HMRC - IPT04950 - De Minimis Provisions For Travel

Where a policy provides cover for a traveller against both travel risks and other risks it will normally be necessary to apportion the premium and account for higher rate of IPT on the travel element.

However, provided the travel element:

does not exceed 10% of the total premium payable under the contract, and

does not include cover for two or more of the travel components outlined below,

the premium will not fall within the scope of the higher rate.

Travel components

The travel components to be applied in the de minimis test are:

cancellation of travel or of accommodation arranged in connection with travel;

delayed or missed departure;

curtailment of travel or of the use of accommodation arranged in connection with travel;

loss or delayed arrival of baggage;

personal injury or illness or expenses of returning home.

Any policy which provides cover against two or more of the components above will attract the higher rate for that element of the premium which relates to travel regardless of the proportion of the premium relating to them (see, however, travel add-ons below).

Examples of contracts falling within the de minimis provisions for travel

A small part of a home contents policy provides cover against the loss of personal property. The policy covers the loss of a wallet whilst the insured is journeying to visit a friend for an overnight stay. Therefore, such a risk would be classified as a travel risk because it meets the definition above. However, because this is a mixed policy (with non travel risks (home contents) and travel risks (loss of possessions during a journey involving an overnight stay)) the travel element needs to be examined to determine whether it falls within the provisions. The part of the premium relating to the loss of possessions covered by the policy is less than 10% and only one of the travel components applies in this case. The whole of the policy, therefore, will be at the standard rate.

A person takes out ordinary private medical insurance, which provides for medical diagnosis, consultation, treatment, care and related expenses. If the insured falls ill while they are abroad, the contract would cover costs incurred and may even include the expenses of returning home. Provided this element of the premium does not exceed 10% of the total premium payable (which is usually the case) it will not fall within the higher rate, because only one of the travel components above (personal injury or illness or expenses of returning home) is applicable in this instance.

Travel add-ons

Most parts of a premium relating to incidental travel risks in individual private medical, personal accident or household (as well as other) policies would normally fall within the de minimis limits. However, where these policies have a travel add-on, the travel element may exceed those limits. This is because part of the main policy falls within the legal definition of travel risks and the travel add-on will contain two or more of the travel components. Normally the policy should be apportioned between the travel elements of the policy at the higher rate (in this case, the incidental travel element of the main policy plus the travel add-on) and non- travel risks at the standard rate. However, to ease the administrative burden on insurers it will only be necessary to apply the higher rate to that part of the premium relating to the travel add-ons.

Any instance of insurers seeking to exploit the easement should be reported to the UoE or Financial Services Team (see IPT08100).

Previous page

Next page