HMRC - IPT05175 - Avoidance And ‘Commoditised’ Insurance Products

As a result of the Homeserve case (IPT05170), arrangements whereby amounts previously charged under the taxable insurance contract or in connection with it are now charged under separate contracts solely to avoid IPT, were likely to escalate.

This avoidance has been found to be prevalent in connection with what are termed ‘commoditised’ insurance products. These products exist to provide the insured with pre-set levels of cover which can be entered into easily and quickly, often through telephone or internet sales. The product is established through pre-existing arrangements between insurers who provide the insurance cover and third parties who provide other services, e.g. introductory services, policy administration, claims handling and settling, i.e. services necessary for the insurance to be provided.

The customer can only access the product through the parties to these pre-existing arrangements or their agents; and in order to enter into the insurance contract must enter into separate contract(s). The separate contracts may provide many of the services to the insured person that the third parties are already providing to the insurer. The amounts charged under these contracts and the other terms are also pre-determined and cannot be renegotiated by the insured person.

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