HMRC - IPT04905 - Legal Provisions And Purpose

The Finance Act 1994, section 51(1), as amended by the Finance Acts 1997 and 1998, provides the legal basis for the higher rate of IPT. It states that where a contract of insurance is a taxable contract, tax will be charged at one of two rates:

1. at the higher rate, in the case of a premium which is liable to tax at that rate; and 2. at the standard rate, in any other case.

Section 51A , as inserted by the Finance Act 1997, states that:

A premium received under a taxable insurance contract by an insurer is liable to tax at the higher rate if it falls within one or more of the paragraphs of Part II of Schedule 6A to this Act.

The effect of these provisions is that taxable insurance contracts are liable to IPT at the standard rate unless they are liable at the higher rate under Schedule 6A.

Purpose of the higher rate

The higher rate of IPT was introduced on 1 April 1997 primarily as a measure to counter VAT avoidance. It applies to a limited range of insurance usually sold with goods and services subject to VAT, because some taxpayers avoided VAT by inflating the value of the insurance element (subject only to IPT) at the expense of the ‘VATable’ element, thus causing a revenue loss. Those traders who did not indulge in this sort of ‘value shifting’ were suffering a commercial disadvantage.

Section 51(2), as amended by the Finance Act 1997, Finance Act 1999 and Finance (No 2) Act 2010, states that from 4 January 2011:

For the purposes of this part-

(a) the higher rate is 20%; and

(b) the standard rate was 6%, but has since increased to 9.5% from 1 November 2015.

Scope of the higher rate

Since 1 April 1997 IPT has been charged at 17.5% and from 4 January 2011 at 20% on any insurance sold in “certain circumstances” (described in IPT4916) which relates to:

motor cars or motor cycles (see IPT04910);

certain electrical or mechanical domestic appliances (see IPT04915);

travel insurance.

For ease of reference the goods mentioned in the first two bullet points above are referred to in this guidance as “specified goods”. The higher rate applies to insurance relating to specified goods whether they are sold (title to the goods passes), leased or hired. For example the higher rate will apply to insurance sold with a hire car, as well as insurance taken out to cover a car which has actually been sold.

From 1 August 1998 the higher rate of IPT was extended to all taxable travel insurance. Please refer to IPT04940 for guidance on travel insurance.

Next page