HMRC - IPT04935 - Treatment Of Different Types Of Insurance

Free Insurance

The Finance Act 1994 Schedule 6A, states that insurance which is provided by one of the suppliers described in IPT04916, and which covers specified goods, will not be liable to IPT at the higher rate where it is supplied free to the insured. This is the case as long as, at or about the time the insurance transaction takes place, the person selling or arranging the insurance makes no charge relating to the insurance transaction to the insured. (The rationale behind this is that, if there is no VAT exempt income from the insured, then the supplier will not be able to value shift.) If such a charge is made to the insured in relation to the insurance transaction then any insurance premium relating to the transaction becomes liable to IPT at the higher rate.

Discounted Insurance

If a supplier of specified goods offers insurance to customers at a price that is less than the supplier is required to pay to the insurer (“discounted” insurance), the higher rate of IPT applies only to the amount of the premium which is paid by the customer. That part of the premium, which is subsidised by the supplier, will be liable to IPT at the standard rate.

Other examples of insurance sold to cover specified goods which will not be subject to IPT at the higher rate

Insurance taken out via an intermediary not covered by the descriptions in IPT04916, for example a High Street broker not connected to a supplier of specified goods, or a broker who does not pay an insurance related fee to a supplier of specified goods, will not be liable to the higher rate.

Likewise, most insurance taken out directly with the insurer (with the exception of travel insurance, see IPT04940) will not be caught by the higher rate as long as the insurer is not covered by the descriptions in IPT04916.

Suppliers might sometimes be in a position where they receive a VAT standard rated fee for their insurance services rather than a VAT exempt fee or commission. For example, a manufacturer of electrical appliances might place a card advertising extended warranty insurance in the box containing the goods and the insurer will pay a fee to the manufacturer in return for this service. Where the fee is consideration for a (VAT) taxable supply of advertising or promotional services, the insurance concerned will not be liable to the higher rate of IPT. However, where the fee is consideration for an exempt supply of insurance related services (that is, a supply which falls under VATA 1994, Schedule 9, Group 2) then the higher rate will apply. Liability to the higher rate applies whether the supplier of specified goods or a person connected to the supplier receives the payment.

If the supplier of specified goods (or a person connected to such a supplier) makes a supply subject to VAT in relation to a contract of insurance (for example advertising services), but also makes a VAT exempt supply of insurance related intermediary services in connection with that contract of insurance then the higher rate of IPT will apply to any related premium.

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