covers

There are many risks that goods may suffer while they are in foreign or international transit. The law is specific in stating what the exemption covers - it does not cover all risks. The key conditions for exemption, all of which must be present are:

the insurance covers only loss of or damage to goods; and

the goods must be in foreign or international transit; and

the insured must be insuring the goods in the course of a business carried on by them.

In practice, contracts for the insurance of goods in international transit will also cover other risks, such as liability for delay in delivery or liability for not exercising reasonable care in choosing where to store goods overnight. However, the exemption only applies to that element of the premium which relates to loss of, or damage to goods in international transit. Premiums must be apportioned to take account of any taxable element. If the premiums are apportioned and the taxable element is below the de minimis limits, the whole premium may be treated as exempt (see IPT05900).

Some examples of contracts covering goods in international transit are:

Free on Board (FOB): This insurance normally covers goods up to the point of export. It could be argued that such goods are in UK transit (which would not be exempt). However, we have accepted that this type of insurance covers the first leg of foreign or international transit of goods for export. Such cover is exempt as long as all the other key features of the exemption are present.

Seller’s Interest: This insurance covers the seller if the overseas buyer decides not to accept the goods on delivery for whatever reason and the goods are returned. It could be argued that the transit of the goods begins and ends in the UK and thus the contract falls outside the exemption, however exemption has been allowed (as the underlying goods are intended for export), as long as all the key features of the exemption are present.

Buyer’s Interest: This is equivalent to seller’s interest cover, although taken out by the recipient of the goods. It is often taken out as part of an overall import cargo policy. The part of the premium which relates to loss of or damage to the imported goods is exempt.

Storage: Cover for storage may be provided as part of export cargo cover to cover the storage of goods after their sale but before transportation begins. The element of the premium, which relates to the loss of or damage to goods in store, is exempt even though the storage is in the UK because it is seen as being part of the cover for the transit of the goods. However all the other key conditions listed at a. to c. above must apply in order for the premium to be exempt.

Import or transhipment cargo cover: This is often written as part of a goods in transit policy and covers goods whilst stored if they are delayed during transit. If the cover, whether written as a separate policy or as part of a goods in transit policy, is limited to 60 days the related premium is exempt (provided all the key features for exemption are present) as the delay is treated as part of the transit (see also stock throughput cover below).

Stock throughput cover: This may be written as part of a transit policy or as a separate policy and protects an importer’s goods whilst in storage in the UK pending distribution and sale. If the cover is limited to 60 days then the related premium is exempt (provided all the key features for exemption are present) as the time in store is seen as part of the time in which the goods are in transit. If cover is written for over 60 days as a “one off” because of exceptional circumstances or you are otherwise satisfied that you are dealing with a genuine storage cover for goods in transit you should treat the entire premium for the import or stock throughput cover as exempt (provided all the conditions are met). If this is not the case, then the related premium is taxable (provided the limits do not apply).

Bailee’s liability: A bailee is a person who takes possession of another person’s goods for later return or to be accounted for in a different way, e.g. packing or forwarding. They are in law responsible for the goods as if they were their own and may therefore take out insurance to cover their liability if the goods suffer while in the bailee’s possession. Where the insurance contains the key features for exemption, a contract covering a bailee’s liability for loss of or damage to the goods is also exempt.

Road haulier’s cover: As with bailees, road haulers take possession of other peoples’ goods and are responsible for their delivery. They may take out insurance to cover the goods against risks that may befall them whilst in their possession. If the key features of the exemption are met, this insurance is exempt.

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