HMRC - IPT04910 - Definition Of “Motor Car” And “Motor Cycle”

Paragraph 2(6) of Schedule 6A, inserted by the Finance Act 1997, states:

In this paragraph “motor car” and “motor cycle” have the meaning given

(a) by section 185(1) of the Road Traffic Act 1988 or

(b) in Northern Ireland, by Article 3(1) of the Road Traffic (Northern Ireland) Order 1995.

This effectively covers cars, motorcycles and light vans. Insurance relating to such vehicles is liable to the higher rate when sold in the circumstances described in IPT04916. Motor breakdown insurance, roadside assistance insurance, legal expenses insurance, MOT insurance and “parts” insurance (such as cover for tyres) relate to a motor vehicle and are liable to the higher rate of IPT when provided in these circumstances. Personal accident insurance which covers the insured in connection with a motor vehicle, for example whilst driving or whilst getting in or out of a vehicle, will also be liable to the higher rate of IPT when sold in these circumstances.

“Ordinary” motor insurance sold by motor dealers is not liable to the higher rate of IPT. However if you discover examples of such motor insurance being used in a VAT avoidance scheme you should contact the UoE or Deductions & Financial Services Team (see IPT08100). “Ordinary” motor insurance is the type generally known as fully comprehensive; third party fire and theft; or, third party.

Where a policy for ordinary motor insurance contains an ancillary element of insurance which is liable to the higher rate when sold by a car dealer (for example, motor breakdown insurance), the ancillary element is not liable to the higher rate. What is “ancillary” is a matter for local officers’ judgment (to give percentage guidelines could lead to manipulation) but if you are in any doubt you should contact the UoE or Deductions & Financial Services Team.

“Ordinary” motor insurance arranged by car hire/rental businesses in connection with a motor vehicle on hire is liable to IPT at the higher rate.

For this purpose, the term hire includes short and long term hire, rental and leasing (but not where the “leasing” consists of the supply of a vehicle under a finance lease agreement or a hire purchase agreement).

Guaranteed Asset Protection (GAP) Insurance

Credit Protection or Financial GAP insurance is designed to cover any shortfall from the proceeds of a comprehensive motor policy should a vehicle, purchased on finance, be written off. A typical example, linked to a financial agreement, might work as follows.

A vehicle is purchased for £15,000 through a finance agreement arranged by the motor dealer.

The day after purchase, the vehicle is written-off in an accident.

The driver makes a claim under their motor policy and the insurance company agrees a settlement of £12,000, leaving the driver with a shortfall of £3000 (as they still have to pay £15,000 on the finance agreement).

The credit protection or finance GAP insurance would cover the shortfall of £3000.

When the higher rate of IPT was first introduced, it was decided that it would not apply to this type of GAP insurance. This was on the basis that the policies could only be sold through motor dealers in connection with finance arrangements and related to the finance agreement rather than the motor vehicles.

However another type of GAP insurance, known as “vehicle replacement” or “back to invoice” insurance, was introduced onto the market. This new type of GAP insurance was not tied into any finance arrangements meaning that any compensation received in the event of a claim could be put to whatever uses the insured wished (i.e. it did not necessarily have to be used to pay off any outstanding finance). The non-financial gap insurance allowed motor dealers greater flexibility in pricing and lent itself to tax manipulation.

Therefore, from 1 April 2004, non-financial GAP insurance became liable to the higher rate of IPT when sold through suppliers of motor vehicles or persons connected to them.

Regardless of what the policy is called, the key is identifying whether the GAP insurance relates to a financial agreement or to a motor vehicle. If there is no finance agreement in place, then premiums paid under the GAP policy will be subject to the higher rate. Where there is a finance agreement, but the contract of insurance allows the policy holder flexibility with any payout, for example if they can decide to put half towards any outstanding loan and the other half towards the purchase of another vehicle, then all premiums receivable under the contract are liable to the higher rate. However, where a contract states that the policyholder must pay off any outstanding finance then the premiums are subject to the standard rate. If you have any doubts about the liability of an insurance contract contact the UoE or Deductions & Financial Services Team.

The higher rate applied to premiums received on or after 1 April 2004. For businesses using the special accounting scheme, this revised treatment applied to premiums written in respect of annual contracts commencing on or after 1 April 2004.

Suppliers of motor vehicles who charge a separate insurance-related fee in connection with non-financial gap insurance, were liable to register as a taxable intermediary and account for higher rate IPT on their fees with effect from 1 April 2004.

Other insurance supplied with a motor car or motor vehicle

Certain other insurance policies relating to a motor vehicle and arranged or supplied by the person who supplies motor vehicles will also be subject to the higher rate. For example, insurance against accidental damage to the windscreen of a car or “key” insurance. Typically “key” insurance might cover the loss or theft of car keys. As the insurance relates to a motor vehicle it is subject to the higher rate. However, sometimes these policies may also include cover for house keys etc., which would be subject to the standard rate (9.5% or 10% from the 1 October 2016). In those circumstances, the premium should be apportioned.

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