HMRC - IPT04945 - Purpose And Outline Of The Section

Introduction

When the higher rate of IPT was introduced, it applied to travel insurance (not free travel insurance) only when sold by:

a travel agent or tour operator; or

a person connected to a travel agent or tour operator; or

a person paying all or part of the premium, a related fee or commission to a travel agent or tour operator.

The provisions relating to “certain circumstances”, free and discounted insurance and connected parties outlined in earlier paragraphs for specified goods, also applied in relation to travel insurance between 1 April 1997 and 31 July 1998.

Since 1 August 1998, however, the Finance Act 1998 has amended the Finance Act 1994, Schedule 6A, paragraph 4, and the scope of the higher rate has been extended to include all taxable travel insurance (including free travel insurance).

Purpose of the extension to the higher rate

Despite claims of competitive disadvantage made by tour operators and travel agents, there is no evidence that the price effect resulting from the extension of the higher rate of IPT has had any significant impact on the distribution of insurance sales. However, changes to the travel insurance market were anticipated for other reasons, for example the Monopolies and Mergers Commission (MMC) banned the compulsory linking of insurance with discounted holidays. The extension of the higher rate ensured that the anti-avoidance measure was kept in place, but also ensured that the higher rate continued to have a relatively neutral effect on the travel insurance market.

Amendment to the legislation

The Finance Act 1994, Schedule 6A paragraph 4 has been amended by the Finance Act 1998. The effective date of the change is 1 August 1998 and the legislation brings all premiums under taxable insurance contracts within the scope of the higher rate when it is in respect of the provision of cover against travel risks for a person travelling (including a person intending to travel).

Travel risks

The definition of travel risks is amended in the legislation. These are at paragraph 4(5) of Schedule 6A (as amended by the Finance Act 1998) and are:

risks associated with, or related to, travel or intended travel-

(a) outside the UK

(b) by air within the UK

(c ) within the UK in connection with travel falling within paragraph (a) or (b) above, or

(d) which involves absence from home for at least one night,

or risks to which a person travelling may be exposed during, or at any place at which he may be in the course of, any such travel.

This revised definition is intended to exclude most policies containing incidental “travel” elements - the incidental cover for risks incurred outside the home. Only true travel policies should fall within the higher rate. For example, many home contents policies provide cover against the loss of personal property (for example, a wallet) whilst the insured is outside of the home. Although the insured may be travelling when the loss occurs such a policy would not normally be seen as travel insurance.

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